中国建设银行
China Construction Bank

# 2010 Annual Report

China Construction Bank Corporation

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

Stock Code: 939

*Discover the Value of CCB*

# Contents

# INTRODUCTION

Headquartered in Beijing, China Construction Bank Corporation has an operation history of over 50 years. The Bank was listed on Hong Kong Stock Exchange in October 2005 (stock code: 939) and listed on the Shanghai Stock Exchange in September 2007 (stock code: 601939). At the end of 2010, the market capitalisation of the Bank reached about US$220 billion, ranking 2nd among listed banks in the world. At the end of 2010, the Bank had a network of 13,415 branches and sub-branches in Mainland China, maintained overseas branches in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo, Seoul, New York, Ho Chi Minh City and Sydney, and a representative office in Moscow, and established multiple subsidiaries, such as CCB Asia, CCB Financial Leasing, CCB International, Jianxin Trust, Sino-German Bausparkasse, CCB London, and CCB Principal Asset Management. A total of 313,867 associates provide comprehensive financial services to its customers.

We have included in this report certain forward-looking statements with respect to our financial position, operating results and business development. We use words such as “will”, “may”, “expect”, “try”, “strive”, and similar expressions to identify forward-looking statements. These statements are based on current plans, estimates and projections. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that those expectations will prove to have been correct, and you are cautioned not to place undue reliance on such statements. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statements. These factors include, among others: changes in general economic conditions in the markets in which the Group operates, changes in the government’s adjustment and control policies and in laws and regulations, and factors specific to the Group.

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.

| (Expressed in millions of RMB unless otherwise stated) | 2010 | 2009 | Change (%) | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|
| **For the year** | | | | | | |
| Net interest income | **251,500** | 211,885 | 18.70 | 224,920 | 192,775 | 140,368 |
| Net fee and commission income | **66,132** | 48,059 | 37.61 | 38,446 | 31,313 | 13,571 |
| Other operating income | **8,148** | 9,370 | (13.04) | 6,381 | (3,371) | (2,346) |
| Operating income | **325,780** | 269,314 | 20.97 | 269,747 | 220,717 | 151,593 |
| Operating expenses | **(121,366)** | (105,146) | 15.43 | (99,193) | (92,327) | (66,662) |
| Impairment losses | **(29,292)** | (25,460) | 15.05 | (50,829) | (27,595) | (19,214) |
| Profit before tax | **175,156** | 138,725 | 26.26 | 119,741 | 100,816 | 65,717 |
| Net profit | **135,031** | 106,836 | 26.39 | 92,642 | 69,142 | 46,319 |
| Net profit attributable to equity shareholders of the Bank | **134,844** | 106,756 | 26.31 | 92,599 | 69,053 | 46,322 |
| **As at 31 December** | | | | | | |
| Net loans and advances to customers | **5,526,026** | 4,692,947 | 17.75 | 3,683,575 | 3,183,229 | 2,795,976 |
| Total assets | **10,810,317** | 9,623,355 | 12.33 | 7,555,452 | 6,598,177 | 5,448,511 |
| Deposits from customers | **9,075,369** | 8,001,323 | 13.42 | 6,375,915 | 5,329,507 | 4,721,256 |
| Total liabilities | **10,109,412** | 9,064,335 | 11.53 | 7,087,890 | 6,175,896 | 5,118,307 |
| Total equity attributable to equity shareholders of the Bank | **696,792** | 555,475 | 25.44 | 465,966 | 420,977 | 330,109 |
| Share capital | **250,011** | 233,689 | 6.98 | 233,689 | 233,689 | 224,689 |
| Core capital | **634,683** | 491,452 | 29.14 | 431,353 | 386,403 | 309,533 |
| Supplementary capital | **144,906** | 139,278 | 4.04 | 86,794 | 83,900 | 68,736 |
| Net Capital | **762,449** | 608,233 | 25.35 | 510,416 | 463,182 | 374,395 |
| Risk-weighted assets | **6,015,329** | 5,197,545 | 15.73 | 4,196,493 | 3,683,123 | 3,091,089 |
| **Per share (In RMB)** | | | | | | |
| Basic and diluted earnings per share[1] | **0.56** | 0.45 | 24.44 | 0.40 | 0.30 | 0.21 |
| Interim cash dividend declared during the year | **–** | – | NA | 0.1105 | 0.067 | – |
| Final cash dividend proposed after the balance sheet date | **0.2122** | 0.202 | 5.05 | 0.0837 | 0.065 | 0.092 |
| Special cash dividend declared during the year | **–** | – | NA | – | 0.072716 | – |
| Net assets per share | **2.80** | 2.39 | 17.15 | 2.00 | 1.81 | 1.47 |

1. The number for 2009 is adjusted on the assumption that the bonus elements without consideration included in the rights issue of 2010 had already been issued in 2009.

| Financial ratios (%) | 2010 | 2009 | Change +/(-) | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|
| **Profitability indicators** | | | | | | |
| Return on average assets[1] | **1.32** | 1.24 | 0.08 | 1.31 | 1.15 | 0.92 |
| Return on average equity | **22.61** | 20.87 | 1.74 | 20.68 | 19.50 | 15.00 |
| Net interest spread | **2.40** | 2.30 | 0.10 | 3.10 | 3.07 | 2.69 |
| Net interest margin | **2.49** | 2.41 | 0.08 | 3.24 | 3.18 | 2.79 |
| Net fee and commission income to operating income | **20.30** | 17.84 | 2.46 | 14.25 | 14.19 | 8.95 |
| Cost-to-income ratio | **37.25** | 39.04 | (1.79) | 36.77 | 41.83 | 43.97 |
| Loan-to-deposit ratio | **62.47** | 60.24 | 2.23 | 59.50 | 61.40 | 60.87 |
| **Capital adequacy indicators** | | | | | | |
| Core capital adequacy ratio[2] | **10.40** | 9.31 | 1.09 | 10.17 | 10.37 | 9.92 |
| Capital adequacy ratio[2] | **12.68** | 11.70 | 0.98 | 12.16 | 12.58 | 12.11 |
| Total equity to total assets | **6.48** | 5.81 | 0.67 | 6.19 | 6.40 | 6.06 |
| **Asset quality indicators** | | | | | | |
| Non-performing loan ratio | **1.14** | 1.50 | (0.36) | 2.21 | 2.60 | 3.29 |
| Allowances to non-performing loans | **221.14** | 175.77 | 45.37 | 131.58 | 104.41 | 82.24 |
| Allowances to total loans | **2.52** | 2.63 | (0.11) | 2.91 | 2.72 | 2.70 |

1. Calculated by dividing net profit by the average of total assets at the beginning and end of the year.

2. Calculated in accordance with the guidelines issued by the CBRC.

# Corporate Information

| | |
|---|---|
| Legal name and abbreviation in Chinese | 中國建設銀行股份有限公司 (abbreviated as "中國建設銀行") |
| Legal name and abbreviation in English | China Construction Bank Corporation (abbreviated as "CCB") |
| Legal representative | Guo Shuqing |
| Authorised representatives | Zhang Jianguo<br>Chan Mei Sheung |
| Secretary to the Board | Chen Caihong<br>Contact Address: No. 25, Financial Street, Xicheng District, Beijing<br>Telephone: 86-10-6621 5533<br>Facsimile: 86-10-6621 8888<br>Email: ir@ccb.com |
| Company secretary | Chan Mei Sheung |
| Qualified accountant | Yuen Yiu Leung |
| Registered address and postcode | No. 25, Financial Street, Xicheng District, Beijing 100033 |
| Internet website | www.ccb.com |
| Email address | ir@ccb.com |
| Principal place of business in Hong Kong | 44-45/F, Tower One, Lippo Centre, 89 Queensway, Admiralty, Hong Kong |
| Newspapers for information disclosure | China Securities Journal and Shanghai Securities News |
| Website of the Shanghai Stock Exchange for publishing the annual report prepared in accordance with PRC GAAP | www.sse.com.cn |
| Website of Hong Kong Stock Exchange for publishing the annual report prepared in accordance with IFRS | www.hkex.com.hk |
| Place where copies of this annual report are kept | Board of directors office of the Bank |
| Listing stock exchanges, stock abbreviations and stock codes | A-share: Shanghai Stock Exchange<br>Stock abbreviation: 建設銀行<br>Stock code: 601939<br>H-share: The Stock Exchange of Hong Kong Limited<br>Stock abbreviation: CCB<br>Stock code: 939 |
| Date and place of first incorporation | 17 September 2004<br>State Administration for Industry & Commerce of the People's Republic of China |
| Registration number of the corporate legal person business license | 1000001003912 |
| Organisation code | 10000444-7 |

| | |
|---|---|
| Financial license institution number | B0004H111000001 |
| Taxation registration number | 京税證字 110102100004447 |
| Certified public accountants | KPMG Huazhen<br>Address: 8/F, Office Tower E2, Oriental Plaza, Dongcheng District, Beijing<br>KPMG<br>Address: 8/F, Prince's Building, 10 Chater Road, Central, Hong Kong |
| Legal advisor as to PRC laws | Beijing Commerce & Finance Law Offices<br>Address: 6/F, NCI Tower, A12 Jianguomenwai Avenue, Beijing |
| Legal advisor as to Hong Kong laws | Freshfields Bruckhaus Deringer<br>Address: 11/F, Two Exchange Square, Central, Hong Kong |
| A-share registrar | China Securities Depository and Clearing Corporation Limited, Shanghai Branch<br>Address: 36/F, China Insurance Building, 166 East Lujiazui Road, Pudong New District, Shanghai |
| H-share registrar | Computershare Hong Kong Investor Services Limited<br>Address: Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong |

## Rankings and Awards

| | |
|---|---|
| **The Banker** | Bank of the Year 2010, China |
| | Ranked 15th in the "Top 1000 World Banks" |
| **Finance Asia** | Best Bank in China |
| **The Asset** | Best Domestic Bank, China |
| **Forbes** | Ranked 17th in "Forbes Global 2000" |
| | Ranked 3rd in the "Interbrand Best Chinese brand value" and ranked 1st among Chinese banks |
| **Financial Times** | Ranked 5th among the "2010 BrandZ Top 20 Global Financial Institutions" |
| | Best Channel in China – China's Banking Industry Achievement Award |
| **Fortune** | Ranked 116th among the "Fortune Global 500" |
| | Ranked 5th in terms of profitability |
| **China Enterprise Confederation** | Ranked 6th among the "Top 500 Chinese Enterprises" |
| **Economic Observer** | The 2009 Best Chinese Bank, China |
| | The 2009 Best Mortgage Loan Service Bank in China |
| **The 21st Century Business Herald** | Best Performing Bank of Public Shareholders |
| **Corporate Governance Asia** | Corporate Governance Asia Recognition Award 2010 |
| **The Capital** | Outstanding Retail Banking Corporation in China 2010 |
| **Moneyweek** | The Most-admired Chinese Bank |
| **China Business News** | The "Enterprise Bank of the Year" |
| **The Chinese Banker** | The Best Profitability Bank |
| | The "China Financial Marketing Award" |
| **Asia Weekly (Hong Kong)** | Global Top 1,000 Chinese Enterprises – Best Performing Chinese Enterprise Award |

| | |
|---|---|
| **www.hexun.com** | "The Most Popular Banking Brand" |
| | The Outstanding Service Award in Chinese Banking |
| **Global Finance** | Best Trade Finance Provider in China |
| | Best Infrastructure Bank in China |
| | Best Mortgage Loans Bank in China |
| **Global Custodian** | The "Best Domestic Sub-Custodian Bank" in China |
| **The Asian Banker** | Best Channel and Distribution in China |
| **Securities Times** | 2010 Best Investment Bank |
| | Best Online Bank For Corporate Customers |
| | Best Bank Website Award |
| **CFO World** | The Best Small and Medium-Sized Enterprise Service Award |
| | The Best Investment Bank Award |
| | The Best Cash Management Bank Award |
| | The Best Corporate Partner Bank Award |
| **China UnionPay** | CUP Card Top Award for Comprehensive Business |
| | CUP Card Contribution Award for Overseas Business |
| **Red Cross Society of China** | The Outstanding Contribution Badge of China Red Cross |
| **Xinhua News Agency** | Outstanding Enterprise in the 2010 Chinese Enterprise Social Responsibility Roster |
| **China Women's Development Foundation** | China Women's Philanthropy Award |

## Stock Prices

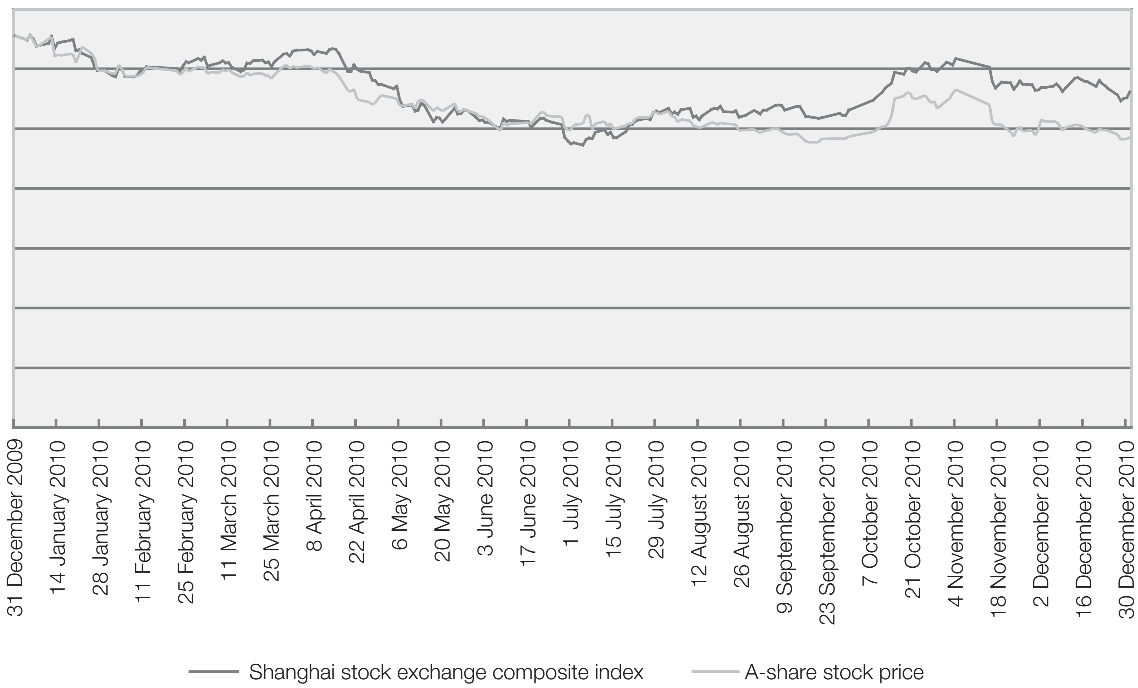
| | H-shares (HKD) | | | A-shares (RMB) | | |
|---|---|---|---|---|---|---|
| | **Year end closing price** | **Maximum Price in the Year** | **Minimum Price in the Year** | **Year end closing price** | **Maximum Price in the Year** | **Minimum Price in the Year** |
| 2010 | 6.97 | 8.30 | 5.77 | 4.59 | 6.21 | 4.51 |
| 2009 | 6.67 | 7.46 | 3.62 | 6.19 | 6.75 | 3.67 |
| 2008 | 4.25 | 7.29 | 2.50 | 3.83 | 10.21 | 3.46 |
| 2007 | 6.61 | 8.97 | 3.96 | 9.85 | 11.58 | 6.45 |
| 2006 | 4.90 | 5.12 | 2.65 | – | – | – |

## Dividend Records

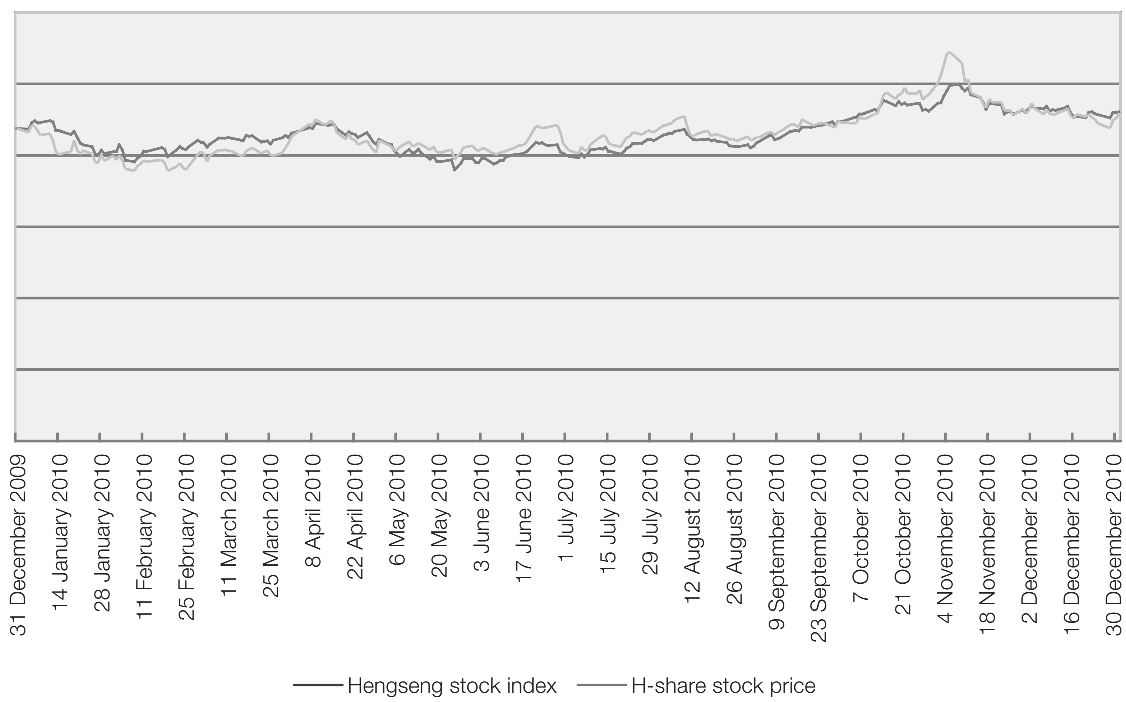
| | H-share Holders (RMB/Share) | | | A-share Holders (RMB/Share) | | |
|---|---|---|---|---|---|---|
| | **Interim Dividend** | **Final Dividend** | **Special Dividend** | **Interim Dividend** | **Final Dividend** | **Special Dividend** |
| 2010 | – | 0.2122 | – | – | 0.2122 | – |
| 2009 | – | 0.202 | – | – | 0.202 | – |
| 2008 | 0.1105 | 0.0837 | – | 0.1105 | 0.0837 | – |
| 2007 | 0.067 | 0.065 | 0.072716 | – | 0.065 | – |
| 2006 | – | 0.092 | – | – | – | – |

## Stock Price Performance Chart

Comparison between A-share stock price and Shanghai stock exchange composite index




Comparison between H-share stock price and Hengseng stock index



# Chairman's Statement

Dear shareholders,

In 2010, the Group proactively studied operating environment at home and abroad, stringently complied with the state's macroeconomic control measures and regulatory requirements, continued to push forward business transformation by expediting business structure adjustments. As a result, it achieved continual growth of operating results, and better-than-expected profitability.

In 2010, the Group realised a net profit of RMB135,031 million, up 26.39% year-on-year. The return on average assets was 1.32%, up 0.08 percentage points over 2009, while the return on average equity was 22.61%, up 1.74 percentage points. The net interest margin was 2.49%, on track for rebound. The Board has recommended a cash dividend of RMB0.2122 per share.

We imposed reasonable controls over credit volume and actively adjusted credit structure in line with the state's macroeconomic control policy. Loans and advances to customers increased by RMB849,355 million over 2009. New loans were mainly extended to prime customers and key projects. We focused on meeting priority customers' credit needs, while strictly controlling loan extensions to areas such as industries with excess capacity, government financing vehicles and real estate sector. The increase in personal loans accounted for 33.01% of the increase of total loans, with new personal mortgage loans commanding the largest market share.

The Group's emerging businesses grew rapidly. The cumulative number of our credit cards issued was 27.95 million, as we outperformed our market peers in terms of the cumulative number of card users, credit card spending amount, and credit quality, all of which are core indicators for the credit card business. The balance of loans extended to small and medium-sized enterprises (SMEs) totalled RMB1,585,220 million, up 28.6%, much higher than the growth rate of total corporate loans. Our investment banking services expanded quickly, while our short-term commercial paper underwriting, new financial advisory, and merger and acquisition (M&A) and restructuring services dominated the market. Our electronic banking business achieved extraordinary expansion, with the ratio of the number of transactions through electronic banking to that of transactions through branch outlets being 142%, up 67 percentage points over 2009.

Moreover, the Group achieved new progress in transforming into a multi-functional banking operation. Our investment banking business was in a leading position in Mainland China and among Chinese banks in Hong Kong. Our wealth management and private banking activities expanded rapidly, while our acquisition of the insurance company progressed smoothly. We further strengthened our specialised operations in funds, trust and leasing. There were also 18 rural banks in operation or under preparation. This has further reinforced the Group's capability of providing comprehensive financial solutions.

We made solid progress in our internationalisation process. Our strategic cooperation with Bank of America, Temasek, and Banco Santander proved fruitful. We led in introducing global products, technology and experience among domestic competitors. We gradually expanded our global service network by adhering to the strategy of "following our customers". As at the end of 2010, we had 12 overseas branches and wholly-owned subsidiaries, with over 60 operating entities.

The Group improved its comprehensive risk management capability, refined risk policies, and adjusted credit structure through the preparation for implementing the New Basel Capital Accord. It focused on strengthening the fundamental management of post-lending, off-balance sheet, overseas business, collaterals and financial statements consolidation, and strengthened industry studies, risk warning and real time monitoring to enhance its credit management capability. The Group fully carried out the development of the three pillars of the New Basel Capital Accord, and was basically ready for the implementation of the New Basel Capital Accord. Asset quality continued to remain stable and sound, with declines in both the balance and ratio of non-performing loans. Our allowances to non-performing loans increased significantly to 221.14%.

The Group proactively fulfilled its corporate social responsibilities. During the year, it launched 22 social programmes, invested RMB95,279,900 in total. It continued to take forward long-term social programmes, including the sponsorship programmes for impoverished high school students and for impoverished mothers of heroes and exemplary workers. It also supported development in areas of public interest, including culture and art, teaching and scientific research, academic exchange and environmental protection. The Group's efforts in public services have gained wide recognition and praise in the community. In 2010, we garnered many awards, including the award for "Best in Social Responsibility 2010" from People's Daily Online, and "Outstanding Enterprise in the Chinese Enterprise Social Responsibility Roster" from Xinhua News Agency.

In 2010, the Group's outstanding results and performance were fully recognised by the market and industry. We were named "Best of the Year 2010, China" by The Banker, and our ranking in the "Fortune Global 500" jumped to 116th, which also makes us first among Chinese banks in Asia with potential for sustainable development. We ranked first among Chinese banks in Forbes' "Interbrand Best Chinese brand value". All these exciting achievements are hard earned, thanks to the support of our customers and shareholders, and the concerted hard work of the Board, the management, the board of supervisors and all our staff. To these people, I would like to express my sincere gratitude.

Looking ahead, the Group faces numerous opportunities and challenges in our operations and development in 2011, the first year of China's 12th Five-Year Plan. The Group will accelerate the transformation of our business development mode and uphold our proactive and prudent operating strategy, with greater emphasis on risk management. While continuing to leverage on our traditional advantages in infrastructure finance, residential mortgage finance and project cost advisory services, we will strive to develop new vantage points for small business, "agriculture, rural areas and farmers", consumer finance and high-end customer services. We will steadily push forward the integration and internationalisation of financial services with the ultimate goal of becoming a world class bank.

**Guo Shuqing**
*Chairman*

25 March 2011

# President's Report

Dear shareholders,

The Group has achieved a compound annual growth rate of 18.71% in total assets and of 23.45% in net profit since the Bank went public five years ago. We drove down our non-performing loan ratio from 3.84% at the end of 2005 to 1.14% at the end of 2010. Risk management techniques and practices are among the best in China, with strengthened product innovation and customer service. The cost-to-income ratio dropped further, and a strategic layout of comprehensive operations has been initially developed.

In 2010, the Bank completed rights issue in both Hong Kong and Mainland China with net proceeds of RMB61,159 million. We are grateful to our shareholders for your support and trust in the refinancing, which will lay a solid capital foundation for the Bank's long-term development.

During the year, amid gradual global economic recovery and China's continuous rapid economic growth, the Bank further pushed forward business development and fundamental management, with expanding customer base and excellent operating results.

## Outstanding performance and continually improving asset quality

Operating profit has reached a new record high. In 2010, the Group achieved a net profit of RMB135,031 million, up 26.39% over 2009. Net interest income increased by 18.70%. Net fee and commission income increased by 37.61% to RMB66,132 million, accounting for 20.30% of the operating income, 2.46 percentage points higher than 2009. The cost-to-income ratio was kept at a low level and fell to 37.25% from 2009.

Assets and liabilities have grown steadily. As at the end of 2010, total assets rose by 12.33% to RMB10,810,317 million compared to the end of 2009. Gross loans and advances to customers rose by 17.62% to RMB5,669,128 million, and deposits from customers increased by 13.42% to RMB9,075,369 million. The loan-to-deposit ratio was 62.47% with ample liquidity.

The Group has continued to improve its asset quality. As at the end of 2010, the Group's non-performing loans dropped by RMB7,444 million to RMB64,712 million, and the non-performing loan ratio dropped by 0.36 percentage points to 1.14% compared to the end of 2009. The ratio of allowances for impairment losses to non-performing loans rose to 221.14%, while that of allowances for impairment losses to gross loans was 2.52%, representing stronger risk resistance ability.

## Robust credit business activities and strong emerging business growth

*Corporate loans have grown steadily along with effective structural adjustments*. In 2010, corporate loans rose by 18.67% to RMB3,976,865 million. The Group further carried out structure adjustments. Loans to industries with excess capacity decreased by RMB19,255 million compared to the end of 2009. Potential risk from loan extensions to government financing vehicles was effectively mitigated by thorough loan examination and rectification. Under tight list management and loan size control, the growth rate of real estate loans lagged behind that of overall corporate loans by 6.33 percentage points. In addition, the Group focused on meeting the loan needs of strategic businesses such as loans for small enterprises and internet merchants. During the year, small enterprise loans rose by 34.03% to RMB733,363 million, while loans for internet merchants and domestic factoring loans jumped by 470% and 220%, respectively. M&A loans grew by 79.4%.

*Incremental personal mortgage loans have commanded the largest market share*. The Bank has established 781 specialised personal loan centres, covering almost all of the prefecture-level cities in China. These centrally-operated centres brought about enhanced risk management capabilities and service efficiency, building up our brand image in personal lending. Residential mortgage loans were primarily granted to support self-occupied houses, loans for which rose by 27.99% to RMB1,091,116 million.

*Credit card business has continued to lead the market*. The credit card instalment payment business maintained rapid growth. As at the end of 2010, the number of credit cards issued and card users totalled 27.95 million and 23.58 million respectively, of which 3.71 million were new cards issued and 3.34 million were new card users during the year. Credit card spending and the related loan balance reached RMB406,521 million and RMB55,440 million respectively, up 38.85% and 52.30% year-on-year. Asset quality in this business maintained good.

*Institutional, custodial and pension businesses have maintained fast growth*. The Bank's "Minben Tongda" branded financial service gained popularity with a cumulative number of 5,457 new users after its launch. The third-party deposit custody service for securities settlement funds which is branded as "Xincunguan" had over 20 million customers and fee income of RMB536 million, both leading in the market. Income from insurance agency services reached a record high to RMB3,664 million. Assets under custody rose by 31.31% to RMB1,307,942 million, generating an income of RMB1,716 million. The Bank had 2,659,000 personal enterprise annuity accounts, up 733,000 accounts year-on-year, while contracted assets under trusteeship stood at RMB14.07 billion, up RMB4.44 billion over the end of 2009.

*Multiple indicators of financial market business have led the market*. The Bank adhered to sound and prudent investment trading strategies and improved the sophistication level of the portfolio management, with a leading position in terms of business share and market ranking. The Bank ranked first in an overall ranking of book-entry government bond underwriting, outperformed our peers in terms of underwriting amount of financial bonds issued by China Development Bank and Export-Import Bank of China. Government bond sales at branch outlets ranked second in the market. The market share of foreign exchange purchases and sales achieved a steady growth for five consecutive years.

*Profit from investment banking has increased notably*. In 2010, the Bank reaped an income of RMB13,906 million from investment banking, up 41.91% over 2009. Revenue from financial advisory services reached RMB7,252 million. In this amount, new types of financial advisory services contributed RMB2,620 million, up 154% from 2009, including M&A and restructuring, debt restructuring, listing and refinancing advisory services. The Bank recorded the largest cumulative underwriting volume of short-term commercial paper among its peers for five consecutive years.

## Strong customer base and expanded distribution channels

*The Bank has continued to bolster its customer base and improve its customer structure*. The Bank had 2.33 million corporate and institutional customers, up 5.99%. There were 77,000 SME loan customers, accounting for 90.2% of the number of overall corporate loan customers, up 2 percentage points over the end of 2009. Personal customers increased by 17.73 million, in which the number of high-end customers with over RMB3 million of assets under management rose by 34%. The share of high-end customers in the entire personal customer base rose.

*The Bank has stepped up integrated and coordinated development of business channels encompassing branch outlets, self-service facilities and electronic banking*. As at the end of 2010, there were a total of 13,415 domestic service outlets, with an increase of 31 from the end of 2009. In the prioritised major cities, outlets increased by 70 over the end of 2009. The Bank operated 39,874 automatic teller machines (ATMs) and 9,677 self-service banking facilities, representing an increase of 10.70% and 19.06% respectively year-on-year. With CCB's widely trusted "E-route" branded electronic banking services, the ratio of the number of transactions through electronic banking to that through the front desk was 142%.

## Upgraded fundamental management and fruitful strategic cooperation

*The Bank has striven to build a strong comprehensive risk management system*. The Group pertinently strengthened the fundamental management of post-lending, collateral, off-balance sheet, overseas and financial statements consolidation; improved credit approval mechanism and optimised credit approval processes; and stepped up risk controls over key areas such as industries with excess capacity, real estate sector and local government financing vehicles. It also put in place a credit rating system for corporate customers (including small businesses), and retail customers in efforts to innovate and reinforce risk management tools; expedited the development of market risk measurement tools and systems; enhanced risk limit management; and set up an approval system for new products.

*Capital management has improved steadily*. By capitalising on the implementation of the Pillar II under the New Basel Capital Accord, the Bank proceeded with setting up a capital management framework and a fundamental management system. Capital management was also refined by managing the growth rate of off-balance sheet risk assets and reducing the low efficiency of capital occupation of off-balance sheet risk-weighted assets.

*Product innovation and process optimisation management have achieved new breakthroughs*. The Bank addressed customers' differentiated needs by completing 316 product innovations. We finished 559 process optimisation projects on a continuous basis by adopting the Lean Six Sigma management approach. We also took the lead in the domestic market to conduct monthly monitoring and quarterly reporting of individual customer satisfaction by strengthening customer experience surveys and service quality management.

*Information technology (IT) tasks have progressed successfully according to strategic plans*. The performance level of automated operation and maintenance improved substantially across the Bank with the use of automated monitoring tools, work deployment systems, and automated operation platforms. Systems were operated in a safe and stable manner. The Bank optimized its system architecture through the centralisation and integration of application system, resulting in reduction of branch-level system equipment deployment, lower operational risks, and effective cost control. Furthermore, the Bank amplified application system development efforts to facilitate financial product innovation, providing tailored-made financial services to customers.

*Strategic cooperation with Bank of America has proved fruitful*. Together we implemented eight collaborative projects on wealth management, retail banking, small business operations, electronic banking, human resources and other areas. Among these, the comprehensive wealth planning project developed a specialised asset allocation model and a standardised wealth planning process. Equipped with these tools, the Group was better positioned to serve high-end customers with tailor-made wealth management solutions. The project of investment product sales for individuals created a standardised service marketing process in order to increase customer satisfaction. The post-lending management improvement project for small businesses developed an early warning monitoring system and an annual surveillance and scoring tool for lending to small businesses. This in turn enhanced our post-lending risk control capabilities. In 2010, Bank of America deployed experts to some departments of the Group for comprehensive and ongoing business support. Moreover, the Group sent 51 mid-level managers to four on-the-job training sessions. In addition, together we conducted 65 experience-sharing and short-term training programmes.

## Further integrated operations and overseas expansion

In 2010, the Group proactively developed housing savings banking, rural banking and overseas retail banking, besides its non-bank financial subsidiaries in funds, trust, investment banking and finance leasing, in order to better serve the agriculture sector, rural areas and farmers, and upgrade personal financial services. At present, the Group has initially developed a strategic layout of integrated operations to cater for customer needs in this respect.

The Group has continued to make progress in its overseas expansion. Branches in Ho Chi Minh City, Vietnam and Sydney, Australia were both set up and opened for operation. The Central Bank of Russia has approved our application for setting up a representative office in Moscow. Our Singapore Branch has been upgraded from the offshore business licence class to the wholesale business licence class.

## Outlook for 2011

From 2011, the world economy is on a slow recovery track, and China will maintain its rapid economic growth against multiple challenges at home and abroad. Against this backdrop, the Group will enhance the analysis and judgement of policies and markets, and reinforce its fundamental management, business transformation, and product innovation, with an aim to achieving sustainable business development.

- We will set our five-year development plan in line with China's 12th Five-Year Plan as the Bank's roadmap in the next five years.
- We will continue to promote post-lending and collateral management. Full risk controls over credit business will also be tightened by incorporating all businesses with credit risk exposures into our credit approval management system. Moreover, we will strengthen the management of credit risk from debt securities investments as well as counterparty risk from derivative trading. We will also implement programmes of the "Year of Off-Balance Sheet Activities Management" and the "Year of Risk Management for Overseas Operations".
- We will focus on developing emerging products such as wealth management, factoring and credit cards. We will widen our customer base, increase the income contribution of existing customers, and expand the market presence of our fee-based business. In addition, we will seek new vantage points in the operation transformation to meet customers' comprehensive financial service needs through various means.
- We will strengthen the fundamental management of customer service, products and distribution channels.

Notwithstanding the challenges ahead, the Group will be well-positioned to seize every growth opportunity and will devote its full efforts to achieving excellent operating results to reward our shareholders and the community. Last but not least, I am indebted to the staff for their hard work and efforts, as well as to the directors and supervisors for their staunch support. I sincerely appreciate the support and care from our customers.

**Zhang Jianguo**
*Vice chairman, executive director and president*

25 March 2011

## FINANCIAL REVIEW

In 2010, the world's economy continued to rebound amid continuing uncertainties. There was little improvement in the US's employment, economic situations varied among Eurozone countries, and recovery was slow in Japan. Emerging and developing economies, albeit remaining major powerhouses for global economic expansion, slowed their pace of growth. Major developed economies proceeded with their quantitative easing monetary policies, while some, faced with higher inflationary pressures amid strong economic growth, gradually tightened monetary policies. According to the International Monetary Fund's report, the global economy grew at 5.0% in 2010, a rise of 5.6 percentage points year-on-year.

During the year, China's economy moved towards the direction of the government's macroeconomic control measures, and maintained sound and fast growth. Domestic consumption continued to expand rapidly, fixed assets investment structures improved, foreign trade remained on track to rebound, agricultural output increased, and industrial supply was matched with market demand on the whole. China's GDP was RMB39.8 trillion, up 10.3% over 2009.

2010 saw a shift from a "moderately loose" monetary policy to a "sound" one in China. The People's Bank of China (PBC) used a combination of monetary policy tools to strengthen liquidity management, and give guidance to financial institutions on the lending volume, pace and structure by leveraging on interest rate adjustments. The PBC lifted benchmark deposits and lending interest rates twice and raised the statutory deposit reserve rate six times. China's financial market operated soundly. Money market transactions were active while interest rates picked up amid fluctuations. The overall bond yield curve moved upward alongside a rapidly expanding bond issuance size. Share market indices fell, while funds raised from the market achieved a record high. The foreign exchange swaps grew rapidly with greater flexibility in Renminbi exchange rates. Total money supply grew at a stable level. As at the end of 2010, the outstanding broad money M2 rose by 19.7% to RMB72.6 trillion, and the narrow money M1 increased by 21.2% to RMB26.7 trillion. Loans made in RMB soared by 19.9% to RMB47.9 trillion year-on-year.

In line with China's macroeconomic policies and financial industry development trend, the Group has firmly adhered to its customer-focused operating philosophy, expedited its business transformation, and continually enhanced its core competitiveness and value creation capability.

### Statement of Comprehensive Income Analysis

In 2010, the Group recorded profit before tax of RMB175,156 million, up 26.26% over 2009. Net profit was RMB135,031 million, up 26.39% over 2009. The rapid growth of profit before tax and net profit were brought about mainly by the following: first, the net interest margin rose steadily and interest-bearing assets expanded moderately, pushing up net interest income by RMB39,615 million, or 18.70%, year-on-year; second, we were actively engaged in service and product innovation, and as a result, net fee and commission income continued to rise by RMB18,073 million, or 37.61%, over 2009; third, impairment losses on debt securities investment reversed by RMB218 million due to the steady price rally in the foreign currency debt securities market, with a decrease of RMB1,325 million in corresponding impairment losses over 2009.

| (In millions of RMB, except percentages) | **Year ended 31 December 2010** | Year ended 31 December 2009 | Change (%) |
|---|---|---|---|
| Net interest income | **251,500** | 211,885 | 18.70 |
| Net fee and commission income | **66,132** | 48,059 | 37.61 |
| Other operating income | **8,148** | 9,370 | (13.04) |
| **Operating income** | **325,780** | 269,314 | 20.97 |
| Operating expenses | **(121,366)** | (105,146) | 15.43 |
| Impairment losses | **(29,292)** | (25,460) | 15.05 |
| Share of profits less losses of associates and jointly controlled entities | **34** | 17 | 100.00 |
| Profit before tax | **175,156** | 138,725 | 26.26 |
| Income tax expense | **(40,125)** | (31,889) | 25.83 |
| **Net profit** | **135,031** | 106,836 | 26.39 |
| Other current comprehensive income, net of tax | **(7,500)** | 2,322 | (423.00) |
| **Total current comprehensive income** | **127,531** | 109,158 | 16.83 |

### *Net interest income*

In 2010, the Group's net interest income was RMB251,500 million, an increase of RMB39,615 million, or 18.70%, over the previous year.

The following table shows the Group's average balances of assets and liabilities, related interest income or expense, and average yields or costs during the respective periods.

| (In millions of RMB, except percentages) | **Year ended 31 December 2010** Average balance | Interest income/ expense | Average yield/cost (%) | Year ended 31 December 2009 Average balance | Interest income/ expense | Average yield/cost (%) |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Gross loans and advances to customers | **5,268,333** | **267,006** | **5.07** | 4,466,885 | 240,053 | 5.37 |
| Investment in debt securities[1] | **2,798,062** | **79,317** | **2.83** | 2,303,673 | 71,666 | 3.11 |
| Deposits with central banks | **1,530,883** | **23,226** | **1.52** | 1,248,222 | 18,511 | 1.48 |
| Deposits and placements with banks and non-bank financial institutions | **125,514** | **1,810** | **1.44** | 70,803 | 740 | 1.05 |
| Financial assets held under resale agreements | **382,047** | **6,424** | **1.68** | 720,596 | 8,493 | 1.18 |
| Total interest-earning assets | **10,104,839** | **377,783** | **3.74** | 8,810,179 | 339,463 | 3.85 |
| Total allowances for impairment losses | **(144,792)** | | | (134,903) | | |
| Non-interest-earning assets | **246,530** | | | 232,659 | | |
| Total assets | **10,206,577** | **377,783** | | 8,907,935 | 339,463 | |
| **Liabilities** | | | | | | |
| Deposits from customers | **8,482,558** | **108,199** | **1.28** | 7,365,802 | 110,976 | 1.51 |
| Deposits and placements from banks and non-bank financial institutions | **840,950** | **14,367** | **1.71** | 759,678 | 13,123 | 1.73 |
| Financial assets sold under repurchase agreements | **9,676** | **176** | **1.82** | 611 | 11 | 1.80 |
| Debt securities issued | **93,425** | **3,526** | **3.77** | 90,244 | 3,441 | 3.81 |
| Other interest-bearing liabilities | **674** | **15** | **2.23** | 752 | 27 | 3.59 |
| Total interest-bearing liabilities | **9,427,283** | **126,283** | **1.34** | 8,217,087 | 127,578 | 1.55 |
| Non-interest-bearing liabilities | **159,658** | | | 155,634 | | |
| Total liabilities | **9,586,941** | **126,283** | | 8,372,721 | 127,578 | |
| **Net interest income** | | **251,500** | | | 211,885 | |
| **Net interest spread** | | | **2.40** | | | 2.30 |
| **Net interest margin** | | | **2.49** | | | 2.41 |

1. These include investments in trading debt securities and investment debt securities. Investment debt securities refer to debt securities in available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.

In 2010, the Group's net interest spread and net interest margin were 2.40% and 2.49% respectively, up 10 and 8 basis points respectively, year-on-year.

From 2010, the Group's net interest margin picked up quarterly, largely because of the following reasons. First, the structure of interest-earning assets improved, as the proportion of relatively high-yield interest-earning assets such as loans and debt securities investments grew gradually. Second, the yields of discounted bills and financial assets held under resale agreements rallied significantly, prompted by a continued rise in market rates. Third, interest rates of newly granted loans went up and more loans were subject to higher interest rates compared to the benchmark rates as a result of improved pricing capabilities. Fourth, the average cost of deposits from customers dropped steadily, in response to the repricing of existing deposits, the higher proportion of demand deposits, and the growing proportion of early withdrawals of time deposits.

The following table shows the effects of the movement of the average balances and average interest rates of the Group's assets and liabilities on the change in interest income or expense for 2010 versus 2009.

| (In millions of RMB) | Volume factor[1] | Interest rate factor | Change in interest income/expense |
|---|---|---|---|
| **Assets** | | | |
| Gross loans and advances to customers | 40,991 | (14,038) | 26,953 |
| Investment in debt securities | 14,478 | (6,827) | 7,651 |
| Deposits with central banks | 4,213 | 503 | 4,716 |
| Deposits and placements with banks and non-bank financial institutions | 722 | 347 | 1,069 |
| Financial assets held under resale agreements | (4,877) | 2,808 | (2,069) |
| **Change in interest income** | 55,527 | (17,207) | 38,320 |
| **Liabilities** | | | |
| Deposits from customers | 15,517 | (18,293) | (2,776) |
| Deposits and placements from banks and non-bank financial institutions | 1,397 | (153) | 1,244 |
| Financial assets sold under repurchase agreements | 165 | 0 | 165 |
| Debt securities issued | 120 | (36) | 84 |
| Other interest-bearing liabilities | (3) | (9) | (12) |
| **Change in interest expenses** | 17,196 | (18,491) | (1,295) |
| **Change in net interest income** | 38,331 | 1,284 | 39,615 |

1. Change caused by both average balances and average interest rates (based on respective proportions of absolute values of volume factor and interest rate factor) has been allocated to volume factor and interest rate factor respectively.

Net interest income increased by RMB39,615 million over the previous year, in which the increase of RMB38,331 million was due to the movement of average balances of assets and liabilities, and the increase of RMB1,284 million was due to the movement of average yields or costs.

### Interest income

The Group's interest income in 2010 was RMB377,783 million, an increase of RMB38,320 million, or 11.29%, over 2009.

*Interest income from loans and advances to customers*

The table below shows the average balance, interest income and average yield of each component of the Group's loans and advances to customers.

| | **Year ended 31 December 2010** | | | Year ended 31 December 2009 | | |
|---|---|---|---|---|---|---|
| (In millions of RMB, except percentages) | **Average balance** | **Interest income** | **Average yield (%)** | Average balance | Interest income | Average yield (%) |
| **Corporate loans** | **3,685,105** | **196,614** | **5.34** | 3,141,020 | 184,420 | 5.87 |
| Short-term loans | **1,073,523** | **53,226** | **4.96** | 945,102 | 51,809 | 5.48 |
| Medium- to long-term loans | **2,611,582** | **143,388** | **5.49** | 2,195,918 | 132,611 | 6.04 |
| **Personal loans** | **1,241,639** | **59,929** | **4.83** | 951,062 | 47,396 | 4.98 |
| **Discounted bills** | **191,771** | **6,491** | **3.38** | 244,878 | 5,156 | 2.11 |
| **Overseas operations** | **149,818** | **3,972** | **2.65** | 129,925 | 3,081 | 2.37 |
| **Gross loans and advances to customers** | **5,268,333** | **267,006** | **5.07** | 4,466,885 | 240,053 | 5.37 |

Interest income from loans and advances to customers rose by RMB26,953 million, or 11.23%, year-on-year to RMB267,006 million, mainly due to the steady expansion of the average balance of loans and advances to customers, partly offset by a fall in the average yield. The average yields of loans and advances to customers fell by 30 basis points over 2009, which was mainly affected by the repricing factor cumulatively.

*Interest income from investments in debt securities*

Interest income from investments in debt securities grew by RMB7,651 million, or 10.68%, to RMB79,317 million over 2009, largely because of the increase in the average balance of RMB-denominated investments in debt securities.

*Interest income from deposits with central banks*

Interest income from deposits with central banks amounted to RMB23,226 million, a year-on-year rise of RMB4,715 million, or 25.47%. This was mainly because the average balance of deposits with central banks rose by 22.65%, in line with increases in the statutory deposit reserve rate and deposits from customers.

*Interest income from deposits and placements with banks and non-bank financial institutions*

Interest income from deposits and placements with banks and non-bank financial institutions grew by RMB1,070 million to RMB1,810 million over 2009. This was primarily due to the 77.27% surge in the average balance to raise short-term fund utilisation efficiency.

*Interest income from financial assets held under resale agreements*

Interest income from financial assets held under resale agreements was down by RMB2,069 million, or 24.36%, year-on-year to RMB6,424 million. This mainly resulted from the sharp decrease in the average balance to manage liquidity and profitability.

**Interest expense**

In 2010, the Group's interest expense was RMB126,283 million, a year-on-year decrease of RMB1,295 million, or 1.02%.

*Interest expense on deposits from customers*

The table below shows the average balance, interest expense and average cost of each component of the Group's deposits from customers.

| | **Year ended 31 December 2010** | | | Year ended 31 December 2009 | | |
|---|---|---|---|---|---|---|
| (In millions of RMB, except percentages) | **Average balance** | **Interest expense** | **Average cost (%)** | Average balance | Interest expense | Average cost (%) |
| **Corporate deposits** | **4,559,265** | **51,834** | **1.14** | 3,881,642 | 50,150 | 1.29 |
| Demand deposits | **3,059,899** | **19,380** | **0.63** | 2,515,095 | 15,662 | 0.62 |
| Time deposits | **1,499,366** | **32,454** | **2.16** | 1,366,547 | 34,488 | 2.52 |
| **Personal deposits** | **3,835,609** | **55,519** | **1.45** | 3,394,676 | 60,286 | 1.78 |
| Demand deposits | **1,532,189** | **5,693** | **0.37** | 1,275,657 | 4,719 | 0.37 |
| Time deposits | **2,303,420** | **49,826** | **2.16** | 2,119,019 | 55,567 | 2.62 |
| **Overseas operations** | **87,684** | **846** | **0.96** | 89,484 | 540 | 0.60 |
| **Total deposits from customers** | **8,482,558** | **108,199** | **1.28** | 7,365,802 | 110,976 | 1.51 |

Interest expense on deposits from customers stood at RMB108,199 million, representing a decrease of RMB2,777 million, or 2.50%, over 2009. This resulted mainly from a fall of 23 basis points to 1.28% in the average cost of deposits, thanks to the repricing of existing deposits, the higher proportion of demand deposits, and the growing proportion of early withdrawals of time deposits, despite being partly offset by the growth of average balance.

*Interest expense on deposits and placements from banks and non-bank financial institutions*

Interest expense on deposits and placements from banks and non-bank financial institutions reached RMB14,367 million, a rise of RMB1,244 million, or 9.48%, over 2009, largely because of a larger average balance of deposits from banks and non-bank financial institutions.

*Interest expense on financial assets sold under repurchase agreements*

Interest expense on financial assets sold under repurchase agreements increased year-on-year to RMB176 million. This was primarily because of a rise in the average balance of financial assets sold under repurchase agreements.

## *Net fee and commission income*

| (In millions of RMB, except percentages) | **Year ended 31 December 2010** | Year ended 31 December 2009 | Change in amount | Change (%) |
|---|---|---|---|---|
| **Fee and commission income** | **68,156** | 49,839 | 18,317 | 36.75 |
| Consultancy and advisory fees | **12,816** | 10,962 | 1,854 | 16.91 |
| Bank card fees | **12,344** | 9,186 | 3,158 | 34.38 |
| Agency service fees | **12,115** | 9,840 | 2,275 | 23.12 |
| Settlement and clearing fees | **9,614** | 6,308 | 3,306 | 52.41 |
| Commission on trust and fiduciary activities | **6,720** | 5,522 | 1,198 | 21.70 |
| Wealth management fees | **5,611** | 2,078 | 3,533 | 170.02 |
| Electronic banking fees | **2,879** | 1,889 | 990 | 52.41 |
| Guarantee handling fees | **1,857** | 1,519 | 338 | 22.25 |
| Credit commitment fees | **1,605** | 1,256 | 349 | 27.79 |
| Others | **2,595** | 1,279 | 1,316 | 102.89 |
| **Fee and commission expenses** | **(2,024)** | (1,780) | (244) | 13.71 |
| **Net fee and commission income** | **66,132** | 48,059 | 18,073 | 37.61 |

The Group's net fee and commission income rose by 37.61% to RMB66,132 million over 2009, while the ratio of net fee and commission income to operating income rose by 2.46 percentage points to 20.30%.

Consultancy and advisory fees increased by 16.91% to RMB12,816 million, accounting for the largest share of the net fee and commission income. The Group put special emphasis on financial advisory services for wealth management products, M&A and restructuring. Our cost advisory business also expanded by 19.10%.

Bank card fees grew by 34.38% to RMB12,344 million. Fees from credit cards went up by 61.80%, largely due to the fast growth of the number of cards issued and consumer spending per card, as the Group widened the customer base and explored business potential.

Agency service fees climbed by 23.12% to RMB12,115 million. This was mainly because the Group rapidly expanded its insurance agency services and customer-driven foreign exchange trading by leveraging sales channel strengths as well as improving business processes and incentive mechanisms. Fees from fund agency services grew at a much slower pace due to the poor performance of the stock market.

Settlement and clearing fees rose by 52.41% to RMB9,614 million. This was largely because of a marked increase in income from corporate settlements due to the proactive promotion of our new "Yudao" branded corporate settlement products, as well as fast income growth of our international settlement business, thanks to a rebound in import and export trades.

Commission on trust and fiduciary business rose by 21.70% to RMB6,720 million. Fees from our custodial services for securities investment funds increased by 15.60% amid the gloomy stock market.

Wealth management fees soared by 170.02% to RMB5,611 million, primarily because the Group proactively marketed its "Qianyuan", "Qianyuan-Rixinyueyi", "Good Harvest", "CCB Fortune", and "Profit from Interest" branded wealth management products to meet growing market demand.

Electronic banking fees grew by 52.41% to RMB2,879 million. This was mainly due to a 77% year-on-year increase in electronic banking transaction volume which amounted to RMB63.7 trillion, following increased marketing activities for our electronic banking services.

*Net gain on trading activities*

Net gain on trading activities went up by RMB1,276 million, or 57.14%, to RMB3,509 million, chiefly because of an increase in net gain on currency interest rate swaps.

*Net gain on investment securities*

The Group realised a net gain on investment securities of RMB1,903 million, a decrease of RMB2,568 million, or 57.44%, over the previous year. This was mainly due to decreased capital gains as a result of sale declines of available-for-sale debt securities and held-to-maturity investments.

*Other net operating income*

In 2010, the Group reaped other net operating income of RMB2,508 million, including a net foreign exchange loss of RMB611 million, a net gain of RMB455 million on disposals of fixed assets, a net gain of RMB140 million on disposals of repossessed assets, and other income of RMB2,524 million.

## *Operating expenses*

| (In millions of RMB, except percentages) | **Year ended 31 December 2010** | Year ended 31 December 2009 |
|---|---|---|
| Staff costs | **61,409** | 51,138 |
| Premises and equipment expenses | **18,530** | 16,755 |
| Business tax and surcharge | **18,364** | 15,972 |
| Others | **23,063** | 21,281 |
| **Total operating expenses** | **121,366** | 105,146 |
| **Cost-to-income ratio** | **37.25%** | 39.04% |

In 2010, the Group continued to strengthen cost management and improve cost structure. The total operating expenses increased by RMB16,220 million, or 15.43% year-on-year to RMB121,366 million, while the cost-to-income ratio fell by 1.79 percentage points to 37.25% over 2009.

Staff costs rose by RMB10,271 million, or 20.08%, year-on-year to RMB61,409 million. Premises and equipment expenses rose by RMB1,775 million, or 10.59%, to RMB18,530 million, 1.43 percentage points lower than the growth rate of 2009. Business tax and surcharges were RMB18,364 million, up RMB2,392 million, or 14.98%, in line with higher operating income. The Group's other operating expenses increased by RMB1,782 million, or 8.37%, to RMB23,063 million, mainly because the Group increased its marketing efforts to support business development with increased marketing expenses such as entertainment expenses and promotion expenses. The growth of administrative expenses such as travel expenses and meeting expenses was kept at a low level.

**Feature article: Cost Management**

In 2010, the Group further improved its cost structure and lowered its cost-to-income ratio year-on-year by implementing a comprehensive cost management system.

The Group continued to nurture its cost management culture. It carried out bank-wide competitions to encourage the management and staff at all levels to step up cost controls,and tried to instill strong cost consciousness within the Group.

The Group also strengthened its fundamental cost management. The operating cost was put under reasonable control through quota-setting standards and expense budgeting management, while ensuring normal business operations. The Group looked into ways of upgrading the cost-to-income ratio management, improved the output analysis and subsequent appraisals on major expenditure items, analysed inputs and outputs for and key business investments along with subsequent appraisals, and incorporated relevant findings into the management practices. Moreover, it made by making decisions or approved approving budgets based on the value creation consideration. Its so that cost management could become more forward-looking. The Group adopted the management accounting approach by reporting and analysing cost structures from different perspectives, as well as by improving costs and expenditure appraisals.

The Group further increased its cost efficiency. It optimised assets allocation by establishing a mechanism that links the input of resources to the results, thus enabling the reasonable allocation of resources to strategic areas that can bring sustainable profits. Furthermore, it strengthened its infrastructure construction in relation to customers, products, channels and IT to achieve maximum output. The development of IT projects was managed centrally, and management processes for project development were refined by analysing demand and integrating various functions.

The Group explored innovative methods to manage costs. New ideas and methods of cost management were used to conduct detailed studies on operational issues including channels, products, business processes and business modes in order to explore the potential of the internal management and achieve cost control at the sources.

### *Provisions for Impairment Losses*

| (In millions of RMB) | **Year ended 31 December 2010** | Year ended 31 December 2009 |
|---|---|---|
| **Loans and advances to customers** | **25,641** | 24,256 |
| **Investments** | **1,460** | 1,112 |
| Available-for-sale financial assets | **1,817** | 1,004 |
| Held-to-maturity investments | **(381)** | 76 |
| Debt securities classified as receivables | **24** | 32 |
| **Fixed assets** | **2** | 2 |
| **Others** | **2,189** | 90 |
| **Total provisions for impairment losses** | **29,292** | 25,460 |

In 2010, the provisions for impairment losses were RMB29,292 million, an increase of RMB3,832 million over 2009. In this amount, the provisions for impairment losses on loans and advances to customers were RMB25,641 million, a rise of RMB1,385 million. Provisions on investments were RMB1,460 million, which were mainly provisions for certain available-for-sale equity instruments. Other provisions were RMB2,189 million, most of which were provisions made for off-balance sheet acceptances, letters of credit, guarantees and wealth management business.

### *Income tax expense*

In 2010, the Group's income tax expense reached RMB40,125 million, an increase of RMB8,236 million from 2009. The Group's effective income tax rate was 22.91%, lower than the 25% statutory rate, largely because the interest income from the PRC government bonds held by the Group was non-taxable in accordance with tax regulations. Income tax expense details are set out in the note "Income Tax Expense" to the financial statements in this report.

*Other comprehensive income*

In 2010, the Group recorded a negative value of RMB7.5 billion in other comprehensive income, a decrease of RMB9,822 million from 2009. This chiefly resulted from a fall in the fair value of available-for-sale debt securities triggered by the PBC's interest rate hikes, as well as a reduction in the fair value of available-for-sale equity instruments amid the gloomy capital market.

## Statement of Financial Position Analysis

*Assets*

The following table shows the composition of the Group's total assets as at the dates indicated.

| | **As at 31 December 2010** | | As at 31 December 2009 | |
|---|---|---|---|---|
| (In millions of RMB, except percentages) | **Amount** | **% of total** | Amount | % of total |
| Gross loans and advances to customers | **5,669,128** | | 4,819,773 | |
| Allowances for impairment losses on loans | **(143,102)** | | (126,826) | |
| Net loans and advances to customers | **5,526,026** | **51.12** | 4,692,947 | 48.77 |
| Investments[1] | **2,904,997** | **26.87** | 2,578,799 | 26.80 |
| Cash and deposits with central banks | **1,848,029** | **17.09** | 1,458,648 | 15.16 |
| Deposits and placements with banks and non-bank financial institutions | **142,280** | **1.32** | 123,380 | 1.28 |
| Financial assets held under resale agreements | **181,075** | **1.68** | 589,606 | 6.13 |
| Interest receivable | **44,088** | **0.41** | 40,345 | 0.42 |
| Other assets[2] | **163,822** | **1.51** | 139,630 | 1.44 |
| **Total assets** | **10,810,317** | **100.00** | 9,623,355 | 100.00 |

1. These comprise trading financial assets, available-for-sale financial assets, held-to-maturity investments, and debt securities classified as receivables.
2. These comprise precious metals, positive fair value of derivatives, investments in associate and jointly controlled entities, fixed assets, intangible assets, goodwill, land use rights, deferred tax assets and other assets.

As at 31 December 2010, the Group's total assets stood at RMB10,810,317 million, a rise of RMB1,186,962 million, or 12.33%, over 2009. In this amount, gross loans and advances to customers grew by RMB849,355 million, or 17.62%, mainly extending to the infrastructure, small and medium-sized enterprises (SME), agriculture-related and residential mortgage sectors. Investments rose by RMB326,198 million, largely due to increased holdings of debt securities issued by the Chinese Government, the central bank and policy banks. Cash and deposits with central banks increased by RMB389,381 million, or 26.69%, mainly as a result of consecutive hikes in the statutory deposit reserve rate and deposits growth. Deposits and placements with banks and non-bank financial institutions increased by RMB18,900 million, chiefly due to expanded placements. Financial assets held under resale agreements dropped by RMB408,531 million, and their proportion to total assets fell by 4.45 percentage points. This was primarily because the Group reduced these financial assets for the purpose of liquidity and profitability management.

**Loans and advances to customers**

| (In millions of RMB, except percentages) | As at 31 December 2010 Amount | % of total | As at 31 December 2009 Amount | % of total |
|---|---|---|---|---|
| **Corporate loans** | **3,976,865** | **70.15** | 3,351,315 | 69.53 |
| Short-term loans | **1,160,747** | **20.47** | 915,674 | 19.00 |
| Medium to long-term loans | **2,816,118** | **49.68** | 2,435,641 | 50.53 |
| **Personal loans** | **1,368,811** | **24.15** | 1,088,459 | 22.58 |
| Residential mortgage loans | **1,091,116** | **19.25** | 852,531 | 17.69 |
| Personal consumer loans | **78,881** | **1.39** | 78,651 | 1.63 |
| Other loans[1] | **198,814** | **3.51** | 157,277 | 3.26 |
| **Discounted bills** | **142,835** | **2.52** | 228,361 | 4.74 |
| **Overseas operations** | **180,617** | **3.18** | 151,638 | 3.15 |
| **Gross loans and advances to customers** | **5,669,128** | **100.00** | 4,819,773 | 100.00 |

1. These comprise individual commercial property mortgage loans, personal business loans, home equity loans, credit card loans and education loans.

As at 31 December 2010, the Group's gross loans and advances to customers rose by RMB849,355 million, or 17.62% over 2009, to RMB5,669,128 million.

Corporate loans reached RMB3,976,865 million, an increase of RMB625,550 million, or 18.67%, over 2009. In this amount, infrastructure loans climbed by RMB230,546 million, or 14.97%, to RMB1,770,444 million, mainly targeting quality infrastructure projects. SMEs loans increased by 28.6% to RMB1,585,220 million, 9.93 percentage points higher than corporate loan growth.

The Group continued to reinforce credit structure adjustment. The Group took the initiative to control loans to the real estate industry, which grew by only 12.34% year-on-year, compared to a 18.67% corporate loan growth. In addition, the Group continued to improve its customer base, with new loans principally targeting prime customers with solid financial strengths and high business qualifications in regions where property prices were stable. The Group also focused on extending loans to state-backed residential projects including ordinary residential and affordable housing projects. The balance of corporate loans under the "exit" category decreased by RMB104,600 million over 2009. Furthermore, both credit and loan balances of "6+1" industries with excess capacity dropped in line with the state's macroeconomic control measures.

Personal loans increased by RMB280,352 million, or 25.76% over 2009, to RMB1,368,811 million, which accounted for 24.15% of the gross loans and advances to customers, up 1.57 percentage points. In this amount, residential mortgage loans, mainly to finance self-occupied home purchases, rose by RMB238,585 million, or roughly 27.99%, to RMB1,091,116 million; personal consumer loans of RMB78,881 million were the same as last year; and other loans rose by RMB41,537 million, or 26.41%, mainly thanks to rapid credit card loan growth and personal business loan expansion.

Discounted bills declined by RMB85,526 million to RMB142,835 million year-on-year, and were chiefly used to meet the short-term financing needs of targeted prime customers.

Loans and advances to overseas customers rose by RMB28,979 million, or 19.11%, over 2009, to RMB180,617 million, which was largely attributable to the fast loan increase in Hong Kong and New York.

*Distribution of loans by type of collateral*

The table below sets forth the distribution of loans and advances by type of collateral as at the dates indicated.

| (In millions of RMB, except percentages) | **As at 31 December 2010** **Amount** | **% of total** | As at 31 December 2009 Amount | % of total |
|---|---|---|---|---|
| Unsecured loans | **1,520,613** | **26.82** | 1,291,942 | 26.81 |
| Guaranteed loans | **1,180,113** | **20.82** | 997,157 | 20.69 |
| Loans secured by tangible assets other than monetary assets | **2,412,285** | **42.55** | 2,062,981 | 42.80 |
| Loans secured by monetary assets | **556,117** | **9.81** | 467,693 | 9.70 |
| **Gross loans and advances to customers** | **5,669,128** | **100.00** | 4,819,773 | 100.00 |

*Allowances for impairment losses on loans and advances to customers*

| | **Year ended 31 December 2010** | | | |
|---|---|---|---|---|
| | **Allowances for loans and advances** | **Allowances for impaired loans and advances** | | |
| (In millions of RMB) | **which are collectively assessed** | **which are collectively assessed** | **which are individually assessed** | **Total** |
| As at 1 January | **75,628** | **4,838** | **46,360** | **126,826** |
| Charge for the year | **26,465** | **103** | **11,857** | **38,425** |
| Release during the year | | **(261)** | **(12,523)** | **(12,784)** |
| Unwinding of discount | | | **(799)** | **(799)** |
| Transfers out | | **(18)** | **(383)** | **(401)** |
| Write-offs | | **(1,084)** | **(8,193)** | **(9,277)** |
| Recoveries | | **79** | **1,033** | **1,112** |
| **As at 31 December** | **102,093** | **3,657** | **37,352** | **143,102** |

In 2010, the Group maintained a prudent approach by making full provisions for impairment losses on loans and advances to customers, after fully considering the risk impacts of changing external policies on different industries. As at 31 December 2010, the allowances for impairment losses on loans and advances to customers increased by RMB16,276 million year-on-year to RMB143,102 million, while the ratio of allowances to non-performing loans was 221.14%, up 45.37 percentage points over 2009. The ratio of allowances to total loans stood at 2.52%.

**Investments**

The following table shows the composition of the Group's investments as at the dates indicated.

| (In millions of RMB, except percentages) | **As at 31 December 2010** **Amount** | **% of total** | As at 31 December 2009 Amount | % of total |
|---|---|---|---|---|
| Trading financial assets | **17,344** | **0.60** | 18,871 | 0.73 |
| Available-for-sale financial assets | **696,848** | **23.98** | 651,480 | 25.26 |
| Held-to-maturity investments | **1,884,057** | **64.86** | 1,408,873 | 54.64 |
| Debt securities classified as receivables | **306,748** | **10.56** | 499,575 | 19.37 |
| **Total investments** | **2,904,997** | **100.00** | 2,578,799 | 100.00 |

As at 31 December 2010, total investments increased by RMB326,198 million to RMB2,904,997 million over 2009. Trading financial assets slid by RMB1,527 million, or 8.09%, chiefly because the Group reduced its holding of trading debt securities with an expectation of rising domestic interest rates. Available-for-sale financial assets climbed by RMB45,368 million, in which available-for-sale debt securities investments increased by RMB50,077 million, mainly because the Group held more debt securities issued by central and policy banks and enterprises. Held-to-maturity investments increased by RMB475,184 million, largely due to the increased holding of debt securities issued by the government, central banks and policy banks. Debt securities classified as receivables decreased by RMB192,827 million, mainly because bills specifically issued to China Construction Bank by the PBC matured and part of principal of Cinda bond was repaid.

*Debt securities investments*

The following table sets forth the composition of the Group's debt securities investments by currency as at the dates indicated.

| (In millions of RMB, except percentages) | **As at 31 December 2010** | | As at 31 December 2009 | |
|---|---|---|---|---|
| | **Amount** | **% of total** | Amount | % of total |
| Debt securities investments in RMB | **2,814,711** | **97.89** | 2,492,869 | 97.77 |
| Debt securities investments in foreign currency | **60,794** | **2.11** | 56,859 | 2.23 |
| **Total debt securities investments** | **2,875,505** | **100.00** | 2,549,728 | 100.00 |

*Debt securities investments in foreign currency*

The following table shows the composition of the US sub-prime mortgage loan backed securities held by the Group at the end of 2010.

| (In millions of US dollars) | **Allowances for impairment losses** | **Carrying amount[1]** |
|---|---|---|
| **US sub-prime mortgage debts** | (250) | 108 |
| First lien debt securities | (172) | 101 |
| Second lien debt securities | (78) | 7 |
| **Related residential mortgage collateralised debt obligations (CDO)** | (391) | – |
| **Total** | (641) | 108 |

1. Carrying amount after deducting the allowances for impairment losses.

As at 31 December 2010, the carrying amount of the foreign currency debt securities investment portfolio held by the Group was US$9,226 million (or RMB60,794 million).

As at 31 December 2010, the carrying amount of US sub-prime mortgage loan backed securities held by the Group was US$108 million (or RMB712 million), accounting for 1.17% of the foreign currency debt securities investment portfolio. The allowances for impairment losses on such securities were US$641 million (or RMB4,224 million).

As at 31 December 2010, the carrying amount of the Alt-A bonds held by the Group was US$205 million (or RMB1,348 million), accounting for 2.22% of the foreign currency debt securities investment portfolio. The allowances for impairment losses on such securities were US$259 million (or RMB1,706 million).

As the US sub-prime mortgage loan backed securities represent only a very small proportion of the Group's total assets, market value fluctuations for such debt securities will not have a significant effect on earnings.

## Interest receivable

As at 31 December 2010, the Group's interest receivable was RMB44,088 million, an increase of RMB3,743 million, or 9.28%, over 2009. The allowances for impairment losses on interest receivable was RMB1 million, which was made in full against interest receivable arising from debt securities investments overdue for more than three years.

### *Liabilities*

The following table shows the composition of the Group's total liabilities as at the dates indicated.

| | **As at 31 December 2010** | | As at 31 December 2009 | |
|---|---|---|---|---|
| (In millions of RMB, except percentages) | **Amount** | **% of total** | Amount | % of total |
| Deposits from customers | **9,075,369** | **89.77** | 8,001,323 | 88.27 |
| Deposits and placements from banks and non-bank financial institutions | **749,809** | **7.42** | 812,905 | 8.97 |
| Financial assets sold under repurchase agreements | **4,922** | **0.05** | – | – |
| Debt securities issued | **93,315** | **0.92** | 98,644 | 1.09 |
| Other liabilities[1] | **185,997** | **1.84** | 151,463 | 1.67 |
| **Total liabilities** | **10,109,412** | **100.00** | 9,064,335 | 100.00 |

1. These comprise borrowings from central banks, trading financial liabilities, negative fair value of derivatives, accrued staff costs, taxes payable, interest payable, provisions, deferred tax liabilities and other liabilities.

As at 31 December 2010, the Group's total liabilities were RMB10,109,412 million, an increase of RMB1,045,077 million, or 11.53%, over 2009. Deposits from customers remained the Group's primary source of funding, and grew by RMB1,074,046 million, or 13.42%. Deposits from customers accounted for 89.77% of the total liabilities, up 1.50 percentage points over 2009. Deposits and placements from banks and non-bank financial institutions decreased by RMB63,096 million, or 7.76%. This was mainly because the deposits from securities brokerages and funds dropped significantly with the volatile capital market. Debt securities issued shrank by RMB5,329 million from 2009, mainly because the Bank's RMB-denominated financial bonds issued in Hong Kong matured in September 2010 and issuance of certificates of deposit decreased at the overseas branches.

#### Deposits from customers

The following table sets forth the Group's deposits from customers by product type as at the dates indicated.

| | **As at 31 December 2010** | | As at 31 December 2009 | |
|---|---|---|---|---|
| (In millions of RMB, except percentages) | **Amount** | **% of total** | Amount | % of total |
| **Corporate deposits** | **4,948,152** | **54.52** | 4,303,509 | 53.79 |
| Demand deposits | **3,368,425** | **37.12** | 2,960,155 | 37.00 |
| Time deposits | **1,579,727** | **17.41** | 1,343,354 | 16.79 |
| **Personal deposits** | **4,022,813** | **44.33** | 3,584,727 | 44.80 |
| Demand deposits | **1,714,952** | **18.90** | 1,435,348 | 17.94 |
| Time deposits | **2,307,861** | **25.43** | 2,149,379 | 26.86 |
| **Overseas operations** | **104,404** | **1.15** | 113,087 | 1.41 |
| **Total deposits from customers** | **9,075,369** | **100.00** | 8,001,323 | 100.00 |

As at 31 December 2010, the Group's total deposits from customers reached RMB9,075,369 million, an increase of RMB1,074,046 million, or 13.42%, year-on-year. Corporate deposits went up by RMB644,643 million, or 14.98%, against the 12.22% increase of personal deposits. This led to a rise of 0.73 percentage points in the proportion of corporate deposits in total deposits from customers to 54.52%. This was largely because corporate customers' liquidity was relatively ample amid an moderately loose monetary policy in the first nine months. Given the PBC's two consecutive interest rate hikes, the Group has seen more customers withdrawing deposits before maturity and heightened expectation of further rate hikes among customers. Domestic demand deposits rose by 15.65%, higher than the 11.31% growth of time deposits. The proportion of domestic demand deposits in total deposits went up 1.08 percentage points to 56.02%.

### *Shareholders' Equity*

| (In millions of RMB) | **As at 31 December 2010** | As at 31 December 2009 |
|---|---|---|
| Share capital | **250,011** | 233,689 |
| Capital reserve | **135,136** | 90,266 |
| Investment revaluation reserve | **6,706** | 13,163 |
| Surplus reserve | **50,681** | 37,421 |
| General reserve | **61,347** | 46,806 |
| Retained earnings | **195,950** | 136,112 |
| Exchange reserve | **(3,039)** | (1,982) |
| **Equity attributable to shareholders of the Bank** | **696,792** | 555,475 |
| Non-controlling interests | **4,113** | 3,545 |
| **Total equity** | **700,905** | 559,020 |

As at 31 December 2010, the Group's total equity reached RMB700,905 million, an increase of RMB141,885 million year-on-year, of which RMB61,159 million were net proceeds from the rights issue of A-shares and H-shares. The ratio of total equity to total assets for the Group was 6.48%, up 0.67 percentage points compared to 2009.

### *Capital Adequacy Ratio*

The following table sets forth the information related to the Group's capital adequacy ratio as at the dates indicated:

| (In millions of RMB, except percentages) | **As at 31 December 2010** | As at 31 December 2009 |
|---|---|---|
| **Core capital adequacy ratio**[1] | **10.40%** | 9.31% |
| **Capital adequacy ratio**[2] | **12.68%** | 11.70% |
| **Components of capital base** | | |
| Core capital: | | |
| Share capital | **250,011** | 233,689 |
| Capital reserve, investment revaluation reserve and exchange reserve[4] | **127,536** | 82,427 |
| Surplus reserve and general reserve | **112,028** | 84,227 |
| Retained earnings[3,4] | **140,995** | 87,564 |
| Non-controlling interests | **4,113** | 3,545 |
| | **634,683** | 491,452 |
| Supplementary capital: | | |
| General provision for doubtful debts | **57,359** | 48,463 |
| Positive changes in fair value of financial instruments at fair value through profit or loss | **7,547** | 10,815 |
| Subordinated bonds issued | **80,000** | 80,000 |
| | **144,906** | 139,278 |
| Total capital base before deductions | **779,589** | 630,730 |
| Deductions: | | |
| Goodwill | **(1,534)** | (1,590) |
| Unconsolidated equity investments | **(13,695)** | (8,903) |
| Others[5] | **(1,911)** | (12,004) |
| **Net capital** | **762,449** | 608,233 |
| **Risk-weighted assets**[6] | **6,015,329** | 5,197,545 |

1. Core capital adequacy ratio is calculated by dividing the net amount of core capital, which is after deductions of 100% of goodwill and 50% of unconsolidated equity investments and others, by risk-weighted assets.
2. Capital adequacy ratio is calculated by dividing net capital by risk-weighted assets.
3. The dividend proposed after the balance sheet date has been deducted from retained earnings.
4. The investment revaluation reserve arising from the accumulated 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. In addition, the unrealised accumulated net positive changes in fair value of trading financial instruments, net of income tax, are excluded from the core capital and included in the supplementary capital.
5. Others mainly represent investments in those asset-backed securities specified by the CBRC which required reduction.
6. The balances of risk-weighted assets include an amount equal to 12.5 times the Group's market risk capital.

The Group calculates its capital adequacy ratio in accordance with the *Administration Measures for Capital Adequacy Ratios of Commercial Banks* and related regulations promulgated by the CBRC. As at 31 December 2010, the Group's capital adequacy ratio was 12.68% and the core capital adequacy ratio was 10.40%, up 0.98 and 1.09 percentage points respectively over 2009. This was mainly because the Bank raised a net amount of RMB61,159 million from the rights issue of A-share and H-share, all of which were used to strengthen its capital, thus further consolidating its capital base. In addition, the Group actively controlled the growth rate of off-balance sheet risk assets, reduced inefficient use of capital, and improved capital allocation structure by enhancing the active management of capital, improving the awareness of capital intensive use, and strengthening the analysis of capital use efficiency of on- and off-balance sheet assets in line with current changes, which played an active role in raising the Bank's capital adequacy ratio.

### *Analysis of Off-Balance Sheet Items*

The Group's off-balance sheet items include derivatives, commitments and contingent liabilities. Derivatives include interest rate contracts, exchange rate contracts, precious metal contracts, equity instrument contracts and credit risk mitigation contracts. Please refer to the note "Derivatives" in the "Financial Statements" of this annual report for the nominal amounts and fair value of derivatives. Commitments and contingent liabilities include credit commitments, operating lease commitments, capital commitments, underwriting obligations, redemption obligations, outstanding litigation and disputes, and contingent liabilities. Among these, credit commitments were the most significant component, with an amount of RMB2,035,820 million as at the end of 2010. Please refer to the note "Commitments and contingent liabilities" in the financial statements of this annual report for information on commitments and contingent liabilities.

## Loan Quality Analysis

### *Distribution of Loans by the Five-Category Classification*

The following table sets forth, as at the dates indicated, the distribution of the Group's loans by the five-category loan classification under which NPLs include substandard, doubtful and loss categories.

| | **As at 31 December 2010** | | As at 31 December 2009 | |
|---|---|---|---|---|
| (In millions of RMB, except percentages) | **Amount** | **% of total** | Amount | % of total |
| Normal | **5,405,694** | **95.35** | 4,546,843 | 94.33 |
| Special mention | **198,722** | **3.51** | 200,774 | 4.17 |
| Substandard | **28,718** | **0.51** | 21,812 | 0.45 |
| Doubtful | **28,923** | **0.51** | 42,669 | 0.89 |
| Loss | **7,071** | **0.12** | 7,675 | 0.16 |
| **Gross loans and advances to customers** | **5,669,128** | **100.00** | 4,819,773 | 100.00 |
| **Non-performing loans** | **64,712** | | 72,156 | |
| **Non-performing loan ratio** | | **1.14** | | 1.50 |

In 2010, the Group stepped up credit structure adjustments. With the launch of the year-long post-lending management programme, it strengthened post-lending management and surveillance of potential risk areas to mitigate associated risks, as well as expedited NPL disposal. Credit asset quality continued to improve. As at 31 December 2010, the Group's NPLs were RMB64,712 million, a decrease of RMB7,444 million from 2009, while the NPL ratio dropped by 0.36 percentage points to 1.14%. Special mention loans slid to 3.51%, 0.66 percentage points lower than in 2009.

*Distribution of Loans and NPLs by Product Type*

The following table sets forth loans and NPLs by product type as at the dates indicated:

| | **As at 31 December 2010** | | | As at 31 December 2009 | | |
|---|---|---|---|---|---|---|
| (In millions of RMB, except percentages) | **Loans** | **NPLs** | **NPL ratio (%)** | Loans | NPLs | NPL ratio (%) |
| **Corporate loans** | **3,976,865** | **56,090** | **1.41** | 3,351,315 | 57,178 | 1.71 |
| Short-term loans | **1,160,747** | **22,373** | **1.93** | 915,674 | 29,143 | 3.18 |
| Medium to long-term loans | **2,816,118** | **33,717** | **1.20** | 2,435,641 | 28,035 | 1.15 |
| **Personal loans** | **1,368,811** | **5,920** | **0.43** | 1,088,459 | 7,208 | 0.66 |
| Residential mortgage loans | **1,091,116** | **2,966** | **0.27** | 852,531 | 3,600 | 0.42 |
| Personal consumer loans | **78,881** | **962** | **1.22** | 78,651 | 1,329 | 1.69 |
| Other loans | **198,814** | **1,992** | **1.00** | 157,277 | 2,279 | 1.45 |
| **Discounted bills** | **142,835** | **–** | **–** | 228,361 | – | – |
| **Overseas operations** | **180,617** | **2,702** | **1.50** | 151,638 | 7,770 | 5.12 |
| **Total** | **5,669,128** | **64,712** | **1.14** | 4,819,773 | 72,156 | 1.50 |

As at 31 December 2010, the NPL ratio for corporate loans fell 0.30 percentage points year-on-year to 1.41%, and that for personal loans was 0.43%, 0.23 percentage points lower than in 2009. Thanks to the Group's strengthened risk management in overseas operations and the mitigation of significant risk exposures, the NPLs of overseas operations decreased remarkably.

### *Distribution of Loans and NPLs by Industry*

The following table sets forth the loans and NPLs by industry as at the dates indicated:

| (In millions of RMB, except percentages) | **As at 31 December 2010** | | | | As at 31 December 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Loans** | **% of total** | **NPLs** | **NPL ratio (%)** | Loans | % of total | NPLs | NPL ratio (%) |
| **Corporate loans** | **3,976,865** | **70.15** | **56,090** | **1.41** | 3,351,315 | 69.53 | 57,178 | 1.71 |
| Manufacturing | **978,816** | **17.27** | **22,193** | **2.27** | 803,302 | 16.67 | 21,413 | 2.67 |
| Transportation, storage and postal services | **647,332** | **11.42** | **6,219** | **0.96** | 519,078 | 10.77 | 3,382 | 0.65 |
| Production and supply of electric power, gas and water | **518,327** | **9.14** | **4,424** | **0.85** | 486,094 | 10.09 | 3,991 | 0.82 |
| Real estate | **402,922** | **7.11** | **6,624** | **1.64** | 358,651 | 7.44 | 9,322 | 2.60 |
| Leasing and commercial services | **359,612** | **6.34** | **1,997** | **0.56** | 303,380 | 6.29 | 1,829 | 0.60 |
| – Commercial services | **353,326** | **6.23** | **1,979** | **0.56** | 301,502 | 6.26 | 1,742 | 0.58 |
| Water, environment and public utilities management | **216,168** | **3.81** | **1,909** | **0.88** | 206,175 | 4.28 | 1,595 | 0.77 |
| Construction | **149,676** | **2.64** | **1,799** | **1.20** | 116,379 | 2.41 | 2,252 | 1.94 |
| Wholesale and retail trade | **214,800** | **3.79** | **5,080** | **2.36** | 146,693 | 3.04 | 7,391 | 5.04 |
| Mining | **143,432** | **2.53** | **769** | **0.54** | 104,019 | 2.16 | 394 | 0.38 |
| – Exploitation of petroleum and natural gas | **13,422** | **0.24** | **41** | **0.31** | 4,599 | 0.10 | 61 | 1.33 |
| Education | **100,050** | **1.76** | **1,219** | **1.22** | 93,351 | 1.94 | 1,117 | 1.20 |
| Telecommunications, computer services and software | **25,686** | **0.45** | **795** | **3.10** | 25,249 | 0.52 | 1,123 | 4.45 |
| – Telecommunications and other information transmission services | **21,869** | **0.39** | **92** | **0.42** | 22,450 | 0.47 | 189 | 0.84 |
| Others | **220,044** | **3.89** | **3,062** | **1.39** | 188,944 | 3.92 | 3,369 | 1.78 |
| **Personal loans** | **1,368,811** | **24.15** | **5,920** | **0.43** | 1,088,459 | 22.58 | 7,208 | 0.66 |
| **Discounted bills** | **142,835** | **2.52** | **–** | **–** | 228,361 | 4.74 | – | – |
| **Overseas operations** | **180,617** | **3.18** | **2,702** | **1.50** | 151,638 | 3.15 | 7,770 | 5.12 |
| **Total** | **5,669,128** | **100.00** | **64,712** | **1.14** | 4,819,773 | 100.00 | 72,156 | 1.50 |

In 2010, the Group continued to improve its industry-specific lending and exit criteria, and refined limit management for various industries. The NPL ratios for wholesale and retail trade, as well as for the manufacturing and real estate industries, which used to be high, continued to decline, down 2.68, 0.40 and 0.96 percentage points respectively from 2009. Meanwhile, the Bank proactively implemented the CBRC's latest regulatory requirements, stringently applying the classification criteria of credit risks to lending through government financing vehicles. The NPLs of infrastructure related industries rose slightly from 2009. The asset quality base was further consolidated.

### *Rescheduled Loans and Advances to Customers*

The following table sets forth the Group's rescheduled loans and advances to customers as at the dates indicated.

| (In millions of RMB, except percentages) | **As at 31 December 2010** | | As at 31 December 2009 | |
|---|---|---|---|---|
| | **Amount** | **% of gross loans and advances** | Amount | % of gross loans and advances |
| **Rescheduled loans and advances to customers** | **2,070** | **0.04** | 3,739 | 0.08 |

*Overdue Loans and Advances to Customers*

The following table sets forth the Group's overdue loans and advances to customers by overdue period as at the dates indicated.

| (In millions of RMB, except percentages) | **As at 31 December 2010** **Amount** | **% of gross loans and advances** | As at 31 December 2009 Amount | % of gross loans and advances |
|---|---|---|---|---|
| Overdue for no more than 3 months | **18,607** | **0.33** | 18,565 | 0.39 |
| Overdue for 3 months to 1 year | **6,595** | **0.12** | 17,296 | 0.35 |
| Overdue for 1 to 3 years | **19,066** | **0.34** | 21,710 | 0.45 |
| Overdue for over 3 years | **11,987** | **0.20** | 16,690 | 0.35 |
| **Total overdue loans and advances to customers** | **56,255** | **0.99** | 74,261 | 1.54 |

## Significant Accounting Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The major areas affected by the estimates and judgements include: impairment losses on loans and advances, available-for-sale and held-to-maturity debt investments, impairment of available-for-sale equity instruments, fair value of financial instruments, reclassification of held-to-maturity investments, and income taxes. Please refer to Note "Significant Accounting Estimates and Judgements" in the "Financial Statements" of this annual report.

## Differences between the Financial Statements Prepared under PRC GAAP and those Prepared under IFRS

There is no difference in the net profit for the year ended 31 December 2010 or total equity as at 31 December 2010 between the Group's consolidated financial statements prepared under PRC GAAP and those prepared under IFRS.

# BUSINESS REVIEW

The Group's major business segments are corporate banking, personal banking, treasury business, as well as others and unallocated items which include equity investments and overseas operations.

The following table sets forth, in the periods indicated, the profit before tax of each major business segment:

| (In millions of RMB, except percentages) | **Year ended 31 December 2010** **Amount** | **% of total** | Year ended 31 December 2009 Amount | % of total |
|---|---|---|---|---|
| Corporate banking | **91,167** | **52.05** | 84,157 | 60.66 |
| Personal banking | **30,590** | **17.46** | 23,311 | 16.80 |
| Treasury business | **51,198** | **29.23** | 30,294 | 21.84 |
| Others and unallocated | **2,201** | **1.26** | 963 | 0.70 |
| **Profit before tax** | **175,156** | **100.00** | 138,725 | 100.00 |

## Corporate Banking

The following table sets forth the major operating information and changes related to corporate banking:

| (In millions of RMB, except percentages) | **Year ended 31 December 2010** | Year ended 31 December 2009 | Change (%) |
|---|---|---|---|
| Net interest income | **135,559** | 124,389 | 8.98 |
| Net fee and commission income | **28,563** | 19,884 | 43.65 |
| Other operating income | **753** | 389 | 93.57 |
| **Operating income** | **164,875** | 144,662 | 13.97 |
| Operating expenses | **(50,151)** | (43,029) | 16.55 |
| Provisions for impairment losses | **(23,557)** | (17,476) | 34.80 |
| **Profit before tax** | **91,167** | 84,157 | 8.33 |
| | **As at 31 December 2010** | As at 31 December 2009 | |
| **Segment assets** | **4,343,277** | 3,879,101 | 11.97 |

Profit before tax from corporate banking increased by 8.33% over the previous year to RMB91,167 million, accounting for 52.05% of the Group's profit before tax as the Group's primary profit source. Net interest income from corporate banking rose by 8.98% over the previous year as a result of the growth of corporate loans. Net fee and commission income rose by 43.65%, benefiting from the robust growth of fee-based business products such as corporate settlement, domestic factoring, and electronic banking services. Operating expenses grew by 16.55%, due to the fast business growth and greater market promotion efforts. The provisions for impairment losses increased by 34.80%, as a result of the growth of total corporate loans and increasingly prudent provisioning policy.

**Effective control on corporate loans lead to enhanced quality.** As at the end of 2010, the Group's corporate loans totalled RMB3,976,865 million, an increase of 18.67% over 2009. The Group focused on the strategic business needs of lending to small business and internet merchants, and arranged special loans for post-disaster reconstruction in the wake of the Yushu earthquake and Jilin floods. It supported the fast-paced development of Xinjiang province and the Western Development Programme, and reserved special funds for the indemnificatory apartment construction in the way of combining with provident housing funds on a trial basis. Various measures of the year-long post-lending management programme were firmly implemented across the Bank, with stringent control over credit access. The asset quality of the corporate loans remained sound, and the corporate NPLs totalled RMB56,090 million with an NPL ratio of 1.41%, a decrease of RMB1,088 million or 0.30 percentage points lower than the end of 2009.

**Lending to industries with excess capacity and government financing vehicles were under control and reexamination.** The six major industries with excess capacity, including iron and steel, plate glass, coal chemical industries, as well as the shipbuilding sector, were major industries under control. Loans to these industries decreased by RMB19,255 million from the end of 2009. Regulatory requirements in respect of lending through government financing vehicles were stringently complied with. Such loans were steadily unpacked, inspected, and rectified where necessary. The Group refined lending policies for customers of the financing vehicles, and set new standards and management requirements for asset classification, provisioning and risk weightings. Disposal plans for different types of assets were formulated; the rectification progress of each customer was tracked and monitored to ensure completion of rectification within the deadline. The Group strictly controlled credit access for customers and projects; only customers with ample cash flow and key projects supported by the government were granted loans. Through these measures, the Group achieved orderly development and a controllable risk level.

**The growth of lending to the real estate sector lagged behind that of overall corporate loans.** The Group executed customer list management strictly in respect of the real estate sector. The total amount of loans to the sector was effectively checked at RMB402,922 million, an increase of 12.34%, 6.33 percentage points lower than the growth of corporate loans. Since 2010, the government has promoted the healthy development of the real estate industry by releasing various policies to curb speculation and prevent a bubble from forming. Against this backdrop, the Bank firmly controlled the lending speed and size of related new loans to maintain sensible growth, and guide reasonable allocation of loans to aptly reduce concentration on the real estate sector. The loan structure was optimised so that new loans were primarily used in residential projects, and the construction of indemnificatory apartments also received strong support. Furthermore, the Group vigorously tightened lending criteria, and enhanced the management of collaterals and disposal of NPLs for improved asset quality of real estate loans.

**Emerging credit business and agriculture-related loans achieved rapid growth.** Loans to SMEs increased by 28.6% to RMB1,585.22 billion, significantly outpacing overall corporate loans. Internet merchant business made breakthroughs, including cooperating with e-commerce platforms such as Alibaba and JYD online, and developing internet merchant products of “E-loans” series such as “E-Daitong”, “E-Dantong” and “E-Baotong” to provide internet banking financing services for over 7,000 customers with a 470% growth in loans. Domestic factoring business continued to expand briskly, seeing a surge of 220% in loans. M&A loans rose by 79.4%, boosting strong growth in fee and commission income from related financial advisory services, and in turn the customers’ comprehensive contribution. Agriculture-related loans climbed rapidly to RMB822.1 billion, an increase of RMB232.6 billion. Loans for supporting new countryside construction were gradually promoted on a pilot basis.

**Corporate deposits grew steadily at reasonable costs.** Corporate deposits rose by RMB644,643 million from the end of 2009 to RMB4,948,152 million. The Group adopted low-cost competitive strategies, keeping the interest rate for corporate deposits at a relatively low level of 1.14%. Demand deposits increased by RMB408,270 million, accounting for 63.33% of the new corporate deposits.

**Fee-based business from corporate banking expanded swiftly.** Such income rose by 43.65% to another record high of RMB28,563 million, accounting for 43.19% of all fee-based business income. The contribution of key products was substantial. The income from corporate RMB settlement, cost advisory services, domestic guarantees, commitments and domestic factoring business exceeded RMB1 billion. The income from domestic factoring business surged by 227% from 2009.

- ***Institutional business maintained growth momentum.*** The Bank’s “Minben Tongda” branded financial service gained popularity with a loan balance of RMB215,415 million in livelihood sectors such as education and health care. The volume of agency payment authorised by central government finance continued to dominate the market. The Bank issued a number of 2,250,000 social security cards in total with expanded product coverage. The “Safe Deal” custodial service for trading funds achieved a fee income of RMB1,766 million. Customers of “Xincunguan” exceeded 20 million, bringing a fee income of RMB536 million. The Group continued to enjoy the largest customer base and highest fee income among its peers in this respect. It had nearly 50% of the market share of contracted customers in through train banking services for futures, ranking first among its peers. Income from insurance agency services achieved a record high of RMB3,664 million. Income from fund collection and payment business under agency fund trust plans totalled RMB607 million, again emerging as first among the Big Four banks. The network coverage of fund settlement for finance companies increased to 90%, with a settlement volume of more than RMB14.98 trillion.

- ***International business performed well.*** Foreign exchange deposits grew fast, with deposit growth ranking first among peers. International settlement volume reached US$667,026 million, up 43.42%, the highest growth rate among the Big Four banks. Related income rose by 46.02% from 2009 to RMB3,047 million. The Group’s on- and off-balance sheet trade finance jumped by 52.76% from 2009 to RMB262,210 million. Fruitful results were achieved in product innovation with its successful launch of new products including “Commodity Finance and Hedging”, “Bank-Insured Trade Finance”, “Cross-Border RMB Trade Settlement”, “Accounts Receivable Pooling” and “Foreign Exchange Cash Management”.

- ***Asset custodial service reached a new level.*** As at the end of 2010, the Bank’s assets under custody increased by 31.31% to RMB1,307,942 million, generating a fee income of RMB1,716 million in total. Securities investment funds under custody maintained growth momentum. The Bank had 178 funds or 572,113 million units of funds with a net asset value of RMB619,296 million (including QDII funds) under its custody, commanding the second largest market share. Custodial services for industrial investments grew remarkably to RMB362,167 million, soaring 242.14% year-on-year. With the asset value of collective securities plans under custody reaching RMB29,708 million, the Bank ranked first among its peers in terms of the custody value, number of plans and growth. Enterprise annuity funds under custody reached RMB36,647 million, accounting for the second largest market share.

- ***Pension business experienced rapid growth.*** As at the end of 2010, the Bank had 2,659,000 contracted personal accounts of enterprise annuities, increasing by 733,000 from the end of 2009. The contracted assets under custody amounted to RMB14,070 million, up RMB4,440 million. The "Yangyile" product series targeting SMEs was enriched, with nine enterprise annuity products offered on the market. This business grew strongly, attracting about 4,300 contracted SMEs, an increase of about 3,300 from the end of 2009. "Yangyisifang No. 1", a product to manage deferred remuneration payment plan, was developed. It was successfully promoted and well received by corporate clients.

- ***Fund settlement business enjoyed robust growth.*** The Group strove to provide customers with comprehensive and well-thought-out fund settlement services. As at the end of 2010, it had 2,226,600 corporate settlement accounts, increasing by 117,200 year-on-year, with the RMB settlement business generating an income of RMB6,440 million, up 67.44%. The Group vigorously developed the settlement card market. It pioneered in developing a new generation cash management system that covered over-the-counter services, self-service facilities and electronic platforms. Innovative cash management products for corporate banking including "Yihutong", "Settlement Card" and "Second-Generation Cash Pool" were offered to enrich the Group's product lines. The market impact of the "Yudao-Zhisheng Cash Management" brand was effectively enhanced. As at the end of 2010, its cash management customers rose by 90.00% year-on-year.

## Personal Banking

The following table sets forth the major operating information and changes related to personal banking:

| (In millions of RMB, except percentages) | **Year ended 31 December 2010** | Year ended 31 December 2009 | Change (%) |
|---|---|---|---|
| Net interest income | **70,497** | 62,817 | 12.23 |
| Net fee and commission income | **23,919** | 17,882 | 33.76 |
| Other operating income | **628** | 268 | 134.33 |
| **Operating income** | **95,044** | 80,967 | 17.39 |
| Operating expenses | **(62,278)** | (53,492) | 16.42 |
| Provisions for impairment losses | **(2,176)** | (4,164) | (47.74) |
| **Profit before tax** | **30,590** | 23,311 | 31.23 |
| | **As at 31 December 2010** | As at 31 December 2009 | |
| **Segment assets** | **1,361,904** | 1,073,608 | 26.85 |

Personal banking achieved profit before tax of RMB30,590 million with a year-on-year increase of 31.23%, accounting for 17.46% of the Group's profit before tax, slightly higher than its contribution in 2009. Net interest income from personal banking increased by 12.23% due to the rapid growth in personal loans. Net fee and commission income recorded a rise of 33.76%, benefiting from the fast growth of bank card, electronic banking and insurance agency services. Operating expenses increased by 16.42%, with greater resources invested in personal banking business and the rising price level. Provisions for impairment losses decreased by 47.74%, thanks to improved quality of personal loans compared to the previous year on the whole, as the Group continued to raise its risk management techniques and level.

**Personal deposits achieved stable growth.** By launching marketing campaigns during peak seasons and special promotional activities in 2010, the Bank has offered specially designed services to gain greater access to funds and customers. It thus maintained a steady expansion of personal deposits. As at the end of 2010, personal deposits rose 12.22% to RMB4,022,813 million. Demand deposits took up a growing proportion of new deposits, accounting for 63.82% of total new deposits, up 14.89 percentage points from the same period last year.

**The growth in personal housing loans ranked first in the market.** The Bank has set up 781 personal loan centres covering almost all the cities above the prefecture level. A specialised and centralised operating approach was adopted, which further enhanced the Bank's risk management capability and service efficiency. Personal loans grew by 25.76% to RMB1,368,811 million, with an NPL ratio of 0.43%, 0.23 percentage points lower than the previous year. Residential mortgage loans were primarily granted to support self-occupied houses, loans for which rising by 27.99% to RMB1,091,116 million. Asset quality improved significantly, while lending rates increased steadily. In 2010, the Bank was again honoured with the titles of "Best Mortgage Loans Bank in China" by Global Finance, "The 2009 Best Mortgage Loan Service Bank in China" by Economic Observer, and "Best Housing Loan Banking" by Moneyweek.

**The Bank continued to command a higher market share of the entrusted housing finance business than its peers.** Housing fund deposits grew by 12.59% to RMB417,898 million, while personal provident housing loans increased by 24.66% to RMB516,733 million. The Bank ranked first among its peers in terms of housing deposits and loans. The Bank proactively participated in the state's indemnificatory apartment construction project. It provided tailor-made financial services for the provident housing fund's pilot apartment construction project by becoming a qualified lender to all 28 pilot cities. Cooperation with various levels of housing fund management departments was stepped up with innovative services. It enriched the composition of commercial mortgage products to support the housing needs of low and middle-income residents, as well as promoted co-branded cards and entrusted withdrawals. Through these measures, the Bank's image of "Better Housing, Serving the Public" was effectively enhanced.

**New debit cards and purchases rose steadily.** As at the end of 2010, the Bank had issued a total of 292 million debit cards, with 41,121,400 new cards issued during the year. Of these, 6,076,900 wealth management cards were issued, an increase of 1,181,900 over 2009. P Purchases via debit card rose by 64.88% year-on-year to RMB1,303,653 million, generating a fee income of RMB7,178 million.

**High-end customer services were further upgraded.** As at the end of 2010, the Bank's high-end customers increased by 34% from 2009, with their financial assets accounting for 11% of the total financial assets of personal banking customers, up from 8% in 2009. Private banking customers rose by nearly 50%. Special service channels for high-end customers have expanded to comprise 192 wealth management centres and ten private banking centres. Supply channels of wealth management products for high-end customers were vigorously explored to include fund companies and Sunshine Private Trust. By utilising its integrated advantages, and by further cooperating with other fund companies, securities firms and trust companies, the Group has initially established a third party supply platform for wealth management products.

**Feature article: Credit Card Business**

Since the launch of Long Card, the Bank has always upheld market-orientated and customer-focused principles, and developed its credit card business with an aim to take the strategic initiative in the retail business in future. Remarkable results were achieved in terms of market impact, product competitiveness, risk control, profitability and customer satisfaction.

**Leading development strategies and operating results**

The Bank adopted a centralised operating mode for the operation and management of its credit card business. Furthermore, a professional operating approach combining "consolidated brand and marketing efforts, unified credit extension and risk control policies, consolidated business systems and operating processes, unified customer service standards and norms, and standardised business computation" was used for healthy, fast and sustainable business development. By adopting an operating strategy and management approach that is in line with the development pattern of a mature market, the Bank aims to establish itself as a first-rate international credit card issuer. As at the end of 2010, a total of 27.95 million credit cards were issued, generating RMB406,521 million of spending, an increase of 38.85%. Outstanding loans rose by 52.30% to RMB55,440 million. In credit card business, the Bank outperformed its peers in terms of such core indicators as the number of customers, amount of spending and asset quality.

**Exceptional product innovation and brand features**

The development of the Bank's credit card products and card business is driven by innovation. By adopting an innovation strategy, the Bank continued to offer competitive and diversified products tailored to the needs of various types and levels of customers. It has established and enriched five product lines, including standard cards, co-branded cards, specialty cards, public welfare cards and corporate cards, as well as five series of "Long Card Instalment" products for automobiles, houses, merchants, consumption and mail orders. Of these, the trademarks for 11 products (including business cards and university cards) have been registered. In China, 11 out of 1,000 family automobiles purchased are granted instalment payment by the Bank. For years, Long Card has received dozens of awards for its product design, marketing, branding and risk management from bank card organisations and mainstream media in national competitions. These awards have enhanced the Bank's market impact and brand image.

**Comprehensive high-quality customer service**

The Bank is committed to improving its customer services capability and its customer experience. Multi-service channels (such as 400/800/95533) via telephone, website, email and SMS form a system that provides comprehensive contact points for cardholders. It is the first bank in China to provide an interactive voice response menu which offers specialised services to customers by directing them to dedicated lines that provide Cantonese and English services, and that can deal with disputes, instalments, risk and fraud, etc. The Bank's call centre has won "China's Best Call Centre" award from the Call Centre and Customer Relationship Management Conference & Expo China for a number of years in succession, as well the "Best Service Award" from the China Banking Association in the best customer service centre competition for Chinese banks in 2010.

**Prudential long-term risk management strategy**

The Bank upheld its prudential long-term risk management strategy and achieved increasingly sophisticated risk management by continually reinforcing its risk management policy and mechanism, optimising its risk management system and tools, improving its risk detection and monitoring system, and curbing cash withdrawals using credit cards. It was a pioneer in adopting risk ratings, as well as fraud and cash withdrawal detection techniques. By taking various measures, starting with procedures related to card issues, password setting and resetting, billing, SMS alerts and lost card protection, the Bank has effectively protected customer information and the security of credit cards.

**Prospects**

As the government stimulates domestic demand and consumption, the Bank will assume its social responsibility and grasp the opportunity to make credit cards a crucial platform for developing credit business in retail consumption. It aims to develop Long Card into a leading domestic brand and a world-class international brand.

## Treasury Business

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

| (In millions of RMB, except percentages) | **Year ended 31 December 2010** | Year ended 31 December 2009 | Change (%) |
|---|---|---|---|
| Net interest income | **42,675** | 22,199 | 92.24 |
| Net fee and commission income | **11,898** | 9,518 | 25.01 |
| Net trading gain | **1,940** | 459 | 322.66 |
| Net income arising from investment securities | **504** | 3,242 | (84.45) |
| Other operating loss | **(1,591)** | (378) | 320.90 |
| **Operating income** | **55,426** | 35,040 | 58.18 |
| Operating expenses | **(3,573)** | (3,802) | (6.02) |
| Provisions for impairment losses | **(655)** | (944) | (30.61) |
| **Profit before tax** | **51,198** | 30,294 | 69.00 |
| | **As at 31 December 2010** | As at 31 December 2009 | |
| **Segment assets** | **4,684,227** | 4,449,759 | 5.27 |

Treasury business generated a profit before tax of RMB51,198 million, a substantial increase of 69.00% over 2009, accounting for 29.23% of the Group's profit before tax. Net interest income rose significantly by 92.24% with the rise in both amount and interest rates of investments. As a result of the fast development of financial advisory and wealth management products, net fee and commission income grew by 25.01% over the previous year. Meanwhile, thanks to the gradual price rally of foreign currency debt securities, provisions for impairment losses dropped by 30.61%. All these led to the increase in pre-tax profit of treasury business.

### *Financial market business*

**Growing impact of financial market business.** In the deployment of funds in RMB, the Bank improved its predictability in the Bank's cash flow changes, proactively expanded the fund profitability channel, adjusted investments in major asset types, and managed investment progress and deployment structure to effectively control interest rate risk and credit risk. Money market transactions rose by 16.72% year-on-year to RMB13.75 trillion. The Bank commanded the largest market share in bond underwriting for the government, China Development Bank and Export-Import Bank of China, and the second largest market share in bond underwriting for Agricultural Development Bank of China. The Bank ranked second in over-the-counter government bond business, and second in the total issue of short-term commercial papers and medium-term notes. The Bank flexibly adjusted the trading bond portfolios, with better yields over the benchmark index. In the deployment of funds in foreign currencies, the Bank reduced high-risk credit products, controlled counterparty-related credit risk and optimised the structure of foreign currency bond portfolios under favourable market conditions.

**Improved market position in gold trading.** A total of 1,135.77 tonnes of bullion were traded, representing an increase of 23.48% year-on-year. The Bank's market share of account gold, precious metal leasing and own-brand physical gold trading continued to rise. The Bank's branded personal physical gold dominated the largest market share. Gold leasing and account gold accounted for 40.30% and 37.41% of the market share respectively.

**Expansion in the market share of foreign exchange purchases and sales, and foreign exchange trading.** In 2010, the volume of foreign exchange purchases and sales, and foreign exchange trading reached US$308.9 billion, up 39.52% year-on-year. The trading of forward foreign exchange purchases and sales increased by 78.09% to US$42.5 billion, bringing an income of RMB712 million, up 49.58% year-on-year. The Bank proactively acted as a foreign exchange market maker in the interbank market, with a significant increase in income over 2009. Its market share of customer-driven foreign exchange purchases and sales rose for the fifth consecutive year. In 2010, the market share of the Bank's foreign exchange purchases and sales was 11.56%, up 0.45 percentage points from 2009.

*Investment banking*

In 2010, the investment banking business continued to thrive, generating an income of RMB13,906 million, an increase of 41.91% year-on-year. Nearly RMB460 billion was raised for customers directly through various financing methods, including wealth management products, debt financing and financial advisory service.

In financial advisory services, the Bank reaped an income of RMB7,252 million. The contribution of income from new advisory services on M&A restructuring, debt restructuring, listing and refinancing went up significantly to RMB2,620 million, increasing by 154% year-on-year. Remarkable results were seen as the tailor-made Financial Total Solution (FITS) was promoted across the Bank to effectively meet the financial needs of customers at different development stages. The Bank's debt financing instrument underwriting business remained competitive: its income climbing by 16.72% year-on-year to RMB789 million. The underwriting amount of short-term commercial papers reached RMB126,245 million, accounting for 18.32% of the market share, and ranking first among its peers in terms of the accumulated underwriting volume for the fifth consecutive year.

The industry investment fund business progressed steadily to support the key livelihood sectors and the development of strategic industries. The Bank has successfully set up its medical fund, cultural fund, aviation fund, environmental protection fund and Wanjiang fund.

In 2010, the Bank issued 271 batches of wealth management products, bringing an income of RMB5,464 million. The total value of products in issue stood at RMB326.2 billion, up 83.46% year-on-year. In light of changes to the regulatory requirements, the Bank strengthened its risk control over the wealth management business, and adjusted the development direction, putting emphasis on product innovation. It pioneered in launching the "Qianyuan No. 1 – Chengxiangtong" branded equity investment product series, promoted the regular issue of the foreign currency wealth management product of "CCB-Fortune" to its high-end customers, and continued to develop "Qianyuan – SMEs Trust Loans Collective Wealth Management Products". It launched "Qianyuan – Rixinyueyi" branded high-yield, open-ended wealth management products, as well as products relating to additional share issues and structured selective investment products to support the integration of urban and rural areas, expand financing channels for SMEs and satisfy the needs of customers for diversified investment.

## Overseas Business and Subsidiaries

*Overseas Business*

In 2010, the asset structure of the Group's overseas business was optimised with stronger fundraising capabilities and a substantial increase in fees. As at the end of 2010, the total assets of overseas branches amounted to RMB272,829 million, an increase of 16.36% over 2009. Branches were established and came into operation in Ho Chi Minh City, Vietnam and Sydney, Australia. The application for establishing a representative office in Moscow was also approved by the Russian Central Bank. The Singaporean Branch's licence was advanced from an offshore business licence to a wholesale business licence. As at the end of 2010, the Group had nine overseas branches in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo, Seoul, New York City, Ho Chi Minh City and Sydney. There was also one representative office in Moscow. The Group had three wholly-owned operating subsidiaries, namely CCB Asia, CCB International and CCB London.

*Major Subsidiaries*

On the foundation of the non-bank financial institutions such as funds, trusts, finance leasing and investment banking, the Group implemented acquisition and merger plans in respect of insurers' equity in 2010. Meanwhile, the Group spared no effort in serving "agriculture, farmers and rural areas", as well as optimising personal financial services. It proactively developed home savings banks, rural banks and overseas retail banks. Currently, the Group has substantially completed the strategic layout for comprehensive operations, which help reinforce its market competitiveness and meet the customers' demand for comprehensive services. The Group's overall competitiveness and profitability keeps improving. Development of various subsidiaries gained momentum in general. The subsidiaries' business scale expanded steadily with improved corporate governance. As at the end of 2010, the total assets of the subsidiaries amounted to RMB153,993 million, up by 48.36% over 2009, and the net profit was RMB2,166 million.

**CCB Asia**

China Construction Bank (Asia) Corporation Limited (CCB), as one of the 23 licensed banks registered in Hong Kong, is the Group's platform for retail and small and medium enterprise (SME) businesses in Hong Kong and Macau. There were a total of 50 outlets in Hong Kong and Macau.

CCB Asia maintained relatively positive business development trends under stringent risk control. At the end of 2010, its total assets amounted to RMB86,924 million, an increase of 21.23% over 2009. Loans to customers and deposits from customers amounted to RMB67,377 million and RMB60,315 million respectively, an increase of 19.39% and 29.88%. The non-performing loan ratio was 0.31%, and non-performing loans were RMB207 million, both declining over 2009. Its net assets were RMB14,035 million, and the net profit was RMB488 million.

CCB Asia actively built its image as a professional RMB service provider in the market by taking the initiative in providing preferential interest rates for RMB deposits and other investment products which were linked to RMB-denominated shares and the RMB currency. CCB had consecutively launched three batches of redeemable RMB-denominated certificates of deposit, which were well received. It also officially launched personal banking services to provide one-stop financial and wealth management and family advisory services to high-end customers.

Credit card reissuing of China Construction Bank (Asia) Finance Limited (formerly known as AIG Finance (Hong Kong) Limited) was substantially completed. 440,000 credit card holders started to use the new cards. In addition, the business integration of CCB Asia and the subsidiary engaged in credit card business progressed smoothly.

**CCB Financial Leasing**

CCB Financial Leasing Corporation Limited was jointly established by the Bank and Bank of America. The corporation has a registered capital of RMB4.5 billion, of which 75.1% was contributed by the Bank and 24.9% by Bank of America. CCB Financial Leasing is one of the first innovative PRC financial leasing companies approved by the CBRC. It is mainly engaged in finance leasing, receiving security deposits from lessees, transferring rent receivables to commercial banks, issuing financial bonds, interbank lending, borrowings from financial institutions, and borrowing foreign exchange overseas.

In 2010, CCB Financial Leasing vigorously expanded its market and devoted more effort to product development. Preliminary achievements were made in product innovation, including the conclusion of the first financial leasing for the leaseback of medical equipment and the first financial leasing for aeroplanes and vessels. At the end of 2010, its total assets were RMB24,328 million, an increase of 196.68% over 2009. Its net assets and net profit were RMB4,907 million and RMB170 million respectively, an increase of 3.59% and 37.10% over 2009.

**CCB International**

CCB International is a wholly owned investment bank subsidiary of the Bank in Hong Kong. Its business scope includes sponsorship and underwriting of initial public offerings, financial advisory services, mergers, acquisition and restructuring, refinancing arrangements for listed companies, direct investment, fund raising and sales, asset management and investment consultancy service, securities brokerage, market research, secondary issue and placement, investment consultancy service in the Mainland and industry investment funds.

In 2010, CCB International recorded an income of RMB2,378 million, and net profit of RMB1,277 million. It performed much better than its peers in Hong Kong in terms of financial indicators such as profit per capita, return on equity and cost-income ratio. At the end of 2010, CCB International had total assets of RMB19,707 million, up 44.31% over 2009; and net assets of RMB8,647 million, up 22.28% over 2009. In 2010, CCB International devoted more efforts to fee services such as underwriting and brokerage activities. Income from non-investment activities increased significantly and amounted to RMB923 million, accounting for over 35% of the total income.

**Jianxin Trust**

Jianxin Trust Co., Limited was established by the Bank together with Hefei Xingtai Holding Group Corporation Limited and Hefei Municipal State-owned Assets Holding Corporation Limited. It has a registered capital of RMB1,527 million, of which the Bank contributed 67%, and the two other parties contributed 27.5% and 5.5% respectively. In accordance with the scope of business approved by the CBRC, Jianxin Trust is mainly engaged in fund trust, movable and immovable property trust, marketable securities trust, fund investment, asset restructuring, M&A and project financing, corporate finance, financial advisory, securities underwriting, intermediary services, consultancy, credit investigation, and safe deposit box services, as well as lending, investing and providing guarantees with equity funds.

In 2010, Jianxin Trust proactively pursued product innovation and developed new types of trust products for securities investment, equity investment, quality accounts receivables and personal wealth management. As at the end of 2010, the assets managed under their trusts amounted to RMB66,016 million, up 139.58% over 2009. Its net assets was RMB4,384 million, down 1.15% over 2009, while net profit amounted to RMB174 million, up 141.43% over 2009.

**Sino-German Bausparkasse**

Sino-German Bausparkasse Corporation Limited has a registered capital of RMB1 billion, with a 75.1% share held by the Bank and a 24.9% share held by Bausparkasse Schwaebisch Hall. Its business scope includes taking housing savings deposits, extending housing savings loans and residential mortgage loans, and extending development loans in support of the development and construction of economically affordable houses, low-rent houses, economically affordable rent houses and price-limited houses. Sino-German Bausparkasse will also gradually take on business operations, such as taking public deposits, issuing financial bonds, and providing agency services in the issuance, redemption and underwriting of government bonds, money collection and payment, fund sales, insurance business, and domestic and overseas settlement.

In 2010, Sino-German Bausparkasse's residential mortgage loans business developed rapidly. Its sales of housing savings products were outstanding, and breakthroughs were achieved in new products such as syndicated loans and entrusted loans. At the end of 2010, the total assets of Sino-German Bausparkasse amounted to RMB8,213 million, an increase of 129.67% over the previous year. Its net assets amounted to RMB984 million with an increase of 2.61%, while its net profit rose by RMB37.51 million to RMB24.99 million over 2009.

**CCB London**

CCB London is a wholly-owned subsidiary of the Bank registered in the UK. Its banking license was issued by the British Financial Services Authority (FSA) in March 2009. CCB London is mainly engaged in businesses including corporate deposits and lending, international settlement and trade finance, British pound settlement, and hedging operations for financial derivatives and commodities.

At its early stage of development, CCB London took "Chinese Element" as the breakthrough point in the segmented market. It further expanded the Group's service channels in the UK and euro zones by actively providing quality service for Chinese-funded institutions in the UK, UK-funded companies in China, and enterprise clients focusing on Sino-British bilateral trade.

By leveraging on London's advantages as a global financial centre in terms of information, product, talent, service, technology, law and regulatory environment, CCB London achieved fast growth in its various businesses in the UK. As at the end of 2010, the assets of CCB London totalled RMB4,937 million, being 7.92 times over 2009; its net assets were RMB1,224 million, up 99.67% over 2009, with a net loss of RMB26.85 million.

**CCB Principal Asset Management**

CCB Principal Asset Management has a registered capital of RMB200 million, of which the Bank contributed 65%, and two other parties, Principal Financial Services, Inc. and China Huadian Group Corporation, contributed 25% and 10% respectively. CCB Principal Asset Management is engaged in the raising and sale of funds, asset management as well as other businesses permitted by the CSRC.

In 2010, CCB Principal Asset Management successfully completed four sessions of fundraising work, including the Jianxin Feeder Fund of Social Responsibility Open-ended Index Securities Investment Fund on the Shanghai Stock Exchange, Social Responsibility Open-ended Index Securities Investment Fund on the Shanghai Stock Exchange, Jianxin Global Opportunity Securities Investment Fund and Jianxin Endogenous Dynamic Securities Investment Fund. All these funds operated smoothly. At the end of 2010, CCB Principal Asset Management managed 13 funds with a net value of RMB48,566 million, up 11.14% over 2009, and recorded net assets of RMB454 million, up 0.44% over 2009. CCB Principal Asset Management achieved promising results in its operations with a net profit of RMB101 million, up 33.85% over 2009.

CCB Principal Asset Management was granted several awards in 2010, including the "Golden Bull Fund Company on Bond Investment" award by the China Securities Journal. The Jianxin Stable Growth Bond Investment Fund was given the "2009 Golden Bull Open-ended Bond Fund" award.

**Rural Banks**

At the end of 2010, the Bank sponsored the establishment of nine rural banks in Hunan Taojiang and other places. The registered capital of these rural banks totalled RMB910 million, in which RMB454 million were contributed by the Bank. Various businesses at these nine rural banks are currently progressing steadily with agriculture-related services as their highlighted feature. Deposits from customers was RMB2,082 million, and the loan balance was RMB1,343 million. None of these banks had non-performing loans. The net assets totalled RMB914 million and a total net profit of RMB3.67 million was recorded.

These rural banks laid a solid foundation for services targeting "agriculture, farmers and rural areas". They played a critical role in reinforcing the financial services system in local rural areas, extending the service network and promoting the county-level economic development. In view of the common issues in rural areas such as the seasonality of loans, the lack of financial information and insufficient collateral, the rural banks actively explored new loan products, lending methods and loan operation processes, provided that the risks involved were under control. The banks implemented multiple preferential policies for farmers based on the local economic characteristics. They developed a series of credit products such as co-guaranteed loans to farmers, forest right mortgage loans, agricultural purchase order loans, agricultural machinery loans, "Le Nong Dai" and "Le Te Dai". These products demonstrated practical support for the development of new countryside by effectively mitigating the difficulties for such disadvantaged groups as farmers and SMEs in sourcing guarantees and loans.

## Analysed by Geographical Segment

The following table sets forth the distribution of the Group's profit before tax by geographical segment:

| | **For the year ended 31 December 2010** | | For the year ended 31 December 2009 | |
|---|---|---|---|---|
| (In millions of RMB, except percentages) | **Amount** | **% of total** | Amount | % of total |
| Yangtze River Delta | **33,226** | **18.97** | 29,035 | 20.93 |
| Pearl River Delta | **24,636** | **14.07** | 20,066 | 14.46 |
| Bohai Rim | **27,186** | **15.52** | 22,905 | 16.51 |
| Central | **22,293** | **12.73** | 20,408 | 14.71 |
| Western | **24,057** | **13.74** | 25,889 | 18.66 |
| Northeastern | **8,414** | **4.80** | 7,082 | 5.11 |
| Head office | **32,131** | **18.34** | 12,057 | 8.69 |
| Overseas | **3,213** | **1.83** | 1,283 | 0.93 |
| **Profit before tax** | **175,156** | **100.00** | 138,725 | 100.00 |

The following table sets forth the distribution of the Group's loans and advances by geographical segment:

| | **For the year ended 31 December 2010** | | For the year ended 31 December 2009 | |
|---|---|---|---|---|
| (In millions of RMB, except percentages) | **Amount** | **% of total** | Amount | % of total |
| Yangtze River Delta | **1,321,708** | **23.31** | 1,136,447 | 23.58 |
| Pearl River Delta | **858,420** | **15.14** | 728,639 | 15.12 |
| Bohai Rim | **1,008,340** | **17.79** | 859,885 | 17.84 |
| Central | **922,185** | **16.27** | 782,763 | 16.24 |
| Western | **963,636** | **17.00** | 819,337 | 17.00 |
| Northeastern | **350,584** | **6.18** | 299,385 | 6.21 |
| Head office | **63,638** | **1.12** | 41,679 | 0.86 |
| Overseas | **180,617** | **3.19** | 151,638 | 3.15 |
| **Gross loans and advances to customers** | **5,669,128** | **100.00** | 4,819,773 | 100.00 |

The following table sets forth the distribution of the Group's deposits by geographical segment:

| (In millions of RMB, except percentages) | **For the year ended 31 December 2010** **Amount** | **% of total** | For the year ended 31 December 2009 Amount | % of total |
|---|---|---|---|---|
| Yangtze River Delta | **1,895,511** | **20.89** | 1,655,361 | 20.69 |
| Pearl River Delta | **1,435,742** | **15.82** | 1,256,578 | 15.71 |
| Bohai Rim | **1,662,231** | **18.32** | 1,486,628 | 18.58 |
| Central | **1,602,656** | **17.66** | 1,402,718 | 17.53 |
| Western | **1,645,659** | **18.13** | 1,420,149 | 17.75 |
| Northeastern | **668,217** | **7.36** | 600,838 | 7.51 |
| Head office | **60,949** | **0.67** | 65,963 | 0.82 |
| Overseas | **104,404** | **1.15** | 113,088 | 1.41 |
| **Deposits from customers** | **9,075,369** | **100.00** | 8,001,323 | 100.00 |

The following table sets forth the geographical distribution of the Group's assets, branches and staff:

| | **As at 31 December 2010** | | | | | |
|---|---|---|---|---|---|---|
| | **Assets (In millions of RMB)** | **% of total** | **Number of branches[1]** | **% of total** | **Number of staff[1]** | **% of total** |
| Yangtze River Delta | **2,054,133** | **19.00** | **2,237** | **16.66** | **47,369** | **15.09** |
| Pearl River Delta | **1,663,001** | **15.38** | **1,679** | **12.51** | **36,802** | **11.73** |
| Bohai Rim | **1,913,481** | **17.70** | **2,181** | **16.25** | **53,625** | **17.09** |
| Central | **1,672,191** | **15.47** | **3,260** | **24.28** | **70,360** | **22.42** |
| Western | **1,717,538** | **15.89** | **2,696** | **20.08** | **63,882** | **20.35** |
| Northeastern | **694,294** | **6.42** | **1,359** | **10.12** | **34,987** | **11.15** |
| Head office | **4,781,069** | **44.23** | **3** | **0.02** | **6,355** | **2.02** |
| Overseas | **272,829** | **2.52** | **10** | **0.08** | **487** | **0.15** |
| Elimination | **(3,976,044)** | **(36.78)** | | | | |
| Unallocated assets | **17,825** | **0.17** | | | | |
| **Total** | **10,810,317** | **100.00** | **13,425** | **100.00** | **313,867** | **100.00** |

1. This represents the number of the Bank's branches and staff.

## Distribution Channels

At the end of 2010, the Bank had a total of 13,415 operating oulets in China, including the head office, 38 tier-one branches, 297 tier-two branches, 7,988 sub-branches, 5,090 entities under the sub-branches and a specialised credit card centre at the head office. The Group had 39,874 ATMs, representing an increase of 10.70% over 2009. A total of 9,677 self-service banks were in operation, an increase of 19.06% over the end of 2009.

Retail Branch Transformation (Generation II) was progressing smoothly, with 4,000 retail outlets completing the transformation. The average monthly product sales conducted by the dedicated customer services managers in the transformed outlets accounted for over 67% of the sales in the respective outlets. VIP customer satisfaction continued to improve. The focus of personal business development gradually shifted from "sales of products" to "serving and maintaining customers".

**Feature article: Electronic banking**

The Bank attaches great importance to the development of electronic banking. Electronic banking has achieved immense development in recent years and has become the main channel of transactions for the Bank. Electronic banking serves as an important medium for the Bank to serve its customers and a primary source to lead the innovation of its financial products, and effectively facilitates the Bank's strategic transformation and improves its core competitiveness.

Currently, the Bank has established an electronic banking service network covering online banking, telephone banking and mobile phone banking (including SMS financial services). Online banking provides about 300 kinds of services for personal and corporate customers. Mobile phone banking is available for all mobile phone users of the three major telecom operators and is accessible on most mobile phone models in the market. The business scale and level of product innovation of mobile phone banking is in a leading position among the domestic peers. Meanwhile, the Bank has reinforced its research on internet technology to analyse the needs of customers on internet. It proactively promotes the innovation of financial products on the internet, enhances electronic banking services and strengthens customer services capabilities.

**Driving forward channel building of electronic banking**

- **Online banking**

The Bank's online banking service had 57.05 million personal customers, an increase of 17.46 million over 2009. The transaction volume of personal electronic banking amounted to RMB8.75 trillion, an increase of 191% over the previous year. In 2010, a new logon page for personal electronic banking customers was launched. There were also other new services including savings government bonds, and the online payment service, "Account Payment", allowed customers to use online banking to buy wealth management products. Some service functions were also optimised like funds, futures market through train, transfers and remittances. The Bank launched the "super online banking" services to enable real-time interbank enquiries and transfers, interbank credit card repayment, online contracting, etc. The customer experience was enhanced as more quality and convenient personal services were provided to the customers.

The Bank's online banking service had 930,000 corporate customers, an increase of 240,000 over 2009. The transaction volume of corporate electronic banking amounted to RMB55 trillion, an increase of 67% over the previous year. In 2010, services relating to overseas operations and sales of wealth management products were launched for corporate online banking customers. A new electronic checking version was available and "through train banking services for securities and futures markets", online banking fiduciary services, "E-Baotong" and "E-Futong" services were realised. All these measures further strengthened the corporate online banking service capabilities.

- **Telephone banking**

The Bank's telephone banking customers reached 71,924,700, an increase of 17,548,400 over 2009. The transaction volume amounted to RMB256,274 million, an increase of 33.60% over the previous year, and the number of transactions reached 426 million, an increase of 14.98% over 2009. The service functions of telephone banking continued to expand in 2010. New functions included a self-service voice system for regular fund investment, account gold enquiry and buy and sell orders, which continued to enhance the supporting capabilities for wealth management services. Meanwhile, a new function whereby customers were identified via a registered mobile phone number was implemented, and as such customers would only need to verify their respective telephone banking password to conduct transactions. These new functions significantly enhanced the customer experience. Functions for cancelling or enquiring about transactions of funds, account gold and government bonds kept improving.

- **Mobile phone banking**

The Bank's registered customers for mobile phone banking reached 22.44 million, an increase of 8.16 million over 2009. The transaction volume amounted to RMB491 billion, an increase of 99% over the previous year. In 2010, the new WAP mobile phone banking payment services and client-based iPhone services were introduced, enabling nationwide real-time payment for mobile phone fees. More extensive mobile phone banking services helped further consolidate the Bank's leading position in the area.

In addition, the Bank continued to make innovations in SMS financial services products. SMS notification services related to funds, gold and foreign exchange were provided. The Bank also launched the MMS bill function for credit cards, enabling customers to make repayments via SMS.

**Innovation and expansion of the internet business**

In view of the development of internet technology and the rise of e-commerce, and in order to respond to customer needs, the Bank vigorously drove forward innovative electronic banking products and services with the support of internet technology. It consolidated the customer base of e-commerce merchants with its internet merchant banking services. The Bank also provided its customers with better fund settlement and financing services.

In 2010, the Bank put huge efforts into developing the e-commerce market and enriched the service functions of the online store. The online payment business grew rapidly with the improving quality of merchants and merchant structure. As at the end of 2010, the Bank had 1,755 online payment merchants, up 440 over the previous year, demonstrating a momentum of rapid growth of business. In 2010, CCB's online store had several additional special categories such as "discounts on brand names", "outdoor activities" and "red wine appreciation", which were well received by the customers.

**Consolidation and improvement of the customer services system for the electronic banking channel**

While continuing to improve customer services at physical outlets, the Bank has put more effort into strengthening its customer services capabilities in the electronic banking channel. It has further improved the customer services quality of the 95533 hotline. To enrich customer services, online information and demand handling services as well as innovative microblogging services were launched.

- **95533 customer services hotline**

In 2010, the average successful connection rate of the Bank's 95533 customer services hotline reached 81.89% and the rate of complaints dropped by 20.96% from the previous year. The Bank was highly extolled by the wide community for its accomplishment with respect to customer enquiries and services for the World Expo and the Asian Games. In the services appraisal done by China Electronic Finance Industrial Alliance in 2010, the Bank received the Golden Cup Award for the Best Telephone Banking in Electronic Finance in China.

- **Website customer services**

In 2010, the average daily number of visitors to the Bank's website in a month exceeded 20 million, while the maximum number of visitors in a single day reached 26.56 million, denoting quality and convenient online financial services for the customers. In addition, the Bank reinforced its online communication and service functions such as the "website bulletin board" and the "CCB workroom". In 2010, 243,900 messages from customers on the "website bulletin board" were handled and 55,100 messages were dealt with on the "CCB workroom". The Bank's reply rate to messages in the "CCB workroom " has remained at 100% since the launch of the forum, and customer services quality was assured.

- **Microblogging services**

Microblogging is an important means of network interactive communication in the Web 2.0 era. In order to create new methods of sales and marketing, strengthen customer services and promote the "E-Route" brand awareness, the Bank activated its official electronic banking microblogging account on Sina in August 2010. The Bank introduced its products and services to its customers and fans, promoted its sales and marketing activities, answered customer enquiries and initiated topics for interaction via microblogging. This initiative was well received in the market.

## Information Technology

*Significant enhancement of automated operation and maintenance.* In 2010, the availability ratio of the key systems for international credit cards, personal loans, VIP customers and securities all reached 100%. The Bank accomplished safe operations for such significant events as the World Expo and the Asian Games. The fundamental facilities were further optimised. The Bank effectively lowered the operational risk and controlled risks by integrating the application systems and optimising the system structure.

Proactively support for the implementation of various business strategies.

- *Support for the innovation of financial products.* The Bank launched the corporate-based e-commerce payment service named "E-Shangmaotong" to provide integrated payment and settlement solutions for third-party merchants. New products such as "E-Baotong", "E-Diantong", and "E-Shangtong" were also introduced to provide various financing services for SMEs.

- *Provision of helpful financial services.* The Bank established a cash management system to provide constant and stable settlement and cash management services for 7,610 corporate and institutional customers. The new service function related to the PDA-based outlet information improved the sales efficiency and success rate at outlets, and noticeably enhanced the customer experience in the Bank's outlet information services.

- *Stronger risk management capabilities.* The operational risk management system was promoted across the Bank. In addition, the system for the financial market business risk management and a new generation of the asset and liability management system both came into operation. The Bank also continued to optimise the internal rating system for credit risk and portfolio risk management, and built a system for regulatory capital calculation and reporting disclosure.

## Staff and Human Resources Management

By the end of 2010, the Bank had 313,867 staff members of which 140,562, or 44.78%, had academic qualifications of bachelor's degrees or above. In addition, the Bank had 38,763 workers dispatched by labour leasing companies, and had to assume the expenses of 37,137 retired employees. The subsidiaries had about 3,200 employees.

The composition of employees by age, academic qualifications and responsibilities is as follows:

| **Category** | **Classification** | **Number of employees** | **% of total** |
|---|---|---|---|
| Age | Below 30 | 65,213 | 20.78 |
| | 31 to 40 | 117,481 | 37.42 |
| | 41 to 50 | 100,158 | 31.91 |
| | 51 to 59 | 30,902 | 9.85 |
| | Over 60 | 113 | 0.04 |
| Academic qualification | Doctor's degree | 314 | 0.10 |
| | Master's degree | 9,995 | 3.18 |
| | Bachelor's degree | 130,253 | 41.50 |
| | Associate degree | 120,849 | 38.51 |
| | Post-secondary | 27,301 | 8.70 |
| | High school and below | 25,155 | 8.01 |
| Responsibilities | Corporate banking | 38,898 | 12.39 |
| | Personal banking | 158,751 | 50.58 |
| | Financial market business | 339 | 0.11 |
| | Finance and accounting | 23,933 | 7.63 |
| | Management | 15,758 | 5.02 |
| | Risk management, internal audit, legal and compliance | 11,270 | 3.59 |
| | Information technology | 18,643 | 5.94 |
| | Others | 46,275 | 14.74 |
| Total | | 313,867 | 100.00 |

Adhering to the philosophy of standardising the remuneration mechanism and building a harmonious remuneration relationship, the Bank improved its remuneration management system and optimised the incentive and disciplinary mechanisms by integrating its overall payroll policies, adopting the concept of a target-orientated remuneration management mechanism, and strengthening the guidance to the remuneration policies for frontline employees and key positions.

The Bank's major allocation rules and other significant matters relating to staff remuneration shall be proposed to the Board for its examination and approval. The nomination and compensation committee under the Board is responsible for considering proposals concerning the Bank's remuneration system and plans, the principle of the total annual compensation control, the remuneration allocation plan, annual remuneration standards, the performance appraisal plan and annual appraisal results for directors, supervisors and the senior management. Material proposals related to remuneration allocation shall be voted and approved by the shareholders' general meeting, or reported to higher authority to perform approval and record procedures. The Bank implemented deferred payment for performance compensation of its directors, supervisors and the senior management pursuant to the relevant government policies. In addition, the Bank formulated a compensation deduction mechanism for staff facing disciplinary action due to a violation of the rules or a breach of duty, and those who are subject to performance point penalties due to minor violations of rules.

The Bank increased its investment in training resources and delivered large-scale staff training. It not only provided general training programmes for all employees, but also organised some specific training programmes for different groups of employees, especially for managers. The Bank also strengthened and accelerated training for its backup talents, professionals and frontline employees. In 2010, the Bank conducted 26,393 local and overseas training sessions, with a total enrolment of 1,225,000.

## RISK MANAGEMENT

**Feature article: Improving Comprehensive Risk Management Ability through the implementation of the New Basel Capital Accord**

In recent years, the Bank has achieved significant progress in preparation for implementing the New Basel Capital Accord. In 2011, according to the regulatory requirements, it will apply to the China Banking Regulatory Commission to implement the New Basel Capital Accord. By implementing the New Basel Capital Accord, instead of the Bank merely focusing on meeting regulatory requirements, it aims to raise its comprehensive risk management ability and achieve professional and sophisticated risk management to support its business development and innovation, and create values.

**Establishing a risk rating system for corporate, retail and small enterprise credit extension.** Based on the data it accumulated, the Bank developed its own internal rating model and system for use in the China market. In view of the characteristics of different customers, the Bank designed 27 credit rating models for corporate customers, nine scorecards (including for application, behaviour and customer rating), which were all deployed. The Bank improved its credit rating tools and launched the 12-grade credit asset classification system. The new generation internal rating system is now used in operating management to support risk measurement for credit policy formulation, customer selection, risk classification, loan pricing, credit approval, post-lending management, credit structure adjustment, etc.

**Improved risk policy system for systematic guidance on customer selection and risk management.** Based on a unified bank-wide risk preference, the Bank continued to refine its credit policy framework (including promoting, securing, controlling, curtailing and exiting) for different industries, regions, customers and products. With technical tools such as economic capital and industry limits, the Bank guided all levels of branches to optimise their total risk assets and structures so as to increase their risk resistance capacity and value creation ability of asset portfolios. It improved management policies for market risks by: extending to cover areas such as debt securities investments in RMB and foreign currencies, counterparties and dealers; clearly defining exposure limits; and improving the stop-loss mechanism. The Bank established an operational risk management policy system to standardise the identification, assessment, control/mitigation, monitoring and reporting of operational risks, promoted the fundamental construction of the self-assessment of operational risk, key risk indicators, loss data of operational risk, etc. In addition, the Bank formulated sound management policies for liquidity risk and reputational risk. Currently, a risk management policy system catering to the businesses of the Bank and meeting the requirements of the New Basel Capital Accord has been established.

**Integrating risk management in business processes for improved risk management.** By adopting technical tools and mechanisms such as the "parallel operation" of risk managers and customer service managers, risk management activities including risk identification, assessment, monitoring and control are embedded in business processes for enhanced risk management efficiency. The Bank vigorously promoted the organic integration of risk management plans, customer service plans and product innovation plans to increase its responsiveness to the market, and improve its customer service capacity. For instance, "quasi quotas" for credit card business are automatically generated by using scorecards in business processes, thus shortening the time for credit approval for qualified customers from two to three working days to just a few minutes.

**Greater use of risk management techniques to create value.** The Bank strove to improve its risk management toolbox by using risk measurement and other basic techniques to support its business development and innovation. For instance, based on customer ratings and risk measurement, the Bank developed tools to calculate the cost of loan-related risks. These useful tools can help operators to conduct qualitative analyses on the cost of risks, enabling systematic pricing. With a portfolio risk management system, risk-adjusted return on capital can be measured on a portfolio or single transaction basis, thus helping the Bank to make operating and management decisions. Greater use of risk management tools converted these techniques into productivity, and enhanced the Bank's ability to create value.

**Progress of the New Basel Capital Accord projects pushed fundamental management to a new level.** The Bank completed more than 50 projects of the overall planning for implementing the New Basel Capital Accord. Basically, the Bank's internal rating covered all customers. Reforms to 20 existing systems, the establishment of six new systems, and the successive launch of the portfolio risk management system, financial market risk management system, and operational risk management system, risk-weighted assets calculation and New Basel Capital Accord monitoring report system formed an integrated risk management platform for the Bank. The set-up of a data quality control mechanism and a loss data management system for operational risk hugely raised the level of fundamental management. The implementation of the New Basel Capital Accord will help the Bank to build a solid basis for sustainable development in the long term.

In 2010, the Bank accelerated the construction of a comprehensive risk management system by fine-tuning its risk policies, adjusting its credit structure, and strengthening the fundamental management of post-lending, off-balance sheet, overseas business, collaterals, and statement consolidation. It promoted the development and application of risk measurement tools, and improved its ability to proactively select and systematically manage risks. Vigorous and active risk management can support the Bank's business development and innovation, as well as enhance its ability to create value.

## Risk Management Structure

The risk management committee under the Board of the Bank is responsible for formulating the Bank's risk strategy and risk management policies and supervising their implementation, as well as evaluating the overall risk management on a regular basis.

The Bank has established a vertical and centralised risk management structure at the management level, with the following descending vertical risk reporting route: "chief risk officer – risk supervisors – risk heads – risk managers".

At the head office level, the chief risk officer is responsible for comprehensive risk management under the direct leadership of the president. The Risk Management Department, under the supervision of the chief risk officer, is responsible for formulating risk management policies, and performing risk measurement and analysis. Under the Risk Management Department, the Market Risk Management Department specialises in managing risks related to the financial market business. There is also the overseas risk management team under the Risk Management Department, which is stationed in overseas institutions to manage the risks of those overseas offices. The Credit Management Department is responsible for credit approval and risk monitoring. Other departments at the head office perform their risk management duties within their respective scopes of duty.

At branch level, there are risk supervisors in tier-one branches who are responsible for organising and facilitating comprehensive risk management and credit approval within the branch, and who report to the chief risk officer. There are risk heads at tier-two branches and risk managers at sub-branches who are responsible for risk management in their respective branch or sub-branch. The risk management personnel have two reporting lines: the first reporting line is to risk management officers at higher levels, and the second is to managers of their respective entities or business units.

## Credit Risk Management

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its obligation or commitment to the Group.

In 2010, the Bank further refined its credit policies, made use of the comparative advantages of different regions, and optimised the structure of its credit asset portfolios. It focused on strengthening the fundamental management of post-lending, off-balance sheet, overseas business, collaterals and statement consolidation to enhance its risk management capability. The Bank improved its credit approval mechanism, and stepped up risk monitoring and checks on priority areas. It vigorously promoted the development and application of credit rating and other technical tools to reach a more sophisticated management level. The quality of loans was enhanced across the Bank with improved risk offsetting ability.

**Accelerated credit structure adjustment.** In light of changes to the macro-adjustment policies and economic and financial developments in China, the Bank formulated its credit policies and structure adjustment plans for 2010, and transmitted a unified risk preference across the Bank. It adopted "promoting, securing, controlling, curtailing and exiting" strategies for different industries, regions, customers and products in line with government policy requirements. The Bank made use of the comparative advantages of different regions, and guided branches to select customers and to sort risks. As a result, its structure of credit asset portfolios continued to optimise. In 2010, the Bank actively withdrew RMB104.5 billion of credit facilities.

**Strengthened fundamental management.** The Bank tightened its post-lending management by clearly defining roles and responsibilities, reinforcing early warning signs and taking the required action to establish a lasting mechanism. It further centralised the management of on- and off-balance sheet credit exposure by applying industry limits to off-balance sheet business. In addition, it devised provisioning methods for impairment of off-balance sheet business, and improved the risk offsetting mechanism. The Bank promoted the use of a collateral management system, and standardised the acceptance criteria and management requirements of collaterals. Furthermore, it reinforced the risk management of statement consolidation involving subsidiaries, and established contingency plans and a reporting mechanism for material risk events of subsidiaries.

**Strengthened credit management of overseas institutions.** The Bank set the baseline of overseas institutions' exposure to credit business. It started monitoring and managing the exposure of cross-border credit extensions by overseas institutions, with a focus on their internal control, compliance and risk reporting. The application of credit ratings and other basic tools was promoted.

**Improving risk management and control in priority areas.** The Bank stringently controlled credit extensions to industries with excess capacity to ensure a zero increase in the risk limit. It cautiously managed and controlled the exposure related to credit extensions to local government financing vehicles by ascertaining repayment sources, implementing guarantee measures, and performing ongoing tracking. The Bank strictly enforced credit acceptance policies for customers from the real estate sector, strengthened tracking of the property market and conducted stress testing.

**Optimising credit approval and management processes.** The Bank set up a special team to strengthen the examination and approval of credit applications in priority areas. The risk monitoring system for credit business was enhanced, with a focus on key areas such as the acceptance of applications, approval and disbursement of loans in the credit extension process. The Bank refined its unified model of credit extensions to the group clients and improved credit approval processes for small enterprise customers to raise the quality and efficiency of its credit business. It sorted out the pre-lending management process and improved the pre-lending risk assessment.

**Promotion of the development and application of risk management technical tools.** The Bank developed rating models and systems for corporate, small enterprise and retail customers for use in business operations, risk pricing, credit approval, risk classification and performance evaluation. In addition to optimising its economic capital and industry-specific risk limit management, the Bank developed a portfolio risk management system, and continued to conduct stress testing in key areas to support operating decision-making.

### *Concentration of Credit Risks*

In 2010, the Bank strengthened the management of the concentration of credit as a group through the ongoing monitoring of the concentration of credit to the group clients and their member firms, in order to meet the regulatory requirements.

As at the end of December 2010, the loans to the largest single borrower of the Group accounted for 2.76% of its net capital, while those to the ten largest customers accounted for 16.00% of its net capital. The se indicators all complied with regulatory requirements.

**Concentration of loans**

| | **Regulatory standards** | **As at 31 December 2010** | As at 31 December 2009 | As at 31 December 2008 |
|---|---|---|---|---|
| Ratio of loans to the single largest customer (%) | ≤10 | **2.76** | 3.09 | 3.68 |
| Ratio of loans to the ten largest customers (%) | ≤50 | **16.00** | 18.94 | 20.72 |

**Concentration of borrowers**

The Group's ten largest single borrowers as at the date indicated are as follows:

| | | As at 31 December 2010 | |
|---|---|---|---|
| (In millions of RMB, except percentages) | Industry | Amount | % of total loans |
| Customer A | Railway transport | 21,059 | 0.37 |
| Customer B | Production and supply of electricity and heat | 14,047 | 0.25 |
| Customer C | Road transport | 13,079 | 0.23 |
| Customer D | Road transport | 11,626 | 0.21 |
| Customer E | Road transport | 11,433 | 0.20 |
| Customer F | Public utility management | 10,901 | 0.19 |
| Customer G | Road transport | 10,726 | 0.19 |
| Customer H | Public utility management | 10,100 | 0.18 |
| Customer I | Road transport | 10,004 | 0.18 |
| Customer J | Public utility management | 9,031 | 0.16 |
| **Total** | | **122,006** | **2.16** |

## Liquidity Risk Management

Liquidity risk is the type of risk that occurs when, despite its debt servicing ability, the Group cannot obtain sufficient funds in time, or in time and at a reasonable cost, to meet the needs of asset growth or repay liabilities when they are due. The Group's liquidity management aims to maintain a reasonable level of liquidity, ensuring payment and settlement security while complying with regulatory requirements. The Group also strives to deploy its funds in a reasonable and effective way in order to enhance the yield of funds.

In 2010, the PBC increased the statutory reserve ratio by six times, and continued to induce net inflows of funds through open market operations. As a result, liquidity in the interbank market turned from being relatively abundant to being tight. While its liquidity level was affected and fluctuated accordingly, the Group maintained a reasonable surplus reserve rate by taking a number of effective measures to ensure normal payment and settlement.

To alleviate the impact of the macroeconomic environment on its liquidity, the Group took timely measures in light of its liquidity level to enhance the liquidity risk management, including risk limits. It adjusted the amount of deployable products that had a considerable impact on its liquidity (including debt securities, resale agreements, deposits with banks and non-bank financial institutions) for flexible adjustments to positions and higher returns on capital. The Group regularly conducted stress testing on liquidity risk to gauge the Bank's risk tolerance in the small probability of adverse circumstances. The results show that its liquidity risk stayed within a controllable level despite increases under stress.

The analysis of the remaining maturity of the Group's assets and liabilities as at the balance sheet date is set out below:

| | As at 31 December 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (In millions of RMB) | Undated | Repayment on demand | Within 1 month | Between 1 and 3 months | Between 3 months and 1 year | Between 1 and 5 years | More than 5 years | Total |
| **Assets** | | | | | | | | |
| Cash and deposits with central banks | **1,628,890** | **219,139** | **–** | **–** | **–** | **–** | **–** | **1,848,029** |
| Deposits and placements with banks and non-bank financial institutions | **–** | **53,210** | **74,247** | **9,638** | **5,135** | **50** | **–** | **142,280** |
| Financial assets held under resale agreements | **–** | **–** | **99,961** | **60,954** | **20,160** | **–** | **–** | **181,075** |
| Loans and advances to customers | **28,796** | **68,102** | **182,745** | **395,284** | **1,278,290** | **1,504,855** | **2,067,954** | **5,526,026** |
| Investments | **41,733** | **–** | **83,715** | **330,340** | **517,169** | **1,007,443** | **926,374** | **2,906,774** |
| Other assets | **124,387** | **47,792** | **3,613** | **5,664** | **9,779** | **5,520** | **9,378** | **206,133** |
| **Total assets** | **1,823,806** | **388,243** | **444,281** | **801,880** | **1,830,533** | **2,517,868** | **3,003,706** | **10,810,317** |
| **Liabilities** | | | | | | | | |
| Borrowings from central banks | **–** | **1,781** | **–** | **–** | **–** | **–** | **–** | **1,781** |
| Deposits and placements from banks and non-bank financial institutions | **–** | **518,773** | **77,774** | **16,846** | **61,039** | **75,377** | **–** | **749,809** |
| Financial liabilities at fair value through profit or loss | **–** | **2,926** | **3,043** | **6,896** | **24** | **2,347** | **51** | **15,287** |
| Financial liabilities sold under repurchase agreements | **–** | **–** | **2,868** | **2,000** | **54** | **–** | **–** | **4,922** |
| Deposits from customers | **–** | **5,162,475** | **809,818** | **775,614** | **1,949,539** | **367,799** | **10,124** | **9,075,369** |
| Debt securities issued | **–** | **–** | **794** | **898** | **6,569** | **5,149** | **79,905** | **93,315** |
| Other liabilities | **243** | **76,817** | **8,056** | **15,598** | **58,579** | **3,946** | **5,690** | **168,929** |
| **Total Liabilities** | **243** | **5,762,772** | **902,353** | **817,852** | **2,075,804** | **454,618** | **95,770** | **10,109,412** |
| **Net position in 2010** | **1,823,563** | **(5,374,529)** | **(458,072)** | **(15,972)** | **(245,271)** | **2,063,250** | **2,907,936** | **700,905** |
| **Net position in 2009** | **1,336,006** | **(5,051,783)** | **13,717** | **51,492** | **389,074** | **1,638,064** | **2,182,450** | **559,020** |

The Group regularly monitors the gap between its assets and liabilities for various maturities in order to assess its liquidity risk for different periods. As at 31 December 2010, the accumulated gap of various maturities of the Group was RMB700,905 million, an increase of RMB141,885 million over 2009. Despite the negative gap for repayment on demand totalling RMB5,374,529 million, the Group is expected to enjoy a stable funding source and maintain stable liquidity in the future given its strong and expansive deposit customer base, the relatively high proportion of core demand deposits, and steady growth in deposits.

## Market Risk Management

Market risk is the risk of loss in respect of the Group's on- and off-balance sheet activities, arising from adverse movement in market rates, including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

In 2010, the Bank strove to refine its market risk management system and improved its risk monitoring. It promoted the development of measurement tools and systems to reinforce fundamental management and raise its capability in market risk management.

**Improving the market risk policy system.** The Bank optimised its market risk policies and exposure limit management mechanism by extending coverage to debt securities investments in RMB and foreign currencies, counterparties and dealers, etc. It set up a differentiated approval mechanism for debt securities investments in RMB and refined the market risk policy framework.

**Optimising market risk monitoring.** The Bank refined the risk monitoring mechanism that combined on-site and off-site monitoring. It embarked on on-site monitoring of customer-driven treasury trading and wealth management business. Risk tracking was firmly implemented and risk warnings were issued to trading desks on a timely basis. The Bank standardised the management of trade-related telephone recordings to strengthen the monitoring function. The risk reporting mechanism was improved to enhance the Bank's responsiveness to risks.

**Promoting the development of technical tools for market risk measurement.** The Bank launched an information system to manage financial market risk and set up a bank-wide data mart for financial market business. It established rules for measuring market risk, as well as valuation and verification models for various types of products. The application of risk indicators such as value at risk (VaR) was promoted for analysis purposes so as to raise the professional level of the Bank's market risk management.

### *Value at Risk Analysis*

The Bank performs VaR analysis on its trading portfolios and available-for-sale debt securities to measure and monitor potential losses on positions due to movement in interest rates, exchange rates and prices. The Bank calculates the VaR on foreign currency portfolios on a daily basis and the VaR on RMB portfolios at least once a month (with a 99% confidence level and a one-day holding period). As at the balance sheet date and for the respective year, the Bank's VaRs on trading portfolios and available-for-sale debt securities were as follows:

| | **2010** | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| (In millions of RMB) | **Year-end** | **Average** | **Maximum** | **Minimum** | Year-end | Average | Maximum | Minimum |
| **RMB trading portfolio** | | | | | | | | |
| Interest rate risk | **2** | **18** | **56** | **2** | 13 | 16 | 24 | 8 |
| **RMB available-for-sale debt securities** | | | | | | | | |
| Interest rate risk | **1,146** | **765** | **1,147** | **394** | 1,137 | 734 | 1,163 | 301 |
| **Foreign currency trading portfolio** | | | | | | | | |
| Interest rate risk | **29** | **19** | **21** | **19** | 30 | 82 | 141 | 30 |
| Foreign currency risk | **163** | **67** | **163** | **28** | 63 | 455 | 1,123 | 63 |
| Diversification | **(27)** | **(14)** | **(19)** | **(10)** | (30) | (58) | (115) | (30) |
| | **165** | **72** | **165** | **37** | 63 | 479 | 1,149 | 63 |
| **Foreign currency available-for-sale debt securities** | | | | | | | | |
| Interest rate risk | **100** | **112** | **145** | **82** | 143 | 168 | 330 | 106 |

### *Interest Rate Risk Management*

Interest rate risk is the risk of there being an adverse impact on the Bank's financial position arising from movement in interest rates. The primary source of interest rate risk is the mismatch between the repricing dates of the assets and liabilities in the Group's portfolios.

In 2010, the Group strove to improve its mechanism and capability in interest rate risk management when implementing the New Basel Capital Accord. First, the interest rate risk management system was enhanced with the formulation of management measures and stress testing guidelines. Second, the asset and liability management system was optimised. As a result, the Bank can monitor the implementation of interest rate limits and any mismatch in exposures, and calculate repricing risk, yield curve risk, basis risk and option risk based on the system. Third, the daily management of interest rate risk was strengthened. The integrated use of transfer pricing and differentiated pricing allowed the Bank to control interest costs more effectively and enjoy stable growth in the net interest margin.

The Group primarily adopted tools such as interest rate sensitive gaps, sensitivity analysis of net interest income, scenario simulation and stress testing in assessing its interest rate risk. The Group applied various scenarios including parallel movements and changes along interest rate curves, narrowed interest margins, and periodic interest rate adjustments, and took into consideration the impact of new businesses and customer behaviour. In 2010, the overall interest rate risk of the Group was kept within the border of the set level.

**Interest rate sensitivity gap analysis**

The analysis of the next expected repricing dates (or maturity dates, whichever are earlier) of the Group's assets and liabilities as at the balance sheet date is set out below:

| | As at 31 December 2010 | | | | | |
|---|---|---|---|---|---|---|
| (In millions of RMB) | Total | Non-interest-bearing | Less than 3 months | Between 3 months and 1 year | Between 1 year and 5 years | More than 5 years |
| **Assets** | | | | | | |
| Cash and deposits with central banks | 1,848,029 | 65,649 | 1,782,380 | – | – | – |
| Deposits and placements with banks and non-bank financial institutions | 142,280 | – | 138,366 | 3,864 | 50 | – |
| Financial assets held under resale agreements | 181,075 | – | 160,915 | 20,160 | – | – |
| Loans and advances to customers | 5,526,026 | – | 2,753,781 | 2,682,962 | 21,099 | 68,184 |
| Investments | 2,906,774 | 31,269 | 595,367 | 660,904 | 886,509 | 732,725 |
| Other assets | 206,133 | 206,133 | – | – | – | – |
| **Total assets** | 10,810,317 | 303,051 | 5,430,809 | 3,367,890 | 907,658 | 800,909 |
| **Liabilities** | | | | | | |
| Borrowings from central banks | 1,781 | – | 1,781 | – | – | – |
| Deposits and placements from banks and non-bank financial institutions | 749,809 | – | 679,934 | 31,497 | 38,378 | – |
| Financial liabilities at fair value through profit or loss | 15,287 | 2,926 | 9,963 | 51 | 2,347 | – |
| Financial assets sold under repurchase agreements | 4,922 | – | 4,868 | 54 | – | – |
| Deposits from customers | 9,075,369 | 41,602 | 6,708,141 | 1,951,209 | 367,097 | 7,320 |
| Debt securities issued | 93,315 | – | 7,563 | 3,401 | 2,446 | 79,905 |
| Other liabilities | 168,929 | 168,929 | – | – | – | – |
| **Total Liabilities** | 10,109,412 | 213,457 | 7,412,250 | 1,986,212 | 410,268 | 87,225 |
| **Interest rate sensitivity gap in 2010** | 700,905 | 89,594 | (1,981,441) | 1,381,678 | 497,390 | 713,684 |
| Accumulated interest rate sensitivity gap in 2010 | | | (1,981,441) | (599,763) | (102,373) | 611,311 |
| **Interest rate sensitivity gap in 2009** | 559,020 | 70,115 | (2,037,268) | 1,786,844 | 96,330 | 642,999 |
| Accumulated interest rate sensitivity gap in 2009 | | | (2,037,268) | (250,424) | (154,094) | 488,905 |

As at 31 December 2010, the Group's accumulated interest rate sensitivity negative gap for a period less than one year was RMB599,763 million, which widened by RMB349,339 million compared to the end of 2009. This was mainly because the short term deposits grew fast, while financial assets held under resale agreements and deposits with banks decreased substantially. The Group's interest rate sensitivity gap for a period more than one year was RMB1,211,074 million, which increased by RMB471,745 million, mainly because longer duration of investment portfolio in debt securities.

**Net interest income sensitivity analysis**

Net interest income sensitivity analysis is based on two scenarios. The first is to assume that all yield curves fall or rise by 100 basis points in a parallel way, the second is to assume that the yield curve for demand deposits stays constant, while other yield curves fall or rise by 100 basis points in a parallel way. The interest rate sensitivity of the Group's net interest income is set out below.

| | Change in net interest income | | | |
|---|---|---|---|---|
| **(In millions of RMB)** | **Increase by 100 basis points** | **Decrease by 100 basis points** | **Increase by 100 basis points (demand deposit rates being constant)** | **Decrease by 100 basis points (demand deposit rates being constant)** |
| **As at 31 December 2010** | (34,771) | 34,771 | 21,214 | (21,214) |
| As at 31 December 2009 | (30,230) | 30,230 | 17,285 | (17,285) |

### *Foreign Exchange Risk Management*

Foreign exchange rate risk is the risk of there being an impact on the Bank's financial position arising from unfavourable movement in foreign exchange rates. The Bank is exposed to foreign exchange rate risks primarily because it holds loans, deposits, marketable securities and financial derivatives that are denominated in currencies other than RMB.

In 2010, the foreign exchange risk management module of the asset and liability management system was optimised and deployed successfully. The system's methodology for measuring exchange exposure was refined, resulting in notably increased granularity and accuracy of risk measurement. The Bank developed advanced functions such as scenario models and stress testing to support the revaluation of exchange rate derivative products and measurement of the VaR.

## Operational and Reputation Risk Management and Consolidated Management

Operational risk is the potential of losses resulting from inadequate or flawed internal processes, people and systems, or from external events.

In 2010, the Bank strove to enhance the self-assessment of operational risk by expanding the range of businesses being covered, strengthening the monitoring and inspection of key risk points, and focusing on special self-assessment projects for over-the-counter businesses. It expedited the development of tools and systems for operational risk management, launched the operational risk management system (Phase I), as well as established a unified operational risk management application platform and an information platform for integrated analysis. The Bank strengthened its policy system of business continuity management, emergency response and disaster recovery. The Bank refined its contingency plans, and organised drilling to ensure smooth business operations.

### *Reporting and Monitoring of Non-compliance*

By the end of 2010, four criminal offences committed by the Bank's employees to encroach the Bank's or its customers' fund and resulting in a loss of RMB5,036,800 had been reported to the head office. Of these, two cases involved a sum of RMB1 million or above, totalling RMB4.29 million. Both the number of offences and the sums involved were lower than those in 2009.

### *Anti-money Laundering*

The Group takes the implementation of anti-money laundering (AML) laws, rules and regulations seriously, and effectively performs its various AML obligations. The Group has improved its internal controls, reinforced its risk awareness, strengthened its operational skills, and established an internal control system and working processes for AML which meet the regulatory requirements and suit the operations of the Bank. They have done this through various measures, which include setting up organisations, strengthening the staff base, establishing mechanisms, improving processes, developing systems, enhancing training, implementing examinations and executing rectifications.

In 2010, the Group continued to reinforce its internal control system for AML. The AML operations were further standardised and strengthened with the establishment of an AML manual. This effectively initiated the identification of customers' identities, and ensured the maintenance of information relating to customers' identities and transactions, based on the "Know your customer" principle. The Group actively promoted the risk-orientated AML strategies under which customers were classified into different risk levels in terms of money laundering. The monitoring and analysis of high-risk customers and business activities were also reinforced for more effective AML efforts. The Group also heightened the manual screening and judgement of suspicious transactions, and made use of scientific application information technology to take a proactive approach to reporting significant and suspicious transactions to the China Anti-money Laundering Monitoring and Analysis Center, thus continuously enhancing the quality of the AML data reporting. The Group attached great importance to AML training and promulgation to effectively improve its staff's awareness and knowledge of AML. It showed strong support for various governmental department activities in combating money laundering and terrorism financing, and was highly recognised by the regulatory departments.

### *Reputation Risk Management*

The Group values its reputation risk management and has implemented the administrative measures for the reputation risk management. During the year, no major reputation risk event has taken place.

### *Consolidated Management*

The consolidated management indicates that the Bank implements comprehensive and continuous management over the Group's capital, finance and risks based on a single legal person principle so as to identify, measure, monitor and assess the overall risks of the Group as a whole. The consolidated management covers capital adequacy, significant risk exposure, internal transactions, liquidity risk, operational risk, reputation risk and cross-border risk.

In 2010, the Bank further enhanced the organisational structure of its consolidated management and gradually refined the corresponding system. Management of capital constraint, significant risk exposure and internal transactions was also strengthened. In addition, the Bank established a risk management system covering all kinds of subsidiaries. Continuous improvement in the standard of consolidated management was achieved.

**Enhancement of the organisational structure of the consolidated management and refinement of the corresponding system.** In order to further enhance the organisational structure of the consolidated management, and the corresponding system and arrangements, the Bank has prepared the Administrative Measures for Consolidated Management of China Construction Bank and its relevant rules. The Bank's Board assumes ultimate responsibility for the consolidated management, while the senior management is responsible for the organisation and implementation. The equity investment and strategic cooperation department is responsible for the planning and coordination of the consolidated management of the Bank as a whole. In addition, the management departments for each consolidated element assume their respective management responsibilities, while each subsidiary is in charge of the implementation of various requirements of the consolidated management.

**Tighter control on capital constraint to improve the management of capital adequacy ratio.** The Group has further defined the procedures for regular assessments of capital adequacy by revising the relevant systems to ensure that the Group's capital is maintained at a level which is able to meet both the internal and external requirements.

**Differentiation of the consolidation management of significant risk exposure to extend the coverage of limit management.** The Group has reinforced the monitoring of its group clients' significant credit risk exposure through the quarterly monitoring of the credit concentration risk of its ten largest single customers and ten largest group clients. In addition, the monitoring and controlling of the quality of the overseas institutions' and subsidiaries' credit assets is strengthened with specific minimum requirements set down for overseas institutions' credit activities such as wholesale loans, trade finance and bond investment. The Group has also reinforced its management on credits to group clients and credit concentration. It defines credit concentration and significant risk exposure as important indicators to establish differentiated customer examination and approval strategies, thus continuously optimising the credit model for group clients.

**Reinforcement of the consolidation management of internal transactions and the establishment of a sound firewall system.** The Group has established a firewall for its internal transactions with a view to ensuring the fairness of transactions. Internal control over the Bank's internal transactions is enhanced with the refined reporting and information disclosure system for related transactions.

**Establishment of a risk management system covering all subsidiary bodies.** In order to proactively push forward the development of subsidiaries' risk management system, the Group has prepared the Administrative Measures for Risk Management on Consolidated Subsidiaries of China Construction Bank. The Group has gradually been treated as the risk management target to allow for supervision and management of the risks of the Group as a whole.

**Optimisation of the management information system to progressively fulfil consolidated management requirements.** By such measures as establishing a uniform platform for the subsidiaries to submit financial statements, the Group has been progressively establishing a consolidated management information system which meets the internal and external management requirements.

## Internal Audit

In order to promote the establishment of a sound and effective risk management mechanism, internal control system and corporate governance procedures, the Group's internal audit department puts forward suggestions for improvement on the basis of its audit. The department evaluates the effectiveness of the internal controls and risk management, the effect of corporate governance, the efficiency of business operations, and the economic responsibilities of key managers. The department plays a relatively independent role, which is managed vertically and reports to the Board, the audit committee, and to the board of supervisors and senior management. There is an audit department at the head office and there are 39 audit units at tier-one branches responsible for managing and conducting audit projects.

In 2010, the internal audit department applied its efforts across the Bank. It extended the audit areas and launched specific audit projects. It conscientiously performed its internal audit duties by working on the specialisation of internal audits, innovative technology and methods together with stronger and more comprehensive management.

**Launch of specific audit projects.** Focusing on key areas and major risks, the internal audit department launched a total of 16 categories of systemic audit or audit investigation projects across the Bank which met the regulatory requirements, including audits of fundamental management of personal loans, corporate loan businesses, management of cash and important blank vouchers, credit card businesses and group consolidated management. Audit teams took on selective audit projects in light of the operation, management and risk position of the respective branches. These efforts further supplemented the coverage and depth of the audits. The Board, board of supervisors and senior management attached great importance to the audit findings, and urged the departments and branches to implement related rectifications and tighten risk management by optimising related rules, business processes, and IT systems to enhance business efficiency and effectiveness.

**Continuous expansion of audit areas.** The department took the initiative in promoting ideas from audits relating to management effectiveness. It embedded the core concepts into all audit projects and daily operations. It initiated an audit analysis with a view to fostering development and enhancing effectiveness. The department also kept an eye on the risks of new businesses and products by conducting audit investigations against consignment of third-party products and new trade finance products.

**Further specialisation of the internal audit.** The department coordinated and guided professional teams to conduct research on special topics. With a refined internal audit knowledge base and a reservoir of audit professionals, the application of research findings is promoted, which contributes to building a high-quality professional audit team. To prepare for the audit on the implementation of the New Basel Capital Accord, an audit research team was set up to follow up on the implementation.

**Optimisation of innovative audit technology and methods.** The department continued to optimise its off-site audit system, and promoted corresponding technology and methods. It established and trained a professional off-site audit team, and organised qualification tests to test the professionals' capability to conduct off-site audits. A common information platform in relation to audits of economic responsibilities during the terms was also established to boost work efficiency.

**Launch of the audit evaluation on internal control.** The department continued to revise its internal control audit evaluation tools and standards to improve its objectivity and accuracy. It also conducted an audit evaluation on tier-one branches' internal control in 2010. As entrusted by the audit committee of the Board, the department conducted the self-assessment of the Group's overall internal control.

**Refinement of internal audit standardisation.** To enhance the quality of the information technology audit, standards for the Bank's information technology audit were prepared and implemented, which standardised the processes of the information technology audit.

## PROSPECTS

In 2011, the global economy continues to recover in an uncertain situation. Emerging economies remain the main driving force behind global economic growth, but the growth in demand in emerging economies is insufficient to make up for the demand gap in developed economies. It may take a long time for the growth rate of the global economy to return to the pre-crisis level. Heavy public debts and vulnerable banking systems in major developed economies may threaten economic growth, and unemployment rates remain high and trade protectionism is escalating, while in emerging economies there are increased pressures from inflation and capital inflows.

China is able to maintain its momentum for sustained economic growth relatively well, as its domestic consumption is increasing and urbanisation is on the rise. However, the foundation for increasing domestic demands is not yet stable. Private investment and organic growth forces still need to be reinforced. Efforts should also be made to continuously stimulate private consumption, to improve income allocation, and to adjust and optimise the economic structure. These are not easy tasks. The Chinese government has attached greater importance to stabilising general prices by employing proactive financial policies and sound monetary policies. The People's Bank of China has implemented the dynamic adjustment on differentiated reserve ratios with a view to linking the differentiated reserve ratios with the loan growth and the capital adequacy ratio, and thus guiding a healthy monetary credit growth. The issue of capital has become a main factor which constrains the growth of risk assets.

The current situation provides opportunities, and also poses challenges to the Group. On the positive side, the changes in China's development patterns and adjustments in its economic structure will facilitate CCB's credit structure adjustment. The environment for comprehensive operations will loosen, providing excellent opportunities for nurturing new businesses. The accelerated liberalisation of interest rates and exchange rates will also give the Group greater freedom for financial innovation. Moreover, the higher effective demand for credit represents a stronger pricing capability. However, on the negative side, the expansion of liability business is becoming more difficult under the influence of tightening liquidity and the fluctuating capital market. Regulatory constraints and competition in the banking sector also require the Group to enhance its management.

The Group will comprehensively implement its "customer-orientated" business principle based on the national macroeconomic policies and the development trend of the financial business. The Group will expedite the transformation of its operations to modify its business development patterns and eventually strengthen its core competitiveness and value creation capability. In terms of credit business, the Group will adhere to its principle of "prudently controlling the loan size and pace of growth, and adjusting the loan structure to ensure the asset quality and improve the interest spread". The Group will continue to reinforce its credit policies, and enhance its post-lending management and the management of off-balance sheet activities, overseas branches, and risk controls over key areas including government financing vehicles, the real estate sector and industries with excess capacity, with the aim of further enhancing the Group's overall risk management capability. The expected increase in RMB-denominated loans is 13%. In addition, the Group will continue to expand its fee-based business and proactively embark on various growth initiatives to maintain its market advantages. Moreover, the Group will continue to develop new strategic business activities and promote its competitively advantaged brands in the areas of small businesses, "agriculture, farmers and rural areas", livelihood sector, and the electronic banking sector. Last but not least, the Group will strengthen its liability business management by consolidating its fundamental capabilities in respect of customers, services, products and channels in order to sustain steady growth of deposits from customers.

# Corporate Social Responsibility

In 2010, the Group proactively fulfilled its social responsibilities and acted as a good corporate citizen. It contributed RMB95,279,900 to 22 public welfare projects, in which donations made by its staff totalled RMB29,391,500.

*The Group was fully committed to the rescue efforts, disaster relief work and post-disaster reconstruction*. Following the earthquake in Yushu, drought in southern China, landslide in Zhouqu and floods in certain regions of China, the Bank eagerly supported disaster-stricken areas by donating money totalling RMB53,131,500, of which RMB29,391,500 was donated by its staff. The Group also provided special financial services to facilitate disaster relief work, and a "Green Channel" of credit approval was opened to meet financial needs for disaster relief and reconstruction efforts.

*The Group enthusiastically supported educational development and took initiative in poverty alleviation programmes*. Through the "CCB Scholarships and Grants for College Students from Ethnic Minorities", the Group has granted RMB12.03 million to 4,259 impoverished minority college students from 97 colleges and universities. The Group is also committed to other long-term public welfare projects. The "Build for the Future – CCB Sponsorship Programme for Impoverished High School Students", set up with a start-up contribution of RMB120 million, has until now sponsored a total of 51,300 students. The "Sponsorship Programme for Impoverished Mothers of Heroes & Exemplary Workers in China", set up with a start-up contribution of RMB50 million, has aided 5,425 people so far. The "Passion to Tibet – CCB & Jianyin Scholarships and Grants" has extended financial support to 330 impoverished students from Tibet over four years. The Group has also constructed and maintained a total of 38 CCB Hope Primary Schools, built 73 sports grounds and libraries, and sponsored training courses for 74 teachers. It contributed RMB5 million to the "CCB Tsinghua University Chair Professorship Fund" for Tsinghua University to engage distinguished chair professors worldwide to enhance the standard of academic teaching and science research. Under the "CCB – Banco Santander International Exchange Student Programme", the Group contributed a total of RMB3.99 million to seven universities, including China University of Political Science and Law, Nankai University, Wuhan University, University of Science and Technology of China, Tongji University, Beijing Institute of Technology and Central University of Finance and Economics.

*The Group also supported public welfare projects in culture and art, healthcare and medical science, economic policy studies and academic exchange*. As the chief sponsor, the Group sponsored the Beijing International Music Festival for the fifth consecutive year, which helps support the high standard of performance at a reasonable ticket price to enable more music lovers to enjoy the Festival. The Group has been continuously supporting studies on national economic policies and international academic exchange. The Group has donated over RMB17 million in total to Cairncross Economic Research Foundation (Beijing), China Centre for International Economic Exchanges, Western China Human Resources Development Foundation, the Sun Yefang Foundation of Economics, the China Society of World Economy and China Development Research Foundation. It launched the "CCB Technological Innovation Fund" with a donation of RMB2 million to the China PLA General Hospital.

*The Group has been actively involved in activities promoting environmental protection*. It pledged to donate RMB5 million to support the "Greening the Yangtze River – Chongqing Action", a reforestation charity initiative to restore and preserve the ecological environment along the Yangtze River and Three Gorges reservoir. In 2010, the Group's head office and 16 branches participated in the global campaign of "Earth Hour" organised by World Wide Fund for Nature (WWF). The Group initiated the proposal of "Low carbon bidding process" among pension management institutions to put into practice the idea of sustainable development.

The Group has gained wide praise and recognition for its efforts in fulfilling corporate social responsibility. In 2010, the Group received multiple corporate social responsibility awards from China News Weekly, Chinese Red Cross Foundation, China Women's Development Foundation, Southern Weekly, Xinhuanet, People's Daily Online, Netease Money, and other organisations.

# Changes in Share Capital and Particulars of Shareholders

## Changes in Shares

Unit: share

| | 1 January 2010 | | Increase/(Decrease) during the reporting period | | | | | 31 December 2010 | |
|---|---|---|---|---|---|---|---|---|---|
| | Number of shares | Percentage (%) | Issuance of additional shares | Bonus issue | Shares converted from capital reserve | Others | Sub-total | Number of shares | Percentage (%) |
| **(I) Shares subject to selling restrictions** | | | | | | | | | |
| 1. State-owned shares[1] | 133,262,144,534 | 57.03 | – | – | – | (133,262,144,534) | (133,262,144,534) | – | – |
| 2. Shares held by state-owned legal persons | – | – | – | – | – | – | – | – | – |
| 3. Shares held by foreign investors[2] | 25,580,153,370 | 10.95 | – | – | – | – | – | 25,580,153,370 | 10.23 |
| **(II) Shares not subject to selling restrictions** | | | | | | | | | |
| 1. RMB ordinary shares | 9,000,000,000 | 3.85 | 593,657,606 | – | – | – | 593,657,606 | 9,593,657,606 | 3.84 |
| 2. Overseas listed foreign investment shares | 59,140,447,096 | 25.31 | 5,930,442,033 | – | – | – | 5,930,442,033 | 65,070,889,129 | 26.03 |
| 3. Others[3] | 6,706,339,000 | 2.87 | 9,797,793,847 | – | – | 133,262,144,534 | 143,059,938,381 | 149,766,277,381 | 59.90 |
| **(III) Total number of shares[4]** | 233,689,084,000 | 100.00 | 16,321,893,486 | – | – | – | 16,321,893,486 | 250,010,977,486 | 100.00 |

1. H-shares of the Bank held by Huijin were released from selling restriction on 27 October 2010.

2. H-shares of the Bank held by Bank of America.

3. H-shares of the Bank free from selling restrictions held by the promoters of the Bank, i.e. Huijin, State Grid, Baosteel Group and Yangtze Power.

4. The Bank issued additional shares through rights issue during the reporting period, which resulted in an increase of the total shares from 233,689,084,000 shares to 250,010,977,486 shares.

5. Rounding errors may arise in the "Percentage (%)" of the table above.

## Changes in Shares Subject to Selling Restrictions

| Name of shareholder | Number of shares subject to restrictions at the beginning of the year | Number of shares released from restrictions during the year | Number of new shares subject to restrictions in the year | Number of shares subject to restrictions at the end of the year | Reason for restrictions | Date of release from restrictions |
|---|---|---|---|---|---|---|
| Huijin | 133,262,144,534 | 133,262,144,534 | – | – | The 5-year lock-up period since the listing of H-shares (27 October 2005) | 27 October 2010 |
| Bank of America | 25,580,153,370 | – | – | 25,580,153,370 | The 25,580,153,370 H-shares acquired by Bank of America through exercise of the call options in 2008 shall not be transferred without the Bank's written consent before 29 August 2011 unless under exceptional circumstances. | 29 August 2011 |

## Details of Securities Issuance and Listing

On 11 September 2008, the Bank issued two-year RMB ordinary financial bonds of RMB3 billion with an annual interest rate of 3.24% in Hong Kong. Such bonds are unlisted retail bonds which matured on 11 September 2010, and the fund raised through this issuance was used for general operating purpose.

Please refer to "Debt Securities Issued" in the notes of "Financial Statements" for information regarding issuance of subordinated bonds of the Bank in 2009.

Pursuant to the annual general meeting of 2009, the first A shareholders class meeting of 2010 and the first H shareholders class meeting of 2010, upon approvals by domestic and overseas regulatory bodies, the Bank implemented the rights issue plan of A-shares and H-shares during the reporting period and allotted the rights shares to A shareholders and H shareholders on the basis of 0.7 rights shares for every 10 existing shares. During the reporting period, the Bank issued 593,657,606 A rights shares and 15,728,235,880 H rights shares at a price of RMB3.77 per share and HK$4.38 per share respectively, the dealings of which commenced on 19 November 2010 and 16 December 2010 respectively. After the completion of the rights issue, the total shares of the Bank increased to 250,010,977,486 shares, including 9,593,657,606 A-shares and 240,417,319,880 H-shares. The net proceeds raised from the rights issue are equivalent to RMB61,159 million, all of which are used to strengthen the capital base of the Bank

## Number of Shareholders and Particulars of Shareholdings

At the end of the reporting period, the Bank had a total of 1,049,546 shareholders, of which 66,715 were holders of H-shares and 982,831 were holders of A-shares.

Unit: share

| | |
|---|---|
| **Total number of shareholders** | **1,049,546 (Total number of registered holders of A-shares and H-shares as at 31 December 2010)** |

**Particulars of shareholdings of the top ten shareholders**

| Name of shareholder | Nature of shareholder | Shareholding percentage (%) | Total number of shares held | Number of shares subject to selling restrictions | Number of shares pledged or frozen |
|---|---|---|---|---|---|
| Huijin[1] | State-owned | 57.03 | 142,590,494,651 (H-shares) | – | None |
| | State-owned | 0.06 | 154,879,777 (A-shares) | – | None |
| HKSCC Nominees Limited[2] | Foreign legal person | 19.79 | 49,481,779,782 (H-shares) | – | Unknown |
| Bank of America | Foreign legal person | 10.23 | 25,580,153,370 (H-shares) | 25,580,153,370 | None |
| Fullerton Financial[2,3] | Foreign legal person | 5.65 | 14,131,828,922 (H-shares) | – | None |
| Baosteel Group | State-owned | 1.28 | 3,210,000,000 (H-shares) | – | None |
| | State-owned | 0.13 | 318,860,498 (A-shares) | – | None |
| State Grid[2,4] | State-owned | 1.16 | 2,895,782,730 (H-shares) | – | None |
| Yangtze Power[2] | State-owned | 0.43 | 1,070,000,000 (H-shares) | – | None |
| Reca Investment Limited | Foreign legal person | 0.34 | 856,000,000 (H-shares) | – | None |
| China Ping An Life Insurance Company Limited – Traditional – Ordinary insurance products | Domestic non-state-owned legal person | 0.15 | 379,232,453 (A-shares) | – | None |
| China Life Insurance Company Limited – Participating – Individual participating – 005L – FH002 SH | Domestic non-state-owned legal person | 0.10 | 254,001,798 (A-shares) | – | None |

1. Huijin, the controlling shareholder of the Bank, had participated in the rights issue plan of A-shares and H-shares of the Bank as undertaken and subscribed all the rights shares which may be subscribed by it, including 10,132,322 A rights shares and 9,328,350,117 H rights shares.

2. As at 31 December 2010, Fullerton Financial, State Grid and Yangtze Power held 14,131,828,922 H-shares, 2,895,782,730 H-shares and 1,070,000,000 H-shares of the Bank respectively, all of which were held under the name of HKSCC Nominees Limited. Besides the H-shares of the Bank held by Fullerton Financial, State Grid and Yangtze Power, another 49,481,779,782 H-shares of the Bank were held under the name of HKSCC Nominees Limited.

3. Fullerton Financial held 13,207,316,750 H-shares of the Bank as at 1 January 2010. During the reporting period, it subscribed for 924,512,172 H rights shares through participating in the rights issue plan of H-shares of the Bank.

4. As at 31 December 2010, the holding of H-shares of the Bank by State Grid through its wholly-owned subsidiaries was as follows: Yingda International Holdings Group Co. Ltd. held 856,000,000 shares, State Grid International Development Limited held 1,315,282,730 shares, Shandong Luneng Group Co., Ltd. held 374,500,000 shares and State Grid International Technical Equipment Co., Ltd. held 350,000,000.

5. Rounding errors may arise in the "Percentage (%)" of the table above.

**Particulars of shareholding of the top ten shareholders not subject to selling restrictions**

| Name of shareholder | Number of shares not subject to selling restrictions | Type of share |
|---|---|---|
| Huijin | 142,590,494,651 | H-share |
| | 154,879,777 | A-share |
| HKSCC Nominees Limited | 49,481,779,782 | H-share |
| Fullerton Financial | 14,131,828,922 | H-share |
| Baosteel Group | 3,210,000,000 | H-share |
| | 318,860,498 | A-share |
| State Grid | 2,895,782,730 | H-share |
| Yangtze Power | 1,070,000,000 | H-share |
| Reca Investment Limited | 856,000,000 | H-share |
| China Ping An Life Insurance Company Limited -Traditional – Ordinary insurance products | 379,232,453 | A-share |
| China Life Insurance Company Limited – Participating – Individual participating – 005L – FH002SH | 254,001,798 | A-share |
| China Life Insurance Company Limited -Traditional – Ordinary insurance products- 005L – CT001SH | 204,563,395 | A-share |

1. Some of the shareholders mentioned above were managed by the same entity. Apart from this, the Bank is not aware of any connections among the shareholders or whether they are parties acting in concert.

## Substantial Shareholders of the Bank

At the end of the reporting period, Huijin held 57.10% of the shares of the Bank. Huijin is the controlling shareholder of the Bank. Huijin is a wholly state-owned investment company established in accordance with the Company Law on 16 December 2003 with the approval of the State Council. Its registered capital and paid-in capital are both RMB552,117 million. Its legal representative is Mr. Lou Jiwei. Huijin makes equity investment in key state-owned financial institutions as authorized by the State Council, and exercises the contributor’s rights and obligations in the Bank up to its contribution on behalf of the state to achieve preservation and appreciation of state-owned financial assets.

Please refer to the Announcement on Matters related to the Incorporation of China Investment Corporation published by the Bank on 9 October 2007 for details of China Investment Corporation.

At the end of the reporting period, Bank of America directly held 10.23% of the shares of the Bank. Bank of America is a company registered in Delaware, headquartered in Charlotte, North Carolina. Its chairman is Mr. Charles O. Holliday, Jr.. As one of the largest bank holding companies and financial holding companies in the world, Bank of America provides comprehensive banking, investment, assets management and other financial and risk management products and services to individual customers, small and medium-sized enterprises and large companies. According to the balance sheet of Bank of America as at 30 September 2010, the shareholders’ equity of Bank of America was US$230,495 million.

There were no other institutional shareholders holding 10% or more of shares of the Bank (excluding HKSCC Nominees Limited). There were no internal staff shares.

## Dates on which Shares Subject to Selling Restrictions May Commence Trading

Unit: share

| Date | Number of shares released upon expiry of lock-up period | Number of shares subject to selling restrictions | Number of shares not subject to selling restrictions | Remarks |
|---|---|---|---|---|
| 29 August 2011 | 25,580,153,370 | – | 250,010,977,486 | H-shares released from selling restrictions |

## Number of Shares Held by Shareholders Subject to Selling Restrictions and the Conditions of Selling Restrictions

Unit: share

| Number | Name of shareholder subject to selling restrictions | Number of shares subject to selling restrictions | Date on which shares may commence trading | Number of new tradeable shares | Selling restrictions |
|---|---|---|---|---|---|
| 1 | Bank of America | 25,580,153,370 | 29 August 2011 | 25,580,153,370 | Lock-up period of H-shares |

# Corporate Governance Report

The Bank is committed to maintaining high level corporate governance practice. In accordance with the Company Law, *Law of the People's Republic of China on Commercial Banks* and other laws and regulations, as well as the listing rules of the relevant stock exchanges, the Bank optimised its corporate governance structure and improved the rules on corporate governance in line with its corporate governance practices. During the reporting period, the Bank adjusted the items of authorization delegated to the board of directors by the shareholders' general meeting, amended the procedural rules for shareholders' general meeting and the board of directors and formulated Interim Measures for Information Insiders Management.

The Bank has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules of Hong Kong Stock Exchange. The Bank has also substantially complied with the recommended best practices therein. During the reporting period, the Bank has filed and recorded relevant information insiders and is not aware of any insider dealings by relevant insiders that are against the law or release of inside information by such persons causing abnormal volatility of stock price.

## Shareholders' General Meeting

### Powers of Shareholders' General Meeting

The shareholders' general meeting is the authoritative body of the Bank and mainly exercises the following powers:

- determining the operating guidelines and investment plans of the Bank;
- electing and changing directors and supervisors (except for employee representative supervisors), and determining the remuneration of directors and supervisors;
- reviewing and approving the Bank's annual financial budgets, final accounts, profit distribution plans and loss recovery plans;
- adopting resolutions related to the increase or reduction of registered capital, and merger, split, dissolution and liquidation of the Bank;
- adopting resolutions related to the issuance and listing of corporate bonds or other marketable securities;
- adopting resolutions related to material acquisitions and repurchase of the Bank's shares;
- adopting resolutions to engage, remove or cease to retain certified public accountants;
- amending the Articles of Association and other fundamental corporate governance documents of the Bank.

### Details of Shareholders' General Meetings Convened

On 24 June 2010, the Bank held the 2009 annual general meeting, which mainly resolved on the 2009 report of the board of directors, 2009 report of the board of supervisors, 2009 final financial accounts, 2010 fixed assets investment budget, 2009 profit distribution plans, 2009 final emoluments distribution plan for directors and supervisors, appointment of auditors of the Bank for 2010, proposed rights issue plan of A-shares and H-shares, mid-term plan of capital management, election of directors, election of supervisors and adjustment of the delegation of authorization on several issues to the board of directors by the shareholders' general meeting.

On 24 June 2010, the Bank held the first A shareholders class meeting of 2010 and the first H shareholders class meeting of 2010, which resolved on the rights issue plan of A-shares and H-shares.

On 15 September 2010, the Bank held the first extraordinary general meeting of 2010, which resolved on the election of shareholder representative supervisor and elected Mr. Zhang Furong as a shareholder representative supervisor of the Bank.

The shareholders' general meeting was held in compliance with relevant legal procedures, the resolutions of which were published on the websites of the stock exchanges, and on the China Securities Journal and Shanghai Securities News.

## Board of Directors

### Responsibilities of the Board

The Board is the executive body of the shareholders' general meeting, which is accountable to the general meeting of shareholders, and performs the following duties in accordance with relevant laws:

- convening the general meeting of shareholders and reporting to the general meeting of shareholders;
- implementing the resolutions of the general meeting of shareholders;

- determining the Bank's development strategy, and supervising the implementation of the development strategy;
- deciding on operational plans, investment plans and risk capital allocation plans of the Bank;
- preparing annual financial budget plans, final accounting plans, profit distribution plans and loss recovery plans;
- preparing plans related to the increase or reduction of registered capital, the issuance and listing of convertible bonds, subordinated bonds, corporate bonds or other securities; and plans related to merger, split, dissolution and liquidation of the Bank;
- preparing plans relating to material acquisitions and the repurchase of shares of the Bank;
- exercising other powers under the Articles of Association of the Bank and authorised by the general meeting of shareholders.

## The Board's Implementation of Resolutions of the General Meeting of Shareholders

In 2010, the Board strictly implemented the resolutions of shareholders' general meeting and matters authorised to the Board by the shareholders' general meeting, earnestly implemented the profit distribution plan for 2009, appointment of auditors for 2010, the rights issue plan of A-shares and H-share and other plans reviewed and approved by the shareholders' general meeting.

## Composition of the Board

As at the end of 2010, the Board comprised 17 directors, including four executive directors, namely, Mr. Guo Shuqing, Mr. Zhang Jianguo, Mr. Chen Zuofu and Mr. Zhu Xiaohuang; seven non-executive directors, namely, Mr. Wang Yong, Ms. Wang Shumin, Mr. Zhu Zhenmin, Ms. Li Xiaoling, Ms. Sue Yang, Mr. Lu Xiaoma and Ms. Chen Yuanling; and six independent non-executive directors, namely, Lord Peter Levene, Mr. Yam Chi Kwong, Joseph, Rt Hon Dame Jenny Shipley, Ms. Elaine La Roche, Mr. Zhao Xijun and Mr. Wong Kai-Man.

## Chairman and President

Mr. Guo Shuqing is the chairman of the Board and the legal representative of the Bank, and is responsible for the business strategy and overall development of the Bank. Mr. Zhang Jianguo is the president of the Bank, and is responsible for the routine management of the Bank's business operations. The president is appointed by the Board, responsible to the Board, and discharges his duties in accordance with the Articles of Association of the Bank and delegation by the Board. The roles of the chairman and the president are separate and their duties are clearly defined.

## Appointment and Re-election of Directors

The term of office of directors is three years (ending on the date of the annual general meeting of the final year in their term of office), and directors may be re-elected upon expiration of their term of office.

Upon appointment by the Bank's 2009 annual general meeting and approval of the CBRC, Mr. Zhu Xiaohuang commenced his position as an executive director of the Bank from July 2010; Mr. Yam Chi Kwong, Joseph and Mr. Zhao Xijun commenced their position as independent non-executive directors of the Bank from August 2010; and Mr. Zhu Zhenmin, Mr. Lu Xiaoma, Ms. Chen Yuanling and Ms. Sue Yang commenced their position as non-executive directors of the Bank from August 2010.

## Operation of the Board

The Board convenes regular meetings, generally not less than four times a year; extraordinary meetings are convened if and 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 meeting documents and relevant materials are usually circulated to all directors and supervisors 14 days in advance of board meetings.

All directors keep communication with the secretary to the Board and the company secretary, with a view to ensuring compliance with board procedures and all applicable rules and regulations. Detailed minutes of board meetings are kept, and minutes are circulated to all attending directors for review after the meeting. Directors will provide comments 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 reports his work to the Board on a regular basis, and is supervised by the Board. Relevant senior executives are invited to attend board meetings from time to time to make presentations or answer questions.

At board meetings, an open environment exists in which directors can put forward their opinions freely, and major decisions are made after deliberate discussions. Directors may also retain external advisers following certain procedures, at the Bank's expense, to provide independent professional advice if they deem necessary. 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.

Induction programmes are organised to provide new directors with basic information of the Bank, and relevant rules and regulations which the directors shall abide by in performing their functions and duties, and to assist them getting familiar with the management, operations and governance practices. The Bank periodically organises trainings for all directors, and encourages them to participate in professional development seminars and courses organised by professional institutions, in order to help them understand the latest development of or changes to the laws and regulations as relevant to performing their duties.

We effected directors' liability insurance policy for all directors in 2010.

## Compliance with Model Code for Securities Transactions by Directors

The Bank has adopted a code of practice in relation to securities transactions by directors and supervisors as set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules of Hong Kong Stock Exchange. All directors and supervisors had confirmed that they had complied with the provisions of this code in the year ended 31 December 2010.

## Board Meetings

In 2010, the Board convened ten meetings in total, including nine on-site meetings and one meeting by written resolutions. Major resolutions passed by the board meetings included the Bank's operational plan, fixed assets investment budget, financial reports, profit distribution, election of director candidates and appointment of senior management personnel, etc. Relevant information was disclosed pursuant to the provisions in relevant laws, regulations and listing rules of the listing venues. Individual attendance records of the directors in board meetings in 2010 are set out as follows:

| Board members | Number of meetings attended/ Number of meetings during term of office | Number of meetings attended by proxy/Number of meetings during term of office | Attendance rate (%) |
|---|---|---|---|
| **Executive directors** | | | |
| Mr. Guo Shuqing | 10/10 | 0/10 | 100 |
| Mr. Zhang Jianguo | 9/10 | 1/10 | 100 |
| Mr. Chen Zuofu | 9/10 | 1/10 | 100 |
| Mr. Zhu Xiaohuang | 3/4 | 1/4 | 100 |
| **Non-executive directors** | | | |
| Mr. Wang Yong | 10/10 | 0/10 | 100 |
| Ms. Wang Shumin | 10/10 | 0/10 | 100 |
| Mr. Zhu Zhenmin | 3/3 | 0/3 | 100 |
| Ms. Li Xiaoling | 10/10 | 0/10 | 100 |
| Ms. Sue Yang | 3/3 | 0/3 | 100 |
| Mr. Lu Xiaoma | 3/3 | 0/3 | 100 |
| Ms. Chen Yuanling | 3/3 | 0/3 | 100 |
| **Independent non-executive directors** | | | |
| Lord Peter Levene | 6/10 | 4/10 | 100 |
| Mr. Yam Chi Kwong, Joseph | 3/3 | 0/3 | 100 |
| Rt Hon Dame Jenny Shipley | 8/10 | 2/10 | 100 |
| Ms. Elaine La Roche | 9/10 | 1/10 | 100 |
| Mr. Zhao Xijun | 3/3 | 0/3 | 100 |
| Mr. Wong Kai-Man | 9/10 | 1/10 | 100 |
| **Retired directors** | | | |
| Ms. Xin Shusen | 4/4 | 0/4 | 100 |
| Mr. Wang Yonggang | 4/4 | 0/4 | 100 |
| Mr. Liu Xianghui | 4/4 | 0/4 | 100 |
| Mr. Zhang Xiangdong | 4/4 | 0/4 | 100 |
| Mr. Gregory L. Curl | 3/4 | 1/4 | 100 |
| Mr. Song Fengming | 4/4 | 0/4 | 100 |
| Mr. Tse Hau Yin, Aloysius | 4/4 | 0/4 | 100 |

## Performance of Duties by Independent Directors

Currently the Bank has six independent non-executive directors, exceeding one third of the total number of directors of the Bank, which is in compliance with the provisions of relevant laws, regulations and Articles of Association of the Bank. 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 assume any management positions in the Bank, both of which effectively ensure their independence. The Bank has received from every independent non-executive director the annual confirmation that confirms his or her independence.

The attendance rates of independent non-executive directors of the Bank in attending both board meetings and board committee meetings in 2010 were 100%. Currently, the audit committee, nomination and compensation committee and related party transactions committee under the Board are all chaired by independent non-executive directors. During the session of board meetings, our independent non-executive directors enhanced their understanding about business development of subsidiaries by means of on-site investigation and informal discussion. The independent non-executive directors of the Bank gave their opinions actively on the board meetings, and provided valuable suggestions on the business development and significant decisions of the Bank, which promoted the scientific decision-making of the Board.

During the reporting period, the Bank's independent non-executive directors reviewed the external guarantee given by the Bank. During the review of relevant matters by the Board, the independent non-executive directors did not raise any objections to the relevant matters.

## Delegation by the Board

The division of authority between the Board and senior management is implemented in strict compliance with the Articles of Association of the Bank and other corporate governance documents. By virtue of the authority conferred on him by the Articles of Association and the Board, the president makes decisions within his scope of authority on operations, management and other issues that need to be decided. Specifically, his primary responsibilities include:

- being in charge of the operation and management of the Bank and initiating the implementation of board resolutions;
- submitting operational plans and investment proposals of the Bank to the Board and initiating the implementation of such plans or proposals upon approval by the Board;
- formulating proposals for the establishment of internal management departments within the Bank;
- formulating the general management system of the Bank;
- formulating specific rules and regulations of the Bank;
- proposing to the Board the appointment or dismissal of executive vice presidents and other senior management officers (excluding the chief audit officer and the secretary to the Board);
- exercising other authorities conferred by the Articles of Association of the Bank and the Board.

## Accountability of the Directors in Relation to the Financial Report

The directors are responsible for overseeing the preparation of the financial report for each financial period to give a true and fair view of the Group's state of affairs, performance results and cash flow for that period. In preparing the financial report for the year ended 31 December 2010, the directors have selected appropriate accounting policies, applied them consistently, and made judgements and estimates that are prudent and reasonable.

During the reporting period, in accordance with the provisions of relevant laws, regulations and listing rules, the Bank has released 2009 annual report, the report for the first quarter of 2010, half-year report 2010, and the report for the third quarter of 2010 on time.

## Independent Operating Capability of the Bank

The Bank is independent from its controlling shareholder Huijin with respect to business, personnel, assets, organisations and finance. The Bank has independent and complete operating assets, independent operating capability and the ability to survive in the market on its own strength.

## Internal Transactions

The internal transactions of the Bank cover credit and guarantees, asset transfer, receivables and payables, service charges, and agency transactions between the Bank and subsidiaries as well as between the subsidiaries. The internal transactions of the Bank were in line with regulatory requirements, and did not bring about the negative impact upon the Group's sound operation.

Please refer to notes to the "Financial Statements" of this annual report for details of the internal transactions as defined by domestic laws and regulations.

## Impact of Restructuring and Re-organization on Trade Competition and Related Party Transaction

During its joint-equity reform, the former China Construction Bank was split into the Bank and Jianyin. Jianyin is positioned as an investment company and a company for disposing financial assets, which have no conflict with the positioning of the Bank and would not lead to the problem of trade competition.

In July 2009, Jianyin transferred all of its shares in the Bank to Huijin. According to the Rules Governing the Listing of Stocks on Shanghai Stock Exchange and relevant regulations, the continuous business transactions between Jianyin and the Bank within the 12 months after the transfer of such shares would still be regarded as related party transactions. Such transactions mainly involve assets management and property management, lease and consulting service. The Bank has fulfilled relevant decision-making procedures and information disclosure requirements according to relevant domestic and overseas regulatory regulations.

## Internal Control

The Board is responsible for establishing and maintaining a complete internal control system for financial reports. The internal control of financial reports aims to assure the authenticity, integrity and reliance of financial reports and to prevent significant misreporting risk. The Board has evaluated the internal control relating to financial reports pursuant to the *Basic Standard for Enterprises Internal Control*, and deemed that it was effective on December 31, 2010.

According to the findings of the internal control self-evaluation, the Bank's internal control system and implementation with regard to non-financial reports were sound and effective. The Bank has not found any material defects concerning the design or implementation of its internal control.And the matters to be improved did not constitute any material impact on the Bank's overall operation management. The Bank has paid keen attention to such matters and will take further action to make continuing improvement.

To thoroughly implement the *Basic Standard for Enterprises Internal Control* and the guidelines ancillary thereto issued by five ministries/commissions including the Ministry of Finance, and to improve and optimise the Bank's internal control system, the Bank formed the China Construction Bank Internal Control Management Committee, and set up the Internal Control Committee Office as an ad hoc agency, which is dedicated to various preparatory assignments for internal control implementations.

According to the new requirements and standards for internal control and based on the major problems in this regard, the Bank formulated the *China Construction Bank Internal Control Deployment Three-Year Plan (2011 – 2013),* presenting the guidelines, fundamental principles, overall objectives, systematic framework, implementation plans, major tasks, managerial regime, working mechanism and overall development plan of its internal control system deployment to guide the Bank's internal control deployment in the next three years.

In addition, the Bank orchestrated a campaign on the internal control compliance education and guided inspection and rectification of internal control performance at various branches. Through concentrated training programs, theme lectures and seminars, branches and sub-branches carried out staff training to enhance internal control awareness. In the event of the "Year of Internal Control and Non-Compliance Prevention Regime Implementation" organized by the CBRC in 2010, systemized measures advocated by the internal control code were embedded in the event in response to corporate internal control requirements, effectively guiding the concrete implementation across the Bank. This event laid the foundation for full-blown implementation of the Basic Standard and the deployment and improvement of a standardized internal control regime in 2011.

In 2011, the Bank's internal control system deployment plan will focus on gradual improvement of internal control for the Bank's sustainable development as well as establishment of a uniform and comprehensive internal control management system consistent with the internal control code. Key assignments for implementing the *Basic Standard for Enterprise Internal Control* and the guides ancillary thereto in 2011 include a bank-wide reorganization of internal control and preparation of an internal control management manual. The Bank has started pilot work for the internal control rearrangement and assessment and is prepared for implementing the internal control code.

## Committees under the Board

There are five committees established under the Board: the strategy development committee, audit committee, risk management committee, nomination and compensation committee and related party transactions committee. Among these committees, the audit committee, nomination and compensation committee and related party transactions committee are chaired by the independent non-executive directors, and more than half of the committee members are independent non-executive directors.

### Strategy Development Committee

The strategy development committee consists of 15 directors. Mr. Guo Shuqing, chairman of the Board, currently serves as chairman of the strategy development committee. Members include Mr. Wang Yong, Ms. Wang Shumin, Lord Peter Levene, Mr. Zhu Xiaohuang, Mr. Zhu Zhenmin, Mr. Yam Chi Kwong, Joseph, Ms. Li Xiaoling, Ms. Sue Yang, Rt Hon Dame Jenny Shipley, Mr. Zhang Jianguo, Mr. Lu Xiaoma, Ms. Chen Yuanling, Mr. Chen Zuofu and Ms. Elaine La Roche.

The primary responsibilities of the strategy development committee include:

- drafting strategic development plans, supervising and assessing implementation thereof;
- reviewing annual operational plans and financial budgets of the Bank;
- reviewing strategic capital allocation plans and asset and liability management targets;
- evaluating the coordinated development of various businesses;
- reviewing material restructuring and re-organisation plans; and
- reviewing significant investment and financing projects.

In 2010, the strategy development committee convened four meetings in total and performed its duties in due efforts in compliance with relevant laws and regulations. The strategy development committee actively promoted the compilation and implementation of the overall strategic plan of the Bank, analysed and judged international and domestic economic and financial situation, examined key operation issues like the annual operation plan and the investment budget for fixed assets, closely followed the development of strategic businesses like overseas business and electronic banking business, and improved the talent cultivation working mechanism.

| Members of strategy development committee | Number of meetings attended/ Number of meetings during term of office | Number of meetings attended by proxy/Number of meetings during term of office | Attendance rate (%) |
|---|---|---|---|
| Mr. Guo Shuqing | 4/4 | 0/4 | 100 |
| Mr. Wang Yong | 4/4 | 0/4 | 100 |
| Ms. Wang Shumin | 4/4 | 0/4 | 100 |
| Lord Peter Levene | 2/4 | 2/4 | 100 |
| Mr. Zhu Xiaohuang | 2/3 | 1/3 | 100 |
| Mr. Zhu Zhenmin | 3/3 | 0/3 | 100 |
| Mr. Yam Chi Kwong, Joseph | 3/3 | 0/3 | 100 |
| Ms. Li Xiaoling | 3/3 | 0/3 | 100 |
| Ms. Sue Yang | 3/3 | 0/3 | 100 |
| Rt Hon Dame Jenny Shipley | 4/4 | 0/4 | 100 |
| Mr. Zhang Jianguo | 4/4 | 0/4 | 100 |
| Mr. Lu Xiaoma | 3/3 | 0/3 | 100 |
| Ms. Chen Yuanling | 3/3 | 0/3 | 100 |
| Mr. Chen Zuofu | 3/3 | 0/3 | 100 |
| Ms. Elaine La Roche | 4/4 | 0/4 | 100 |
| **Retired members** | | | |
| Mr. Wang Yonggang | 1/1 | 0/1 | 100 |
| Mr. Liu Xianghui | 1/1 | 0/1 | 100 |
| Mr. Zhang Xiangdong | 1/1 | 0/1 | 100 |
| Mr. Gregory L. Curl | 1/1 | 0/1 | 100 |

In 2011, the strategy development committee shall pay close attention to the international and domestic financial situation, accelerate the overall adjustment of business structure, transform development mode, actively innovate business products and service model, and continuously enhance the contribution ratio of strategic businesses to the operation and development of the Bank.

## Audit Committee

The audit committee consists of seven directors. Mr. Wong Kai-Man, an independent non-executive director, currently serves as chairman of the audit committee. Members include Ms. Wang Shumin, Ms. Li Xiaoling, Ms. Sue Yang, Rt Hon Dame Jenny Shipley, Ms. Elaine La Roche and Mr. Zhao Xijun. The composition of the audit committee of the Bank is in compliance with domestic and overseas regulatory requirements.

The primary responsibilities of the audit committee include:

- monitoring the financial report, reviewing the disclosure of accounting information and significant events;
- monitoring and assessing the internal controls;
- monitoring the compliance level of the core businesses, management systems and principal business activities;
- monitoring and assessing the internal audit; and
- monitoring and assessing the external audit, etc.

In 2010, the audit committee convened nine meetings of the committee, reviewing the financial reports for 2009, the first half of 2010, and the first and third quarter of 2010. The audit committee actively pushed forward the internal control self-assessment in 2010, tracked the rectification against audit results found by internal and external audit and regulation. The audit committee reviewed the internal audit working plan and monitored and assessed the internal audit periodically. The audit committee seriously monitored and evaluated the internal audit work, reviewed the working plan for annual financial report audit and the audit results, and urged the external auditors to issue audit report on time.

Pursuant to requirements by the CSRC and the annual report working rules of the audit committee, the audit committee reviewed the financial report of the Bank, and communicated and discussed with the management as to the major accounting policies and accounting estimates. The audit committee reviewed the Bank's financial report again in respect to the initial audit opinions given by the external auditors, communicated with the management and external auditors, discussed matters such as the accounting standards and methods adopted in the financial statements, internal monitoring and financial report, and urged the auditors to submit the summary audit report to the Board. The audit committee reviewed and approved the 2010 financial report of the Bank, and submitted the proposal to the Board for consideration.

To improve the external audit service procurement model and establish an open and competitive market-oriented selection and appointment mechanism, the audit committee led and implemented the selection and appointment work of external auditors for 2011. At last, the audit committee recommended to appoint PwC Zhong Tian as the domestic auditors of the Bank and its major domestic subsidiaries for 2011 and PwC as the international auditors of the Bank and its overseas subsidiaries for 2011.

| Members of audit committee | Number of meetings attended/ Number of meetings during term of office | Number of meetings attended by proxy/Number of meetings during term of office | Attendance rate (%) |
|---|---|---|---|
| Mr. Wong Kai-Man | 9/9 | 0/9 | 100 |
| Ms. Wang Shumin | 9/9 | 0/9 | 100 |
| Ms. Li Xiaoling | 9/9 | 0/9 | 100 |
| Ms. Sue Yang | 4/4 | 0/4 | 100 |
| Rt Hon Dame Jenny Shipley | 9/9 | 0/9 | 100 |
| Ms. Elaine La Roche | 9/9 | 0/9 | 100 |
| Mr. Zhao Xijun | 4/4 | 0/4 | 100 |
| **Retired members** | | | |
| Mr. Gregory L. Curl | 4/4 | 0/4 | 100 |
| Mr. Song Fengming | 4/4 | 0/4 | 100 |
| Mr. Tse Hau Yin, Aloysius | 4/4 | 0/4 | 100 |

In 2011, the audit committee will further monitor the regular financial reports, continue to assess the internal control system, supervise and evaluate the independence of internal and external audits, improve the effectiveness of communication and cooperation between internal and external auditors, and cooperate with external regulations.

## Risk Management Committee

The risk management committee consists of ten directors. Mr. Yam Chi Kwong, Joseph, an independent non-executive director, currently serves as chairman of the risk management committee. Members include Mr. Wang Yong, Mr. Zhu Xiaohuang, Mr. Zhang Jianguo, Mr. Lu Xiaoma, Ms. Chen Yuanling, Mr. Chen Zuofu, Ms. Elaine La Roche, Mr. Zhao Xijun and Mr. Wong Kai-Man.

The primary responsibilities of the risk management committee include:

- reviewing the risk management and internal control policies in accordance with the overall strategy of the Bank, monitoring and assessing their implementation and effectiveness;
- providing guidance on building the risk management and internal control systems;
- monitoring and assessing the organisational structure, working procedures and effectiveness for risk management department, and proposing changes for improvements;
- reviewing the risk and internal control report, conducting periodic assessments of the risk management and internal control system, and providing their opinions in relation to further improvements to the risk management and internal control; and
- evaluating the performance of the Bank's senior management personnel responsible for risk management.

In 2010, the risk management committee convened four meetings. The risk management committee paid close attention to the impact of the international and domestic economic and financial situations on the Bank, fulfilled the regulatory requirements, continuously improved risk management system and strengthened comprehensive risk management; followed and assessed the comprehensive risk conditions of the Bank periodically; continuously promoted various tasks for the implementation of New Basel Capital Accord; attached high importance to the risk management of government financing vehicles loans, real estate loans, off-balance sheet business and overseas business, instructed and promoted post-lending management; promoted the compliance management culture and strengthened the prevention and control of non-compliance cases.

| Members of risk management committee | Number of meetings attended/ Number of meetings during term of office | Number of meetings attended by proxy/Number of meetings during term of office | Attendance rate (%) |
|---|---|---|---|
| Mr. Yam Chi Kwong, Joseph | 2/2 | 0/2 | 100 |
| Mr. Wang Yong | 4/4 | 0/4 | 100 |
| Mr. Zhu Xiaohuang | 1/2 | 1/2 | 100 |
| Mr. Zhang Jianguo | 4/4 | 0/4 | 100 |
| Mr. Lu Xiaoma | 2/2 | 0/2 | 100 |
| Ms. Chen Yuanling | 2/2 | 0/2 | 100 |
| Mr. Chen Zuofu | 4/4 | 0/4 | 100 |
| Ms. Elaine La Roche | 4/4 | 0/4 | 100 |
| Mr. Zhao Xijun | 2/2 | 0/2 | 100 |
| Mr. Wong Kai-Man | 4/4 | 0/4 | 100 |
| **Retired members** | | | |
| Mr. Zhang Xiangdong | 1/1 | 0/1 | 100 |
| Mr. Liu Xianghui | 1/1 | 0/1 | 100 |
| Ms. Xin Shusen | 1/1 | 0/1 | 100 |
| Mr. Song Fengming | 1/1 | 0/1 | 100 |
| Mr. Tse Hau Yin, Aloysius | 1/1 | 0/1 | 100 |

In 2011, the risk management committee will continue to conscientiously perform their duties, promote the fulfilment of various regulatory requirements, further improve comprehensive risk management system, further push forward the implementation of the New Basel Capital Accord, urge to establish and continuously improve comprehensive risk management policy framework, pay close attention to substantial risks like credit risk, market risk, operational risk and compliance risk, and emphasize on the enhancement of off-balance sheet business, overseas business and product innovation risk management level.

## Nomination and Compensation Committee

The nomination and compensation committee consists of seven directors. Ms. Elaine La Roche, an independent non-executive director, currently serves as chairperson of the nomination and compensation committee. Members include Mr. Wang Yong, Lord Peter Levene, Mr. Zhu Zhenmin, Ms. Sue Yang, Rt Hon Dame Jenny Shipley and Mr. Wong Kai-Man.

The primary responsibilities of the nomination and compensation committee include:

- formulating criteria and procedures for the selection and appointment of directors and senior management;
- proposing candidates for directors, presidents, chief audit officer, secretary to the Board and board committee members to the Board;
- evaluating candidates for senior management nominated by the president;
- formulating development plans for senior management and back-up personnel for key positions;
- formulating performance evaluation measures for directors and senior management, and compensation plans for directors, supervisors and senior management;
- reviewing the compensation system submitted by the president;
- proposing advice to the compensation plan for supervisors in accordance with the performance assessment of the supervisors by the board of supervisors; and
- monitoring the implementation of the Bank's performance assessment and compensation system.

The nomination and compensation committee convened six meetings in total in 2010. Regarding nomination, the nomination and compensation committee reviewed proposals for electing director candidates, appointing senior management personnel and electing the chairperson of the nomination and compensation committee. Regarding compensation, the nomination and compensation committee organised the settlement scheme of the compensation to directors, supervisors and senior management for 2009, studied detailed implementation rules for the distribution of compensation for directors, supervisors and senior management for 2010, debriefed the remuneration policy of the state and the remuneration system as well as the performance assessment measures of the Bank, and provided their opinions and suggestions.

| Members of nomination and compensation committee | Number of meetings attended/ Number of meetings during term of office | Number of meetings attended by proxy/Number of meetings during term of office | Attendance rate (%) |
|---|---|---|---|
| Ms. Elaine La Roche | 6/6 | 0/6 | 100 |
| Mr. Wang Yong | 2/2 | 0/2 | 100 |
| Lord Peter Levene | 3/6 | 3/6 | 100 |
| Mr. Zhu Zhenmin | 1/1 | 0/1 | 100 |
| Ms. Sue Yang | 1/1 | 0/1 | 100 |
| Rt Hon Dame Jenny Shipley | 4/6 | 2/6 | 100 |
| Mr. Wong Kai-Man | 2/2 | 0/2 | 100 |
| **Retired members** | | | |
| Mr. Liu Xianghui | 4/4 | 0/4 | 100 |
| Mr. Song Fengming | 4/4 | 0/4 | 100 |
| Ms. Li Xiaoling | 4/4 | 0/4 | 100 |
| Mr. Gregory L. Curl | 3/4 | 1/4 | 100 |
| Mr. Tse Hau Yin, Aloysius | 4/4 | 0/4 | 100 |

In 2011, the nomination and compensation committee will continue to accomplish the works in connection with nomination, further advance the remuneration and appraisal measures for directors, supervisors and senior management of the Bank in accordance with the national remuneration policies. The committee will propose the settlement of compensation for directors, supervisors and senior management for 2010 according to the operation results of the Bank and comprehensive consideration of various factors, and pay attention to the remuneration system and the training and career development for the personnel of various levels of the Bank.

## Related Party Transactions Committee

The related party transactions committee consists of five directors. The independent non-executive director Mr. Zhao Xijun currently serves as chairman of the related party transactions committee. Members include: Mr. Zhu Xiaohuang, Rt Hon Dame Jenny Shipley, Mr. Chen Zuofu and Mr. Wong Kai-Man.

The primary responsibilities of the related party transactions committee include:

- formulating and proposing standards for material related party transactions and the system for management of related party transactions, as well as the internal approval and filing system of the Bank, and submitting the above standards for approval to the Board;
- identifying the related parties of the Bank;
- receiving filings on general related party transactions; and
- reviewing material related party transactions.

In 2010, the related party transactions committee convened four meetings in total. The committee timely amended the implementation measures for the management of related party transaction of the Bank according to the amendments of the Listing Rules and IFRS; periodically debriefed reports on related party transaction and its management, attached high importance to the compliance of continuous related party transactions and put forward control measures and management requirements; researched the optimization and upgrading of related party transaction system, and provided guidance and suggestions for the future upgrading and construction of the system.

| Members of related party transactions committee | Number of meetings attended/ Number of meetings during term of office | Number of meetings attended by proxy/Number of meetings during term of office | Attendance rate (%) |
|---|---|---|---|
| Mr. Zhao Xijun | 2/2 | 0/2 | 100 |
| Mr. Zhu Xiaohuang | 1/2 | 1/2 | 100 |
| Rt Hon Dame Jenny Shipley | 2/2 | 0/2 | 100 |
| Mr. Chen Zuofu | 4/4 | 0/4 | 100 |
| Mr. Wong Kai-Man | 4/4 | 0/4 | 100 |
| **Retired members** | | | |
| Mr. Song Fengming | 1/1 | 0/1 | 100 |
| Ms. Xin Shusen | 1/1 | 0/1 | 100 |

In 2011, the related party transactions committee will continue to follow up the construction of related party transactions regulation system, urge to enhance the bank-wide awareness of related party transactions risk, strengthen the fundamental management of related party transactions, pay close attention to the construction of related party transactions system, and emphasize on the solution of problems related to business system integration.

## Opinion Issued by Independent Directors on External Guarantees Provided by the Bank

Pursuant to the relevant provisions and requirements under the circular of Zheng Jian Fa [2003] No. 56 issued by the CSRC, the independent directors of the Bank, including Lord Peter Levene, Mr. Yam Chi Kwong, Joseph, Rt Hon Dame Jenny Shipley, Ms. Elaine La Roche, Mr Zhao Xijun, and Mr. Wong Kai-Man, made the following statements on external guarantees provided by the Bank based on the principles of being fair, just, and objective.

The external guarantee business provided by the Bank has been approved by the PBC and the CBRC, and is part of the ordinary business of the Bank. With regard to the risks arising from guarantee business, the Bank stipulated specific management measures, operational processes and approval procedures, and carried out the business accordingly. The guarantee business of the Bank is mainly in the form of letter of guarantees. As at 31 December 2010, the balance of letter of guarantees issued by the Group was approximately RMB608,800 million.

## Board of Supervisors

### Responsibilities of the Board of Supervisors

The board of supervisors, being the supervisory body of the Bank, is accountable to the shareholders' general meeting and performs the following duties in accordance with relevant laws:

- supervising the performance of the Board, senior management and their members;
- requiring the directors and senior management personnel to correct their acts when their acts infringe the interests of the Bank;
- inspecting and supervising the financial activities of the Bank;
- verifying the financial information, including the financial report, business report and profit distribution proposal that are proposed to the shareholders' general meeting by the Board; and
- exercising other powers authorised by the shareholders' general meeting and the Articles of Association of the Bank.

### Composition of the Board of Supervisors

As at the end of 2010, the board of supervisors consists of eight supervisors, including three shareholder representative supervisors, namely Mr. Zhang Furong, Ms. Liu Jin, and Mr. Song Fengming, three employee representative supervisors, namely Mr. Jin Panshi, Mr. Li Weiping and Ms. Huang Shuping, and two external supervisors, namely Mr. Guo Feng and Mr. Dai Deming.

The term of office of the supervisors is three years, and they may be re-elected upon expiration of their term of office. The shareholder representative supervisors and the external supervisors of the Bank are elected by the shareholders' general meeting, and the employee representative supervisors are elected by the employee representative organisation.

### Chairman of the Board of Supervisors

Mr. Zhang Furong is the chairman of the board of supervisors of the Bank and is responsible for organisation and performance of duties of the board of supervisors.

### Appointment and Re-election of Supervisors

Upon appointment by the Bank's 2009 annual general meeting, Mr. Song Fengming commenced his position as a shareholder representative supervisor of the Bank.

Upon election by the second joint conference of the second employee representative meeting of the Bank, Mr. Jin Panshi, Mr. Li Weiping and Ms. Huang Shuping commenced their position as employee representative supervisors of the Bank.

Upon appointment by the first extraordinary general meeting of 2010, Mr. Zhang Furong commenced his position as a shareholder representative supervisor. Upon appointment by the sixth meeting of the board of supervisors of 2010, Mr. Zhang Furong commenced his position as the chairman of the board of supervisors of the Bank.

### Operation of the Board of Supervisors

The board of supervisors convenes regular meetings, generally not less than four times a year, and extraordinary meetings are convened, if and when required. Meetings of the board of supervisors may be convened by on-site conference or written resolutions. Supervisors are notified in written 10 days previous to the convening of the board of supervisors' meeting. Matters concerning such meeting are specified in the written notice. During the meeting, the supervisors are free to express their opinions, and decisions on important matters are only made after detailed discussions.

Detailed minutes are prepared for the meetings of the board of supervisors. At the end of each meeting, minutes will be circulated to all attending supervisors for review and comments. After finalising the minutes, the board of supervisors' office shall be responsible for distributing the final version of the minutes to all supervisors.

The board of supervisors may engage external legal advisors or certified public accountants when necessary to discharge its duties, and the Bank will bear all related expenses. The Bank takes necessary measures and methods to ensure supervisors' right to information, and provides relevant information and materials to them in accordance with related regulations.

Members of the board of supervisors may attend board meetings as non-voting attendees, and the board of supervisors may, as it considers appropriate, assign supervisors to attend as non-voting attendees such meetings of the Bank as board committees, annual work conference, symposia of general managers of branches, analytic meetings on operating conditions, and president executive meetings. The board of supervisors of the Bank conducts supervisory work through measures such as inspection and review of information, off-site monitoring and analysis and on-site specific inspection, visits and symposia, and performance and due diligence evaluation.

We effected supervisors' liability insurance policy for all the supervisors in 2010.

## Meetings of the Board of Supervisors

The board of supervisors convened eight meetings during the year 2010, all of which were convened by on-site conference. For details, please refer to the "Report of the Board of Supervisors" of this annual report.

## Attendance Records of the Supervisors in the Meetings of the Board of Supervisors

| Members of the board of supervisors | Number of meetings attended/ Number of meetings during term of office | Number of meetings attended by proxy/Number of meetings during term of office | Attendance rate (%) |
|---|---|---|---|
| Mr. Zhang Furong | 3/3 | 0/3 | 100 |
| Ms. Liu Jin | 8/8 | 0/8 | 100 |
| Mr. Song Fengming | 5/5 | 0/5 | 100 |
| **Employee representative supervisors** | | | |
| Mr. Jin Panshi | 8/8 | 0/8 | 100 |
| Mr. Li Weiping | 4/5 | 1/5 | 100 |
| Ms. Huang Shuping | 5/5 | 0/5 | 100 |
| **External supervisors** | | | |
| Mr. Guo Feng | 7/8 | 1/8 | 100 |
| Mr. Dai Deming | 8/8 | 0/8 | 100 |
| **Retired supervisors** | | | |
| Mr. Xie Duyang | 5/5 | 0/5 | 100 |
| Ms. Cheng Meifen | 3/3 | 0/3 | 100 |
| Mr. Sun Zhixin | 3/3 | 0/3 | 100 |
| Mr. Shuai Jinkun | 3/3 | 0/3 | 100 |

## Committees under the Board of Supervisors

Two committees, namely the performance and due diligence supervision committee and the finance and internal control supervision committee, are established under the board of supervisors.

### Performance and Due Diligence Supervision Committee

The performance and due diligence supervision committee consists of six supervisors: Mr. Zhang Furong, Ms. Liu Jin, Mr. Song Fengming, Mr. Jin Panshi, Mr. Li Weiping and Mr. Guo Feng. Mr. Zhang Furong, chairman of the board of supervisors, serves as chairman of the performance and due diligence supervision committee.

The primary responsibilities of the performance and due diligence supervision committee include:

- formulating the rules, work plans and proposals and implementation plan for supervision and examination in connection with the supervision of the performance and degree of diligence of the board of directors, senior management and their members; and implementing and organising the implementation of such rules, plans and proposals after the board of supervisors' approval;

- giving supervisory opinions on the performance of duties by the board of directors and senior management as well as their members; and

- formulating performance evaluation measures for the supervisors and organising the implementation of such measures, and proposing these measures to the board of supervisors for consideration.

In 2010, the performance and due diligence supervision committee convened five meetings, among which, four were convened by on-site conference and one was convened by written resolution. Based on the new situation and regulatory requirements, the performance and due diligence supervision committee further improved the annual supervision plan regarding performance and due diligence; expanded the scope of annual assessment for performance as appropriate to receive various opinions and suggestions on a comprehensive basis; formulated the annual work plan for performance and due diligence supervision, and organised its implementation upon approval of the board of supervisors; researched and proposed opinions on the performance and due diligence of the Board, senior management and their members on the basis of the supervision work; examined the position qualifications and conditions of supervisor candidates.

| **Members of the Performance and Due Diligence Supervision Committee** | **Number of meetings attended/ Number of meetings during term of office** | **Number of meetings attended by proxy/Number of meetings during term of office** | **Attendance rate (%)** |
|---|---|---|---|
| Mr. Zhang Furong | 1/1 | 0/1 | 100 |
| Ms. Liu Jin | 5/5 | 0/5 | 100 |
| Mr. Song Fengming | 2/2 | 0/2 | 100 |
| Mr. Jin Panshi | 5/5 | 0/5 | 100 |
| Mr. Li Weiping | 2/2 | 0/2 | 100 |
| Mr. Guo Feng | 5/5 | 0/5 | 100 |
| **Retired members** | | | |
| Mr. Xie Duyang | 4/4 | 0/4 | 100 |
| Ms. Cheng Meifen | 3/3 | 0/3 | 100 |
| Mr. Sun Zhixin | 3/3 | 0/3 | 100 |

In 2011, the performance and due diligence supervision committee will pay close attention to the requirements and changes of external regulatory systems, further improve the ways and means of performance and due diligence supervision, and continuously strengthen the performance and due diligence supervision on the board of directors, senior management and their members.

## Finance and Internal Control Supervision Committee

The finance and internal control supervision committee consists of five supervisors, including Mr. Dai Deming, Ms. Liu Jin, Mr. Song Fengming, Mr. Jin Panshi and Ms. Huang Shuping. External supervisor Mr. Dai Deming serves as chairman of the finance and internal control supervision committee.

The responsibilities of the finance and internal control supervision committee include:

- formulating the rules, work plans and proposals in connection with the finance and internal control; and implementing or organising the implementation of such rules, plans, and proposals upon the approval of the board of supervisors;
- examining the annual financial reports and the profit distribution proposals, and providing suggestions on such reports to the board of supervisors; and
- assisting the board of supervisors in organising the implementation of supervision and inspections on the finance and internal control of the Bank, as required by circumstances.

In 2010, the finance and internal control supervision committee convened six meetings, researched and formulated the work plan for annual finance and internal control supervision, and organised its implementation upon approval of the board of supervisors; reviewed the periodic financial reports, profit distribution plans; conducted supervision on the internal control, acquisition and disposal of material assets, and related party transactions of the Bank; continuously strengthened the Bank's risk management and finance and internal control supervision by ways of off-site analysis, specific research and investigation, debriefing reports, etc..

| Members of the Finance and Internal Control Supervision Committee | Number of meetings attended/ Number of meetings during term of office | Number of meetings attended by proxy/Number of meetings during term of office | Attendance rate (%) |
|---|---|---|---|
| Mr. Dai Deming | 6/6 | 0/6 | 100 |
| Ms. Liu Jin | 6/6 | 0/6 | 100 |
| Mr. Song Fengming | 3/3 | 0/3 | 100 |
| Mr. Jin Panshi | 6/6 | 0/6 | 100 |
| Ms. Huang Shuping | 3/3 | 0/3 | 100 |
| **Retired members** | | | |
| Ms. Cheng Meifen | 3/3 | 0/3 | 100 |
| Mr. Shuai Jinkun | 3/3 | 0/3 | 100 |

In 2011, based on the unified deployment by the board of supervisors, the finance and internal control supervision committee will continue to pay attention to the key issues in the area of the finance and internal control of the Bank, make more efforts in research and investigation, and continuously deepen the supervisory work for the risk management and the finance and internal control of the Bank.

## Auditors' Remuneration

At the 2009 annual general meeting of the Bank held on 24 June 2010, the shareholders approved the *Resolution for Appointment of the Auditors* and agreed to appoint KPMG Huazhen as the domestic auditors of the Bank and its major domestic subsidiaries for the year of 2010 and KPMG as the auditors of the Bank for the year of 2010. The engagement term is one year and will end at the annual general meeting of 2010.

Auditors' fees for the audit of the financial report of the Group, including those of the Bank's overseas branches and subsidiaries, and other services paid to KPMG, KPMG Huazhen and other KPMG member firms by the Group for the year ended 31 December 2010 are set out as follows:

| (In millions of RMB) | **2010** | 2009 |
|---|---|---|
| Fees for the audit of the financial statements | **140.40** | 135 |
| Other service fees | **7.18** | 6 |

## Further Information

### Effective Communication with Shareholders

The Bank attaches great importance to communication with shareholders, and exchanges opinions with shareholders through many channels such as shareholders' general meetings, results announcement conferences, road shows, receptions of visitors and telephone enquiries. In 2010, the Bank organised and arranged results announcement conferences and analysts' on-site briefings and conference calls during the period of annual and interim results publication. Relevant announcements of results are published on designated newspapers and websites for shareholders' review.

### 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:

**A-share**:
China Securities Depository and Clearing Corporation Limited, Shanghai Branch
36th Floor
China Insurance Building
166 Lujiazui East Road, Pudong District
Shanghai, China
Telephone: (8621) 5870 8888
Facsimile: (8621) 5889 9400

**H-share**:
Computershare Hong Kong Investor Services Limited
Rooms 1712-16, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong
Telephone: (852) 2862 8628
Facsimile: (852) 2865 0990/(852) 2529 6087

### Investor Relations

Enquiries to the Board may be directed to:
Board of directors office
China Construction Bank Corporation
No. 25, Financial Street, Xicheng District, Beijing, China
Telephone: (8610) 6621 5533
Facsimile: (8610) 6621 8888
Email: ir@ccb.com

Board of directors office – Hong Kong Office
China Construction Bank Corporation
5th Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong
Telephone: (852) 2532 9637
Facsimile: (852) 2523 8185

This annual report is available on the following websites of the Bank (www.ccb.com), Shanghai Stock Exchange (www.sse.com.cn) and Hong Kong Stock Exchange (www.hkex.com.hk). If you have any queries on reading this annual report, please call our hotline at (8610) 6621 5533 or (852) 2532 9637.

# Profiles of Directors, Supervisors and Senior Management

## Particulars of Directors, Supervisors and Senior Management

### Directors of the Bank

| Name | Position | Gender | Age | Term of Office |
|---|---|---|---|---|
| Guo Shuqing | Chairman, executive director | Male | 54 | June 2010 to 2012 annual general meeting |
| Zhang Jianguo | Vice chairman, executive director, president | Male | 56 | June 2010 to 2012 annual general meeting |
| Chen Zuofu | Executive director, executive vice president | Male | 56 | July 2009 to 2011 annual general meeting |
| Zhu Xiaohuang | Executive director, executive vice president | Male | 54 | July 2010 to 2012 annual general meeting |
| Wang Yong | Non-executive director | Male | 49 | June 2010 to 2012 annual general meeting |
| Wang Shumin | Non-executive director | Female | 55 | June 2010 to 2010 annual general meeting[1] |
| Zhu Zhenmin | Non-executive director | Male | 61 | August 2010 to 2012 annual general meeting |
| Li Xiaoling | Non-executive director | Female | 53 | June 2010 to 2012 annual general meeting |
| Sue Yang | Non-executive director | Female | 43 | August 2010 to 2012 annual general meeting |
| Lu Xiaoma | Non-executive director | Male | 44 | August 2010 to 2012 annual general meeting |
| Chen Yuanling | Non-executive director | Female | 47 | August 2010 to 2012 annual general meeting |
| Lord Peter Levene | Independent non-executive director | Male | 69 | June 2010 to 2011 annual general meeting |
| Yam Chi Kwong, Joseph | Independent non-executive director | Male | 62 | August 2010 to 2012 annual general meeting |
| Rt Hon Dame Jenny Shipley | Independent non-executive director | Female | 59 | June 2010 to 2012 annual general meeting |
| Elaine La Roche | Independent non-executive director | Female | 61 | June 2010 to 2010 annual general meeting |
| Zhao Xijun | Independent non-executive director | Male | 47 | August 2010 to 2012 annual general meeting |
| Wong Kai-Man | Independent non-executive director | Male | 60 | June 2010 to 2012 annual general meeting |

1. Due to her personal work reason, Ms. Wang Shumin applied to resign from her position as non-executive director of the Bank. The resignation will take effect from the next day upon the conclusion of the 2010 annual general meeting of the Bank.

## Supervisors of the Bank

| Name | Position | Gender | Age | Term of Office |
|---|---|---|---|---|
| Zhang Furong | Chairman of the board of supervisors | Male | 58 | September 2010 to 2012 annual general meeting |
| Liu Jin | Supervisor | Female | 46 | June 2010 to 2012 annual general meeting |
| Song Fengming | Supervisor | Male | 64 | June 2010 to 2012 annual general meeting |
| Jin Panshi | Employee representative supervisor | Male | 46 | June 2010 to 2012 annual general meeting |
| Li Weiping | Employee representative supervisor | Male | 57 | June 2010 to 2012 annual general meeting |
| Huang Shuping | Employee representative supervisor | Female | 57 | June 2010 to 2012 annual general meeting |
| Guo Feng | External supervisor | Male | 48 | June 2010 to 2012 annual general meeting |
| Dai Deming | External supervisor | Male | 48 | June 2010 to 2012 annual general meeting |

## Senior Management of the Bank

| Name | Position | Gender | Age | Term of Office |
|---|---|---|---|---|
| Zhang Jianguo | President | Male | 56 | July 2006 – |
| Chen Zuofu | Executive vice president | Male | 56 | July 2005 – |
| Zhu Xiaohuang | Executive vice president | Male | 54 | June 2008 – |
| | Chief risk officer | | | April 2006-February 2011 |
| Hu Zheyi | Executive vice president | Male | 56 | March 2009 – |
| Pang Xiusheng | Executive vice president | Male | 52 | February 2010 – |
| | Chief financial officer | | | April 2006-March 2011 |
| Zhao Huan | Executive vice president[1] | Male | 47 | Upon appointment at the first meeting of the Board 2011, Mr. Zhao Huan commenced his position as executive vice president of the Bank. |
| Zhang Gengsheng | Member of senior management | Male | 50 | December 2010 – |
| Zeng Jianhua | Chief financial officer | Male | 53 | March 2011– |
| Huang Zhiling | Chief risk officer | Male | 50 | February 2011 – |
| Yu Jingbo | Chief audit officer | Male | 53 | March 2011– |
| Chen Caihong | Secretary to the Board | Male | 54 | August 2007 – |
| Gu Jingpu | Controller of wholesale banking | Male | 54 | May 2006 – |
| Du Yajun | Controller of retail banking | Male | 54 | May 2006 – |
| Mao Yumin | Controller of investment and wealth management | Male | 55 | September 2007 – |

1. The appointment is subject to approval by the CBRC.

During the reporting period, some of the Bank's supervisors and senior executives indirectly held H-shares of the Bank via employee stock incentive plan before they assumed duties of their current position. Mr. Li Weiping held 20,446 H-shares, Ms. Huang Shuping 21,910 H-shares, Mr. Zhao Huan 18,292 H-shares, Mr. Zhang Gengsheng 19,304 H-shares, Mr. Zeng Jianhua 25,838 H-shares, Mr. Huang Zhiling 18,751 H-shares, Mr Yu Jingbo 22,567 H-shares and Mr. Chen Caihong 19,417 H-shares. Apart from these, the directors, supervisors and senior executives do not hold any shares of the Bank.

## Compensation for Directors, Supervisors and Senior Management in 2010

Unit: RMB'000

| Name | Fees | Remuneration paid | Contribution by the employer to compulsory insurances, housing allowances, etc | Total(before tax)[1] | Other compensation or allowances from corporate shareholders or other connected entities |
|---|---|---|---|---|---|
| Guo Shuqing | – | 672 | 319 | 991 | None |
| Zhang Jianguo | – | 648 | 319 | 967 | None |
| Chen Zuofu | – | 564 | 276 | 840 | None |
| Zhu Xiaohuang | – | 564 | 275 | 839 | None |
| Wang Yong | – | – | – | – | Yes |
| Wang Shumin | – | – | – | – | Yes |
| Zhu Zhenmin | – | – | – | – | Yes |
| Li Xiaoling | – | – | – | – | Yes |
| Sue Yang[2] | 163 | | | 163 | Yes |
| Lu Xiaoma | – | – | – | – | Yes |
| Chen Yuanling | – | – | – | – | Yes |
| Lord Peter Levene | 360 | – | – | 360 | None |
| Yam Chi Kwong, Joseph | 158 | – | – | 158 | None |
| Rt Hon Dame Jenny Shipley | 390 | – | – | 390 | None |
| Elaine La Roche | 425 | – | – | 425 | None |
| Zhao Xijun | 171 | | | 171 | None |
| Wong Kai-Man | 415 | – | – | 415 | None |
| Zhang Furong | – | 265 | 139 | 404 | None |
| Liu Jin | – | 402 | 237 | 639 | None |
| Song Fengming[3] | 355 | – | – | 355 | None |
| Jin Panshi[4] | 13 | 201 | 114 | 328 | None |
| Li Weiping[5] | 13 | – | – | 13 | None |
| Huang Shuping[5] | 13 | – | – | 13 | None |
| Guo Feng | 250 | – | – | 250 | None |
| Dai Deming | 270 | – | – | 270 | None |
| Hu Zheyi | – | 564 | 275 | 839 | None |
| Pang Xiusheng | – | 564 | 270 | 834 | None |
| Zhao Huan | – | – | – | NA | None |
| Zhang Gengsheng | – | – | – | NA | None |
| Zeng Jianhua | – | – | – | NA | None |
| Huang Zhiling | – | – | – | NA | None |
| Yu Jingbo | – | – | – | NA | None |
| Chen Caihong | – | 498 | 240 | 738 | None |
| Gu Jingpu | – | 498 | 240 | 738 | None |
| Du Yajun | – | 498 | 240 | 738 | None |
| Mao Yumin | – | 4,576 | 31 | 4,607 | None |

1. Full compensations for Chairman of the Board of Directors, President, Chairman of the Board of Supervisors, Executive Directors, some Supervisors and Senior Management members have not been finalised in accordance with the latest policies. Their remaining compensation details will be disclosed when determined.

2. Ms. Sue Yang's compensation for her capacity as the non-executive director is paid to the corporate shareholder, Bank of America, by the Bank.

3. Compensation before tax paid for working as the independent non-executive director and the shareholder representative supervisor of the Bank.

4. Compensation before tax paid for working as the shareholder representative supervisor and the employee representative supervisor of the Bank.

5. Compensation before tax paid for working as the employee representative supervisor of the Bank.

## Changes in Directors, Supervisors and Senior Management

### Directors of the Bank

Upon election at the 2009 Annual General Meeting of the Bank, Mr. Guo Shuqing and Mr. Zhang Jianguo were re-elected as executive directors of the Bank; Lord Peter Levene, Rt Hon Dame Jenny Shipley, Ms. Elaine La Roche and Mr. Wong Kai-Man were re-elected as independent non-executive directors of the Bank; and Mr. Wang Yong, Ms. Wang Shumin and Ms. Li Xiaoling were re-elected as non-executive directors of the Bank.

Upon election at the 2009 Annual General Meeting of the Bank and the approval of the CBRC, Mr. Zhu Xiaohuang commenced his position as executive director of the Bank from July 2010; Mr. Yam Chi Kwong, Joseph and Mr. Zhao Xijun commenced their positions as independent non-executive directors of the Bank from August 2010; and Mr. Zhu Zhenmin, Mr. Lu Xiaoma, Ms. Chen Yuanling and Ms. Sue Yang commenced their positions as non-executive directors of the Bank from August 2010.

Upon the conclusion of the 2009 Annual General Meeting of the Bank, Ms. Xin Shusen, Mr. Wang Yonggang, Mr. Liu Xianghui, Mr. Zhang Xiangdong, Mr. Gregory L. Curl., Mr. Song Fengming and Mr. Tse Hau Yin, Aloysius ceased to serve as directors of the Bank.

### Supervisors of the Bank

Upon election at the 2009 Annual General Meeting of the Bank, Mr. Xie Duyang and Ms. Liu Jin were re-elected as shareholder representative supervisors of the Bank; Mr. Song Fengming commenced his position as shareholder representative supervisor of the Bank; and Mr. Guo Feng and Mr. Dai Deming were re-elected as external supervisors of the Bank.

At the second joint session of the second staff representative conference of the Bank, Mr. Jin Panshi, Mr. Li Weiping and Ms. Huang Shuping were elected as employee representative supervisors the Bank.

Upon conclusion of the 2009 Annual General Meeting of the Bank, Ms. Cheng Meifen, Mr. Sun Zhixin and Mr. Shuai Jinkun ceased to serve as supervisors of the Bank; Mr. Jin Panshi ceased to serve as shareholder representative supervisor of the Bank.

In accordance with relevant regulations and due to his age, Mr. Xie Duyang resigned on 15 September 2010 from the positions of supervisor and chairman of the board of supervisors of the Bank.

Upon election at the first Extraordinary General Meeting in 2010, Mr. Zhang Furong commenced his position as shareholder representative supervisor. Upon election at the sixth meeting of the board of supervisors in 2010, Mr. Zhang Furong was elected as chairman of the board of supervisors.

### Senior Management of the Bank

Ms. Xin Shusen no longer served as executive vice president of the Bank from February 2010.

Mr. Pang Xiusheng served as executive vice president of the Bank from February 2010.

Mr. Fan Yifei no longer served as executive vice president of the Bank from May 2010.

Upon appointment at the first meeting of the Board 2011, Mr. Zhao Huan commenced his position as executive vice president of the Bank. The appointment is subject to approval by the CBRC.

Mr. Zhang Gengsheng served as member of senior management of the Bank from December 2010.

Due to his age and upon approval at the tenth meeting of the Board 2010, Mr. Yu Yongshun no longer served as chief audit officer of the Bank.

Upon appointment at the tenth meeting of the Board and approval of the CBRC, Mr. Huang Zhiling commenced his position as chief risk officer of the Bank from February 2011, and Mr. Zhu Xiaohuang no longer served as chief risk officer of the Bank.

Upon appointment at the tenth meeting of the Board and approval of the CBRC, Mr. Zeng Jianhua commenced his position as chief financial officer of the Bank from March 2011, and Mr. Pang Xiusheng no longer served as chief financial officer of the Bank.

Upon appointment at the tenth meeting of the Board and approval of the CBRC, Mr. Yu Jingbo commenced his position as chief audit officer of the Bank from March 2011.

## Biographical Details of the Directors, Supervisors and Senior Management

### Directors of the Bank

| | | |
|---|---|---|
| Guo Shuqing | Chairman, executive director | Mr. Guo joined the Bank in March 2005 and has served as chairman since then. Mr. Guo was deputy governor of the PBC, administrator of the SAFE and chairman of Huijin from December 2003 to March 2005. He was deputy governor of the PBC and administrator of the SAFE from March 2001 to December 2003. From July 1988 to March 2001, he held various posts including deputy governor of Guizhou Province, director-general of the General Planning and Experiment Department, director-general of the Macro-control System Department and secretary general of the State Commission for Economic Restructuring, and deputy director-general of the Economic Research Centre of the State Planning Commission. Mr. Guo is a research fellow and an alternate member of the 17th CPC central committee. Mr. Guo graduated from Nankai University in 1982 with a bachelor's degree in philosophy, and graduated from the Chinese Academy of Social Sciences with a doctorate degree in law in 1988. Mr. Guo was also a visiting fellow at the University of Oxford from May 1986 to August 1987. |
| Zhang Jianguo | Vice chairman, executive director, president | Mr. Zhang has served as vice chairman and executive director of the Bank since October 2006, president of the Bank since July 2006. Mr. Zhang was vice chairman of the board of directors and president of Bank of Communications Co., Ltd. from May 2004 to July 2006, executive vice president of Bank of Communications Co., Ltd from September 2001 to May 2004. From September 1984 to September 2001, Mr. Zhang served several positions in Industrial and Commercial Bank of China, including deputy general manager and general manager of the international banking department, and deputy general manager of Tianjin Branch. From November 1987 to December 1988, Mr. Zhang studied international financial business in Canadian Imperial Bank of Commerce and Ryerson Institute of Technology. Mr. Zhang graduated from Tianjin College of Finance and Economics with a bachelor's degree in Finance in 1982 and a master's degree in economics in 1995. |
| Chen Zuofu | Executive director, executive vice president | Mr. Chen has served as a director since July 2009 and executive vice president since July 2005. Mr. Chen was assistant president of the Bank from September 2004 to July 2005, and assistant president of China Construction Bank from July 1997 to September 2004. Mr. Chen was a visiting scholar to Stanford University from June 1999 to May 2000. Mr. Chen graduated from Southwest University of Politics and Law with a bachelor's degree in law in 1983. He received his master's degree in management and engineering from Central South University in 1996. |
| Zhu Xiaohuang | Executive director, executive vice president | Mr. Zhu has served as a director since July 2010 and executive vice president since June 2008. Mr. Zhu served as the Bank's chief risk officer from April 2006 to February 2011. He was executive vice chairman of the Bank's risk management and internal control committee from March 2006 to April 2006. Mr. Zhu was general manager of the Bank's corporate banking department from October 2004 to March 2006; general manager of Guangdong Branch of China Construction Bank from May 2001 to October 2004. He served consecutively as deputy director of administrative office, deputy director of head office's No.1 credit department, deputy general manager of credit management department, deputy general manager of Liaoning Branch, and general manager of banking department of China Construction Bank from September 1993 to May 2001. Mr. Zhu is a senior economist, and a recipient of a special grant by PRC government. He obtained his bachelor's degree in infrastructure finance and credit from Hubei Finance and Economics College in 1982 and received an associate degree in economic law from Peking University in October 1985. He also received a doctorate degree in world economics from Sun Yat-Sen University in 2006. |
| Wang Yong | Non-executive director | Mr. Wang has served as a director since June 2007. Mr. Wang was an inspector of the Balance of Payments Department of the SAFE from August 2004 to March 2007, and served consecutively as deputy director-general of the Foreign Investment Administration Department, deputy director-general of the Capital Account Management Department and director general of the Balance of Payments Department of the SAFE from January 1997 to August 2004. Mr. Wang is a senior economist. He graduated from Jilin University with a bachelor's degree in world economics in 1984 and a master's degree in world economics in 1987. Mr. Wang is currently an employee of the Bank's substantial shareholder, Huijin. |

| | | |
|---|---|---|
| Wang Shumin | Non-executive director | Ms. Wang has served as a director since September 2004. Ms. Wang was an inspector of the Administration and Inspection Department of the SAFE from June 2001 to September 2004. Ms. Wang served consecutively as deputy director-general of the Policy and Law Department, deputy director-general of the Balance of Payments Department and deputy director-general of the Administration and Inspection Department of the SAFE from July 1994 to June 2001. Ms. Wang is a senior economist and is qualified to practice law in China. She currently serves as an arbitrator of China International Economic and Trade Arbitration Commission. She graduated from Zhongnan University of Economics and Law with a bachelor's degree in law in 1982. Ms. Wang is currently an employee of the Bank's substantial shareholder, Huijin. |
| Zhu Zhenmin | Non-executive director | Mr. Zhu has served as a director since August 2010. He was an inspector of the Tax Bureau of the MOF from October 2007 to October 2009, a director of the Bank from September 2004 to June 2007, director-general of the Tax Bureau of the MOF from December 2003 to September 2004, director-general of the Tax Bureau of the MOF and concurrently director of the General Office of Customs Tariff Commission under the State Council from September 2002 to December 2003, and deputy director-general of the Tax Bureau of the MOF from August 1997 to September 2002. Mr. Zhu graduated with a degree in finance from the Central Institute of Finance Administration in 1987. Mr. Zhu is currently an employee of the Bank's substantial shareholder, Huijin. |
| Li Xiaoling | Non-executive director | Ms. Li has served as a director since June 2007. Ms. Li was a deputy inspector of Budget Department of the MOF from January 2006 to June 2007, and an assistant inspector of Budget Department of the MOF from May 2001 to January 2006. Ms. Li is an economist and graduated from Beijing Normal University in 2003 with a master's degree in political economics. Ms. Li is currently an employee of the Bank's substantial shareholder, Huijin. |
| Sue Yang | Non-executive director | Ms. Yang has served as a director since August 2010. She is a corporate development executive in the Global Corporate Strategy & Planning group of Bank of America; she is responsible for the financial analysis, strategic planning and development. In addition, Ms. Yang also manages the relationship and investment including all activities related to the Bank of America's Strategic Assistance Agreement with China Construction Bank. Previously, Ms. Yang served as the Global Wealth & Investment Management Chief Risk Executive in Global Risk Management of the Bank of America. She earned her bachelor's degree in English from Sichuan International Studies University in China, her master's degree in economics from Western Kentucky University and her doctorate degree in economics from North Carolina State University. |
| Lu Xiaoma | Non-executive director | Mr. Lu has served as a director since August 2010. Mr. Lu served several positions for the State Street Bank & Trust Company from May 1999 to August 2010 and he had been serving as the Chief Representative of the State Street Bank & Trust Company in China since August 2007. From March 1993 to December 1997, Mr. Lu was a lecturer of the Department of Thermal Engineering of Tsinghua University. In 1988, he graduated with a bachelor's degree from the Department of Thermal Engineering of Tsinghua University and a master's degree from the Department of Thermal Engineering of Tsinghua University in 1993. He received his MBA degree from Boston College in 1999. Mr. Lu is currently an employee of the Bank's substantial shareholder, Huijin. |
| Chen Yuanling | Non-executive director | Ms. Chen has served as a director since August 2010. She was a partner of Beijing Kang Da Law Firm from November 2007 to August 2010. Previously, she was a partner and lawyer of Beijing DeHeng Law Offices from May 2005 to November 2007, a lawyer of Beijing JunZeJun Law Offices from May 2002 to May 2005 and a senior manager of the Legal Department of China Securities Corporation from March 2001 to May 2002. Ms. Chen is a first-grade lawyer. She graduated with a bachelor's degree in law from the law faculty of Peking University in 1985 and graduated from post-graduate level class in accounting at the Business School of Jilin University in 2000. Ms. Chen is currently an employee of the Bank's substantial shareholder, Huijin. |

| | | |
|---|---|---|
| Lord Peter Levene | Independent non-executive director | Lord Peter Levene has served as a director since June 2006. He is currently the chairman of Lloyd's. Lord Peter Levene is also the chairman of General Dynamics UK Limited, and NBNK plc, and a director of TOTAL SA, a listed entity, and Haymarket Group Ltd. Before that, he held directorships in various other listed companies including director of J Sainsbury plc from 2001 to 2004, and member of the board of directors of Deutsche Boerse from 2004 to 2005. Lord Peter Levene was awarded a bachelor's degree in economics and politics from the University of Manchester. |
| Yam Chi Kwong, Joseph | Independent non-executive director | Mr. Yam has served as a director since August 2010. He was Chief Executive of the Hong Kong Monetary Authority from 1993 to September 2009 and Director of the Office of the Exchange Fund of Hong Kong from 1991 to 1993. Mr. Yam held a number of positions in the Hong Kong Government from 1971 to 1991. Mr. Yam is Executive Vice President of the China Society for Finance and Banking in the PRC, a Distinguished Research Fellow of the Institute of Global Economics and Finance at the Chinese University of Hong Kong and Chairman of Macroprudential Consultancy Limited. Mr. Yam is also a member of the advisory committees of a number of academic and private institutions focusing in finance. Mr. Yam graduated from the University of Hong Kong with first class honours in 1970, receiving a Bachelor of Social Sciences degree. He also received his post-graduate diploma in Statistics and National Accounting from the Institute of Social Studies of the Hague, the Netherlands in 1974. Over the years, he was conferred a number of honorary doctorate degrees and professorships from universities in Hong Kong and overseas. Mr. Yam was awarded the Commander of the Most Excellent Order of the British Empire in 1995, the Gold Bauhinia Star by the Hong Kong Special Administrative Region Government in 2001, and the highest honour of the Grand Bauhinia Medal by the Hong Kong Special Administrative Region Government in 2009. |
| Rt Hon Dame Jenny Shipley | Independent non-executive director | Rt Hon Dame Jenny Shipley has served as a director since November 2007. She is currently Chairman of Mainzeal Construction and Development, Senior Money International and Genesis Energy, a New Zealand state owned energy company. She is a director of Momentum Consulting, and a Director of ISI. Dame Jenny is Managing Director in her consultancy company Jenny Shipley New Zealand Limited. She had been a Director of Richina Pacific, a listed company from 2004 to 2009. She tracks economic, social and geo-political mega trends globally, as well as advising governments and corporations in many parts of the world. She was a Member of the New Zealand Parliament from 1987 to 2002 and held key positions in the New Zealand government from 1990 to the end of 1999. She was Prime Minister from 1997 to 1999 and was consecutively a Minister of Women's Affairs, Minister of Social Welfare, Minister of Health, Minister responsible for Radio New Zealand, Minister of Transport, Minister of Accident & Compensation, Minister of State Owned Enterprises, and Minister of State Services from 1990 to 1997. |
| Elaine La Roche | Independent non-executive director | Ms. La Roche has served as a director since June 2005. Ms. La Roche had been the vice chairman of J.P. Morgan (China) Securities from 2008 to 2010. From 1978 to 2000, Ms. La Roche consecutively held several positions in Morgan Stanley. In 1998, she was seconded from Morgan Stanley to serve as the chief executive officer of China International Capital Corporation Limited. Thereafter, Ms. La Roche served as the chief executive officer of Salisbury Pharmacy Group, financial executive of Cantor Fitzgerald, and the chairperson of the board of Linktone, a NASDAQ listed company. Ms. La Roche graduated from Georgetown University School of Foreign Service with a bachelor's degree in international affairs and from the American University with a master's degree in business administration in finance. |
| Zhao Xijun | Independent non-executive director | Mr. Zhao has served as a director since August 2010. As a professor, he is currently Deputy Dean of the School of Finance of Renmin University of China. Mr. Zhao was Director of International Office of Renmin University of China from 2001 to 2005, Department Head of the Finance Department of the School of Finance of Renmin University of China from 1995 to 2001 and a research fellow of the International Department of China Securities Regulatory Commission from 1994 to 1995. Mr. Zhao currently serves as an external director of China Coal Technology & Engineering Group Corporation (an unlisted company), an independent director of Xuchang Bank Corporation (an unlisted company) and an independent director of Beijing Gate-guard Information Security Technology Stock Co., Ltd (an unlisted company). Mr. Zhao graduated from Wuhan University with a bachelor's degree in Scientific French in 1985, a mater's degree in finance from the Finance Department of Renmin University of China in 1987 and a PhD in finance from the School of Finance of Renmin University of China in 1999. Mr. Zhao was a visiting scholar in University of Sherbrooke and McGill University, Canada from 1989 to 1990 and Nijenrode University, Netherlands from 1995 to 1996. |

| | | |
|---|---|---|
| Wong Kai-Man | Independent non-executive director | Mr. Wong has served as a director since November 2007 and is currently a director of Victor and William Fung Foundation Limited and Li & Fung (1906) Foundation Ltd, an honorary associate professor of the School of Business of the University of Hong Kong, and an independent non-executive director of Shangri-la Asia Limited, SCMP Group Limited and SUNeVision Holdings Ltd., which are listed on the Hong Kong Stock Exchange. He is a non-executive director of the Securities and Futures Commission. In addition, he serves in a number of government committees and the boards of non-governmental organisations. Mr. Wong was a partner of PricewaterhouseCoopers Hong Kong and retired from that post in June 2005 with 32 years of experience in accounting. Mr. Wong was a member of the GEM Listing Committee of the Hong Kong Stock Exchange from 1999 to 2003. Mr. Wong received his bachelor degree in Physics from the University of Hong Kong and his master degree in Business Administration from the Chinese University of Hong Kong. Mr. Wong is a fellow of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants of the United Kingdom. Mr. Wong was appointed as a Justice of the Peace in 2002 and awarded Bronze Bauhinia Star in 2007 by the Government of the Hong Kong Special Administrative Region, and awarded an honorary fellow by Lingnan University, Hong Kong in 2007. |

## Supervisors of the Bank

| | | |
|---|---|---|
| Zhang Furong | Chairman of the board of supervisors | Mr. Zhang Furong has served as Chairman of the board of supervisors since September 2010. He served as executive director and vice president of Industrial and Commercial Bank of China Limited (ICBC) from October 2005 to July 2010. Mr. Zhang served as vice president of ICBC from 2000, assistant to president of ICBC, general manager of Human Resources Department from 1997, vice president of ICBC Liaoning Branch and president of ICBC Dalian Branch from 1994, chief of the Accounting Division and vice president of ICBC Liaoning Branch from 1986. Mr. Zhang joined ICBC in 1984, he joined the People's Bank of China in 1971. Mr. Zhang is also vice chairman of the Banking Accounting Society of China and vice chairman of Financial Planning Standards Council of China. Mr. Zhang graduated from Liaoning Finance and Economics College and received a Master's degree in economics and a Doctorate degree in finance from Dongbei University of Finance and Economics. |
| Liu Jin | Shareholder representative supervisor | Ms. Liu has served as a supervisor since September 2004 and served concurrently as director of board of supervisors office since November 2004. Ms. Liu was a dedicated supervisor of deputy director-general level at the board of supervisors of China Construction Bank from July 2003 to September 2004, dedicated supervisor of deputy director general level at the board of supervisors of the People's Insurance Company of China and China Reinsurance Company from November 2001 to July 2003. Ms. Liu is a senior economist and graduated from Hunan Finance and Economics College with a bachelor's degree in finance in 1984. She graduated from postgraduate finance program of Shaanxi Finance and Economics College in 1999 and from the Research Institute for Fiscal Science of the MOF with a doctorate degree in public finance in 2008. |
| Song Fengming | Shareholder representative supervisor | Mr. Song has served as a supervisor since June 2010. He served as an independent non-executive director of the Bank from September 2004 to June 2010. Mr. Song is an experienced academic in banking and finance in China, a professor and supervisor for doctorate students and co-chairman of China Centre for Financial Research at Tsinghua University. Mr. Song has been the dean of the department of finance and international trade of School of Economics and Management at Tsinghua University from 1995 to 2006. He was an associate professor and director of the Division of International Trade and Finance of the same school from 1988 to 1992, and served as a lecturer and the dean of the management department of Jiangsu University of Science and Technology from 1982 to 1988. Mr. Song received his bachelor's degree in mathematics from Peking University in 1970, his master's degree in management from Shanghai Jiaotong University in 1982, and his Ph.D. degree in systems engineering from Tsinghua University in 1988. He pursued his post-doctorate research at the University of California, Riverside, from 1992 to 1995. |

| | | |
|---|---|---|
| Jin Panshi | Employee representative supervisor | Mr. Jin has served as an employee representative supervisor since June 2010. He served as a shareholder representative supervisor from September 2004 to June 2010. He has been general manager of the information technology management department of the Bank since January 2010. Mr. Jin was general manager of the audit department of the Bank from December 2007 to January 2010. Mr. Jin was deputy general manager of the audit department of China Construction Bank from June 2001 to September 2004. Mr. Jin is a senior engineer and a Certified Information Systems Auditor and graduated from Jilin University of Technology with a bachelor's degree in computer application in 1986, and a master's degree in computer application from the same university in 1989. Mr. Jin graduated from Tsinghua University with an EMBA degree in 2010. |
| Li Weiping | Employee representative supervisor | Mr. Li Weiping has served as a supervisor since June 2010. He served as general manager of the human resources department of the Bank from August 2008. Mr. Li was acting general manager of the human resources department of the Bank from May 2008 to August 2008, the deputy general manager of Beijing Branch from August 2005 to May 2008, deputy general manager of Guangdong Branch from July 2001 to August 2005, and deputy general manager of Shenzhen Branch from February 1995 to July 2001.Mr. Li is a senior economist and graduated from Zhongnan University of Economics and Law with a bachelor's degree in finance. |
| Huang Shuping | Employee representative supervisor | Ms. Huang Shuping has served as a supervisor since June 2010. She has serviced as director of Chengdu Audit Sub-Bureau of the Bank since December 2010. Ms. Huang served as general manager of Chongqing Branch from September 2001 to December 2010. Ms. Huang was deputy general manager of Sichuan Branch from March 1993 to September 2001. Ms. Huang is a senior economist. Ms. Huang graduated from Sichuan Provincial Fiscal School majoring in Finance and Accounting in 1975, and graduated from Harbin Advanced Investment Specialized School majoring in Infrastructure Finance and Credit in 1991, and graduated from Wuhan University with a bachelor's degree in International Finance in 1997. |
| Guo Feng | External supervisor | Mr. Guo has served as an external supervisor since March 2005. Mr. Guo has been dean of the law school of Central University of Finance and Economics since January 2007. Mr. Guo has been a professor at the law school of Central University of Finance and Economics and director of the Research Institute of Financial and Economic Law of the same university since December 2004. He was an associate professor at the law school of Renmin University of China from June 1993 to December 2004, and deputy director of the Institute of Financial Law of the same university from February 1993 to December 2004. Mr. Guo was a visiting scholar at the law school of the City Polytechnic of Hong Kong from January 1993 to June 1993. He received his master's degree in civil and commercial law from Renmin University of China in 1986 and his Ph.D. degree in civil and commercial law from the same university in 1995. |
| Dai Deming | External supervisor | Mr. Dai has served as an external supervisor since June 2007. Mr. Dai has served as a professor of accounting department of Renmin University of China since June 1996, dean of accounting department of Business School at Renmin University of China from October 2001 to September 2010. Mr. Dai pursued his post-doctorate research at Hitotsubashi University from October 1997 to September 1999, and served as deputy director of accounting department of Renmin University of China from May 1996 to October 1997, and associate professor of accounting department of the same University from June 1993 to May 1996. At present, Mr. Dai serves as an independent director of China South Locomotive & Rolling Stock Corporation Limited. Mr. Dai received his bachelor's degree in industry accounting from Hunan College of Finance and Economics in 1983, master's degree in accounting from Zhongnan University of Economics in 1986 and Ph.D. degree in accounting from Renmin University of China in 1991. |

## Senior Management of the Bank

| | | |
|---|---|---|
| Zhang Jianguo | Vice chairman, executive director, president | See "Directors of the Bank". |
| Chen Zuofu | Executive director, executive vice president | See "Directors of the Bank". |
| Zhu Xiaohuang | Executive director, executive vice president | See "Directors of the Bank". |
| Hu Zheyi | Executive vice president | Mr. Hu has served as executive vice president since March 2009. Mr. Hu was director-general of the macro-economy research department of the Research Office of the State Council from September 2004 to December 2008. He worked at macro-economy research department of the Research Office of the State Council as division chief and deputy director general successively from October 1998 to September 2004. From March 1992 to September 1998, Mr. Hu worked at the head office of the PBC as deputy division chief and division chief successively. Mr. Hu graduated from South China University of Technology in 1982 with a bachelor's degree in chemical automation and instruments. He then obtained his master's degree in technological economics and system engineering from the Management School of Tianjin University in 1988. Mr. Hu graduated from School of Economics and Management of Tsinghua University with a Ph. D. degree in technological economics in 1992. |
| Pang Xiusheng | Executive vice president | Mr. Pang has served as executive vice president since February 2010, and chief financial officer from April 2006 to March 2011. Mr. Pang was executive vice chairman of the Bank's asset and liability committee from March 2006 to April 2006; director of the Bank's restructuring office from April 2005 to March 2006; general manager of Zhejiang Branch of China Construction Bank from June 2003 to April 2005, and acting general manager of Zhejiang Branch of China Construction Bank from April 2003 to June 2003. Mr. Pang served consecutively as deputy general manager of treasury and planning department, deputy general manager of planning and finance department, and general manager of planning and finance department of China Construction Bank from September 1995 to April 2003. Mr. Pang is a senior economist, and a recipient of a special grant by PRC government. He graduated from postgraduate programme in technological economics from Harbin Industrial University in 1995. |
| Zhao Huan | Executive vice president | Upon appointment at the first meeting of the Board 2011, Mr. Zhao Huan commenced his position as executive vice president of the Bank, and the appointment is subject to approval by the CBRC. Mr. Zhao Huan has served as member of senior management of the Bank from December 2010. He was general manager of Shanghai Branch of the Bank from September 2007, head of Shanghai Branch of the Bank from July to September 2007, general manger of the Bank's corporate banking department from June 2006 to July 2007, deputy general manger of the Bank's corporate banking department from April 2004 to June 2006, deputy general manger of the Bank's Xiamen Branch from July 2003 to April 2004, and deputy general manger of the Bank's corporate banking department from March 2001 to May 2003. Mr. Zhao is a senior economist. He received his bachelor's degree in industrial engineering from Xi'an Jiaotong University in 1986. |
| Zhang Gengsheng | Member of senior management | Mr. Zhang Gengsheng has served as member of senior management of the Bank from December 2010. Mr. Zhang was general manager of the group clients department and deputy general manger of Beijing Branch of the Bank from October 2006, general manager of the banking business department and the group clients department from March 2004 to October 2006, deputy general manger of the banking business department from June 2000 to March 2004 (in charge of overall management from March 2003), general manager of the Three Gorges Branch from September 1998 to June 2000, and deputy general manger of Three Gorges Branch from December 1996 to September 1998. Mr. Zhang is a senior economist. He received his bachelor's degree in infrastructure finance and credit from Liaoning Finance and Economics College in 1984 and an Executive MBA degree from Peking University in 2010. |

| | | |
|---|---|---|
| Zeng Jianhua | Chief Financial Officer | Mr. Zeng Jianhua has served as the Bank's Chief Financial Officer from March 2011. He served as general manager of Guangdong Branch of the Bank from September 2007. Mr. Zeng was consecutively the chief officer in charge of Guangdong Branch from July 2007 to September 2007, general manager of Shenzhen Branch of the Bank from October 2004 to July 2007, deputy general manager of the asset and liability management department of China Construction Bank from July 2003 to October 2004, and deputy general manager of Hunan Branch of China Construction Bank from February 1996 to July 2003. Mr. Zeng is a senior economist and received his Ph.D. degree in enterprise management from Hunan University in 2005. |
| Huang Zhiling | Chief Risk Officer | Mr. Huang Zhiling has served as the Bank's Chief Risk Officer since February 2011. He served as general manager of the risk management department of the Bank from April 2006. Mr. Huang was consecutively the director of the asset disposal review committee of China Cinda Asset Management Corporation from December 2000 to April 2006, director of asset disposal decision-making committee office of China Cinda Asset Management Corporation from November 2000 to December 2000, director of president office and director of the party committee office of China Cinda Asset Management Corporation from August 1999 to November 2000, deputy general manager of administrative office and secretary to the party team of China Construction Bank from June 1997 to August 1999. Mr. Huang is a researcher, and a recipient of a special grant by PRC government. He received his Ph.D. degree in finance from Shaanxi Institute of Finance and Economics in 1991. |
| Yu Jingbo | Chief Audit Officer | Mr. Yu Jingbo has served as the Bank's Chief Audit Officer from March 2011. He was general manager of Zhejiang Branch of the Bank from March 2005. Mr. Yu was consecutively deputy general manager (principal-in-charge) of Zhejiang Branch of China Construction Bank from July 2004 to March 2005, deputy general manager of Zhejiang Branch of China Construction Bank from August 1999 to July 2004, and general manager of Hangzhou Branch from April 1997 to August 1999. Mr. Yu is a senior engineer. Mr. Yu received his bachelor's degree in industrial and civil architecture from Tongji University in 1985 and his master's degree in enterprise management from Hangzhou University in 1998. |
| Chen Caihong | Secretary to the Board | Mr. Chen has served as secretary to the Board since August 2007. Mr. Chen was general manager of Seoul Branch of China Construction Bank from December 2003 to July 2007. Mr. Chen served consecutively as deputy director, director of administrative office, deputy general manager of Fujian Branch, and head of preparation team for Seoul Branch of China Construction Bank from March 1997 to December 2003. Mr. Chen is a senior economist. He graduated from Hubei Finance and Economics College with a bachelor's degree in infrastructure economics in 1982 and received his master's degree in public finance from the Research Institute for Fiscal Science of the MOF in 1986. |
| Gu Jingpu | Controller of wholesale banking | Mr. Gu has served as controller of the Bank's wholesale banking since May 2006. Mr. Gu was executive vice chairman of the Bank's corporate and institutional banking committee from March 2006 to May 2006; vice chairman of risk and internal control management committee, director of office of risk and internal control management committee and general manager of risk management department of China Construction Bank from March 2003 to March 2006. He served consecutively as deputy director of internal audit department, director of internal audit department, general manager of Guangdong Branch, vice chairman of risk and internal control management committee and head of office of risk and internal control management committee of China Construction Bank from May 1994 to March 2003. Mr. Gu is a senior economist and a PRC certified public accountant. He received a doctoral degree in management from Sun Yat-Sen University in 2006. |

| | | |
|---|---|---|
| Du Yajun | Controller of retail banking | Mr. Du has served as controller of the Bank's retail banking since May 2006. Mr. Du was executive vice chairman of the Bank's personal banking committee from March 2006 to May 2006; general manager of Hebei Branch of China Construction Bank from March 1999 to March 2006, general manager of Shanxi Branch of China Construction Bank from December 1996 to March 1999, and deputy general manager of Hebei Branch from May 1992 to December 1996. Mr. Du is a senior economist, and a recipient of a special grant by PRC government. He graduated from Liaoning Finance and Economics College with a bachelor's degree in infrastructure finance and credit in 1982. He also received a master's degree in world economics from Hebei University in 1997. |
| Mao Yumin | Controller of investment and wealth management banking | Mr. Mao has served as controller of investment and wealth management banking since September 2007. He was chief executive officer of Shanghai Ai Jian Corporation from June 2006 to July 2007, executive director of Mingly (China) Holdings Ltd. from May 2006 to June 2006, director of Cathay International Holdings Limited and senior vice president of Hong Kong Cathay International Limited from March 2003 to May 2006, and served consecutively as deputy general manager of international business department, general manager of international business department, and general manager of Hong Kong Branch of China Construction Bank from August 1992 to March 2003. Mr. Mao is a senior economist and graduated from Jiangxi College of Finance and Economics with a bachelor's degree in infrastructure finance in 1983. |

## Company Secretary and Qualified Accountant of the Bank

| | | |
|---|---|---|
| Chan Mei Sheung | Company secretary | Ms. Chan has served as the Bank's company secretary since October 2007. She has been head of legal & compliance division of CCB International and acted as company secretary since then. Ms. Chan was group legal counsel and head of Legal Department in China Everbright Limited from July 2006 to October 2007. She also served as company secretary of China Everbright Limited during this period. She has been a member of the Mainland Legal Affairs Committee of the Law Society of Hong Kong from 2006 to 2010. She was group legal counsel and company secretary of Sing Tao News Corporation Limited from 2003 to 2005. She was the partner in charge of Corporate Finance and China Services Department of Hastings & Co. from 1999 to 2003. Ms. Chan is a member of the Law Society of Hong Kong and a Ministry of Justice of China-Appointed Attesting Officer. She is also a qualified solicitor in Hong Kong, England and Wales, and is a qualified solicitor and barrister in the Australian Capital Territory. She graduated from the University of Hong Kong with an honorary bachelor's degree in law in 1987. |
| Yuen Yiu Leung | Qualified Accountant | Mr. Yuen has served as the Bank's qualified accountant since August 2005. Mr. Yuen has been head of finance department of Hong Kong Branch of the Bank since September 2004, and has also been head of finance department of CCB International since January 2006. Prior to that, Mr. Yuen held the same position in the Hong Kong Branch of China Construction Bank from October 1995 to September 2004 and he served in several capacities at the internal control, finance and accounting functions of Standard Chartered Bank. Mr. Yuen is a fellow of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, UK and the Chartered Institute of Management Accountants, UK and an associate of the Institute of Chartered Accountants in England & Wales. Mr. Yuen graduated from Hong Kong Polytechnic University with a professional diploma in management accountancy in 1988 and received a master's degree in business administration from University of Wales in cooperation with Manchester Business School in 1998. |

# Report of the Board of Directors

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

## Principal Activities

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

## Profit and Dividends

The profit of the Group for the year ended 31 December 2010 and the Group's financial position as at that date are set out in the "Financial Statements" of this annual report.

In accordance with the resolutions passed at the annual general meeting 2009 held on 24 June 2010, the Bank paid an annual cash dividend for 2009 of RMB0.202 per share (including tax), totalling approximately RMB47,205 million, to all of its shareholders whose names appeared on the register of members on 7 July 2010.

The Board recommends a cash dividend of RMB0.2122 per share (including tax), subject to the approval of the annual general meeting 2010.

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

| (In millions of RMB) | **2007** | **2008** | **2009** |
|---|---|---|---|
| Cash dividends[1] | 46,583 | 45,383 | 47,205 |
| Ratio of cash dividends to net profit[2] | 67.46% | 49.01% | 44.22% |

1. Cash dividends include interim cash dividend, special cash dividend and final cash dividend for the year.

2. The net profit refers to the net profit attributable to shareholders of the Bank on a consolidated basis. Please refer to Note "Profit Distributions" in the "Financial Statements" of annual reports of the related years for details of cash dividends.

## Reserves

Please refer to the consolidated statement of changes in equity for details of the movements in the reserves of the Group for the year ended 31 December 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 five years ended 31 December 2010.

## Donations

Donations made by the Group during the year ended 31 December 2010 for charitable and other purposes were RMB65 million.

## Property and Equipment

Please refer to Note "Fixed Assets" in the "Financial Statements" of this annual report for details of movements in the property and equipment of the Group for the year ended 31 December 2010.

## Retirement Benefits

Please refer to the note "Accrued Staff Costs" in the "Financial Statements" of this annual report for details of the retirement benefits provided to employees of the Group.

## Major Customers

For the year ended 31 December 2010, the aggregate amount of interest income and other operating income generated from the five largest customers of the Group represented an amount not exceeding 30% of the total interest income and other operating income of the Group.

## Ultimate Parent Company and its Subsidiaries

Please refer to "Changes in Share Capital and Particulars of Shareholders-Substantial Shareholders of the Bank" and the note "Investments in Subsidiaries" in the "Financial Statements" for details of the Bank's ultimate parent and its subsidiaries respectively as at 31 December 2010.

## Share Capital and Public Float

The Bank completed the rights issue of A-shares and H-shares in 2010. As of 31 December 2010, the Bank issued 250,010,977,486 shares in total (including 240,417,319,880 H-shares and 9,593,657,606A-shares) and had 1,049,546 registered shareholders, and was in compliance with the relevant requirements regarding public float under relevant laws and regulations as well as the listing rules of its listing venues.

## Purchase, Sale and Redemption of Shares

There was no purchase, sale or redemption by the Bank or any of its subsidiaries of the shares of the Bank during the year ended 31 December 2010.

## Pre-emptive Rights

The Articles of Association of the Bank and the relevant PRC laws do not have 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 issue shares to existing shareholders or issue shares by way of distribution to existing shareholders, may transfer its capital reserve to share capital, or through other means permitted by law or regulation.

## Use of Proceeds

The net proceeds raised from the rights issue of A-shares and H-shares in 2010 are equivalent to RMB61,159 million and recorded during the reporting period, all of which are used to strengthen the capital base of 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

Please refer to the "Profiles of Directors, Supervisors and Senior Management" of this annual report for details of directors, supervisors and senior executives of the Bank.

## Confirmation of Independence by the Independent Non-executive Directors

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

## Material Interests and Short Positions

As at 31 December 2010, the interests and short positions of substantial shareholders and other persons in the 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 | Interests in H-shares and short positions | Nature | % of issued H-shares | % of total issued shares |
|---|---|---|---|---|
| Huijin[1] | 133,262,144,534 | Long position | 59.31 | 57.03 |
| Bank of America[2] | 25,589,787,255 | Long position | 10.64 | 10.24 |
| | 581,399 | Short position | 0.00 | 0.00 |
| Temasek | 16,906,578,531 | Long position | 7.03 | 6.76 |
| Fullerton Financial[3] | 14,131,828,922 | Long position | 5.88 | 5.65 |

1. On 22 May 2009, Huijin declared interests on the website of the Hong Kong Stock Exchange. It disclosed that it held the interests of 133,262,144,534 H-shares of the Bank, accounting for 59.31% and 57.03% of the H-shares issued (224,689,084,000 shares) and total shares issued (233,689,084,000 shares) respectively. As at 31 December 2010, according to the register of H-share holders, Huijin directly held 142,590,494,651 H-shares of the Bank.

2. According to a disclosure of change in interests held by Bank of America, Bank of America directly held 25,580,153,370 H-shares of the Bank. In addition, Bank of America also held the interests of 9,633,885 H-shares of the Bank and a short position of 581,399 H-shares of the Bank through corporations controlled by it.

3. Since Fullerton Financial is a wholly-owned subsidiary of Temasek, the interests directly held by Fullerton Financial are deemed to be indirect interests of Temasek.

## Directors' and Supervisors' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Bank

Except for the fact that Mr. Li Weiping and Ms. Huang Shuping, the employee representative supervisors of the Bank, indirectly held 20,446 and 21,910 H-shares of the Bank, respectively, by participating in the employee stock incentive plan before they were appointed as supervisors, as of 31 December 2010, none of the directors and supervisors of the Bank had any interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO of Hong Kong) as recorded in the register required to be kept under Section 352 of the SFO of Hong Kong or as otherwise notified to the Bank and Hong Kong Stock Exchange pursuant to *Model Code for Securities Transactions by Directors of Listed Issuers* in Appendix 10 of the Listing Rules.

As of 31 December 2010, except for the employee stock incentive plan, the Bank has not granted its directors or supervisors, or their respective spouses or children below the age of 18, any other rights to subscribe for the shares or debentures of the Bank or any of its associated corporations.

## Directors' Financial, Business and Family Relationships

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

## Directors' and Supervisors' Interests in Contracts and Service Contracts

For the year 2010, no director or supervisor of the Bank had any interest, whether directly or indirectly, in any contract of significance in relation to the Group's business entered into by the Bank, any of its holding companies or subsidiaries or subsidiaries of the Bank's holding companies, apart from their respective service contracts.

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

## Directors' Interests in Competing Businesses

None of the directors of the Bank directly or indirectly has any interest that constitutes or may constitute a competing business of the Bank.

## Corporate governance

The Bank is committed to maintaining the highest level of corporate governance practice. Please refer to the "Corporate Governance Report" of this annual report for details of corporate governance practices adopted by the Bank and its compliance with the *Code on Corporate Governance Practices*.

## Connected Transactions

### *Continuing Connected Transactions as Defined by the Listing Rules of Hong Kong Stock Exchange*

*Continuing connected transactions between the Bank and Jianyin*

Jianyin, by holding 15% and 30.89% of the equity interests of Jianyin International Medical Care Investment Management Co., Ltd. and Jianyin International Medical Care Industry Equity Investment Co., Ltd., two non-wholly owned subsidiaries of the Bank, is a substantial shareholder of the above two companies and, therefore, a connected person of the Bank. Pursuant to the restructuring, the assets and liabilities of the original China Construction Bank were divided between the Bank and Jianyin. Upon such division, the Bank entered into various continuing agreements with Jianyin to regulate the continuing business relationships between the Bank and Jianyin. These continuing connected transactions with Jianyin are divided into the following categories:

- Asset management services provided by the Bank to Jianyin.
- Comprehensive services provided by Jianyin to the Bank.
- Leasing of motor vehicles and equipment by Jianyin to the Bank.
- Consultancy services provided by Jianyin to the Bank.
- Leasing of premises by Jianyin to the Bank.
- Property management services provided by Jianyin to the Bank.

For each category of transaction the Bank entered into with Jianyin, the respective transaction amounts have not resulted in the percentage ratios as set out in Chapter 14 of the Listing Rules of Hong Kong Stock Exchange (other than the profit ratio, which does not apply) exceeding 1%. Accordingly, these connected transactions are exempt continuing connected transactions under rule 14A.33(3) of the Listing Rules of Hong Kong Stock Exchange, and thus are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules of Hong Kong Stock Exchange.

*Taking deposits from connected persons*

The Bank provides commercial banking services and products to its customers. Such services and products include taking deposits. Customers who place deposits with the Bank include the Bank's connected persons under the Listing Rules of Hong Kong Stock Exchange. Therefore, such deposit activities are continuing connected transactions under the Listing Rules of Hong Kong Stock Exchange.

The Bank takes deposits from its connected persons on normal commercial terms that are comparable to or no more favourable than those offered to independent third parties, without using any assets of the Bank as mortgages. These transactions are exempt continuing connected transactions under rule 14A.65(4) of the Listing Rules of Hong Kong Stock Exchange, and thus are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules of Hong Kong Stock Exchange.

*Loans and credit facilities granted by the Bank to connected persons*

The Bank extends loans and credit facilities (including long-term loans, short-term loans, consumption credit, credit card loans, mortgages, guarantees, mortgages for third party loans, comfort letters and discounted bills) to its customers in the ordinary and usual course of its business on normal commercial terms with reference to prevailing market rates. Customers who utilise the loans and credit facilities of the Bank include its connected persons defined in the Listing Rules of Hong Kong Stock Exchange. Therefore, these loans and credit facilities are continuing connected transactions under the Listing Rules of Hong Kong Stock Exchange.

The loans and credit facilities extended by the Bank to its connected persons in the ordinary and usual course of its business are based on normal commercial terms that are comparable to or no more favourable than those offered to independent third parties. These transactions are exempt continuing connected transactions under rule 14A.65(1) of the Listing Rules of Hong Kong Stock Exchange, and thus are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules of Hong Kong Stock Exchange.

*Service contracts between the Bank and its directors and supervisors*

The Bank entered into service contracts and indemnification agreements with each of its directors and supervisors. The indemnities cover losses incurred in connection with provision of the services by the relevant director or supervisor, except for any losses arising from his or her gross negligence, wilful misconduct or dishonesty. These contracts are exempt connected transactions under the Listing Rules of Hong Kong Stock Exchange, and thus are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules of Hong Kong Stock Exchange.

Please refer to the "Financial Statements" of this annual report and the notes therein for details of the related party transactions as defined by domestic laws and regulations.

## 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 compromising 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.

## Compliance with Hong Kong Banking (Disclosure) Rules

In preparing the financial report for 2010, the Bank has complied with the *Banking (Disclosure) Rules*, which is chapter 155M of the Banking Ordinance of Hong Kong.

## Auditors

The Bank's domestic auditors were KPMG Huazhen and its international auditors were KPMG for the year 2010. KPMG Huazhen has been providing auditing services to the Bank for seven consecutive years since 2004, and KPMG has been providing auditing services to the Bank for eight consecutive years since 2003.

The Board recommended to appoint PwC Zhong Tian as the domestic auditors of the Bank and its major domestic subsidiaries for 2011 and PwC as the international auditors of the Bank and its overseas subsidiaries for 2011. The engagement term is one year from the date of the annual general meeting of 2010 to the date of the annual general meeting of 2011. The above proposal shall be subject to deliberation in the annual general meeting of 2010.

By order of the board of directors

**Guo Shuqing**
*Chairman*

25 March 2011

In 2010, pursuant to the provisions the Company Law and the Articles of Association of the Bank, the board of supervisors earnestly performed its duties, supervised the performance and due diligence of the Board, the senior management and their respective members, and of the Bank's financial operations, internal control and risk management, played an effective supervisory role and safeguarded the interest of the shareholders and the Bank.

## CONVENING OF THE MEETINGS

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

On 19 March 2010, it convened the 17th session of the second board of supervisors, where it reviewed and adopted the 2009 Board of Supervisors' Performance Summary as well as its 2010 Work Plan.

On 26 March 2010, it convened the 18th session of the second board of supervisors, where it reviewed and adopted the 2009 Annual Report and the summary thereof, the 2009 Profit Distribution Plan, the 2009 Social Responsibility Report and the 2009 Internal Control Self-Assessment Report and the 2009 Board of Supervisors Report.

On 29 April 2010, it convened the 3rd session of the board of supervisors in 2010, where it reviewed and adopted the Report for the First Quarter of 2010 and the Proposal on the Nomination of Supervisor Candidates.

On 25 June 2010, it convened the 4th session of the board of supervisors in 2010, where it reviewed and adopted the proposals on the nomination of Mr. Xie Duyang as the re-elected Chairman of the board of supervisors of the Bank, nomination of members of the due diligence supervision committee under the board of supervisors and nomination of members of the finance and internal control supervision committee under the board of supervisors.

On 20 August 2010, it convened the 5th session of the board of supervisors in 2010, where it reviewed and adopted the Half-Year Report 2010 and the summary thereof.

On 15 September 2010, it convened the 6th session of the board of supervisors in 2010, where it reviewed and adopted the proposal on the nomination of Mr. Zhang Furong as the Chairman of the board of supervisors of the Bank.

On 29 October 2010, it convened the 7th session of the board of supervisors in 2010, where it reviewed and adopted the Report for the Third Quarter of 2010 and the 2010 Supervisory Work Programme of the board of supervisors.

On 23 December 2010, it convened the 8th session of the board of supervisors in 2010, where it debriefed reports on the Bank's liabilities business and cost management, respectively as well as studied and discussed the 2011 Work Plan of the board of supervisors.

During the reporting period, the due diligence supervision committee under the board of supervisors convened five sessions and reviewed six proposals. The finance and internal control supervision committee under the board of supervisors convened six sessions and reviewed 13 proposals.

## MAJOR WORK

In 2010, the board of supervisors diligently orchestrated various supervisory assignments focusing on the Bank's major work by taking into account the Bank's actual operations and management.

- Regarding the implementation of resolutions of shareholders' meetings and performance of decision-making duties by the Board, the implementation of resolutions of the meetings of the Board and managerial arrangement by the senior management as well as compliance and diligence requirements for directors and senior executives, the board of supervisors, through attending meetings, reviewing materials, carrying out surveys and analyses, holding interviews and seminars and making performance ratings, supervised the Bank's corporate governance, material decision-making and implementation, and presented opinions regarding the annual performance of the Board, the senior management and their members.

- The board of supervisors carefully reviewed and discussed regular reports and proposals on profit distribution and other matters and presented independent review opinions. It attended to the review and supervision of financial reports and presented opinions and suggestions promptly. It consistently regulated and optimised the supervisory process regarding regular reports and consistently analyzed and studied such matters as capital adequacy ratio and off-balance sheet business. It reinforced the supervision of material issues such as selection and engagement of external auditors and expressed supervisory opinions regarding the processes and procedures for such selection and engagement.

- It strengthened the monitoring of internal control, attended relevant meetings, listened to work reports and carried out onsite research and analysis regarding important matters. It carefully watched the implementation of the Basic Standard for Enterprise Internal Control by the Board and the senior management, carried out self -assessment of internal control, facilitated the implementation of the New Basel Capital Accord, and presented opinions and suggestions. Its supervised connected transactions and material acquisitions and sales of assets and expressed independent opinions.

- It orchestrated ad hoc research on the review of the preparation of regular reports and presented specific opinions to enhance and improve review of such preparation. It intensified non-onsite analyses, carried out ad hoc research and analysis on such matters as operational risks, liabilities business, cost management and asset quality of overseas branches, and further improved the pertinence and effectiveness of supervisory work.

- It strengthened the monitoring of material matters such as risk management. It reminded the Board of enhancing insider information management, enhancing internal control, combing and improving relevant system of insider information management. It prompted the management to enhance risk management under new circumstances, to reinforce risk control in material disciplines, to attach great importance to the prevention and management of operational risks, and to heed business risks of operating institutions. It also presented opinions and suggestions regarding credit structure adjustment, business transformation and liabilities business.

- All members of the board of supervisors performed their duties in a diligent, legitimate and compliant manner, carefully attended sessions of the board of supervisors and participated in the research, review and voting regarding relevant motions and topics. They attended all important meetings, enhanced review, study and analysis of financial reports and operational and managerial materials, consistently watched material matters arising from banking reform and development and our corporate governance and operations, and conducted supervisory work according to the Articles of Association of the Bank.

Both the Board and the senior management afforded great support to such supervisory work. Prompts, opinions and suggestions were well received with positive feedbacks and the board of supervisors played the supervisory role effectively.

## INDEPENDENT OPINIONS ON RELEVANT MATTERS OF THE BANK

### Operations in Compliance with Laws and Regulations

During the reporting period, the Bank carried out its operations in compliance with the law and its decision-making procedure was in compliance with the provisions of applicable laws and regulations as well as the Articles of Association of the Bank. Its directors and senior executives fulfilled their duties in a diligent manner. The board of supervisors did not find any of their acts in the performance of their duties that was in breach of applicable laws and regulations as well as the Articles of Association of the Bank or damaged the Bank's interest.

### Financial Reporting

The 2010 financial report of the Bank accurately and fairly reflected the financial position and operating results of the Bank.

### Use of Proceeds

During the reporting period, the Bank raised net proceeds of RMB61,159 million via the rights issue of A-shares and H-shares. All of the net proceeds were used to supplement the capital base of the Bank in accordance with the undertaking of the Bank.

## Acquisition and Sale of Assets

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 or leading to a drain on the Bank's assets.

## Connected Transactions

The board of supervisors was not aware of any connected transactions that were detrimental to the interests of the Bank during the reporting period.

## Internal Control

During the reporting period, the Bank consistently enhanced and improved its internal control. The board of supervisors had no objection to the 2010 Internal Control Assessment Report.

## Performance of Social Responsibilities

During the reporting period, the Bank performed its social responsibilities in a proactive manner. The board of supervisors had no objection to the 2010 Social Responsibility Report.

The board of supervisors will diligently perform all of its supervisory duties continuingly and meticulously, and try to make due contributions to the Bank's sustainable and healthy development.

By order of the board of supervisors

**Zhang Furong**
*Chairman of the board of supervisors*

25 March 2011

# Major Issues

## Performance of Undertakings Given by the Bank or Shareholders Holding 5% or More of the Shares

According to the share lock-up undertaking made by Huijin during the initial public offering of H-shares of the Bank in 2005, the lock-up period of the 133,262,144,534 H-shares held by Huijin had expired and such shares became shares not subject to selling restrictions on 27 October 2010.

The Bank was notified by its controlling shareholder Huijin on 9 October 2009 that Huijin increased its shareholding of the Bank through the trading system of the Shanghai Stock Exchange, and undertook to continue to increase its shareholdings in the Bank on the secondary market in its own name in the following 12 months. As of 8 October 2010, Huijin had completed this shareholding increase plan. During this period, Huijin accumulatively increased its shareholding of the Bank by 16,139,217 A-shares.

In June 2010, Huijin made an undertaking to subscribe in cash all the offered rights shares, which would be allotted to Huijin according to the rights issue plan approved by the Third Meeting of the Board of the Bank in 2010 in proportion to its shareholding ratio in the Bank. In September 2010, Huijin undertook not to reduce its shareholding in the Bank by selling the rights shares allotted to it within six months after the listing date of the rights shares, otherwise, the proceeds obtained through the selling of such shares shall be received by the Bank according to the Securities Law and other relevant provisions. As of the end of the reporting period, the Bank has completed the rights issue plan, and Huijin has subscribed for all the rights shares allotted to it as committed. During the reporting period, Huijin did not reduce its shareholding in the Bank by selling the shares of the Bank.

Other than the above, the Bank's shareholders did not give new undertakings in the reporting period, and the undertakings that continue to be valid during the reporting period were the same as those disclosed in the prospectus. All undertakings given by the shareholders had been fulfilled by the end of the reporting period.

## Material Contracts and Their Performance

During the reporting period, the Bank did not enter into any material arrangements for custody, contracting or lease of other companies' assets, or allow its assets to be subject to such arrangements by other companies. The guarantee business is an off-balance sheet service in the ordinary course of the Bank's business, and the Bank did not have any material guarantees that need to be disclosed except for the financial guarantee services within its business scope as approved by the regulators. The Bank did not entrust any material cash assets to others for management during the reporting period.

## Acquisition and Disposal of Assets and Merger of Enterprises

On 27 December 2010, a consortium led by the Bank signed the property right transaction agreement with China Pacific Insurance (Group) Co., Ltd. (CPIC) to acquire a 50% stake in Pacific-Antai Life Insurance Co., Ltd (Pacific-Antai) from CPIC. Under the transaction, the Bank bought a 1% stake in Pacific-Antai. Based on the equity transfer agreement signed with ING in December 2009, the Bank acquired 50% stake of Pacific-Antai from ING. Upon completion of the transaction, the Bank will hold 51% stake of Pacific-Antai and become its controlling shareholder.

Upon completion of the transaction, the shareholders of Pacific-Antai would be changed to the Bank (51%), China Life Insurance Co., Ltd. (Taiwan) (19.90%), Jianyin (19.35%), Shanghai Jinjiang International Investment Holdings Co. Ltd. (4.90%) and Shanghai Huaxu Investment Co., Ltd. (4.85%). Besides, Pacific-Antai was proposed to be renamed as Jian Xin Life Insurance Co., Ltd. The completion of the transaction is still subject to the approval of relevant regulatory bodies.

## Material Related Party Transactions

The Bank approved the *Implementation Measures of China Construction Bank Corporation for the Management of Related Party Transactions (Revised)* at the 8th meeting of 2010 of the Board convened on 20 August 2010.

There were no material related party transactions or non-operational capital occupation by the controlling shareholder or other related parties of the Bank during the reporting period. All related party transactions are conducted on the basis of commercial principles and just, fair and open principles and at prices no more favourable than those offered to independent third parties in similar transactions.

## Progress of Implementation of Employee Stock Incentive Plan

Pursuant to the relevant PRC policies, the Bank did not implement a new round of stock incentive plan during the reporting period.

## Material Litigations and Arbitrations

There were no material litigations or arbitrations during the reporting period.

## Penalties

During the reporting period, the Bank, the directors, the supervisors, the senior management and the actual controller had no record of being subject to investigations by relevant authorities, coercive measures by judicial or disciplinary departments, transfer to judicial organs or criminal investigation and punishment, or inspections and administrative penalties by the CSRC or public censures by the stock exchanges of the Bank's listing venues.

## Other shareholding or share participations

*Investments in securities*

| Number | Type of securities | Stock code | Stock abbreviation | Initial investment amount (RMB) | Number of shares held | Carrying amount at the end of the period (RMB) | % of total securities investments at the end of the period | Gain/Loss during the reporting period (RMB) |
|---|---|---|---|---|---|---|---|---|
| 1 | Listed stock | 000906 | Southern Building Materials Co., Ltd. | 272,800,000 | 46,552,901 | 379,335,849 | 4.00 | 106,535,849 |
| 2 | Listed stock | 663 HK | King Stone Energy Group Limited | 114,471,535 | 1,688,000,000 | 290,471,520 | 3.06 | 71,545,047 |
| 3 | Listed stock | 1900 HK | China ITS (Holdings) Co., Ltd. | 164,329,483 | 55,530,915 | 247,479,227 | 2.61 | 83,149,744 |
| 4 | Listed stock | 1101 HK | China Rongsheng Heavy Industries Group Holdings Ltd. | 262,891,204 | 38,766,000 | 203,562,459 | 2.15 | (59,328,745) |
| 5 | Listed stock | 300117 | Beijing Jiayu Door, Window and Curtain Wall Joint-Stock Co., Ltd. | 28,000,000 | 7,000,000 | 192,475,247 | 2.03 | 161,334,217 |
| 6 | Listed stock | 325 HK | Trauson Holdings Company Limited | 111,901,690 | 55,940,625 | 171,660,733 | 1.81 | 59,759,043 |
| 7 | Listed stock | CTE US | Sino Tech Energy | 93,969,669 | 3,521,610 | 156,944,458 | 1.65 | 73,672,169 |
| 8 | Listed stock | MY US | China Ming Yang Wind Power | 109,429,165 | 2,000,000 | 139,345,178 | 1.47 | 29,916,013 |
| 9 | Listed stock | 233 HK | Mingyuan Medical Development Company Limited | 123,414,117 | 152,676,987 | 137,187,494 | 1.45 | (42,696,280) |
| 10 | Listed stock | 395 HK | Sino Dragon New Energy Holdings Limited | 89,719,100 | 142,400,000 | 131,574,450 | 1.39 | 82,651,093 |
| Other securities investments held at the end of the period | | | | 1,266,672,849 | | 7,433,473,733 | 78.38 | 133,897,362 |
| Gain/Loss from disposal of securities investments during the reporting period | | | | | | | | 531,601,163 |
| Total | | | | 2,637,598,812 | | 9,483,510,348 | 100.00 | 1,232,036,675 |

1. The top ten listed securities held by the Group at the end of the period are arranged according to the percentage of the carrying amount in total securities investments of the Group at the end of the period.

2. Investments in securities in this table refer to stocks, warrants, convertible bonds and other investments, in which the investments in stocks represent those classified as financial assets designated at fair value through profit or loss of the Group.

3. Other securities investments refer to the securities investments other than the top ten securities.

## *Interests of the Bank in shares of other listed companies*

| Stock code | Stock abbreviation | Initial investment amount (RMB) | % of shareholding in the company | Carrying amount at the end of the period (RMB) | Gain/Loss during the reporting period (RMB) | Changes in equity during the reporting period (RMB) | Accounting item | Sources of shares |
|---|---|---|---|---|---|---|---|---|
| 601600 | CHALCO | 883,088,675 | 5.25 | 7,193,043,599 | 4,602,329 | (3,076,875,725) | Available-for-sale financial assets | Investment held through debt equity swap |
| 000578 | QINGHAI SALT LAKE | 137,273,000 | 5.93 | 4,851,073,222 | 36,392,147 | 382,860,408 | Available-for-sale financial assets | Investment held through debt equity swap |
| 600068 | G.C.L | 349,996,296 | 6.48 | 2,621,042,411 | 335,512,909 | 819,632,299 | Available-for-sale financial assets | Investment held through debt equity swap |
| 998 HK | CITIC Bank | 399,194,300 | 0.43 | 740,344,554 | 13,296,634 | (263,783,355) | Available-for-sale financial assets | Investment held through equity swap upon privatisation |
| 002422 | Kelun Pharmaceutical | 111,229,549 | 0.79 | 229,917,865 | 74,618,371 | 132,160,517 | Available-for-sale financial assets | Transfer of right to equity return by previous shareholders |
| 600984 | SCMC | 43,907,322 | 17.10 | 200,195,545 | 1,007,837 | (37,421,849) | Available-for-sale financial assets | Investment held through debt equity swap |
| 1618 HK | MCC | 328,518,089 | 2.13 | 176,934,152 | (151,583,937) | (151,583,937) | Available-for-sale financial assets | Cornerstone investor |
| 000001 | SDB | 31,300,157 | 0.32 | 176,491,541 | – | (95,902,307) | Available-for-sale financial assets | Establishment of investment, exercise of share options |
| 600462 | Y.S.B.P | 18,056,628 | 5.39 | 107,183,833 | 78,565,817 | (98,851,615) | Available-for-sale financial assets | Investment held through debt equity swap |
| V NY | Visa Inc | 58,039,639 | 0.12 | 106,289,660 | 114,584 | (15,952,915) | Available-for-sale financial assets | Donated stock, share purchase and sale |
| 312 HK | Shirble Store | 131,390,333 | 2.82 | 94,164,539 | – | (43,358,691) | Available-for-sale financial assets | Cornerstone investor |
| 906 HK | CPMC Holdings Limited | 36,552,226 | 0.53 | 35,941,892 | 480,897 | (25,531,325) | Available-for-sale financial assets | Cornerstone investor |
| PCN CN | Pacrim International Capital Inc. | 1,029,605 | 0.78 | 1,822,370 | – | 222,735 | Available-for-sale financial assets | Secondary market purchase |
| MA NY | Mastercard Inc | 729,144 | 0.00001 | 741,647 | – | (74,441) | Available-for-sale financial assets | Share purchase and sale |
| Total | | 2,530,304,963 | | 16,535,186,830 | | (2,474,460,201) | | |

1. The table shows the shares of other listed companies held by the Group which were classified as available-for-sale financial assets.

2. Gain/Loss during the reporting period refers to the effect of the investment on the consolidated net profit of the Group for the reporting period.

## *Interests in non-listed financial institutions*

| Name of the company | Initial investment amount (RMB) | Number of shares held | % of shareholding in the company | Carrying amount at the end of the period (RMB) | Gain/Loss during the reporting period (RMB) | Changes in equity during the reporting period (RMB) | Accounting item | Sources of shares |
|---|---|---|---|---|---|---|---|---|
| HuiShang Bank Corporation Ltd. | 228,835,900 | 225,548,176 | 2.76 | 228,835,900 | 26,345,120 | – | Long-term equity investment | Establishment, increase in share capital |
| China UnionPay Co., Ltd. | 101,608,820 | 142,500,000 | 4.94 | 220,983,820 | 3,780,000 | – | Available-for-sale financial assets | Establishment, increase in share capital |
| QBE Hongkong and Shanghai Insurance Limited | 98,758,409 | 19,939,016 | 25.50 | 126,730,170 | – | – | Interests in associates and jointly controlled entities | Share purchase and sale |
| Guangdong Development Bank Ltd. | 48,558,031 | 13,423,847 | 0.09 | 48,558,031 | – | – | Available-for-sale financial assets | Establishment of investment |
| Evergrowing Bank Co., Ltd. | 7,000,000 | 88,725,000 | 1.30 | 41,125,000 | 22,750,000 | – | Available-for-sale financial assets | Establishment of investment |
| Huarong Xiangjiang Bank | 3,500,000 | 3,536,400 | 0.09 | 980,000 | – | – | Available-for-sale financial assets | Establishment of investment |

1. These do not include subsidiaries contained in the consolidated statements.

2. Allowances for impairment losses have been deducted from the carrying amount at the end of the period.

## *Purchase and disposal of shares of other listed companies*

| Stock name | Number of shares at the beginning of the period | Number of shares purchased during the reporting period | Number of shares disposed during the reporting period | Number of shares at the end of the period | Amount of funds used (RMB) | Investment gain/(loss) (RMB) |
|---|---|---|---|---|---|---|
| Total | 3,162,796,874 | 3,169,443,752 | (2,947,735,277) | 3,384,505,349 | 4,968,723,692 | 453,795,352 |

KPMG

**Independent auditor's report to the shareholders of China Construction Bank Corporation**
*(a joint stock company incorporated in the People's Republic of China with limited liability)*

We have audited the consolidated financial statements of China Construction Bank Corporation (the "Bank") and its subsidiaries (collectively the "Group") set out on pages 98 to 202, which comprise the consolidated and Bank statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated and Bank statements of changes in equity, the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Directors' responsibility for the consolidated financial statements

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

## Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with 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.

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

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

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 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.

**KPMG**
*Certified Public Accountants*
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

25 March 2011

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010
(Expressed in millions of RMB, unless otherwise stated)

| | Note | 2010 | 2009 |
|---|---|---|---|
| Interest income | | **377,783** | 339,463 |
| Interest expense | | **(126,283)** | (127,578) |
| **Net interest income** | 6 | **251,500** | 211,885 |
| Fee and commission income | | **68,156** | 49,839 |
| Fee and commission expense | | **(2,024)** | (1,780) |
| **Net fee and commission income** | 7 | **66,132** | 48,059 |
| Net trading gain | 8 | **3,509** | 2,233 |
| Dividend income | 9 | **228** | 100 |
| Net gain arising from investment securities | 10 | **1,903** | 4,471 |
| Other operating income, net | 11 | **2,508** | 2,566 |
| **Operating income** | | **325,780** | 269,314 |
| **Operating expenses** | 12 | **(121,366)** | (105,146) |
| | | **204,414** | 164,168 |
| Impairment losses on: | | | |
| – Loans and advances to customers | | **(25,641)** | (24,256) |
| – Others | | **(3,651)** | (1,204) |
| **Impairment losses** | 13 | **(29,292)** | (25,460) |
| **Share of profits less losses of associates and jointly controlled entities** | | **34** | 17 |
| **Profit before tax** | | **175,156** | 138,725 |
| Income tax expense | 16 | **(40,125)** | (31,889) |
| **Net profit** | | **135,031** | 106,836 |
| **Other comprehensive income:** | | | |
| (Loss)/gain of available-for-sale financial assets arising during the year | | **(8,183)** | 2,174 |
| Less: Income tax relating to available-for-sale financial assets | | **1,995** | (544) |
| Reclassification adjustments for losses included in profit or loss | | **(288)** | 386 |
| | | **(6,476)** | 2,016 |
| Exchange difference on translating foreign operations | | **(1,057)** | 281 |
| Others | | **33** | 25 |
| **Other comprehensive income for the year, net of tax** | | **(7,500)** | 2,322 |
| **Total comprehensive income for the year** | | **127,531** | 109,158 |
| Net profit attributable to: | | | |
| Equity shareholders of the Bank | | **134,844** | 106,756 |
| Non-controlling interests | | **187** | 80 |
| | | **135,031** | 106,836 |
| Total comprehensive income attributable to: | | | |
| Equity shareholders of the Bank | | **127,363** | 109,069 |
| Non-controlling interests | | **168** | 89 |
| | | **127,531** | 109,158 |
| **Basic and diluted earnings per share (in RMB)** | 17 | **0.56** | 0.45 |

The notes on pages 105 to 202 form part of these financial statements.

# Consolidated Statement of Financial Position

As at 31 December 2010
(Expressed in millions of RMB, unless otherwise stated)

| | Note | 2010 | 2009 |
|---|---|---|---|
| **Assets:** | | | |
| Cash and deposits with central banks | 18 | **1,848,029** | 1,458,648 |
| Deposits with banks and non-bank financial institutions | 19 | **78,318** | 101,163 |
| Precious metals | | **14,495** | 9,229 |
| Placements with banks and non-bank financial institutions | 20 | **63,962** | 22,217 |
| Financial assets at fair value through profit or loss | 21 | **17,344** | 18,871 |
| Positive fair value of derivatives | 22 | **11,224** | 9,456 |
| Financial assets held under resale agreements | 23 | **181,075** | 589,606 |
| Interest receivable | 24 | **44,088** | 40,345 |
| Loans and advances to customers | 25 | **5,526,026** | 4,692,947 |
| Available-for-sale financial assets | 26 | **696,848** | 651,480 |
| Held-to-maturity investments | 27 | **1,884,057** | 1,408,873 |
| Debt securities classified as receivables | 28 | **306,748** | 499,575 |
| Interests in associates and jointly controlled entities | 30 | **1,777** | 1,791 |
| Fixed assets | 31 | **83,434** | 74,693 |
| Land use rights | 32 | **16,922** | 17,122 |
| Intangible assets | 33 | **1,310** | 1,270 |
| Goodwill | 34 | **1,534** | 1,590 |
| Deferred tax assets | 35 | **17,825** | 10,790 |
| Other assets | 36 | **15,301** | 13,689 |
| **Total assets** | | **10,810,317** | 9,623,355 |
| **Liabilities:** | | | |
| Borrowings from central banks | | **1,781** | 6 |
| Deposits from banks and non-bank financial institutions | 39 | **683,537** | 774,785 |
| Placements from banks and non-bank financial institutions | 40 | **66,272** | 38,120 |
| Financial liabilities at fair value through profit or loss | 41 | **15,287** | 7,992 |
| Negative fair value of derivatives | 22 | **9,358** | 8,575 |
| Financial assets sold under repurchase agreements | 42 | **4,922** | – |
| Deposits from customers | 43 | **9,075,369** | 8,001,323 |
| Accrued staff costs | 44 | **31,369** | 27,425 |
| Taxes payable | 45 | **34,241** | 25,840 |
| Interest payable | 46 | **65,659** | 59,487 |
| Provisions | 47 | **3,399** | 1,344 |
| Debt securities issued | 48 | **93,315** | 98,644 |
| Deferred tax liabilities | 35 | **243** | 216 |
| Other liabilities | 49 | **24,660** | 20,578 |
| **Total liabilities** | | **10,109,412** | 9,064,335 |
| **Equity:** | | | |
| Share capital | 50 | **250,011** | 233,689 |
| Capital reserve | 51 | **135,136** | 90,266 |
| Investment revaluation reserve | 52 | **6,706** | 13,163 |
| Surplus reserve | 53 | **50,681** | 37,421 |
| General reserve | 54 | **61,347** | 46,806 |
| Retained earnings | 55 | **195,950** | 136,112 |
| Exchange reserve | | **(3,039)** | (1,982) |
| **Total equity attributable to equity shareholders of the Bank** | | **696,792** | 555,475 |
| Non-controlling interests | | **4,113** | 3,545 |
| **Total equity** | | **700,905** | 559,020 |
| **Total liabilities and equity** | | **10,810,317** | 9,623,355 |

Approved and authorised for issue by the board of directors on 25 March 2011.

| **Zhang Jianguo** | **Wong Kai-Man** | **Sue Yang** |
|---|---|---|
| *Vice chairman, executive director and president* | *Independent non-executive director* | *Non-executive director* |

The notes on pages 105 to 202 form part of these financial statements.

# Statement of Financial Position

As at 31 December 2010
(Expressed in millions of RMB, unless otherwise stated)

| | Note | 2010 | 2009 |
|---|---|---|---|
| **Assets:** | | | |
| Cash and deposits with central banks | 18 | **1,841,867** | 1,455,370 |
| Deposits with banks and non-bank financial institutions | 19 | **78,198** | 100,679 |
| Precious metals | | **14,495** | 9,229 |
| Placements with banks and non-bank financial institutions | 20 | **68,528** | 23,143 |
| Financial assets at fair value through profit or loss | 21 | **3,044** | 10,251 |
| Positive fair value of derivatives | 22 | **10,153** | 7,730 |
| Financial assets held under resale agreements | 23 | **181,075** | 588,706 |
| Interest receivable | 24 | **43,861** | 40,129 |
| Loans and advances to customers | 25 | **5,428,279** | 4,626,024 |
| Available-for-sale financial assets | 26 | **693,031** | 649,979 |
| Held-to-maturity investments | 27 | **1,883,927** | 1,408,465 |
| Debt securities classified as receivables | 28 | **306,748** | 499,575 |
| Investments in subsidiaries | 29 | **9,869** | 8,816 |
| Fixed assets | 31 | **82,696** | 74,098 |
| Land use rights | 32 | **16,865** | 17,062 |
| Intangible assets | 33 | **1,273** | 1,242 |
| Deferred tax assets | 35 | **18,774** | 11,323 |
| Other assets | 36 | **32,122** | 33,310 |
| **Total assets** | | **10,714,805** | 9,565,131 |
| **Liabilities:** | | | |
| Borrowings from central banks | | **1,781** | 6 |
| Deposits from banks and non-bank financial institutions | 39 | **685,238** | 776,582 |
| Placements from banks and non-bank financial institutions | 40 | **41,664** | 31,968 |
| Financial liabilities at fair value through profit or loss | 41 | **12,940** | 7,992 |
| Negative fair value of derivatives | 22 | **8,734** | 7,894 |
| Financial assets sold under repurchase agreements | 42 | **11,089** | 2,625 |
| Deposits from customers | 43 | **9,014,646** | 7,955,240 |
| Accrued staff costs | 44 | **30,522** | 26,708 |
| Taxes payable | 45 | **33,945** | 25,549 |
| Interest payable | 46 | **65,592** | 59,442 |
| Provisions | 47 | **3,399** | 1,344 |
| Debt securities issued | 48 | **91,431** | 98,383 |
| Deferred tax liabilities | 35 | **4** | 22 |
| Other liabilities | 49 | **22,455** | 20,057 |
| **Total liabilities** | | **10,023,440** | 9,013,812 |
| **Equity:** | | | |
| Share capital | 50 | **250,011** | 233,689 |
| Capital reserve | 51 | **135,136** | 90,266 |
| Investment revaluation reserve | 52 | **6,743** | 13,213 |
| Surplus reserve | 53 | **50,681** | 37,421 |
| General reserve | 54 | **60,608** | 46,209 |
| Retained earnings | 55 | **188,525** | 130,785 |
| Exchange reserve | | **(339)** | (264) |
| **Total equity** | | **691,365** | 551,319 |
| **Total liabilities and equity** | | **10,714,805** | 9,565,131 |

Approved and authorised for issue by the board of directors on 25 March 2011.

| **Zhang Jianguo** | **Wong Kai-Man** | **Sue Yang** |
|---|---|---|
| *Vice chairman, executive director and president* | *Independent non-executive director* | *Non-executive director* |

The notes on pages 105 to 202 form part of these financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2010
(Expressed in millions of RMB, unless otherwise stated)

| | Attributable to equity shareholders of the Bank | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Capital reserve | Investment revaluation reserve | Surplus reserve | General reserve | Retained earnings | Exchange reserve | Non-controlling interests | Total equity |
| **As at 1 January 2010** | **233,689** | **90,266** | **13,163** | **37,421** | **46,806** | **136,112** | **(1,982)** | **3,545** | **559,020** |
| **Movements during the year** | **16,322** | **44,870** | **(6,457)** | **13,260** | **14,541** | **59,838** | **(1,057)** | **568** | **141,885** |
| **(1) Total comprehensive income for the year** | **–** | **33** | **(6,457)** | **–** | **–** | **134,844** | **(1,057)** | **168** | **127,531** |
| **(2) Changes in share capital** | **16,322** | **44,837** | **–** | **–** | **–** | **–** | **–** | **440** | **61,599** |
| i Rights issue | **16,322** | **44,837** | **–** | **–** | **–** | **–** | **–** | **–** | **61,159** |
| ii Capital injection by non-controlling interests | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **106** | **106** |
| iii Non-controlling interests of new subsidiaries | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **334** | **334** |
| **(3) Profit distribution** | **–** | **–** | **–** | **13,260** | **14,541** | **(75,006)** | **–** | **(40)** | **(47,245)** |
| i Appropriation to surplus reserve | **–** | **–** | **–** | **13,260** | **–** | **(13,260)** | **–** | **–** | **–** |
| ii Appropriation to general reserve | **–** | **–** | **–** | **–** | **14,541** | **(14,541)** | **–** | **–** | **–** |
| iii Appropriation to equity shareholders | **–** | **–** | **–** | **–** | **–** | **(47,205)** | **–** | **(40)** | **(47,245)** |
| **As at 31 December 2010** | **250,011** | **135,136** | **6,706** | **50,681** | **61,347** | **195,950** | **(3,039)** | **4,113** | **700,905** |
| **As at 1 January 2009** | 233,689 | 90,241 | 11,156 | 26,922 | 46,628 | 59,593 | (2,263) | 1,596 | 467,562 |
| **Movements during the year** | – | 25 | 2,007 | 10,499 | 178 | 76,519 | 281 | 1,949 | 91,458 |
| **(1) Total comprehensive income for the year** | – | 25 | 2,007 | – | – | 106,756 | 281 | 89 | 109,158 |
| **(2) Changes in share capital** | – | – | – | – | – | – | – | 1,878 | 1,878 |
| i Disposal of shares of subsidiaries to non-controlling interests | – | – | – | – | – | – | – | 100 | 100 |
| ii Non-controlling interests of new subsidiaries | – | – | – | – | – | – | – | 130 | 130 |
| iii Non-controlling interests of acquisition of a subsidiary | – | – | – | – | – | – | – | 1,648 | 1,648 |
| **(3) Profit distribution** | – | – | – | 10,499 | 178 | (30,237) | – | (18) | (19,578) |
| i Appropriation to surplus reserve | – | – | – | 10,499 | – | (10,499) | – | – | – |
| ii Appropriation to general reserve | – | – | – | – | 178 | (178) | – | – | – |
| iii Appropriation to equity shareholders | – | – | – | – | – | (19,560) | – | (18) | (19,578) |
| **As at 31 December 2009** | 233,689 | 90,266 | 13,163 | 37,421 | 46,806 | 136,112 | (1,982) | 3,545 | 559,020 |

The notes on pages 105 to 202 form part of these financial statements.

# Statement of Changes in Equity

For the year ended 31 December 2010
(Expressed in millions of RMB, unless otherwise stated)

| | Share capital | Capital reserve | Investment revaluation reserve | Surplus reserve | General reserve | Retained earnings | Exchange reserve | Total equity |
|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2010** | **233,689** | **90,266** | **13,213** | **37,421** | **46,209** | **130,785** | **(264)** | **551,319** |
| **Movements during the year** | **16,322** | **44,870** | **(6,470)** | **13,260** | **14,399** | **57,740** | **(75)** | **140,046** |
| **(1) Total comprehensive income for the year** | **–** | **33** | **(6,470)** | **–** | **–** | **132,604** | **(75)** | **126,092** |
| **(2) Changes in share capital** | **16,322** | **44,837** | **–** | **–** | **–** | **–** | **–** | **61,159** |
| i Rights issue | **16,322** | **44,837** | **–** | **–** | **–** | **–** | **–** | **61,159** |
| **(3) Profit distribution** | **–** | **–** | **–** | **13,260** | **14,399** | **(74,864)** | **–** | **(47,205)** |
| i Appropriation to surplus reserve | **–** | **–** | **–** | **13,260** | **–** | **(13,260)** | **–** | **–** |
| ii Appropriation to general reserve | **–** | **–** | **–** | **–** | **14,399** | **(14,399)** | **–** | **–** |
| iii Appropriation to equity shareholders | **–** | **–** | **–** | **–** | **–** | **(47,205)** | **–** | **(47,205)** |
| **As at 31 December 2010** | **250,011** | **135,136** | **6,743** | **50,681** | **60,608** | **188,525** | **(339)** | **691,365** |
| **As at 1 January 2009** | 233,689 | 90,241 | 11,138 | 26,922 | 46,200 | 55,867 | (501) | 463,556 |
| **Movements during the year** | – | 25 | 2,075 | 10,499 | 9 | 74,918 | 237 | 87,763 |
| **(1) Total comprehensive income for the year** | – | 25 | 2,075 | – | – | 104,986 | 237 | 107,323 |
| **(2) Profit distribution** | – | – | – | 10,499 | 9 | (30,068) | – | (19,560) |
| i Appropriation to surplus reserve | – | – | – | 10,499 | – | (10,499) | – | – |
| ii Appropriation to general reserve | – | – | – | – | 9 | (9) | – | – |
| iii Appropriation to equity shareholders | – | – | – | – | – | (19,560) | – | (19,560) |
| **As at 31 December 2009** | 233,689 | 90,266 | 13,213 | 37,421 | 46,209 | 130,785 | (264) | 551,319 |

The notes on pages 105 to 202 form part of these financial statements.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2010
(Expressed in millions of RMB, unless otherwise stated)

| | Note | 2010 | 2009 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | **175,156** | 138,725 |
| *Adjustments for:* | | | |
| – Impairment losses | 13 | **29,292** | 25,460 |
| – Depreciation and amortisation | 12 | **11,827** | 10,876 |
| – Unwinding of discount | | **(799)** | (1,270) |
| – Revaluation gain on financial instruments at fair value through profit or loss | | **(1,659)** | (924) |
| – Share of profit less losses of associates and jointly controlled entities | | **(34)** | (17) |
| – Dividend income | 9 | **(228)** | (100) |
| – Unrealised foreign exchange loss/(gain) | | **1,847** | (3,628) |
| – Interest expense on bonds issued | | **3,282** | 3,211 |
| – Net gain on disposal of investment securities | 10 | **(1,903)** | (4,471) |
| – Net gain on disposal of fixed assets and other long-term assets | | **(455)** | (110) |
| | | **216,326** | 167,752 |
| *Changes in operating assets:* | | | |
| Net increase in deposits with central banks and with banks and non-bank financial institutions | | **(485,985)** | (258,955) |
| Net increase in placements with banks and non-bank financial institutions | | **(2,490)** | (1,243) |
| Net increase in loans and advances to customers | | **(869,732)** | (1,030,197) |
| Net decrease/(increase) in financial assets held under resale agreements | | **408,498** | (381,058) |
| (Increase)/decrease in other operating assets | | **(19,954)** | 18,705 |
| | | **(969,663)** | (1,652,748) |
| *Changes in operating liabilities:* | | | |
| Net increase in borrowings from central banks | | **1,806** | – |
| Net increase/(decrease) in placements from banks and non-bank financial institutions | | **29,407** | (6,947) |
| Net increase in deposits from customers and from banks and non-bank financial institutions | | **992,829** | 1,948,273 |
| Net increase/(decrease) in financial assets sold under repurchase agreements | | **4,899** | (864) |
| Net (decrease)/increase in certificates of deposit issued | | **(1,967)** | 4,107 |
| Income tax paid | | **(37,921)** | (44,567) |
| Increase in other operating liabilities | | **23,645** | 8,573 |
| | | **1,012,698** | 1,908,575 |
| **Net cash from operating activities** | | **259,361** | 423,579 |
| **Cash flows from investing activities** | | | |
| Proceeds from sale and redemption of investments | | **1,371,120** | 1,168,724 |
| Dividends received | | **229** | 106 |
| Proceeds from disposal of fixed assets and other long-term assets | | **713** | 727 |
| Cash received from other investing activities | | **–** | 3,962 |
| Purchase of investment securities | | **(1,696,728)** | (1,568,911) |
| Purchase of fixed assets and other long-term assets | | **(20,452)** | (22,045) |
| Acquisition of associates and jointly controlled entities | | **(18)** | (54) |
| **Net cash used in investing activities** | | **(345,136)** | (417,491) |
| **Cash flows from financing activities** | | | |
| Rights issue | | **61,159** | – |
| Issue of subordinated bonds | | **–** | 79,880 |
| Capital contribution by non-controlling interests | | **440** | – |
| Dividends paid | | **(47,232)** | (19,576) |
| Repayments of debt securities issued | | **(2,870)** | (40,000) |
| Interest paid on bonds issued | | **(3,298)** | (1,972) |
| **Net cash from financing activities** | | **8,199** | 18,332 |

The notes on pages 105 to 202 form part of these financial statements.

(Expressed in millions of RMB, unless otherwise stated)

| | Note | 2010 | 2009 |
|---|---|---|---|
| **Effect of exchange rate changes on cash and cash equivalents** | | **(1,374)** | 18 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(78,950)** | 24,438 |
| **Cash and cash equivalents as at 1 January** | 56(1) | **380,249** | 355,811 |
| **Cash and cash equivalents as at 31 December** | 56(1) | **301,299** | 380,249 |
| **Cash flows from operating activities include:** | | | |
| Interest received | | **362,523** | 327,930 |
| Interest paid, excluding interest expense on bonds issued | | **(116,793)** | (125,785) |

The notes on pages 105 to 202 form part of these financial statements.

## 1 Company information

China Construction Bank Corporation (the “Bank”) is a joint-stock company with limited liability incorporated in the People’s Republic of China (the “PRC”) on 17 September 2004, as a result of a separation procedure undertaken by the predecessor of the Bank, China Construction Bank (“CCB”). Under the terms of the separation, the Bank succeeded to the commercial banking business and related assets and liabilities of CCB as at 31 December 2003.

The registered office of the Bank is located at No. 25, Finance Street, Xicheng District, Beijing, the PRC. The Bank obtained the financial service certificate on 15 September 2004, as approved by the China Banking Regulatory Commission (the “CBRC”) and the business license on 17 September 2004, as approved by the State Administration for Industry and Commerce of the PRC.

In October 2005 and September 2007, the Bank publicly offered H shares on the Main Board of the Stock Exchange of Hong Kong Limited and A shares on the Shanghai Stock Exchange respectively. All H and A shares rank pari passu with the same rights and benefits.

In 2010, on the basis of 0.7 rights shares for every 10 existing shares, the Bank completed both A and H Share Rights Issue (“Rights Issue”). A total of 16,322 million shares with a par value of RMB1 each were issued, the total gross proceeds raised were RMB61,273 million and the net subscription capital after deducting the costs directly associated with the Rights Issue of RMB114 million, were RMB61,159 million. 594 million A shares and 15,728 million H shares issued on the subscription price of RMB3.77 and HKD4.38 per share respectively. The total proceeds raised for A and H Share Rights Issue were RMB2,238 million and RMB59,035 million respectively.

For the purpose of these financial statements, Mainland China refers to the PRC excluding the Hong Kong Special Administrative Region of the PRC (“Hong Kong”), the Macau Special Administrative Region of the PRC and Taiwan. Overseas refers to countries and regions other than Mainland China.

The principal activities of the Bank and its subsidiaries (collectively the “Group”) are the provision of corporate and personal banking services, conducting treasury business, the provision of asset management, trustee, finance leasing, investment banking and other financial services. The Group mainly operates in Mainland China and also has several overseas branches and subsidiaries.

The Bank is under the supervision of the banking regulatory bodies empowered by the State Council of the PRC (the “State Council”). The overseas financial operations of the Bank are under the supervision of their respective local jurisdictions. Central Huijin Investments Limited (“Huijin”), a wholly owned subsidiary of China Investment Corporation (“CIC”), exercises the rights and obligations as an investor on behalf of the PRC Government.

These financial statements were authorised for issue by the board of directors of the Bank on 25 March 2011.

## 2 Basis of preparation

These financial statements for the year ended 31 December 2010 comprise the Bank and its subsidiaries and the Group’s interests in associates and jointly controlled entities.

### (1) Basis of measurement

These financial statements have been prepared on the historical cost basis except that: (i) financial instruments designated at fair value through profit or loss are measured at fair value; (ii) derivative financial instruments are measured at fair value; (iii) available-for-sale financial assets are measured at fair value; and (iv) certain non-financial assets are measured at deemed cost. The measurement basis of major assets and liabilities are further explained in Note 4.

### (2) Functional and presentation currency

These financial statements are presented in RMB, unless otherwise stated, rounded to the nearest million, which is the functional currency of domestic branches and subsidiaries of the Group. The functional currencies of overseas branches and subsidiaries are determined in accordance with the primary economic environment in which they operate, and are translated into RMB for the preparation of these financial statements according to Note 4(2)(b).

### (3) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustments in the subsequent period are discussed in Note 4(22).

## 3 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Group has adopted new IFRSs effective for the current year. There is no early adoption of any new IFRSs not yet effective for the year ended 31 December 2010. The following new IFRSs adopted are relevant to these financial statements:

IFRS 3 (revised 2008), *Business Combinations*, includes the following main changes: (i) transaction costs incurred by the acquirer in connection with the business combination do not form part of the business combination transaction, and are expensed as incurred; (ii) the acquirer can elect to measure any non-controlling interest at fair value at the acquisition date, or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree.

IAS 27 (revised 2008), *Consolidated and Separate Financial Statements*, mainly changes the accounting for non-controlling interests (previously minority interests). Significant changes include: (i) changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for within shareholders' equity as transactions with owners acting in their capacity as owners; (ii) transactions resulting in a loss of control would cause a gain or loss to be recognised in profit or loss; and (iii) losses applicable to the non-controlling interests, including other negative comprehensive income, are allocated to non-controlling interests even if doing so causes the non-controlling interests to have a negative balance.

The adoption of these amendments of IFRSs has no significant impact on the accounting policies of the Group. The accounting policies set out below have been applied consistently by the Group to all periods presented in these financial statements.

## 4 Significant accounting policies and accounting estimates

### (1) Consolidated financial statements

#### *(a) Business combinations*

The Group, at the acquisition date, allocates the cost of a business combination by recognising the acquiree's identifiable assets, liabilities and contingent liabilities at their fair value at that day. Where the cost of a business combination exceeds the Group's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill in accordance with the accounting policies set out in Note 4(9); where the cost of a business combination is less than the Group's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss.

Acquisition date mentioned above is the date that the Group effectively obtains control of the acquiree.

#### *(b) Subsidiaries and non-controlling interests*

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its operating activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

For the separate financial statements of the Bank, investments in subsidiaries are accounted for at cost. At initial recognition, investment in subsidiaries is measured at: the cost of acquisition determined at the acquisition date when the subsidiaries are acquired through business combination; or the cost of capital injected into the subsidiaries set up by the Group. Impairment losses on investments in subsidiaries are accounted for in accordance with the accounting policies as set out in Note 4(11).

The results and affairs of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. When preparing the consolidated financial statements, the Bank shall make necessary adjustments on the accounting period and accounting policies of subsidiaries to comply with those of the Bank.

Intragroup balances and transactions, and any profits or losses arising from intragroup transactions are eliminated in full in preparing the consolidated financial statements.

The portion of a subsidiary's net assets that is attributable to equity interests that are not owned by the Bank, whether directly or indirectly through subsidiaries, is treated as non-controlling interests and presented as "non-controlling interests" in the consolidated statement of financial position within total equity. The portion of net profit or loss and other comprehensive income of subsidiaries for the year attributable to non-controlling interests is separately presented in the consolidated statement of comprehensive income as a component of the Group's net profit.

#### *(c) Special purpose entities*

The Group has established a number of Special Purpose Entities ("SPEs") for investment and securitisation purposes. The Group evaluates the substance of its relationship with the SPEs as well as the SPEs' risks and rewards to determine whether the Group controls the SPEs. The following circumstances, which may indicate a relationship in which the Group controls a SPE are taken into account: (i) in substance, the activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operations; (ii) in substance, the Group has the decision-making powers to obtain the majority of the benefits of the activities of the SPE; (iii) in substance, the Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE; or (iv) in substance, the Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities. Where the evaluation result indicates that control exists, the Group will consolidate the SPE.

# 4 Significant accounting policies and accounting estimates (continued)

## (1) Consolidated financial statements (continued)

### *(d) Associates and jointly controlled entities*

An associate is an enterprise in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policy decisions.

A jointly controlled entity is an enterprise which operates under joint control between the Group and other parties. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control.

Investments in associate or jointly controlled entity are accounted for using the equity method in the consolidated financial statements and are initially recorded at acquisition cost, and adjusted thereafter for the post acquisition change in the Group's share of net assets of the associate or jointly controlled entity. The Group's share of the post-acquisition, post-tax results of the associate or jointly controlled entity for the year is recognised in the consolidated statement of comprehensive income. The Group's interest in associate or jointly controlled entity is included from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

Profits and losses resulting from transactions between the Group and its associate or jointly controlled entity are eliminated to the extent of the Group's interest in the associate or jointly controlled entity.

The Group discontinues recognising its share of net losses of the associate or jointly controlled entity after the carrying amount of investments in associate and jointly controlled entity together with any long-term interests that in substance form part of the Group's net investment in the associate or jointly controlled entity are reduced to zero, except to the extent that the Group has incurred legal or constructive obligations to assume additional losses. Where the associate or jointly controlled entity makes net profits subsequently, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

## (2) Translation of foreign currencies

### *(a) Translation of foreign currency transactions*

Foreign currency transactions are, on initial recognition, translated into the functional currency at the spot exchange rates at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated into the functional currency at the spot exchange rates at that date. The resulting exchange differences are recognised in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into functional currency using the spot exchange rates at the transaction dates. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the spot exchange rates at the dates the fair values are determined; exchange differences are recognised in profit or loss, except for the differences arising from the translation of available-for-sale equity instruments, which are recognised in other comprehensive income.

### *(b) Translation of financial statements denominated in foreign currencies*

Foreign currency financial statements of overseas branches and subsidiaries are translated into RMB for the preparation of consolidated financial statements. At the end of each reporting period, the assets and liabilities in the financial statements denominated in foreign currencies are translated into RMB at the spot exchange rates ruling at that date. The income and expenses of foreign operations are translated into RMB at the spot exchange rates or the rates that approximate the spot exchange rates on the transaction dates. Foreign exchange differences arising from foreign operations are recognised as "exchange reserve" in the shareholder's equity in the statement of financial position.

## (3) Financial instruments

### *(a) Categorisation*

The Group classifies financial instruments into different categories at inception, depending on the purposes for which the assets were acquired or the liabilities were incurred. The categories are: financial assets and financial liabilities at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities.

*Financial assets and financial liabilities at fair value through profit or loss*

Financial assets and financial liabilities at fair value through profit or loss include those classified as held for trading, and those designated as at fair value through profit or loss.

A financial asset or financial liability is classified as held for trading if it is: (i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) a derivative (except for a derivative that is a designated and effective hedging instrument or a financial guarantee contract).

Financial assets or financial liabilities are designated at fair value through profit or loss upon initial recognition when: (i) the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis; (ii) the designation eliminates or significantly reduces an accounting mismatch in the gain and loss recognition arising from the difference in measurement basis of the financial assets or financial liabilities; or (iii) if a contract contains one or more embedded derivatives, an entity may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss unless: the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited.

## 4 Significant accounting policies and accounting estimates (continued)

### (3) Financial instruments (continued)

*(a) Categorisation (continued)*

*Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than: (i) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (ii) those that meet the definition of loans and receivables.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (i) those that the Group intends to sell immediately or in the near term, which will be classified as held for trading; (ii) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (iii) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables mainly comprise deposits with central banks, deposits and placements with banks and non-bank financial institutions, financial assets held under resale agreements, loans and advances to customers, and debt securities classified as receivables.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as: (i) financial assets at fair value through profit or loss; (ii) held-to-maturity investments; or (iii) loans and receivables.

*Other financial liabilities*

Other financial liabilities are financial liabilities other than those designated as at fair value through profit or loss and mainly comprise borrowings from central banks, deposits and placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements, deposits from customers and debt securities issued.

Investment securities in the financial statements comprise the securities classified as held-to-maturity investments, available-for-sale financial assets and debt securities classified as receivables.

*(b) Derivatives and embedded derivatives*

The Group uses derivatives to hedge its exposure to foreign exchange and interest rate risks. Derivatives are recognised at fair value upon initial recognition. The positive fair value is recognised as an asset while the negative fair value is recognised as a liability. The gain or loss on re-measurement to fair value is recognised in profit or loss.

Certain derivatives are embedded into non-derivative hybrid instruments (the host contracts). The embedded derivatives are separated from the host contract and accounted for as a separate derivative when (i) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; (ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (iii) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss. When the embedded derivative is separated, the host contract is accounted for as a financial instrument in accordance with the accounting policies as set out in Note 4(3).

*(c) Recognition and derecognition*

All financial assets and financial liabilities are recognised in the statement of financial position, when and only when, the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; or (ii) the contractual rights to receive the cash flows of the financial asset have been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of transfer of cash flows and transfers substantially all the risks and rewards of ownership of the financial asset.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. If the Group has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.

The financial liability is derecognised only when: (i) the underlying present obligation specified in the contracts is discharged, cancelled or expired, or (ii) an agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

# 4 Significant accounting policies and accounting estimates (continued)

## (3) Financial instruments (continued)

### *(d) Measurement*

Financial instruments are measured initially at fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the instrument. Transaction costs for financial instruments at fair value through profit or loss are expensed immediately.

Subsequent to initial recognition, held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortised cost, while other categories of financial instruments are measured at fair value, without any deduction for transaction costs that may occur on sale or other disposal. Investments in available-for-sale equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment losses, if any.

Gains and losses from changes in the fair value of financial instruments at fair value through profit or loss are recognised in profit or loss.

Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated separately in equity, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities which are recognised in profit or loss.

When the available-for-sale financial assets are sold, gains or losses on disposal are recognised in profit or loss. Gains or losses on disposal include those previously recognised in other comprehensive income and reclassified into the profit or loss.

For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or financial liability is derecognised, impaired, or through the amortisation process.

### *(e) Impairment*

At the end of each reporting period, the Group assesses the carrying amount of financial assets (except for those at fair value through profit or loss). If there is any objective evidence that a financial asset is impaired, the Group will recognise the impairment loss in profit or loss. Losses expected as a result of future events, no matter how likely, are not recognised as impairment losses.

Objective evidence that a financial asset is impaired includes one or more events that occurred after the initial recognition of the asset where the event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence includes the following loss event:

- significant financial difficulty of the borrower or issuer;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- disappearance of an active market for financial assets because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including: adverse changes in the payment status of borrowers in the group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in the group;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the issuer of an equity instrument;
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost; and
- other objective evidence indicating there is an impairment of the financial asset.

## 4 Significant accounting policies and accounting estimates (continued)

### (3) Financial instruments (continued)

*(e) Impairment (continued)*

*Loans and receivables and held-to-maturity investments*

Individual assessment

Loans and receivables and held-to-maturity investments, which are considered individually significant, are assessed individually for impairment. If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred on an individual basis, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate, and recognised in profit or loss.

Cash flows relating to short-term loans and receivables and held-to-maturity investments are not discounted if the effect of discounting is immaterial. The calculation of the present value of the estimated future cash flows of a collateralised loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Collective assessment

Homogeneous groups of loans and advances to customers not considered individually significant and individually assessed loans and receivables and held-to-maturity investments with no objective evidence of impairment on an individual basis are assessed for impairment losses on a collective basis. If there is observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those financial assets, the impairment is recognised and recorded in profit or loss.

For homogeneous groups of loans and advances that are not considered individually significant, the Group adopts a flow rate methodology to assess impairment losses on a collective basis. This methodology utilises a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an adjustment of observable data that reflects the current economic conditions.

Loans and receivables and held-to-maturity investments which are individually significant and therefore have been individually assessed but for which no impairment can be identified, are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. The collective impairment loss is assessed after taking into account: (i) historical loss experience in portfolios of similar risk characteristics; (ii) the emergence period between a loss occurring and that loss being identified; and (iii) the current economic and credit environments and whether in management's experience these indicate that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

The emergence period between a loss occurring and its identification is determined by management based on the historical experience of the markets where the Group operates.

Impairment losses recognised on a collective basis represent an interim step pending the identification of impairment losses on individual assets (which are subject to individual assessment) in the pool of financial assets that are collectively assessed for impairment.

At the end of each reporting period, collective assessment covers those loans and receivables and held-to-maturity investments that were impaired but was not individually identified as such until some time in the future. As soon as information is available to specifically identify objective evidence of impairment on individual assets in a pool, those assets are removed from the pool of collectively assessed financial assets.

Impairment reversal and loan write-off

If, in a subsequent period, the amount of the impairment loss on loans and receivables and held-to-maturity investments decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

When the Group determines that a loan has no reasonable prospect of recovery after the Group has completed all the necessary legal or other proceedings, the loan is written off against its allowance for impairment losses. If in a subsequent period the loan written off is recovered, the amount recovered will be recognised in profit or loss through impairment losses.

Rescheduled loans

Rescheduled loans are loans that have been restructured due to deterioration in the borrower's financial position to the extent that the borrower is unable to repay according to the original terms and where the Group has made concessions that it would not otherwise consider under normal circumstances. Rescheduled loans are assessed individually and classified as impaired loans and advances upon restructuring. Rescheduled loans are subject to ongoing monitoring. Once a rescheduled loan has met specific conditions by the end of the observation period of normally 6 months, with the approval from management, they would no longer be considered as impaired.

# 4 Significant accounting policies and accounting estimates (continued)

## (3) Financial instruments (continued)

### (e) *Impairment (continued)*

Available-for-sale financial assets

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognised in other comprehensive income is reclassified to the profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from equity is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. For available-for-sale investments in equity instruments measured at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognised in profit or loss.

If, in a subsequent period, the fair value of available-for-sale financial assets increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss shall be treated in accordance with the following principles: (i) the impairment loss on debt instruments classified as available-for-sale shall be reversed, with the amount of the reversal recognised in profit or loss; (ii) the impairment loss on equity instruments classified as available-for-sale shall not be reversed through the profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income; or (iii) the impairment loss in respect of available-for-sale equity investments carried at cost shall not be reversed.

### (f) *Fair value measurement*

If there is an active market for financial instruments, the fair value of financial instruments is based on quoted market prices without any deduction for transaction costs that may occur on sales or disposals. The appropriate quoted price in an active market for financial assets held or liabilities to be issued is usually the current bid price and for financial assets to be acquired or liabilities held, the asking price. A quoted price is from an active market where price information is readily and regularly available from an exchange, dealer, industry group or pricing service agency and that price information represents actual and regularly occurring market transactions on an arm's length basis.

If a quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include recent arm's length market transactions between knowledgeable and willing parties, reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The Group selects valuation techniques that are commonly accepted by market participants for pricing the instruments and these techniques have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. Periodically, the Group reviews the valuation techniques and tests them for validity.

### (g) *Offsetting*

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when the Group has a legally enforceable right to offset the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

### (h) *Securitisations*

The Group securitises certain loans, which generally involves the sale of these assets to SPEs, which in turn issue securities to investors. Interests in the securitised financial assets may be retained in the form of credit enhancement or subordinated tranches, or other residual interests ("retained interests"). Retained interests are carried at fair value on inception date on the Group's statement of financial position. Gains or losses on securitisation are the difference between the carrying amount of the transferred financial assets and the consideration received (including retained interest) which is recognised in profit or loss.

### (i) *Financial assets held under resale agreements and financial assets sold under repurchase agreements*

Financial assets held under resale agreements are transactions where the Group acquires financial assets which will be resold at a predetermined price at a future date under resale agreements. Financial assets sold under repurchase agreements are transactions where the Group sells financial assets which will be repurchased at a predetermined price at a future date under repurchase agreements.

The cash advanced or received is recognised as amounts held under resale or sold under repurchase agreements in the statement of financial position. Assets held under resale agreements are not recognised. Assets sold under repurchase agreements continue to be recognised in the statement of financial position.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortised over the period of the respective transaction using the effective interest method and is included in interest income and interest expenses respectively.

## (4) Precious metals

Precious metals comprise gold and other precious metals. Precious metals that are acquired by the Group principally for trading purpose are initially recognised at fair value and re-measured at fair value less cost to sell with changes in fair value less cost to sell included in "net trading gain" in the statement of comprehensive income. Precious metals that are not acquired by the Group principally for trading purpose are carried at lower of cost and net realisable value.

(Expressed in millions of RMB, unless otherwise stated)

# 4 Significant accounting policies and accounting estimates (continued)

## (5) Fixed assets

Fixed assets are assets held by the Group for the conduct of business and are expected to be used for more than one year. Construction in progress is the property and equipment under construction, which is transferred to fixed assets when ready for its intended use.

### (a) *Cost*

Fixed assets are initially recognised at cost, except for the fixed assets and construction in progress obtained from CCB by the Bank which were recognised at the revalued amount as deemed cost on the Restructuring Date. The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditures for bringing the asset to working condition for its intended use. The cost of a self-constructed fixed asset comprises those expenditures necessarily incurred for bringing the asset to working condition for its intended use.

Where the individual components of an item of fixed asset have different useful lives or provide benefits to the Group in different patterns thus necessitating use of different depreciation rates or methods, they are recognised as separate fixed assets.

Subsequent costs, including the cost of replacing part of an item of fixed assets, are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. Expenditures relating to ordinary maintenance of fixed assets are recognised in profit or loss.

### (b) *Depreciation and impairment*

Depreciation is calculated to write off to the profit or loss the cost of items of fixed assets, less their estimated residual value, if any, using the straight line method over their estimated useful lives. Impaired fixed assets are depreciated net of accumulated impairment losses. No depreciation is provided on construction in progress.

The estimated useful lives, residual values and depreciation rates of respective fixed assets are as follows:

| Types of assets | Estimated useful lives | Estimated net residual values | Depreciation rates |
|---|---|---|---|
| Bank premises | 30 – 35 years | 3% | 2.8%-3.2% |
| Equipment | 3 – 8 years | 3% | 12.1%-32.3% |
| Others | 4 – 11 years | 3% | 8.8%-24.3% |

The Group reviews the estimated useful life and estimated residual value of a fixed asset and the depreciation method applied at least once a financial year.

Impairment losses on fixed assets are accounted for in accordance with the accounting policies as set out in Note 4(11).

### (c) *Disposal*

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the fixed asset and are recognised in profit or loss on the date of retirement or disposal.

## (6) Lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred or not. An operating lease is a lease other than a finance lease.

### (a) *Finance lease*

Where the Group is a lessor under finance leases, an amount representing the sum of the minimum lease payments and initial direct costs at the commencement of the lease term, is included in “loans and advances to customers” on statement of financial position as a lease receivable. Unrecognised finance income under finance leases is amortised using the effective interest rate method over the lease term. Finance income implicit in the lease payment is recognised as “interest income” over the period of the leases in proportion to the funds invested. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases.

Impairment losses on lease receivables are accounted for in accordance with the accounting policies as set out in Note 4(3)(e).

### (b) *Operating lease*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the profit or loss, using the straight-line method, over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the profit or loss in the accounting period in which they are incurred.

# 4 Significant accounting policies and accounting estimates (continued)

## (7) Land use rights

Land use rights are initially recognised at cost. The land use rights obtained from CCB by the Bank on the date of Restructuring were recorded at the revalued amount. The cost of the land use rights is amortised on a straight-line basis over their authorised useful lives which range from 30 to 50 years, and charged to the profit or loss. Impaired land use rights are amortised net of accumulated impairment losses.

Impairment losses on land use rights are accounted for in accordance with the accounting policies as set out in Note 4(11).

## (8) Intangible assets

Software and other intangible assets are initially recognised at cost. The cost less estimated residual values (if any) of the intangible assets is amortised on a straight-line basis over their useful lives, and charged to the profit or loss. Impaired intangible assets are amortised net of accumulated impairment losses.

Impairment losses on intangible assets are accounted for in accordance with the accounting policies as set out in Note 4(11).

## (9) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the fair value of the acquiree's identifiable net assets. Goodwill is not amortised. Goodwill arising on a business combination is allocated to each cash-generating unit ("CGU") or group of CGUs, that is expected to benefit from the synergies of the combination. The Group performs impairment test on goodwill semi-annually.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable net assets over the cost of a business combination is recognised immediately in profit or loss.

On disposal of the related CGU or group of CGUs, any attributable amount of goodwill net of allowances for impairment losses, if any, is included in the calculation of the profit or loss on disposal.

Impairment loss on goodwill is accounted for in accordance with the accounting policies as set out in Note 4(11).

## (10) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Repossessed assets are recognised and reported in "other assets" in the statement of financial position when the Group intends to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrower.

When the Group seizes assets to compensate for the losses of loans and advances and interest receivable, the repossessed assets are initially recognised at fair value, plus any taxes paid for the seizure of the assets, litigation fees and other expenses incurred for collecting the repossessed assets. Repossessed assets are recognised at the carrying value, net of allowances for impairment losses (Note 4(11)).

## (11) Allowances for impairment losses on non-financial assets

At the end of each reporting period, the Group assesses whether there is any indication that a non-financial asset may be impaired. If any indication exists that an asset may be impaired, the Group estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired and it is not possible to estimate the recoverable amount of an individual asset, the Group determines the recoverable amount of the CGU to which the asset belongs.

CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or groups of assets.

The recoverable amount of an asset (or CGU, group of CGUs) is the higher of its fair value less costs to sell and the present value of the expected future cash flows. The Group considers all relevant factors in estimating the present value of future cash flows, such as the expected future cash flows, the useful life and the discount rate.

### *(a) Testing CGU with goodwill for impairment*

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the CGU or group of CGUs that is expected to benefit from the synergies of the combination.

A CGU or group of CGUs to which goodwill has been allocated is tested for impairment by the Group semi-annually, or whenever there is an indication that the CGU or group of CGUs are impaired, by comparing the carrying amount of the CGU or group of CGUs, including the goodwill, with the recoverable amount of the CGU or group of CGUs. The recoverable amount of the CGU or group of CGUs are the estimated future cash flows, which are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU or group of CGUs with allocated goodwill.

At the time of impairment testing of a CGU or group of CGUs to which goodwill has been allocated, there may be an indication of an impairment of an asset within the CGU containing the goodwill. In such circumstances, the Group tests the asset for impairment first, and recognises any impairment loss for that asset before testing for impairment on the CGU or group of CGUs containing the goodwill. Similarly, there may be an indication of an impairment of a CGU within a group of CGUs containing the goodwill. In such circumstances, the entity tests the CGU for impairment first, and recognises any impairment loss for that CGU, before testing for impairment the group of CGUs to which the goodwill is allocated.

# 4 Significant accounting policies and accounting estimates (continued)

## (11) Allowances for impairment losses on non-financial assets (continued)

*(b) Impairment loss*

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss and charged to the profit or loss.

For a CGU or a group of CGUs, the amount of impairment loss firstly reduces the carrying amount of any goodwill allocated to the CGU or group of CGUs, and then reduces the carrying amount of other assets (other than goodwill) within the CGU or group of CGUs, pro rata on the basis of the carrying amount of each asset.

*(c) Reversing an impairment loss*

If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

An impairment loss in respect of goodwill is not reversed.

## (12) Employee benefits

Employee benefits are all forms of consideration given and other relevant expenditures incurred by the Group in exchange for services rendered by employees. Except for termination benefits, employee benefits are recognised as a liability in the period in which the associated services are rendered by its employees, with a corresponding increase in cost of relevant assets or the expenses in profit or loss. Where payment or settlement is deferred and the effect of discount would be material, these amounts are stated at their present values in the statement of financial position.

*(a) Staff incentive plan*

As approved by the board of directors, for the purposes of providing incentives and rewards to eligible employees for their past services, the Group awards a specified amount of staff compensation to the staff incentive plan independently managed by a designated staff committee for those eligible participating employees. The Group recognises its contribution to the plan when it has a present legal or constructive obligation to make such payment and a reliable estimate of the obligation can be made.

*(b) Defined contribution retirement schemes*

Pursuant to the relevant laws and regulations in the PRC, the Group has joined defined contribution retirement schemes for the employees arranged by local government labor and security authorities. The Group makes contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the local government organizations. The contributions are charged to the profit or loss on an accrual basis. When employees retire, the local government labor and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

In addition to the statutory provision schemes, the Bank's employees have joined the annuity scheme set up by the Bank under "CCBC Annuity Scheme" (the "scheme") in accordance with state enterprise annuity regulations. The Bank has made annuity contributions in proportion to its employees' gross wages, which are expensed in profit or loss when the contributions are made.

*(c) Supplementary retirement benefits*

The Group pays supplementary retirement benefits for its employees in Mainland China who retired on or before 31 December 2003 in addition to the contributions made to statutory insurance schemes. The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future obligations that the Group is committed to pay to the employees after their retirement using actuarial techniques. At the end of each reporting period, such obligations are discounted with interest yield of government bonds with similar duration. In calculating the Group's obligations, to the extent that any cumulative unrecognised gains or losses exceed 10% of the present value of the obligation at the end of each reporting period, that portion is recognised in profit or loss. Otherwise, the gain or loss is not recognised.

*(d) Housing fund and other social insurance*

In accordance with the related laws, regulations and policies of the PRC, the Group participates in mandatory social insurance programmes, including housing fund, basic medical insurance, unemployment insurance, work injury insurance and maternity insurance etc. The Group makes housing fund and social insurance contributions to government agencies in proportion to each employees' salary and expenses monthly and recognises them in profit or loss on an accrual basis.

*(e) Termination benefits*

Where the Group terminates the employment relationship with employees before the end of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision is recognised for the compensation arising from termination of employment relationship, with a corresponding charge to the profit or loss for the current period, when both of the following conditions are satisfied: (i) the Group has a formal plan for termination of employment relationship or has made an offer for voluntary redundancy, which will be implemented immediately; (ii) the Group cannot unilaterally withdraw from the termination plan or the redundancy offer.

*Early retirement expenses*

The Group recognises the present value of all its liabilities to employees who agreed to retire early in return for certain future payments as expenses in profit or loss when the relevant staff accepts the early retirement arrangement and ceases to provide any services to the Group. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when incurred.

# 4 Significant accounting policies and accounting estimates (continued)

## (13) Provisions and contingent liabilities

A provision is recognised in the statement of financial position if, as the result of a past event, the Group has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows.

A potential obligation arising from a past transaction or event whose existence can only be confirmed by the occurrence or non-occurrence of future uncertain events; or a present obligation that arises from past transactions or events where it is not probable that an outflow of economic benefits is required to settle the obligation or the amount of the obligation cannot be measured reliably, is disclosed as a contingent liability unless the probability of outflow of economic benefit is remote.

## (14) Financial guarantees

Financial guarantees are contracts that require the guarantor (the "issuer") to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs when a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income in "other liabilities". The deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. Provisions are recognised in the statement of financial position if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and the amount of that claim on the Group is expected to exceed the carrying amount of the deferred income.

## (15) Fiduciary activities

The Group's fiduciary business refers to the management of assets for customers in accordance with custody agreements signed by the Group and securities investment funds, insurance companies, annuity plans and other organisations. The Group fulfils its fiduciary duty and receives relevant fees in accordance with these agreements, and does not take up any risks and rewards related to the assets under custody, which are recorded as off-balance sheet items.

The Group conducts entrusted lending business, whereby it enters into entrusted loan agreements with customers. Under the terms of these agreements, the customers provide funding (the "entrusted funds") to the Group, and the Group grants loans to third parties (the "entrusted loans") according to the instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, entrusted loans and funds are recorded as off-balance sheet items at their principal amounts and no impairment assessments are made for these entrusted loans.

## (16) Income recognition

Provided it is probable that economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

*(a) Interest income*

Interest income for interest bearing financial instruments is recognised in profit or loss based on effective interest method. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest basis.

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

Interest on the impaired financial assets is recognised using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

*(b) Fee and commission income*

Fee and commission income is recognised in profit or loss when the corresponding service is provided. Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Group making a loan, the fee is recognised as revenue on expiry.

*(c) Finance income from finance leases and hire purchase contracts*

Finance income implicit in finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

*(d) Dividend income*

Dividend income from unlisted equity investments is recognised in profit or loss on the date when the Group's right to receive payment is established. Dividend income from a listed equity investment is recognised when the share price of the investment goes ex-dividend.

## 4 Significant accounting policies and accounting estimates (continued)

### (17) Income tax

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous periods. Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax also arises from unused tax losses and unused tax credits. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Current income tax and movements in deferred tax balances are recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

At the end of each reporting period, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled according to the requirements of tax laws. The Group also considers the possibility of realisation and the settlement of deferred tax assets and deferred tax liabilities in the calculation.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity. Otherwise, the balances of deferred tax assets and deferred tax liabilities, and movements therein, are presented separately from each other and are not offset.

### (18) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

### (19) Profit distribution

Proposed dividends which are declared and approved after the end of each reporting period are not recognised as a liability in the statement of financial position and are instead disclosed as a subsequent event after the end of each reporting period in the note to the financial statements. Dividends payable are recognised as liabilities in the period in which they are approved.

### (20) Related parties

If the Group has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. The Group's related parties include but are not limited to the following:

(a) the Bank's parents;
(b) the Bank's subsidiaries;
(c) other entities which are controlled by the Bank's parents;
(d) an investor who has joint control over the Group;
(e) an investor who can exercise significant influence over the Group;
(f) an associate of the Group;
(g) a jointly controlled entity of the Group;
(h) principal individual investors of the Group, and close family members of such individuals (principal individual investors are the individual investors who have the power, directly or indirectly, to control, jointly control or exercise significant influence over another party);
(i) key management personnel of the Group and close family members of such individuals (key management personnel represent those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of that entity);
(j) key management personnel of the Bank's parents and close family members of such individuals;
(k) other entities that are controlled, jointly controlled, or significantly influenced by the Group's principal individual investors, key management personnel, or close family members of such individuals; and
(l) a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

### (21) Operating segments

The identification of operating segments of the Group is on the basis of internal reports that are regularly reviewed by the Group's chief operating decision maker in order to allocate resources to the segment and assess its performance. On the basis of the operating segments, the Group identifies the reportable segments, using a combination of factors including products and services, geographical areas, regulatory environments and etc., which the management has chosen for organization. The operating segments that meet the specified criteria have been aggregated, and the operating segments that meet quantitative thresholds have been reported separately.

The amount reported for each operating segment item is the measure reported to the chief operating decision maker for the purposes of allocating resources to the segment and assessing its performance. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Group.

# 4 Significant accounting policies and accounting estimates (continued)

## (22) Significant accounting estimates and judgements

### (a) *Impairment losses on loans and advances, and available-for-sale and held-to-maturity debt investments*

The Group reviews the portfolios of loans and advances, and available-for-sale and held-to-maturity debt investments periodically to assess whether impairment losses exist and if they exist, the amounts of impairment losses. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows identified with an individual loan and advance, an available-for-sale or a held-to-maturity debt investment. It also includes observable data indicating adverse changes in the repayment status of borrowers or issuers in the assets portfolio or national or local economic conditions that correlate with defaults on the assets in the portfolio.

The impairment loss for a loan that is individually assessed for impairment is the decrease in the estimated discounted future cash flows. Same principle is adopted for impairment loss on a held-to-maturity debt investment which is individually assessed, except that as a practical expedient, the Group may measure the impairment loss on the basis of the instrument's fair value using an observable market price at the measurement date. The impairment loss for an available-for-sale debt investment is the difference between the acquisition cost (net off any principal repayments and amortisation) and the fair value, less any impairment loss previously recognised in profit or loss at the measurement date.

When loans and advances and held-to-maturity debt investments are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the loans and advances and held-to-maturity debt investments that are being assessed. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual losses.

### (b) *Impairment of available-for-sale equity instruments*

For available-for-sale equity instruments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the Group considers historical market volatility and share price data of the specific equity instrument as well as other factors, such as sector performance, and financial information regarding the investee.

### (c) *Fair value of financial instruments*

The fair value of financial instruments that are traded in an active market is based on their quoted market prices in an active market at the valuation date. A quoted market price is a price from an active market where price information is readily and regularly available from an exchange or from a dealer quotation and where this price information represents actual and recurring market transactions on an arm's length basis.

For all other financial instruments, the Group determines fair values using valuation techniques which include discounted cash flow models, as well as other types of valuation model. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign currency exchange rates. Where discounted cash flow techniques are used, estimated cash flows are based on management's best estimates and the discount rate used is a market rate at the end of each reporting period applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on observable market data at the end of each reporting period.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

### (d) *Classification of held-to-maturity investments*

In evaluating whether the requirements to classify a financial asset as held-to-maturity are met, management makes significant judgements. Change of the Group in sustaining the intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

### (e) *Income taxes*

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

### (f) *Employee retirement benefit obligations*

The Group has established liabilities in connection with benefits paid to certain retired employees. The amounts of employee benefit expense and these liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, pension benefit inflation rates, medical benefit inflation rates, and other factors. Actual results that differ from the assumptions are recognised to the extent that any cumulative unrecognised gains or losses exceed 10% of the present value of the obligation at the end of each reporting period. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect the Group's expense related to its employee retirement benefit obligations.

(Expressed in millions of RMB, unless otherwise stated)

# 5 Taxation

The Group's main applicable taxes and tax rates are as follows:

## Business tax

Business tax is charged at 5% on taxable income.

## City construction tax

City construction tax is calculated as 1% – 7% of business tax.

## Education surcharge

Education surcharge is calculated as 3% of business tax.

## Income tax

The income tax rate that is applicable to the Bank and its subsidiaries in Mainland China is 25%. Taxation on overseas operations is charged at the relevant local rates. Tax paid on overseas operations is set off to the extent it is allowed under the relevant income tax laws of the PRC. All tax exemptions are determined upon approval from the relevant tax authorities.

Current liabilities arising from the above taxes are presented as "taxes payable" in the statement of financial position.

# 6 Net interest income

| | 2010 | 2009 |
|---|---|---|
| **Interest income arising from:** | | |
| Deposits with central banks | **23,226** | 18,511 |
| Deposits with banks and non-bank financial institutions | **1,360** | 430 |
| Placements with banks and non-bank financial institutions | **450** | 310 |
| Financial assets at fair value through profit or loss | **706** | 1,178 |
| Financial assets held under resale agreements | **6,424** | 8,493 |
| Investment securities | **78,611** | 70,488 |
| Loans and advances to customers | | |
| – Corporate loans and advances | **199,623** | 186,649 |
| – Personal loans and advances | **60,848** | 48,255 |
| – Discounted bills | **6,535** | 5,149 |
| Total | **377,783** | 339,463 |
| **Interest expense arising from:** | | |
| Borrowings from central banks | **(14)** | – |
| Deposits from banks and non-bank financial institutions | **(13,626)** | (12,737) |
| Placements from banks and non-bank financial institutions | **(741)** | (386) |
| Financial liabilities at fair value through profit or loss | **(1)** | (27) |
| Financial assets sold under repurchase agreements | **(176)** | (11) |
| Debt securities issued | **(3,526)** | (3,441) |
| Deposits from customers | | |
| – Corporate deposits | **(52,524)** | (50,651) |
| – Personal deposits | **(55,675)** | (60,325) |
| Total | **(126,283)** | (127,578) |
| Net interest income | **251,500** | 211,885 |

Notes:

(1) Interest income from impaired financial assets is listed as follows:

| | 2010 | 2009 |
|---|---|---|
| Impaired loans | **799** | 1,270 |
| Other impaired financial assets | **446** | 1,022 |
| Total | **1,245** | 2,292 |

(2) Interest expense on financial liabilities with maturity over five years mainly represented the interest expense on debt securities issued.

(Expressed in millions of RMB, unless otherwise stated)

## 7 Net fee and commission income

| | 2010 | 2009 |
|---|---|---|
| **Fee and commission income:** | | |
| Consultancy and advisory fees | **12,816** | 10,962 |
| Bank card fees | **12,344** | 9,186 |
| Agency service fees | **12,115** | 9,840 |
| Settlement and clearing fees | **9,614** | 6,308 |
| Commission on trust and fiduciary activities | **6,720** | 5,522 |
| Wealth management service fees | **5,611** | 2,078 |
| Electronic banking service fees | **2,879** | 1,889 |
| Guarantee fees | **1,857** | 1,519 |
| Credit commitment fees | **1,605** | 1,256 |
| Others | **2,595** | 1,279 |
| Total | **68,156** | 49,839 |
| **Fee and commission expense:** | | |
| Bank card transaction fees | **(1,302)** | (963) |
| Inter-bank transaction fees | **(341)** | (347) |
| Others | **(381)** | (470) |
| Total | **(2,024)** | (1,780) |
| Net fee and commission income | **66,132** | 48,059 |

## 8 Net trading gain

| | 2010 | 2009 |
|---|---|---|
| Debt securities | **(11)** | (518) |
| Derivatives | **1,587** | 1,043 |
| Equity investments | **1,232** | 1,495 |
| Others | **701** | 213 |
| Total | **3,509** | 2,233 |

For the year ended 31 December 2010, trading gain related to financial assets designated at fair value through profit or loss of the Group amounted to RMB1,017 million (2009: RMB1,013 million). Trading loss related to financial liabilities designated at fair value through profit or loss of the Group amounted to RMB807 million (2009: RMB70 million).

## 9 Dividend income

| | 2010 | 2009 |
|---|---|---|
| Dividend income from listed trading equity investments | **29** | 6 |
| Dividend income from available-for-sale equity investments | | |
| – Listed | **83** | 38 |
| – Unlisted | **116** | 56 |
| Total | **228** | 100 |

## 10 Net gain arising from investment securities

| | 2010 | 2009 |
|---|---|---|
| Net gain on sale of available-for-sale financial assets | **1,103** | 1,960 |
| Net revaluation gain reclassified from other comprehensive income on disposal | **735** | 925 |
| Net gain on sale of held-to-maturity investments | **65** | 1,575 |
| Net gain on sale of debt securities classified as receivables | **–** | 11 |
| Total | **1,903** | 4,471 |

(Expressed in millions of RMB, unless otherwise stated)

## 11 Other operating income, net

| | 2010 | 2009 |
|---|---|---|
| Net foreign exchange loss | **(611)** | (250) |
| Net gain on disposal of fixed assets | **455** | 110 |
| Net gain on disposal of repossessed assets | **140** | 356 |
| Gain on acquisition | **–** | 473 |
| Others | **2,524** | 1,877 |
| Total | **2,508** | 2,566 |

Net foreign exchange gain or loss includes gains and losses in connection with the translation of foreign currency denominated monetary assets and liabilities, and net realised and unrealised gains and losses on foreign exchange derivatives (including those foreign exchange swaps, foreign exchange options and cross currency swaps entered into in order to economically hedge long positions in foreign currency assets).

## 12 Operating expenses

| | 2010 | 2009 |
|---|---|---|
| Staff costs | | |
| – Salaries, bonuses and allowances | **42,652** | 35,422 |
| – Defined contribution retirement schemes | **7,206** | 5,941 |
| – Other social insurance and welfare | **5,311** | 4,362 |
| – Housing funds | **3,409** | 2,941 |
| – Union running costs and employee education costs | **1,695** | 1,238 |
| – Supplementary retirement benefits | **432** | 537 |
| – Early retirement expenses | **685** | 679 |
| – Compensation to employees for termination of employment relationship | **19** | 18 |
| | **61,409** | 51,138 |
| Premises and equipment expenses | | |
| – Depreciation charges | **9,855** | 9,005 |
| – Rent and property management expenses | **4,578** | 4,048 |
| – Maintenance | **1,673** | 1,480 |
| – Utilities | **1,545** | 1,423 |
| – Others | **879** | 799 |
| | **18,530** | 16,755 |
| Amortisation expenses | **1,972** | 1,871 |
| Business tax and surcharges | **18,364** | 15,972 |
| Audit fees | **148** | 157 |
| Other general and administrative expenses | **20,943** | 19,253 |
| Total | **121,366** | 105,146 |

## 13 Impairment losses

| | 2010 | 2009 |
|---|---|---|
| Loans and advances to customers | | |
| – Additions | **38,425** | 40,415 |
| – Releases | **(12,784)** | (16,159) |
| Available-for-sale debt securities | **139** | 999 |
| Available-for-sale equity investments | **1,678** | 5 |
| Held-to-maturity investments | **(381)** | 76 |
| Debt securities classified as receivables | **24** | 32 |
| Fixed assets | **2** | 2 |
| Others | **2,189** | 90 |
| Total | **29,292** | 25,460 |

(Expressed in millions of RMB, unless otherwise stated)

## 14 Directors' and supervisors' emoluments

The aggregate of the emoluments before individual income tax in respect of the directors and supervisors who held office during the year is as follows:

| | 2010 | | | | |
|---|---|---|---|---|---|
| | Fees RMB'000 | Remuneration paid RMB'000 | Contributions to defined contribution retirement schemes RMB'000 | Other benefits in kind (note (vi)) RMB'000 | Total (note (i)) RMB'000 |
| **Executive directors** | | | | | |
| Guo Shuqing (note (vii)) | – | 672 | 29 | 290 | 991 |
| Zhang Jianguo (note (vii)) | – | 648 | 29 | 290 | 967 |
| Chen Zuofu (note (ii)&(vii)) | – | 564 | 29 | 247 | 840 |
| Zhu Xiaohuang(note (ii)&(vii)) | – | 564 | 29 | 246 | 839 |
| **Non-executive directors** | | | | | |
| Wang Yong (note (iii)) | – | – | – | – | – |
| Wang Shumin (note (iii)) | – | – | – | – | – |
| Zhu Zhenmin (note (ii)&(iii)) | – | – | – | – | – |
| Li Xiaoling (note (iii)) | – | – | – | – | – |
| Sue Yang (note (ii)&(iv)) | 163 | – | – | – | 163 |
| Lu Xiaoma (note (ii)&(iii)) | – | – | – | – | – |
| Chen Yuanling (note (ii)&(iii)) | – | – | – | – | – |
| **Independent non-executive directors** | | | | | |
| Lord Peter Levene | 360 | – | – | – | 360 |
| Yam Chi Kwong, Joseph (note (ii)) | 158 | – | – | – | 158 |
| Dame Jenny Shipley | 390 | – | – | – | 390 |
| Elaine La Roche | 425 | – | – | – | 425 |
| Zhao Xijun (note (ii)) | 171 | – | – | – | 171 |
| Wong Kai-Man | 415 | – | – | – | 415 |
| **Supervisors** | | | | | |
| Zhang Furong (note (ii))&(vii)) | – | 265 | 12 | 127 | 404 |
| Liu Jin (note (vii)) | – | 402 | 29 | 208 | 639 |
| Song Fengming (note (ii)) | 135 | – | – | – | 135 |
| Jin Panshi (note (ii)&(vii)) | 13 | 201 | 14 | 100 | 328 |
| Li Weiping (note (ii)&(v)) | 13 | – | – | – | 13 |
| Huang Shuping (note (ii)&(v)) | 13 | – | – | – | 13 |
| Guo Feng | 250 | – | – | – | 250 |
| Dai Deming | 270 | – | – | – | 270 |
| **Former non-executive directors** | | | | | |
| Wang Yonggang (note(ii)&(iii)) | – | – | – | – | – |
| Liu Xianghui (note(ii)&(iii)) | – | – | – | – | – |
| Zhang Xiangdong (note(ii)&(iii)) | – | – | – | – | – |
| Gregory L. Curl (note(ii)&(iv)) | 195 | – | – | – | 195 |
| **Former independent non-executive directors** | | | | | |
| Song Fengming (note(ii)) | 220 | – | – | – | 220 |
| Tse Hau Yin, Aloysius (note(ii)) | 220 | – | – | – | 220 |
| **Former supervisors** | | | | | |
| Xie Duyang (note(ii)&(vii)) | – | 477 | 21 | 215 | 713 |
| Cheng Meifen (note(ii)&(v)) | 13 | – | – | – | 13 |
| Sun Zhixin (note(ii)&(v)) | 13 | – | – | – | 13 |
| Shuai Jinkun (note(ii)&(v)) | 13 | – | – | – | 13 |
| | 3,450 | 3,793 | 192 | 1,723 | 9,158 |

(Expressed in millions of RMB, unless otherwise stated)

## 14 Directors' and supervisors' emoluments (continued)

| | 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Basic annual salaries RMB'000 | Annual performance bonus RMB'000 | Allowance RMB'000 | Welfare RMB'000 | Total (before tax) (note (viii)) RMB'000 | Including: deferral payment RMB'000 | The actual payment in 2009 (before tax) RMB'000 |
| **Executive directors** | | | | | | | |
| Guo Shuqing | 377 | 997 | – | 306 | 1,680 | 498 | 1,182 |
| Zhang Jianguo | 358 | 944 | – | 306 | 1,608 | 472 | 1,136 |
| Xin Shusen | 338 | 892 | – | 264 | 1,494 | 446 | 1,048 |
| Chen Zuofu (note (ii)) | 338 | 892 | – | 264 | 1,494 | 446 | 1,048 |
| **Non-executive directors** | | | | | | | |
| Wang Yonggang (note (iii)) | – | – | – | – | – | – | – |
| Wang Yong (note (iii)) | – | – | – | – | – | – | – |
| Wang Shumin (note (iii)) | – | – | – | – | – | – | – |
| Liu Xianghui (note (iii)) | – | – | – | – | – | – | – |
| Zhang Xiangdong (note (iii)) | – | – | – | – | – | – | – |
| Li Xiaoling (note (iii)) | – | – | – | – | – | – | – |
| Gregory L. Curl (note (iv)) | – | – | 390 | – | 390 | – | 390 |
| **Independent non-executive directors** | | | | | | | |
| Lord Peter Levene | – | – | 360 | – | 360 | – | 360 |
| Song Fengming | – | – | 440 | – | 440 | – | 440 |
| Jenny Shipley | – | – | 360 | – | 360 | – | 360 |
| Elaine La Roche | – | – | 410 | – | 410 | – | 410 |
| Wong Kai-Man | – | – | 390 | – | 390 | – | 390 |
| Tse Hau Yin, Aloysius | – | – | 440 | – | 440 | – | 440 |
| **Supervisors** | | | | | | | |
| Xie Duyang | 350 | 923 | – | 304 | 1,577 | 462 | 1,115 |
| Liu Jin | 258 | 681 | – | 224 | 1,163 | 341 | 822 |
| Jin Panshi | 258 | 681 | – | 224 | 1,163 | 341 | 822 |
| Cheng Meifen (note (v)) | – | – | 26 | – | 26 | – | 26 |
| Sun Zhixin (note (v)) | – | – | 26 | – | 26 | – | 26 |
| Shuai Jinkun (note (v)) | – | – | 26 | – | 26 | – | 26 |
| Guo Feng | – | – | 250 | – | 250 | – | 250 |
| Dai Deming | – | – | 270 | – | 270 | – | 270 |
| | 2,277 | 6,010 | 3,388 | 1,892 | 13,567 | 3,006 | 10,561 |

Notes:

(i) The amounts of emoluments for the year ended 31 December 2010 in respect of the services rendered by the directors and supervisors are subject to the approval of the Bank's shareholders in 2010 Annual General Meeting.

(ii) Upon the election at the 2009 Annual General Meeting of the Bank and the approval of the CBRC, Mr. Zhu Xiaohuang commenced his position as an executive director of the Bank from July 2010; Mr. Zhu Zhenmin, Ms. Sue Yang, Mr. Lu Xiaoma and Ms. Chen Yuanling commenced their positions as non-executive directors of the Bank from August 2010; and Mr. Yam Chi Kwong, Joseph and Mr. Zhao Xijun commenced their positions as independent non-executive directors of the Bank from August 2010.

Upon the appointment by the 2008 Annual General Meeting of the Bank and the approval of the CBRC, Mr. Chen Zuofu commenced his position as an executive director of the Bank from July 2009.

Upon the conclusion of the 2009 Annual General Meeting of the Bank, Mr. Wang Yonggang, Mr. Liu Xianghui, Mr. Zhang Xiangdong, Mr. Gregory L. Curl., Mr. Song Fengming and Mr. Tse Hau Yin, Aloysius ceased to serve as directors of the Bank.

Upon the election at the first Extraordinary General Meeting in 2010, Mr. Zhang Furong commenced his position as a shareholder representative supervisor. Upon election at the sixth meeting of the board of supervisors in 2010, Mr. Zhang Furong was elected the chairman of the board of supervisors.

Upon the election at the 2009 Annual General Meeting of the Bank, Mr. Song Fengming commenced his position as a shareholder representative supervisor of the Bank; and at the second joint session of the second staff representative conference of the Bank, Mr. Jin Panshi, Mr. Li Weiping and Ms. Huang Shuping were elected as the employee representative supervisors the Bank.

In accordance with relevant regulations and due to his age, Mr. Xie Duyang resigned on 15 September 2010 from the positions of supervisor and chairman of the board of supervisors of the Bank.

Upon the conclusion of the 2009 Annual General Meeting of the Bank, Ms. Cheng Meifen, Mr. Sun Zhixin and Mr. Shuai Jinkun ceased to serve as supervisors of the Bank; Mr. Jin Panshi ceased to serve as the shareholder representative supervisor of the Bank.

(Expressed in millions of RMB, unless otherwise stated)

## 14 Directors' and supervisors' emoluments (continued)

Notes: (continued)

(iii) The Bank does not need to pay the emoluments of non-executive directors appointed by Huijin for the services rendered in 2010 and 2009.

(iv) The amount will be payable to Bank of America Corporation ("BOA") for their services as director after the approval of the Bank's shareholders as mentioned in note (i).

(v) The amounts only included fees for their services as supervisors.

(vi) Other benefits in kind included the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities. Other benefits also included the Bank's contribution to its own corporate annuity plan (which was set up in accordance with the relevant policies issued by the government authorities) and supplementary medical insurance.

None of the directors and supervisors received any inducements or compensation for loss of office, or waived any emoluments during the years ended 31 December 2010 and 2009.

(vii) The total compensation package for these directors and supervisors for the year ended 31 December 2010 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact on the Group's and the Bank's financial statements for the year ended 31 December 2010. The final compensation will be disclosed in a separate announcement when determined.

(viii) The total compensation package for certain directors and supervisors for the year ended 31 December 2009 had not been finalised in accordance with regulations of the PRC relevant authorities till the date that the 2009 financial statements were announced. The aforesaid total compensation package for the directors and supervisors for the year ended 31 December 2009 was the final amount and the Bank made the relevant supplementary announcement on 29 April 2010.

## 15 Individuals with highest emoluments

None of the five individuals with the highest emoluments are directors or supervisors whose emoluments are disclosed in Note 14. The aggregate of the emoluments before individual income tax in respect of the five highest paid individuals during the year is as follows:

| | **2010 RMB'000** | 2009 RMB'000 |
|---|---|---|
| Salaries and allowance | **5,137** | 11,176 |
| Variable compensation | **43,149** | 22,639 |
| Contributions to defined contribution retirement schemes | **425** | 540 |
| Other benefits in kind | **85** | 96 |
| | **48,796** | 34,451 |

The number of these individuals whose emoluments before individual income tax are within the following bands is set out below.

| | **2010** | 2009 |
|---|---|---|
| RMB5,500,001 – RMB6,000,000 | **–** | 3 |
| RMB6,000,001 – RMB6,500,000 | **–** | 1 |
| RMB7,000,001 – RMB7,500,000 | **1** | – |
| RMB7,500,001 – RMB8,000,000 | **1** | – |
| RMB8,000,001 – RMB8,500,000 | **1** | – |
| RMB9,000,001 – RMB9,500,000 | **1** | – |
| RMB11,000,001 – RMB11,500,000 | **–** | 1 |
| RMB16,000,001 – RMB16,500,000 | **1** | – |

None of these individuals received any inducements, or compensation for loss of office, or waived any emoluments during the years ended 31 December 2010 and 2009.

## 16 Income tax expense

### (1) Income tax expense

| | **2010** | 2009 |
|---|---|---|
| Current tax | **44,846** | 35,764 |
| – Mainland China | **44,386** | 35,240 |
| – Hong Kong | **374** | 421 |
| – Other countries and regions | **86** | 103 |
| Adjustments for prior years | **196** | (359) |
| Deferred tax | **(4,917)** | (3,516) |
| Total | **40,125** | 31,889 |

The provisions of income taxes for Mainland China and Hong Kong are calculated at 25% and 16.5% of the estimated taxable income from Mainland and Hong Kong operations for the period respectively. Taxation for other overseas operations is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

(Expressed in millions of RMB, unless otherwise stated)

## 16 Income tax expense (continued)

### (2) Reconciliation between income tax expense and accounting profit

| | 2010 | 2009 |
|---|---|---|
| Profit before tax | 175,156 | 138,725 |
| Income tax calculated at statutory tax rate | 43,789 | 34,681 |
| Non-deductible expenses | | |
| – Staff costs | 365 | 376 |
| – Impairment losses and bad debt write-off | – | 1 |
| – Others | 632 | 780 |
| | 997 | 1,157 |
| Non-taxable income | | |
| – Interest income from PRC government bonds | (4,701) | (3,777) |
| – Others | (156) | (303) |
| | (4,857) | (4,080) |
| Total | 39,929 | 31,758 |
| Adjustments on income tax for prior years which affect profit or loss | 196 | 131 |
| Income tax expense | 40,125 | 31,889 |

## 17 Earnings per share

Basic earnings per share for the year ended 31 December 2010 and 2009 have been computed by dividing the net profit attributable to equity shareholders of the Bank by the weighted average number of ordinary shares outstanding during the years. As described in Note 1, the Bank completed the Rights Issue in 2010. In the calculation of earnings per share, the weighted average number of shares outstanding during 2010 and 2009 were calculated on the assumption that the bonus elements without consideration included in the Rights Issue had been existed from the beginning of the comparative year. There was no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the years ended 31 December 2010 and 2009.

| | Note | 2010 | 2009 |
|---|---|---|---|
| Net profit attributable to shareholders of the Bank | | 134,844 | 106,756 |
| Weighted average number of shares as originally reported (in million shares) | | | 233,689 |
| Basic and diluted earnings per share attributable to shareholders of the Bank as originally reported (in RMB) | | | 0.46 |
| Weighted average number of shares after Rights Issue (in million shares) | (a) | 240,977 | 237,236 |
| Basic and diluted earnings per share attributable to shareholders of the Bank after Rights Issue (in RMB) | | 0.56 | 0.45 |

### (a) Weighted average number of ordinary shares after Rights Issue (in million shares)

| | 2010 | 2009 |
|---|---|---|
| Issued ordinary shares | 233,689 | 233,689 |
| Weighted average number of shares for Rights Issue | 7,288 | 3,547 |
| Weighted average number of shares in issue | 240,977 | 237,236 |

(Expressed in millions of RMB, unless otherwise stated)

## 18 Cash and deposits with central banks

| | Note | Group 2010 | Group 2009 | Bank 2010 | Bank 2009 |
|---|---|---|---|---|---|
| Cash | | **48,201** | 40,396 | **47,960** | 40,198 |
| Deposits with central banks | | | | | |
| – Statutory deposit reserves | (1) | **1,611,442** | 1,144,675 | **1,610,924** | 1,144,470 |
| – Surplus deposit reserves | (2) | **170,938** | 265,453 | **165,535** | 262,578 |
| – Fiscal deposits | | **17,448** | 8,124 | **17,448** | 8,124 |
| | | **1,799,828** | 1,418,252 | **1,793,907** | 1,415,172 |
| Total | | **1,848,029** | 1,458,648 | **1,841,867** | 1,455,370 |

Notes:

(1) The Group places statutory deposit reserves with the People's Bank of China ("PBOC") and overseas central banks where it has operations. The statutory deposit reserves are not available for use in the Group's daily business.

As at the end of the reporting period, the statutory deposit reserve rates applicable to domestic branches of the Bank were as follows:

| | 2010 | 2009 |
|---|---|---|
| Reserve rate for RMB deposits | **19.0%** | 15.5% |
| Reserve rate for foreign currency deposits | **5.0%** | 5.0% |

The statutory RMB deposit reserve rates applicable to domestic subsidiaries of the Group are determined by PBOC.

The amounts of statutory deposit reserves placed with the central banks of overseas countries are determined by local jurisdictions.

(2) The surplus deposit reserve maintained with the PBOC is mainly for the purpose of clearing.

## 19 Deposits with banks and non-bank financial institutions

### (1) Analysed by type of counterparties

| | Group 2010 | Group 2009 | Bank 2010 | Bank 2009 |
|---|---|---|---|---|
| Banks | **77,838** | 89,955 | **77,772** | 89,571 |
| Non-bank financial institutions | **491** | 11,226 | **437** | 11,126 |
| Gross balances | **78,329** | 101,181 | **78,209** | 100,697 |
| Allowances for impairment losses (Note 37) | **(11)** | (18) | **(11)** | (18) |
| Net balances | **78,318** | 101,163 | **78,198** | 100,679 |

### (2) Analysed by geographic sectors

| | Group 2010 | Group 2009 | Bank 2010 | Bank 2009 |
|---|---|---|---|---|
| Mainland China | **62,660** | 85,743 | **66,033** | 86,125 |
| Overseas | **15,669** | 15,438 | **12,176** | 14,572 |
| Gross balances | **78,329** | 101,181 | **78,209** | 100,697 |
| Allowances for impairment losses (Note 37) | **(11)** | (18) | **(11)** | (18) |
| Net balances | **78,318** | 101,163 | **78,198** | 100,679 |

Deposits with bank and non-bank financial institutions mainly include the following balances with restrictions on use: (i) Pledged deposits with overseas counterparties for the purpose of derivative transactions (Note 59(1)); and (ii) Subsidiary's deposits in a special account required by the supervisory authority. As at 31 December 2010, the balances of the aforesaid deposits with restrictions on use are not significant, and have been excluded from the cash and cash equivalents of the Group and the Bank.

(Expressed in millions of RMB, unless otherwise stated)

## 20 Placements with banks and non-bank financial institutions

### (1) Analysed by type of counterparties

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Banks | **61,039** | 21,160 | **63,219** | 21,161 |
| Non-bank financial institutions | **3,007** | 1,188 | **5,393** | 2,113 |
| Gross balances | **64,046** | 22,348 | **68,612** | 23,274 |
| Allowances for impairment losses (Note 37) | **(84)** | (131) | **(84)** | (131) |
| Net balances | **63,962** | 22,217 | **68,528** | 23,143 |

### (2) Analysed by geographic sectors

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Mainland China | **14,600** | 8,113 | **14,600** | 8,113 |
| Overseas | **49,446** | 14,235 | **54,012** | 15,161 |
| Gross balances | **64,046** | 22,348 | **68,612** | 23,274 |
| Allowances for impairment losses (Note 37) | **(84)** | (131) | **(84)** | (131) |
| Net balances | **63,962** | 22,217 | **68,528** | 23,143 |

## 21 Financial assets at fair value through profit or loss

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Note | **2010** | 2009 | **2010** | 2009 |
| Held for trading purpose | (1) | | | | |
| – Debt securities | | **3,044** | 10,606 | **3,044** | 10,251 |
| – Equity instruments | | **1,191** | 867 | **–** | – |
| – Funds | | **350** | – | **–** | – |
| | | **4,585** | 11,473 | **3,044** | 10,251 |
| Designated at fair value through profit or loss | (2) | | | | |
| – Debt securities | | **4,816** | 3,911 | **–** | – |
| – Equity instruments | | **7,943** | 3,487 | **–** | – |
| | | **12,759** | 7,398 | **–** | – |
| Total | | **17,344** | 18,871 | **3,044** | 10,251 |

(Expressed in millions of RMB, unless otherwise stated)

## 21 Financial assets at fair value through profit or loss (continued)

### (1) Held for trading purpose

#### (a) *Debt securities*

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Government | **618** | 622 | **618** | 622 |
| Central banks | **1,093** | 3,781 | **1,093** | 3,781 |
| Policy banks | **110** | 1,762 | **110** | 1,761 |
| Banks and other financial institutions | **1,064** | 3,910 | **1,064** | 3,556 |
| Others | **159** | 531 | **159** | 531 |
| Total | **3,044** | 10,606 | **3,044** | 10,251 |
| Listed | **51** | 93 | **51** | 93 |
| – of which in Hong Kong | **–** | – | **–** | – |
| Unlisted | **2,993** | 10,513 | **2,993** | 10,158 |
| Total | **3,044** | 10,606 | **3,044** | 10,251 |

#### (b) *Equity instruments & Funds*

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| Banks and non-bank financial institutions | **4** | – |
| Others | **1,537** | 867 |
| Total | **1,541** | 867 |
| Listed | **1,541** | 867 |
| – of which in Hong Kong | **1,151** | 853 |

### (2) Designated at fair value through profit or loss

#### (a) *Debt securities*

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| Policy banks | **281** | 281 |
| Banks and non-bank financial institutions | **1,184** | 749 |
| Others | **3,351** | 2,881 |
| Total | **4,816** | 3,911 |
| Listed | **535** | 559 |
| – of which in Hong Kong | **411** | 436 |
| Unlisted | **4,281** | 3,352 |
| Total | **4,816** | 3,911 |

#### (b) *Equity instruments*

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| Banks and non-bank financial institutions | **–** | 6 |
| Others | **7,943** | 3,481 |
| Total | **7,943** | 3,487 |
| Listed | **2,379** | 978 |
| – of which in Hong Kong | **2,003** | 944 |
| Unlisted | **5,564** | 2,509 |
| Total | **7,943** | 3,487 |

There was no significant limitation on the ability of the Group and the Bank to dispose of financial assets at fair value through profit or loss.

(Expressed in millions of RMB, unless otherwise stated)

# 22 Derivatives

## (1) Analysed by type of contract

*Group*

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **Notional amounts** | **Assets** | **Liabilities** | Notional amounts | Assets | Liabilities |
| Interest rate contracts | **181,130** | **3,493** | **3,706** | 173,170 | 3,826 | 4,015 |
| Exchange rate contracts | **619,449** | **7,054** | **5,414** | 510,831 | 4,614 | 4,531 |
| Other contracts | **3,875** | **677** | **238** | 2,784 | 1,016 | 29 |
| Total | **804,454** | **11,224** | **9,358** | 686,785 | 9,456 | 8,575 |

*Bank*

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **Notional amounts** | **Assets** | **Liabilities** | Notional amounts | Assets | Liabilities |
| Interest rate contracts | **172,667** | **3,512** | **3,682** | 170,398 | 3,815 | 3,997 |
| Exchange rate contracts | **550,524** | **6,631** | **5,042** | 424,815 | 3,870 | 3,897 |
| Other contracts | **1,625** | **10** | **10** | 1,278 | 45 | – |
| Total | **724,816** | **10,153** | **8,734** | 596,491 | 7,730 | 7,894 |

## (2) Analysed by credit risk-weighted amount

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Interest rate contracts | **3,491** | 4,030 | **3,485** | 4,015 |
| Exchange rate contracts | **7,868** | 6,277 | **7,195** | 5,430 |
| Other contracts | **830** | 767 | **22** | 38 |
| Total | **12,189** | 11,074 | **10,702** | 9,483 |

The notional amounts of derivatives only represent the unsettled transaction volume as at the end of the reporting period. They do not represent the amounts at risk. The credit risk-weighted amount was computed in accordance with the rules set out by the CBRC and depended on the status of the counterparty and the maturity characteristics, it included customer driven transactions, which were hedged back to back.

# 23 Financial assets held under resale agreements

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Securities | | | | |
| – Government bonds | **98,288** | 474,557 | **98,288** | 474,557 |
| – Bills issued by the PBOC | **2,490** | 3,502 | **2,490** | 3,502 |
| – Debt securities issued by banks and non-bank financial institutions | **13,541** | 15,030 | **13,541** | 15,030 |
| – Others | **–** | 315 | **–** | 315 |
| | **114,319** | 493,404 | **114,319** | 493,404 |
| Discounted bills | **44,689** | 86,185 | **44,689** | 86,185 |
| Loans | **22,067** | 10,017 | **22,067** | 9,117 |
| Gross and net balances | **181,075** | 589,606 | **181,075** | 588,706 |

(Expressed in millions of RMB, unless otherwise stated)

## 24 Interest receivable

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Deposits with central banks | **757** | 555 | **757** | 555 |
| Deposits with banks and non-bank financial institutions | **176** | 112 | **176** | 112 |
| Financial assets held under resale agreements | **704** | 1,833 | **704** | 1,833 |
| Loans and advances to customers | **11,575** | 8,423 | **11,442** | 8,315 |
| Investment securities | **30,703** | 29,346 | **30,609** | 29,228 |
| Others | **174** | 77 | **174** | 87 |
| Gross balances | **44,089** | 40,346 | **43,862** | 40,130 |
| Allowances for impairment losses (Note 37) | **(1)** | (1) | **(1)** | (1) |
| Net balances | **44,088** | 40,345 | **43,861** | 40,129 |

## 25 Loans and advances to customers

### (1) Analysed by nature

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Corporate loans and advances | | | | |
| – Loans | **4,111,613** | 3,471,337 | **4,061,698** | 3,436,206 |
| – Finance leases | **23,382** | 8,254 | **–** | – |
| | **4,134,995** | 3,479,591 | **4,061,698** | 3,436,206 |
| Personal loans and advances | | | | |
| – Residential mortgages | **1,105,431** | 869,075 | **1,088,603** | 851,397 |
| – Personal consumer loans | **81,118** | 80,377 | **78,844** | 78,645 |
| – Credit cards | **59,562** | 39,547 | **55,440** | 36,401 |
| – Others | **144,846** | 122,436 | **142,797** | 120,739 |
| | **1,390,957** | 1,111,435 | **1,365,684** | 1,087,182 |
| Discounted bills | **143,176** | 228,747 | **143,158** | 228,747 |
| Gross loans and advances to customers | **5,669,128** | 4,819,773 | **5,570,540** | 4,752,135 |
| Allowances for impairment losses (Note 37) | **(143,102)** | (126,826) | **(142,261)** | (126,111) |
| – Individual assessment | **(37,352)** | (46,360) | **(37,278)** | (46,308) |
| – Collective assessment | **(105,750)** | (80,466) | **(104,983)** | (79,803) |
| Net loans and advances to customers | **5,526,026** | 4,692,947 | **5,428,279** | 4,626,024 |

(Expressed in millions of RMB, unless otherwise stated)

## 25 Loans and advances to customers (continued)

### (2) Analysed by assessment method of allowances for impairment losses

| | Loans and advances for which allowances are collectively assessed (note (a)) | Impaired loans and advances (note (b)) for which allowances are collectively assessed | Impaired loans and advances (note (b)) for which allowances are individually assessed | Total |
|---|---|---|---|---|
| **Group** | | | | |
| As at 31 December 2010 | | | | |
| Gross loans and advances to customers | **5,604,416** | **6,054** | **58,658** | **5,669,128** |
| Allowances for impairment losses | **(102,093)** | **(3,657)** | **(37,352)** | **(143,102)** |
| Net loans and advances to customers | **5,502,323** | **2,397** | **21,306** | **5,526,026** |
| As at 31 December 2009 | | | | |
| Gross loans and advances to customers | 4,747,617 | 7,362 | 64,794 | 4,819,773 |
| Allowances for impairment losses | (75,628) | (4,838) | (46,360) | (126,826) |
| Net loans and advances to customers | 4,671,989 | 2,524 | 18,434 | 4,692,947 |
| **Bank** | | | | |
| As at 31 December 2010 | | | | |
| Gross loans and advances to customers | **5,506,036** | **5,920** | **58,584** | **5,570,540** |
| Allowances for impairment losses | **(101,335)** | **(3,648)** | **(37,278)** | **(142,261)** |
| Net loans and advances to customers | **5,404,701** | **2,272** | **21,306** | **5,428,279** |
| As at 31 December 2009 | | | | |
| Gross loans and advances to customers | 4,680,210 | 7,208 | 64,717 | 4,752,135 |
| Allowances for impairment losses | (74,971) | (4,832) | (46,308) | (126,111) |
| Net loans and advances to customers | 4,605,239 | 2,376 | 18,409 | 4,626,024 |

(a) Loans and advances assessed on a collective basis for impairment bear relatively insignificant impairment losses as a proportion of the total portfolio. These loans and advances are those graded normal or special mention.

(b) Impaired loans and advances include loans for which objective evidence of impairment exists and assessed:

– individually (including corporate loans and advances which are graded substandard, doubtful or loss); or

– collectively; these are portfolios of homogeneous loans (including personal loans and advances which are graded substandard, doubtful or loss).

The proportion of impaired loans and advances of the Group to gross loans and advances as at 31 December 2010 is 1.14% (2009: 1.50%).

The proportion of impaired loans and advances of the Bank to gross loans and advances as at 31 December 2010 is 1.16% (2009: 1.51%).

(c) The definitions of the loan classifications stated in notes (a) and (b) above are set out in Note 62(1).

(d) As at 31 December 2010, the loans and advances of the Group for which the impairment allowances were individually assessed amounted to RMB58,658 million (2009: RMB64,794 million). The covered portion and uncovered portion of these loans and advances were RMB14,948 million (2009: RMB11,613 million) and RMB43,710 million (2009: RMB53,181 million) respectively. The fair value of collateral held against these loans and advances amounted to RMB16,026 million (2009: RMB12,461 million). The individual impairment allowances made against these loans and advances were RMB37,352 million (2009: RMB46,360 million).

As at 31 December 2010, the loans and advances of the Bank for which the impairment allowances were individually assessed amounted to RMB58,584 million (2009: RMB64,717 million). The covered portion and uncovered portion of these loans and advances were RMB14,946 million (2009: RMB11,598 million) and RMB43,638 million (2009: RMB53,119 million) respectively. The fair value of collateral held against these loans and advances amounted to RMB16,023 million (2009: RMB12,440 million). The individual impairment allowances made against these loans and advances were RMB37,278 million (2009: RMB46,308 million).

The above collateral includes land, buildings and equipment, etc. The fair value of collateral was estimated by the Group with reference to the latest available external valuations adjusted after taking into account the current realisation experience as well as the market situation.

(Expressed in millions of RMB, unless otherwise stated)

# 25 Loans and advances to customers (continued)

## (3) Movements of allowances for impairment losses

*Group*

| | Note | 2010 | | | |
|---|---|---|---|---|---|
| | | Allowances for loans and advances which are collectively assessed | Allowances for impaired loans and advances which are collectively assessed | Allowances for impaired loans and advances which are individually assessed | Total |
| As at 1 January | | **75,628** | **4,838** | **46,360** | **126,826** |
| Charge for the year | | **26,465** | **103** | **11,857** | **38,425** |
| Release during the year | | **–** | **(261)** | **(12,523)** | **(12,784)** |
| Unwinding of discount | | **–** | **–** | **(799)** | **(799)** |
| Transfers out | (a) | **–** | **(18)** | **(383)** | **(401)** |
| Write-offs | | **–** | **(1,084)** | **(8,193)** | **(9,277)** |
| Recoveries | | **–** | **79** | **1,033** | **1,112** |
| As at 31 December | | **102,093** | **3,657** | **37,352** | **143,102** |

| | Note | 2009 | | | |
|---|---|---|---|---|---|
| | | Allowances for loans and advances which are collectively assessed | Allowances for impaired loans and advances which are collectively assessed | Allowances for impaired loans and advances which are individually assessed | Total |
| As at 1 January | | 54,122 | 5,698 | 50,548 | 110,368 |
| Charge for the year | | 21,094 | 25 | 19,296 | 40,415 |
| Release during the year | | – | (134) | (16,025) | (16,159) |
| Unwinding of discount | | – | – | (1,270) | (1,270) |
| Transfers out | (a) | – | (77) | (360) | (437) |
| Acquisition of the subsidiaries | (b) | 412 | 4 | – | 416 |
| Write-offs | | – | (724) | (6,121) | (6,845) |
| Recoveries | | – | 46 | 292 | 338 |
| As at 31 December | | 75,628 | 4,838 | 46,360 | 126,826 |

*Bank*

| | Note | 2010 | | | |
|---|---|---|---|---|---|
| | | Allowances for loans and advances which are collectively assessed | Allowances for impaired loans and advances which are collectively assessed | Allowances for impaired loans and advances which are individually assessed | Total |
| As at 1 January | | **74,971** | **4,832** | **46,308** | **126,111** |
| Charge for the year | | **26,364** | **–** | **11,817** | **38,181** |
| Release during the year | | **–** | **(261)** | **(12,520)** | **(12,781)** |
| Unwinding of discount | | **–** | **–** | **(799)** | **(799)** |
| Transfers out | (a) | **–** | **(14)** | **(366)** | **(380)** |
| Write-offs | | **–** | **(966)** | **(8,193)** | **(9,159)** |
| Recoveries | | **–** | **57** | **1,031** | **1,088** |
| As at 31 December | | **101,335** | **3,648** | **37,278** | **142,261** |

(Expressed in millions of RMB, unless otherwise stated)

## 25 Loans and advances to customers (continued)

### (3) Movements of allowances for impairment losses (continued)

*Bank (continued)*

| | Note | 2009 | | | |
|---|---|---|---|---|---|
| | | Allowances for loans and advances which are collectively assessed | Allowances for impaired loans and advances | | Total |
| | | | which are collectively assessed | which are individually assessed | |
| As at 1 January | | 54,026 | 5,698 | 50,478 | 110,202 |
| Charge for the year | | 20,945 | – | 19,272 | 40,217 |
| Release during the year | | – | (134) | (16,019) | (16,153) |
| Unwinding of discount | | – | – | (1,270) | (1,270) |
| Transfers out | (a) | – | (78) | (383) | (461) |
| Write-offs | | – | (693) | (6,061) | (6,754) |
| Recoveries | | – | 39 | 291 | 330 |
| As at 31 December | | 74,971 | 4,832 | 46,308 | 126,111 |

(a) Transfers out include the transfer of allowances for impairment losses to repossessed assets and on the disposal of non-performing loans.

(b) Acquisition of the subsidiaries include the transfer-in of allowances for impairment losses from the acquisition of the subsidiaries during the year.

### (4) Overdue loans analysed by overdue period

*Group*

| | **2010** | | | | |
|---|---|---|---|---|---|
| | **Overdue within three months** | **Overdue between three months and one year** | **Overdue between one year and three years** | **Overdue over three years** | **Total** |
| Unsecured loans | **2,141** | **529** | **1,486** | **1,081** | **5,237** |
| Guaranteed loans | **943** | **833** | **5,275** | **4,243** | **11,294** |
| Loans secured by tangible assets other than monetary assets | **15,095** | **3,926** | **11,141** | **5,842** | **36,004** |
| Loans secured by monetary assets | **428** | **1,307** | **1,164** | **821** | **3,720** |
| Total | **18,607** | **6,595** | **19,066** | **11,987** | **56,255** |
| As a percentage of gross loans and advances to customers | **0.33%** | **0.12%** | **0.34%** | **0.20%** | **0.99%** |

| | 2009 | | | | |
|---|---|---|---|---|---|
| | Overdue within three months | Overdue between three months and one year | Overdue between one year and three years | Overdue over three years | Total |
| Unsecured loans | 440 | 1,332 | 1,298 | 1,304 | 4,374 |
| Guaranteed loans | 1,794 | 4,247 | 6,113 | 5,761 | 17,915 |
| Loans secured by tangible assets other than monetary assets | 15,888 | 10,496 | 11,978 | 8,508 | 46,870 |
| Loans secured by monetary assets | 443 | 1,221 | 2,321 | 1,117 | 5,102 |
| Total | 18,565 | 17,296 | 21,710 | 16,690 | 74,261 |
| As a percentage of gross loans and advances to customers | 0.39% | 0.35% | 0.45% | 0.35% | 1.54% |

(Expressed in millions of RMB, unless otherwise stated)

## 25 Loans and advances to customers (continued)

### (4) Overdue loans analysed by overdue period (continued)

*Bank*

| | 2010 | | | | |
|---|---|---|---|---|---|
| | **Overdue within three months** | **Overdue between three months and one year** | **Overdue between one year and three years** | **Overdue over three years** | **Total** |
| Unsecured loans | **2,068** | **520** | **1,436** | **1,080** | **5,104** |
| Guaranteed loans | **942** | **833** | **5,275** | **4,243** | **11,293** |
| Loans secured by tangible assets other than monetary assets | **14,889** | **3,925** | **11,141** | **5,840** | **35,795** |
| Loans secured by monetary assets | **428** | **1,307** | **1,164** | **821** | **3,720** |
| Total | **18,327** | **6,585** | **19,016** | **11,984** | **55,912** |
| As a percentage of gross loans and advances to customers | **0.33%** | **0.11%** | **0.34%** | **0.22%** | **1.00%** |

| | 2009 | | | | |
|---|---|---|---|---|---|
| | Overdue within three months | Overdue between three months and one year | Overdue between one year and three years | Overdue over three years | Total |
| Unsecured loans | 325 | 1,270 | 1,291 | 1,303 | 4,189 |
| Guaranteed loans | 1,792 | 4,247 | 6,113 | 5,761 | 17,913 |
| Loans secured by tangible assets other than monetary assets | 15,793 | 10,495 | 11,976 | 8,508 | 46,772 |
| Loans secured by monetary assets | 443 | 1,221 | 2,321 | 1,117 | 5,102 |
| Total | 18,353 | 17,233 | 21,701 | 16,689 | 73,976 |
| As a percentage of gross loans and advances to customers | 0.39% | 0.36% | 0.46% | 0.35% | 1.56% |

Overdue loans represent loans of which the whole or part of the principal or interest are overdue for 1 day or more.

## 26 Available-for-sale financial assets

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Note | **2010** | 2009 | **2010** | 2009 |
| Debt securities | (1) | **676,840** | 626,763 | **675,277** | 627,598 |
| Equity instruments | (2) | **19,837** | 24,402 | **17,754** | 22,381 |
| Funds | (2) | **171** | 315 | **–** | – |
| Total | | **696,848** | 651,480 | **693,031** | 649,979 |

(Expressed in millions of RMB, unless otherwise stated)

## 26 Available-for-sale financial assets (continued)

### (1) Debt securities

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Government | **87,556** | 92,616 | **87,226** | 92,616 |
| Central banks | **284,706** | 269,431 | **284,029** | 269,133 |
| Policy banks | **31,770** | 22,495 | **31,760** | 22,495 |
| Banks and non-bank financial institutions | **110,678** | 100,075 | **110,552** | 101,440 |
| Public sector entities | **1,458** | 1,937 | **1,458** | 1,937 |
| Other enterprises | **160,672** | 140,209 | **160,252** | 139,977 |
| Total | **676,840** | 626,763 | **675,277** | 627,598 |
| Listed | **23,012** | 26,564 | **22,576** | 25,664 |
| – of which in Hong Kong | **2,287** | 3,705 | **2,254** | 2,839 |
| Unlisted | **653,828** | 600,199 | **652,701** | 601,934 |
| Total | **676,840** | 626,763 | **675,277** | 627,598 |

### (2) Equity instruments and funds

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Debt equity swap (“DES”) investments | **16,467** | 20,734 | **16,467** | 20,734 |
| Other equity instruments | **3,370** | 3,668 | **1,287** | 1,647 |
| Funds | **171** | 315 | **–** | – |
| Total | **20,008** | 24,717 | **17,754** | 22,381 |
| Listed | **16,550** | 19,021 | **15,953** | 18,390 |
| – of which in Hong Kong | **1,011** | 1,283 | **740** | 984 |
| Unlisted | **3,458** | 5,696 | **1,801** | 3,991 |
| Total | **20,008** | 24,717 | **17,754** | 22,381 |

Pursuant to the DES arrangement by the PRC government in 1999, the Group obtained equity interests of certain entities in lieu of repayments of loans granted to them. According to relevant requirements, the Group is prohibited from being involved in management of the operations of these entities. In substance, the Group does not have any control or significant influence over these entities.

(Expressed in millions of RMB, unless otherwise stated)

## 27 Held-to-maturity investments

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Government | **673,620** | 467,499 | **673,490** | 467,399 |
| Central banks | **668,407** | 508,396 | **668,407** | 508,088 |
| Policy banks | **151,743** | 114,193 | **151,743** | 114,193 |
| Banks and non-bank financial institutions | **385,708** | 314,115 | **385,708** | 314,115 |
| Public sector entities | **198** | 1,363 | **198** | 1,363 |
| Other enterprises | **9,384** | 9,393 | **9,384** | 9,393 |
| Gross balances | **1,889,060** | 1,414,959 | **1,888,930** | 1,414,551 |
| Allowance for impairment losses (Note 37) | **(5,003)** | (6,086) | **(5,003)** | (6,086) |
| Net balances | **1,884,057** | 1,408,873 | **1,883,927** | 1,408,465 |
| Listed | **4,684** | 5,740 | **4,684** | 5,432 |
| – of which in Hong Kong | **–** | 308 | **–** | – |
| Unlisted | **1,879,373** | 1,403,133 | **1,879,243** | 1,403,033 |
| Total | **1,884,057** | 1,408,873 | **1,883,927** | 1,408,465 |
| Market value of listed securities | **5,341** | 6,439 | **5,341** | 6,131 |

## 28 Debt securities classified as receivables

All debt securities classified as receivables are unlisted and issued by the following entities in Mainland China:

| | | Group and Bank | |
|---|---|---|---|
| | Note | **2010** | 2009 |
| Government | | | |
| – Special government bond | (1) (3) | **49,200** | 49,200 |
| – Others | | **530** | 530 |
| The PBOC | (2) (3) | **593** | 143,386 |
| Policy banks | | **–** | 1,123 |
| China Cinda Assets Management Co., Ltd. ("Cinda") | (4) | **206,261** | 247,000 |
| Banks and non-bank financial institutions | | **48,925** | 57,063 |
| Joint-stock enterprises | | **1,359** | 1,369 |
| Gross balances | | **306,868** | 499,671 |
| Allowance for impairment losses (Note 37) | | **(120)** | (96) |
| Net balances | | **306,748** | 499,575 |

(1) This represents a non-negotiable bond with a nominal value of RMB49,200 million issued by the Ministry of Finance ("MOF") in 1998 to strengthen the capital base of CCB. The bond matures in 2028 and bears a fixed interest rate of 2.25% per annum.

(2) Debt securities issued by the PBOC mainly refer to PBOC bills issued specifically to the Bank.

(3) The PBOC approved the Bank's use of the special government bond and the bills with nominal values of RMB593 million issued by the PBOC as eligible assets equivalent to the surplus deposit reserve at PBOC for clearing purpose.

(4) China Cinda Assets Management Co., Ltd. (formerly known as China Cinda Asset Management Corporation) ("Cinda") issued a bond ("Cinda Bond") with a nominal value of RMB247 billion specifically to CCB in 1999 for the acquisition of CCB's impaired loans and advances at their original book value. Cinda Bond has a maturity of 10 years, with a fixed coupon rate of 2.25%. In September 2009, MOF issued a notice that Cinda Bond would be extended for ten years upon its expiration and the interest rate would remain unchanged. In July 2010, the Bank received a notice from MOF that MOF and Cinda have established a jointly managed fund to secure the payment of the principal of Cinda Bond. MOF continues to provide support for the repayment of the interest of Cinda Bond.

(Expressed in millions of RMB, unless otherwise stated)

# 29 Investments in subsidiaries

## (1) Investment cost

| | 2010 | 2009 |
|---|---|---|
| Sing Jian Development Company Limited | **383** | 383 |
| Sino-German Bausparkasse Corporation Limited ("Sino-German") | **751** | 751 |
| CCB Principal Asset Management Corporation Limited ("CCB Principal") | **130** | 130 |
| CCB International Group Holdings Limited ("CCBIG") | **–** | – |
| CCB Financial Leasing Corporation Limited ("CCBFLCL") | **3,380** | 3,380 |
| Jianxin Taojiang Rural Bank ("Taojiang Rural") | **26** | 26 |
| China Construction Bank (London) Limited ("CCB London") | **1,361** | 684 |
| Jianxin Zhejiang Cangnan Rural Bank Corporation Limited ("Cangnan Rural") | **53** | 53 |
| Jianxin Trust Corporation Limited ("Jianxin Trust") | **3,409** | 3,409 |
| Jianxin Qingtian Oversea-Chinese Rural Bank ("Qingtian Rural") | **51** | – |
| Jianxing Wuyi Rural Bank ("Wuyi Rural") | **51** | – |
| Jianxin Anhui Fanchang Rural Bank Corporation Limited ("Anhui Rural") | **51** | – |
| Jianxin Ansai Rural Bank Corporation Limited ("Ansai Rural") | **16** | – |
| Hebei Fengning Jianxin Rural Bank Company Limited ("Fengning Rural") | **15** | – |
| Shanghai Pudong Jianxin Rural Bank Company Limited ("Pudong Rural") | **90** | – |
| Suzhou Changshu Jianxin Rural Bank Company Limited ("Changshu Rural") | **102** | – |
| Total | **9,869** | 8,816 |

## (2) Major subsidiaries of the Group are unlisted enterprises; details of the investments in subsidiaries are as follows:

| Name of company | Place of incorporation | Particulars of the issued and paid up capital | Principal activities | % of ownership directly held by the Bank | % of ownership indirectly held by the Bank | % of voting rights held by the Bank |
|---|---|---|---|---|---|---|
| Sing Jian Development Company Limited | Hong Kong, the PRC | 300 million shares of HK$1 each | Investment | 100% | – | 100% |
| Sino-German | Tianjin, the PRC | RMB 1,000 million | Loan and deposit taking business | 75.1% | – | 75.1% |
| CCB Principal | Beijing, the PRC | RMB 200 million | Fund management services | 65% | – | 65% |
| CCBIG | Hong Kong, the PRC | 1 share of HK$1 each | Investment | 100% | – | 100% |
| CCBFLCL | Beijing, the PRC | 4,500 million shares of RMB1 each | Financial leasing | 75.1% | – | 75.1% |
| Taojiang Rural | Hunan, the PRC RMB1 each | 50 million shares of business | Loan and deposit taking | 51% | – | 51% |
| CCB London | London, United Kingdom | 200 million shares of US$1 each | Commercial banking and related financial services | 100% | – | 100% |
| Cangnan Rural | Zhejiang, the PRC | 150 million shares of RMB1 each | Loan and deposit taking business | 35% | – | 51% |

(Expressed in millions of RMB, unless otherwise stated)

## 29 Investments in subsidiaries (continued)

(2) Major subsidiaries of the Group are unlisted enterprises; details of the investments in subsidiaries are as follows: (continued)

| Name of company | Place of incorporation | Particulars of the issued and paid up capital | Principal activities | % of ownership directly held by the Bank | % of ownership indirectly held by the Bank | % of voting rights held by the Bank |
|---|---|---|---|---|---|---|
| Jianxin Trust | Anhui, the PRC | 1,527 million shares of RMB1 each | Trust business | 67% | – | 67% |
| Qingtian Rural | Zhejiang, the PRC | RMB 100 million | Loan and deposit taking business | 51% | – | 51% |
| Wuyi Rural | Zhejiang, the PRC | RMB 100 million | Loan and deposit taking business | 51% | – | 51% |
| Fanchang Rural | Anhui, the PRC | RMB 100 million | Loan and deposit taking business | 51% | – | 51% |
| Ansai Rural | Shaanxi, the PRC | RMB 30 million | Loan and deposit taking business | 52% | – | 52% |
| Fengning Rural | Hebei, the PRC | RMB 30 million | Loan and deposit taking business | 51% | – | 51% |
| Pudong Rural | Shanghai, the PRC | RMB 150 million | Loan and deposit taking business | 60% | – | 60% |
| Changshu Rural | Jiangsu, the PRC | RMB 200 million | Loan and deposit taking business | 51% | – | 51% |
| Lanhye Investment Holdings Limited | British Virgin Islands | 1 share of US$1 each | Investment | – | 100% | 100% |
| CCB International (Holdings) Limited ("CCBI") | Hong Kong, the PRC | 601 million shares of US$1 each | Investment | – | 100% | 100% |
| China Construction Bank (Asia) Corporation Limited ("CCB Asia") | Hong Kong, the PRC | 163 million shares of HK$40 each | Commercial banking and related financial services | – | 100% | 100% |

## 30 Interests in associates and jointly controlled entities

(1) The movement of the Group's interests in associates and jointly controlled entities is as follows:

| | 2010 | 2009 |
|---|---|---|
| As at 1 January | **1,791** | 1,728 |
| Acquisition during the year | **18** | 54 |
| Share of profits less losses | **34** | 17 |
| Cash dividend receivable | **–** | (7) |
| Effect of exchange difference and others | **(66)** | (1) |
| Total | **1,777** | 1,791 |

(Expressed in millions of RMB, unless otherwise stated)

## 30 Interests in associates and jointly controlled entities (continued)

### (2) Details of the interests in major associates and jointly controlled entities are as follows:

| Name of company | Place of incorporation | Particulars of issued and paid up capital | Principal activity | % of ownership held | % of voting held | Total assets at year end | Total liabilities at year end | Revenue for the year | Net profit/ (loss) for the year |
|---|---|---|---|---|---|---|---|---|---|
| QBE Hong Kong and Shanghai Insurance Limited | Hong Kong, the PRC | 78,192,220 ordinary shares of HK$1 each | Insurance | 25.5% | 25.5% | 1,393 | 857 | 632 | 85 |
| Diamond String Limited ("DSL") | Hong Kong, the PRC | 10,000 ordinary shares of HK$1 each | Property investment | 50% | 50% | 1,099 | 1,097 | – | (1) |

## 31 Fixed assets

### Group

| | Bank premises | Construction in progress | Equipment | Others | Total |
|---|---|---|---|---|---|
| **Cost/deemed cost** | | | | | |
| As at 1 January 2010 | 51,305 | 11,349 | 24,030 | 16,351 | 103,035 |
| Additions | 3,506 | 8,940 | 3,928 | 2,505 | 18,879 |
| Transfer in/(out) | 3,174 | (4,546) | 29 | 1,343 | – |
| Disposals | (137) | (104) | (1,263) | (824) | (2,328) |
| As at 31 December 2010 | 57,848 | 15,639 | 26,724 | 19,375 | 119,586 |
| **Accumulated depreciation** | | | | | |
| As at 1 January 2010 | (9,701) | – | (13,286) | (4,852) | (27,839) |
| Charge for the year | (2,009) | – | (4,285) | (3,561) | (9,855) |
| Disposals | 64 | – | 1,211 | 752 | 2,027 |
| As at 31 December 2010 | (11,646) | – | (16,360) | (7,661) | (35,667) |
| **Allowances for impairment losses (Note 37)** | | | | | |
| As at 1 January 2010 | (489) | (5) | (3) | (6) | (503) |
| Charge for the year | (2) | – | – | – | (2) |
| Disposals | 15 | 5 | – | – | 20 |
| As at 31 December 2010 | (476) | – | (3) | (6) | (485) |
| **Net carrying value** | | | | | |
| As at 1 January 2010 | 41,115 | 11,344 | 10,741 | 11,493 | 74,693 |
| As at 31 December 2010 | 45,726 | 15,639 | 10,361 | 11,708 | 83,434 |

(Expressed in millions of RMB, unless otherwise stated)

# 31 Fixed assets (continued)

## Group (continued)

| | Bank premises | Construction in progress | Equipment | Others | Total |
|---|---|---|---|---|---|
| **Cost/deemed cost** | | | | | |
| As at 1 January 2009 | 46,536 | 4,618 | 21,481 | 12,921 | 85,556 |
| Additions through acquisitions | 197 | – | 1 | 89 | 287 |
| Additions | 2,832 | 10,387 | 3,867 | 2,812 | 19,898 |
| Transfer in/(out) | 2,019 | (3,590) | 9 | 1,562 | – |
| Disposals | (279) | (66) | (1,328) | (1,033) | (2,706) |
| As at 31 December 2009 | 51,305 | 11,349 | 24,030 | 16,351 | 103,035 |
| **Accumulated depreciation** | | | | | |
| As at 1 January 2009 | (7,926) | – | (10,450) | (2,700) | (21,076) |
| Additions through acquisitions | (29) | – | (1) | (82) | (112) |
| Charge for the year | (1,837) | – | (4,122) | (3,046) | (9,005) |
| Disposals | 91 | – | 1,287 | 976 | 2,354 |
| As at 31 December 2009 | (9,701) | – | (13,286) | (4,852) | (27,839) |
| **Allowances for impairment losses (Note 37)** | | | | | |
| As at 1 January 2009 | (507) | (5) | (3) | (8) | (523) |
| Charge for the year | (2) | – | – | – | (2) |
| Disposals | 20 | – | – | 2 | 22 |
| As at 31 December 2009 | (489) | (5) | (3) | (6) | (503) |
| **Net carrying value** | | | | | |
| As at 1 January 2009 | 38,103 | 4,613 | 11,028 | 10,213 | 63,957 |
| As at 31 December 2009 | 41,115 | 11,344 | 10,741 | 11,493 | 74,693 |

(Expressed in millions of RMB, unless otherwise stated)

## 31 Fixed assets (continued)

### Bank

| | Bank premises | Construction in progress | Equipment | Others | Total |
|---|---|---|---|---|---|
| **Cost/deemed cost** | | | | | |
| As at 1 January 2010 | **51,072** | **11,139** | **23,818** | **16,109** | **102,138** |
| Additions | **3,462** | **8,838** | **3,877** | **2,442** | **18,619** |
| Transfer in/(out) | **2,894** | **(4,237)** | **15** | **1,328** | **–** |
| Disposals | **(132)** | **(104)** | **(1,252)** | **(796)** | **(2,284)** |
| As at 31 December 2010 | **57,296** | **15,636** | **26,458** | **19,083** | **118,473** |
| **Accumulated depreciation** | | | | | |
| As at 1 January 2010 | **(9,648)** | **–** | **(13,157)** | **(4,732)** | **(27,537)** |
| Charge for the year | **(1,998)** | **–** | **(4,245)** | **(3,510)** | **(9,753)** |
| Disposals | **61** | **–** | **1,201** | **736** | **1,998** |
| As at 31 December 2010 | **(11,585)** | **–** | **(16,201)** | **(7,506)** | **(35,292)** |
| **Allowances for impairment losses (Note 37)** | | | | | |
| As at 1 January 2010 | **(489)** | **(5)** | **(3)** | **(6)** | **(503)** |
| Charge for the year | **(2)** | **–** | **–** | **–** | **(2)** |
| Disposals | **15** | **5** | **–** | **–** | **20** |
| As at 31 December 2010 | **(476)** | **–** | **(3)** | **(6)** | **(485)** |
| **Net carrying value** | | | | | |
| As at 1 January 2010 | **40,935** | **11,134** | **10,658** | **11,371** | **74,098** |
| As at 31 December 2010 | **45,235** | **15,636** | **10,254** | **11,571** | **82,696** |

| | Bank premises | Construction in progress | Equipment | Others | Total |
|---|---|---|---|---|---|
| **Cost/deemed cost** | | | | | |
| As at 1 January 2009 | 46,468 | 4,585 | 21,314 | 12,747 | 85,114 |
| Additions | 2,831 | 10,210 | 3,820 | 2,743 | 19,604 |
| Transfer in/(out) | 2,019 | (3,590) | 9 | 1,562 | – |
| Disposals | (246) | (66) | (1,325) | (943) | (2,580) |
| As at 31 December 2009 | 51,072 | 11,139 | 23,818 | 16,109 | 102,138 |
| **Accumulated depreciation** | | | | | |
| As at 1 January 2009 | (7,901) | – | (10,348) | (2,619) | (20,868) |
| Charge for the year | (1,832) | – | (4,091) | (3,007) | (8,930) |
| Disposals | 85 | – | 1,282 | 894 | 2,261 |
| As at 31 December 2009 | (9,648) | – | (13,157) | (4,732) | (27,537) |
| **Allowances for impairment losses (Note 37)** | | | | | |
| As at 1 January 2009 | (507) | (5) | (3) | (8) | (523) |
| Charge for the year | (2) | – | – | – | (2) |
| Disposals | 20 | – | – | 2 | 22 |
| As at 31 December 2009 | (489) | (5) | (3) | (6) | (503) |
| **Net carrying value** | | | | | |
| As at 1 January 2009 | 38,060 | 4,580 | 10,963 | 10,120 | 63,723 |
| As at 31 December 2009 | 40,935 | 11,134 | 10,658 | 11,371 | 74,098 |

(Expressed in millions of RMB, unless otherwise stated)

# 31 Fixed assets (continued)

## Bank (continued)

Notes:

(1) As at 31 December 2010, ownership documentation for the Group's and the Bank's bank premises with a net carrying value of RMB9,790 million (2009: RMB6,636 million) was being finalised.

(2) Analysed by remaining terms of the leases

The net carrying values of bank premises of the Group and the Bank as at the end of the reporting period are analysed by the remaining terms of the leases as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Long term leases (over 50 years) held overseas | **72** | – | **38** | – |
| Medium term leases (10-50 years) held overseas | **169** | 195 | **148** | 180 |
| Medium term leases (10-50 years) held in Mainland China | **43,745** | 39,576 | **43,309** | 39,411 |
| Short term leases (less than 10 years) held in Mainland China | **1,740** | 1,344 | **1,740** | 1,344 |
| Total | **45,726** | 41,115 | **45,235** | 40,935 |

# 32 Land use rights

## Group

| | **2010** | 2009 |
|---|---|---|
| **Cost/deemed cost** | | |
| As at 1 January | **20,173** | 19,874 |
| Additions | **375** | 416 |
| Disposals | **(90)** | (117) |
| As at 31 December | **20,458** | 20,173 |
| **Amortisation** | | |
| As at 1 January | **(2,900)** | (2,418) |
| Charge for the year | **(503)** | (496) |
| Disposals | **16** | 14 |
| As at 31 December | **(3,387)** | (2,900) |
| **Allowances for impairment losses (Note 37)** | | |
| As at 1 January | **(151)** | (161) |
| Disposals | **2** | 10 |
| As at 31 December | **(149)** | (151) |
| **Net carrying value** | | |
| As at 1 January | **17,122** | 17,295 |
| As at 31 December | **16,922** | 17,122 |

(Expressed in millions of RMB, unless otherwise stated)

## 32 Land use rights (continued)

### Bank

| | 2010 | 2009 |
|---|---|---|
| **Cost/deemed cost** | | |
| As at 1 January | **20,110** | 19,807 |
| Additions | **375** | 392 |
| Disposals | **(88)** | (89) |
| As at 31 December | **20,397** | 20,110 |
| **Amortisation** | | |
| As at 1 January | **(2,897)** | (2,417) |
| Charge for the year | **(502)** | (493) |
| Disposals | **16** | 13 |
| As at 31 December | **(3,383)** | (2,897) |
| **Allowances for impairment losses (Note 37)** | | |
| As at 1 January | **(151)** | (161) |
| Disposals | **2** | 10 |
| As at 31 December | **(149)** | (151) |
| **Net carrying value** | | |
| As at 1 January | **17,062** | 17,229 |
| As at 31 December | **16,865** | 17,062 |

## 33 Intangible assets

### Group

| | Software | Others | Total |
|---|---|---|---|
| **Cost/deemed cost** | | | |
| As at 1 January 2010 | **3,433** | **58** | **3,491** |
| Additions | **502** | **14** | **516** |
| Disposals | **(29)** | **(23)** | **(52)** |
| As at 31 December 2010 | **3,906** | **49** | **3,955** |
| **Amortisation** | | | |
| As at 1 January 2010 | **(2,183)** | **(30)** | **(2,213)** |
| Charge for the year | **(467)** | **(1)** | **(468)** |
| Disposals | **24** | **20** | **44** |
| As at 31 December 2010 | **(2,626)** | **(11)** | **(2,637)** |
| **Allowances for impairment losses (Note 37)** | | | |
| As at 1 January 2010 | **(1)** | **(7)** | **(8)** |
| As at 31 December 2010 | **(1)** | **(7)** | **(8)** |
| **Net carrying value** | | | |
| As at 1 January 2010 | **1,249** | **21** | **1,270** |
| As at 31 December 2010 | **1,279** | **31** | **1,310** |

(Expressed in millions of RMB, unless otherwise stated)

## 33 Intangible assets (continued)

### Group (continued)

| | Software | Others | Total |
|---|---|---|---|
| **Cost/deemed cost** | | | |
| As at 1 January 2009 | 2,967 | 54 | 3,021 |
| Additions | 492 | 11 | 503 |
| Disposals | (26) | (7) | (33) |
| As at 31 December 2009 | 3,433 | 58 | 3,491 |
| **Amortisation** | | | |
| As at 1 January 2009 | (1,728) | (32) | (1,760) |
| Charge for the year | (481) | (4) | (485) |
| Disposals | 26 | 6 | 32 |
| As at 31 December 2009 | (2,183) | (30) | (2,213) |
| **Allowances for impairment losses (Note 37)** | | | |
| As at 1 January 2009 | (1) | (7) | (8) |
| As at 31 December 2009 | (1) | (7) | (8) |
| **Net carrying value** | | | |
| As at 1 January 2009 | 1,238 | 15 | 1,253 |
| As at 31 December 2009 | 1,249 | 21 | 1,270 |

### Bank

| | **Software** | **Others** | **Total** |
|---|---|---|---|
| **Cost/deemed cost** | | | |
| As at 1 January 2010 | **3,400** | **49** | **3,449** |
| Additions | **482** | **10** | **492** |
| Disposals | **(24)** | **(21)** | **(45)** |
| As at 31 December 2010 | **3,858** | **38** | **3,896** |
| **Amortisation** | | | |
| As at 1 January 2010 | **(2,170)** | **(29)** | **(2,199)** |
| Charge for the year | **(458)** | **(1)** | **(459)** |
| Disposals | **24** | **19** | **43** |
| As at 31 December 2010 | **(2,604)** | **(11)** | **(2,615)** |
| **Allowances for impairment losses (Note 37)** | | | |
| As at 1 January 2010 | **(1)** | **(7)** | **(8)** |
| As at 31 December 2010 | **(1)** | **(7)** | **(8)** |
| **Net carrying value** | | | |
| As at 1 January 2010 | **1,229** | **13** | **1,242** |
| As at 31 December 2010 | **1,253** | **20** | **1,273** |

(Expressed in millions of RMB, unless otherwise stated)

## 33 Intangible assets (continued)

### Bank (continued)

| | Software | Others | Total |
|---|---|---|---|
| **Cost/deemed cost** | | | |
| As at 1 January 2009 | 2,943 | 52 | 2,995 |
| Additions | 483 | 3 | 486 |
| Disposals | (26) | (6) | (32) |
| As at 31 December 2009 | 3,400 | 49 | 3,449 |
| **Amortisation** | | | |
| As at 1 January 2009 | (1,722) | (32) | (1,754) |
| Charge for the year | (474) | (3) | (477) |
| Disposals | 26 | 6 | 32 |
| As at 31 December 2009 | (2,170) | (29) | (2,199) |
| **Allowances for impairment losses (Note 37)** | | | |
| As at 1 January 2009 | (1) | (7) | (8) |
| As at 31 December 2009 | (1) | (7) | (8) |
| **Net carrying value** | | | |
| As at 1 January 2009 | 1,220 | 13 | 1,233 |
| As at 31 December 2009 | 1,229 | 13 | 1,242 |

## 34 Goodwill

### (1) The goodwill is attributable to the expected synergies arising from the acquisition of CCB Asia on 29 December 2006 and Jianxin Trust on 29 July 2009. Movement of the goodwill during the year is as follows:

| | **2010** | 2009 |
|---|---|---|
| As at 1 January | **1,590** | 1,527 |
| Additions through acquisitions | **–** | 63 |
| Effect of exchange difference | **(56)** | – |
| As at 31 December | **1,534** | 1,590 |

### (2) Impairment test for cash-generating unit containing goodwill

The Group calculated the recoverable amount of the CGU using cash flow projections based on financial forecasts approved by management covering a ten-year period. The average growth rate used by the Group is consistent with the forecasts included in industry reports. The discount rate used reflects specific risks relating to the relevant segments.

Based on the result of the impairment test, no impairment losses on goodwill were recognised for the year ended 31 December 2010 (2009: nil).

## 35 Deferred tax

| | **Group** | | **Bank** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Deferred tax assets | **17,825** | 10,790 | **18,774** | 11,323 |
| Deferred tax liabilities | **(243)** | (216) | **(4)** | (22) |
| Total | **17,582** | 10,574 | **18,770** | 11,301 |

(Expressed in millions of RMB, unless otherwise stated)

# 35 Deferred tax (continued)

## (1) Analysed by nature

*Group*

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Deductible/ (taxable) temporary differences | Deferred tax assets/ (liabilities) | Deductible/ (taxable) temporary differences | Deferred tax assets/ (liabilities) |
| Deferred tax assets | | | | |
| – Fair value adjustments | (10,685) | (2,683) | (17,462) | (4,361) |
| – Allowances for impairment losses | 63,559 | 15,736 | 45,365 | 11,243 |
| – Early retirement benefits and accrued salaries | 18,772 | 4,694 | 15,238 | 3,809 |
| – Others | 469 | 78 | 601 | 99 |
| Total | 72,115 | 17,825 | 43,742 | 10,790 |
| Deferred tax liabilities | | | | |
| – Fair value adjustments | (1,034) | (236) | (819) | (204) |
| – Allowances for impairment losses | 73 | 24 | 24 | 6 |
| – Accrued salaries | (34) | (6) | – | – |
| – Others | (77) | (25) | (81) | (18) |
| Total | (1,072) | (243) | (876) | (216) |

*Bank*

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Deductible/ (taxable) temporary differences | Deferred tax assets/ (liabilities) | Deductible/ (taxable) temporary differences | Deferred tax assets/ (liabilities) |
| Deferred tax assets | | | | |
| – Fair value adjustments | (10,752) | (2,692) | (17,514) | (4,377) |
| – Allowances for impairment losses | 63,143 | 15,665 | 44,868 | 11,160 |
| – Early retirement benefits and accrued salaries | 18,627 | 4,657 | 15,210 | 3,802 |
| – Others | 7,840 | 1,144 | 5,925 | 738 |
| Total | 78,858 | 18,774 | 48,489 | 11,323 |
| Deferred tax liabilities | | | | |
| – Fair value adjustments | (7) | (2) | (113) | (28) |
| – Allowances for impairment losses | 73 | 24 | 18 | 4 |
| – Others | (80) | (26) | 6 | 2 |
| Total | (14) | (4) | (89) | (22) |

## (2) Movements of deferred tax

*Group*

| | Early retirement benefits and accrued salaries | Fair value adjustments | Allowances for impairment losses | Others | Total |
|---|---|---|---|---|---|
| As at 1 January 2010 | 3,809 | (4,565) | 11,249 | 81 | 10,574 |
| Recognised in profit or loss | 879 | (445) | 4,511 | (28) | 4,917 |
| Recognised in other comprehensive income | – | 2,091 | – | – | 2,091 |
| As at 31 December 2010 | 4,688 | (2,919) | 15,760 | 53 | 17,582 |
| As at 1 January 2009 | 1,815 | (4,394) | 10,385 | 44 | 7,850 |
| Recognised in profit or loss | 1,994 | 700 | 785 | 37 | 3,516 |
| Recognised in other comprehensive income | – | (672) | – | – | (672) |
| Additions through acquisitions | – | (199) | 79 | – | (120) |
| As at 31 December 2009 | 3,809 | (4,565) | 11,249 | 81 | 10,574 |

(Expressed in millions of RMB, unless otherwise stated)

# 35 Deferred tax (continued)

## (2) Movements of deferred tax (continued)

*Bank*

| | Early retirement benefits and accrued salaries | Fair value adjustments | Allowances for impairment losses | Others | Total |
|---|---|---|---|---|---|
| As at 1 January 2010 | **3,802** | **(4,405)** | **11,164** | **740** | **11,301** |
| Recognised in profit or loss | **855** | **(409)** | **4,525** | **378** | **5,349** |
| Recognised in other comprehensive income | **–** | **2,120** | **–** | **–** | **2,120** |
| As at 31 December 2010 | **4,657** | **(2,694)** | **15,689** | **1,118** | **18,770** |
| As at 1 January 2009 | 1,815 | (4,408) | 10,385 | 267 | 8,059 |
| Recognised in profit or loss | 1,987 | 695 | 779 | 473 | 3,934 |
| Recognised in other comprehensive income | – | (692) | – | – | (692) |
| As at 31 December 2009 | 3,802 | (4,405) | 11,164 | 740 | 11,301 |

The Group and the Bank did not have significant unrecognised deferred taxation as at the end of the reporting period.

# 36 Other assets

| | Note | Group 2010 | Group 2009 | Bank 2010 | Bank 2009 |
|---|---|---|---|---|---|
| Repossessed assets | (1) | | | | |
| – Buildings | | **1,373** | 2,211 | **1,373** | 2,211 |
| – Land use rights | | **243** | 412 | **243** | 412 |
| – Others | | **230** | 462 | **230** | 462 |
| | | **1,846** | 3,085 | **1,846** | 3,085 |
| Long-term deferred expenses | | **351** | 372 | **344** | 368 |
| Receivables from CCBIG | (2) | **–** | – | **19,055** | 19,746 |
| Other receivables | | **13,478** | 10,910 | **11,260** | 10,792 |
| Leasehold improvements | | **2,607** | 2,610 | **2,595** | 2,602 |
| Subtotal | | **18,282** | 16,977 | **35,100** | 36,593 |
| Allowances for impairment losses (Note 37) | | **(2,981)** | (3,288) | **(2,978)** | (3,283) |
| Total | | **15,301** | 13,689 | **32,122** | 33,310 |

(1) During the year ended 31 December 2010, the original cost of repossessed assets disposed of by the Group amounted to RMB1,764 million (2009: RMB1,535 million). The Group intends to dispose of repossessed assets through various methods including auction, competitive bidding and disposal.

(2) Receivables from CCBIG represent lending to CCBIG, a wholly owned subsidiary, for acquisition of equity investments and capital injection to other subsidiaries. The receivables are unsecured, non-interest bearing and without fixed repayment term.

(Expressed in millions of RMB, unless otherwise stated)

# 37 Movements of allowances for impairment losses

## Group

| | Note | 2010 As at 1 January | Charge for the year/(Write-back) | Transfer out | Write-offs | As at 31 December |
|---|---|---|---|---|---|---|
| Deposits with banks and non-bank financial institutions | 19 | **18** | **(3)** | **–** | **(4)** | **11** |
| Placements with banks and non-bank financial institutions | 20 | **131** | **(30)** | **–** | **(17)** | **84** |
| Interest receivable | 24 | **1** | **14** | **–** | **(14)** | **1** |
| Loans and advances to customers | 25(3) | **126,826** | **25,641** | **(88)** | **(9,277)** | **143,102** |
| Held-to-maturity investments | 27 | **6,086** | **(381)** | **(173)** | **(529)** | **5,003** |
| Debt securities classified as receivables | 28 | **96** | **24** | **–** | **–** | **120** |
| Fixed assets | 31 | **503** | **2** | **–** | **(20)** | **485** |
| Land use rights | 32 | **151** | **–** | **–** | **(2)** | **149** |
| Intangible assets | 33 | **8** | **–** | **–** | **–** | **8** |
| Other assets | 36 | **3,288** | **226** | **–** | **(533)** | **2,981** |
| Total | | **137,108** | **25,493** | **(261)** | **(10,396)** | **151,944** |

Transfer in/(out) includes the exchange difference. Write-offs include disposals.

| | Note | 2009 As at 1 January | Charge for the year/(Write-back) | Transfer in/(out) | Write-offs | As at 31 December |
|---|---|---|---|---|---|---|
| Deposits with banks and non-bank financial institutions | 19 | 21 | (3) | – | – | 18 |
| Placements with banks and non-bank financial institutions | 20 | 252 | (86) | – | (35) | 131 |
| Financial assets held under resale agreements | 23 | 11 | (11) | – | – | – |
| Interest receivable | 24 | 1 | – | – | – | 1 |
| Loans and advances to customers | 25(3) | 110,368 | 24,256 | (953) | (6,845) | 126,826 |
| Held-to-maturity investments | 27 | 7,552 | 76 | 5 | (1,547) | 6,086 |
| Debt securities classified as receivables | 28 | 64 | 32 | – | – | 96 |
| Fixed assets | 31 | 523 | 2 | – | (22) | 503 |
| Land use rights | 32 | 161 | – | – | (10) | 151 |
| Intangible assets | 33 | 8 | – | – | – | 8 |
| Other assets | 36 | 3,686 | 178 | – | (576) | 3,288 |
| Total | | 122,647 | 24,444 | (948) | (9,035) | 137,108 |

## Bank

| | Note | 2010 As at 1 January | Charge for the year/ (Write-back) | Transfer out | Write-offs | As at 31 December |
|---|---|---|---|---|---|---|
| Deposits with banks and non-bank financial institutions | 19 | **18** | **(3)** | **–** | **(4)** | **11** |
| Placements with banks and non-bank financial institutions | 20 | **131** | **(30)** | **–** | **(17)** | **84** |
| Interest receivable | 24 | **1** | **14** | **–** | **(14)** | **1** |
| Loans and advances to customers | 25(3) | **126,111** | **25,400** | **(91)** | **(9,159)** | **142,261** |
| Held-to-maturity investments | 27 | **6,086** | **(381)** | **(173)** | **(529)** | **5,003** |
| Debt securities classified as receivables | 28 | **96** | **24** | **–** | **–** | **120** |
| Fixed assets | 31 | **503** | **2** | **–** | **(20)** | **485** |
| Land use rights | 32 | **151** | **–** | **–** | **(2)** | **149** |
| Intangible assets | 33 | **8** | **–** | **–** | **–** | **8** |
| Other assets | 36 | **3,283** | **228** | **–** | **(533)** | **2,978** |
| Total | | **136,388** | **25,254** | **(264)** | **(10,278)** | **151,100** |

(Expressed in millions of RMB, unless otherwise stated)

## 37 Movements of allowances for impairment losses (continued)

### Bank (continued)

| | Note | 2009 As at 1 January | Charge for the year/ (Write-back) | Transfer in/(out) | Write-offs | As at 31 December |
|---|---|---|---|---|---|---|
| Deposits with banks and non-bank financial institutions | 19 | 21 | (3) | – | – | 18 |
| Placements with banks and non-bank financial institutions | 20 | 252 | (86) | – | (35) | 131 |
| Financial assets held under resale agreements | 23 | 11 | (11) | – | – | – |
| Interest receivable | 24 | 1 | – | – | – | 1 |
| Loans and advances to customers | 25(3) | 110,202 | 24,064 | (1,401) | (6,754) | 126,111 |
| Held-to-maturity investments | 27 | 7,552 | 76 | 5 | (1,547) | 6,086 |
| Debt securities classified as receivables | 28 | 64 | 32 | – | – | 96 |
| Fixed assets | 31 | 523 | 2 | – | (22) | 503 |
| Land use rights | 32 | 161 | – | – | (10) | 151 |
| Intangible assets | 33 | 8 | – | – | – | 8 |
| Other assets | 36 | 3,686 | 173 | – | (576) | 3,283 |
| Total | | 122,481 | 24,247 | (1,396) | (8,944) | 136,388 |

## 38 Amounts due from/to subsidiaries

Amounts due from subsidiaries of the Bank are analysed by assets category as follows:

| | **2010** | 2009 |
|---|---|---|
| Deposits with banks and non-bank financial institutions | **4,771** | 828 |
| Placements with banks and non-bank financial institutions | **6,187** | 2,153 |
| Positive fair value of Derivatives | **35** | – |
| Interest receivable | **20** | 13 |
| Loans and advances to customers | **–** | 634 |
| Available-for-sale financial assets | **3,955** | 3,081 |
| Other assets | **19,158** | 21,060 |
| Total | **34,126** | 27,769 |

Amounts due to subsidiaries of the Bank are analysed by liabilities category as follows:

| | **2010** | 2009 |
|---|---|---|
| Deposits from banks and non-bank financial institutions | **2,232** | 2,218 |
| Placements from banks and non-bank financial institutions | **2,563** | 2,700 |
| Negative fair value of derivatives | **–** | 2 |
| Financial assets sold under repurchase agreements | **6,222** | 2,625 |
| Deposits from customers | **2,716** | 1,686 |
| Interest payable | **97** | 8 |
| Debt securities issued | **848** | 1,451 |
| Other liabilities | **–** | 453 |
| Total | **14,678** | 11,143 |

(Expressed in millions of RMB, unless otherwise stated)

## 39 Deposits from banks and non-bank financial institutions

### (1) Analysed by type of counterparties

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Banks | **187,548** | 183,327 | **188,229** | 183,448 |
| Non-bank financial institutions | **495,989** | 591,458 | **497,009** | 593,134 |
| Total | **683,537** | 774,785 | **685,238** | 776,582 |

### (2) Analysed by geographic sectors

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Mainland China | **682,885** | 774,295 | **683,783** | 776,093 |
| Overseas | **652** | 490 | **1,455** | 489 |
| Total | **683,537** | 774,785 | **685,238** | 776,582 |

## 40 Placements from banks and non-bank financial institutions

### (1) Analysed by type of counterparties

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Banks | **65,895** | 36,472 | **41,334** | 30,369 |
| Non-bank financial institutions | **377** | 1,648 | **330** | 1,599 |
| Total | **66,272** | 38,120 | **41,664** | 31,968 |

### (2) Analysed by geographic sectors

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Mainland China | **24,952** | 11,157 | **6,292** | 7,524 |
| Overseas | **41,320** | 26,963 | **35,372** | 24,444 |
| Total | **66,272** | 38,120 | **41,664** | 31,968 |

## 41 Financial liabilities at fair value through profit or loss

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Structured financial instruments | **2,422** | 53 | **75** | 53 |
| Financial liabilities related to precious metals | **12,865** | 7,939 | **12,865** | 7,939 |
| Total | **15,287** | 7,992 | **12,940** | 7,992 |

The Group's and the Bank's financial liabilities at fair value through profit or loss are all financial liabilities designated at fair value through profit or loss. As at the end of reporting period, the difference between the fair value of these financial liabilities and the contractual payables at maturity is not material. The amounts of changes in the fair value of these financial liabilities that are attributable to changes in credit risk are considered not significant during the year presented and cumulatively as at 31 December 2010 and 2009.

(Expressed in millions of RMB, unless otherwise stated)

## 42 Financial assets sold under repurchase agreements

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Securities | | | | |
| – PBOC bills | **2,867** | – | **2,867** | – |
| – Other securities | **55** | – | **–** | – |
| | **2,922** | – | **2,867** | – |
| Loans | **2,000** | – | **8,222** | 2,625 |
| Total | **4,922** | – | **11,089** | 2,625 |

## 43 Deposits from customers

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Demand deposits | | | | |
| – Corporate customers | **3,412,050** | 2,968,733 | **3,408,265** | 2,965,825 |
| – Personal customers | **1,726,159** | 1,445,304 | **1,714,764** | 1,435,266 |
| | **5,138,209** | 4,414,037 | **5,123,029** | 4,401,091 |
| Time deposits (including call deposits) | | | | |
| – Corporate customers | **1,608,186** | 1,421,678 | **1,585,294** | 1,405,735 |
| – Personal customers | **2,328,974** | 2,165,608 | **2,306,323** | 2,148,414 |
| | **3,937,160** | 3,587,286 | **3,891,617** | 3,554,149 |
| Total | **9,075,369** | 8,001,323 | **9,014,646** | 7,955,240 |

Deposits from customers include:

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | | **2010** | 2009 | **2010** | 2009 |
| (1) | Pledged deposits | | | | |
| | – Deposits for acceptance | **118,172** | 118,121 | **118,172** | 118,121 |
| | – Deposits for guarantee | **34,103** | 23,984 | **34,103** | 23,984 |
| | – Deposits for letter of credit | **39,692** | 19,974 | **39,692** | 19,974 |
| | – Others | **104,779** | 72,021 | **104,747** | 72,017 |
| | Total | **296,746** | 234,100 | **296,714** | 234,096 |
| (2) | Outward remittance and remittance payables | **15,895** | 19,073 | **15,864** | 18,988 |

(Expressed in millions of RMB, unless otherwise stated)

## 44 Accrued staff costs

### Group

| | Note | 2010 As at 1 January | 2010 Accrued during the year | 2010 Payments made | 2010 As at 31 December |
|---|---|---|---|---|---|
| Salaries, bonuses, allowances and subsidies | | **10,835** | **42,652** | **(38,614)** | **14,873** |
| Defined contribution retirement schemes | | **459** | **7,206** | **(7,173)** | **492** |
| Other social insurance and welfare | | **1,105** | **5,311** | **(5,151)** | **1,265** |
| Housing funds | | **82** | **3,409** | **(3,379)** | **112** |
| Union running costs and employee education costs | | **797** | **1,695** | **(1,538)** | **954** |
| Supplementary retirement benefits | (1) | **6,786** | **651** | **(536)** | **6,901** |
| Early retirement benefits | | **7,353** | **841** | **(1,429)** | **6,765** |
| Compensation to employees for termination of employment relationship | | **8** | **19** | **(20)** | **7** |
| Total | | **27,425** | **61,784** | **(57,840)** | **31,369** |

| | Note | 2009 As at 1 January | 2009 Accrued during the year | 2009 Payments made | 2009 As at 31 December |
|---|---|---|---|---|---|
| Salaries, bonuses, allowances and subsidies | | 8,628 | 35,422 | (33,215) | 10,835 |
| Defined contribution retirement schemes | | 444 | 5,941 | (5,926) | 459 |
| Other social insurance and welfare | | 783 | 4,362 | (4,040) | 1,105 |
| Housing funds | | 72 | 2,941 | (2,931) | 82 |
| Union running costs and employee education costs | | 735 | 1,238 | (1,176) | 797 |
| Supplementary retirement benefits | (1) | 6,556 | 743 | (513) | 6,786 |
| Early retirement benefits | | 7,926 | 819 | (1,392) | 7,353 |
| Compensation to employees for termination of employment relationship | | 9 | 18 | (19) | 8 |
| Total | | 25,153 | 51,484 | (49,212) | 27,425 |

### Bank

| | Note | 2010 As at 1 January | 2010 Accrued during the year | 2010 Payments made | 2010 As at 31 December |
|---|---|---|---|---|---|
| Salaries, bonuses, allowances and subsidies | | **10,217** | **41,218** | **(37,302)** | **14,133** |
| Defined contribution retirement schemes | | **458** | **7,142** | **(7,109)** | **491** |
| Other social insurance and welfare | | **1,013** | **5,236** | **(5,080)** | **1,169** |
| Housing funds | | **81** | **3,397** | **(3,367)** | **111** |
| Union running costs and employee education costs | | **792** | **1,684** | **(1,531)** | **945** |
| Supplementary retirement benefits | (1) | **6,786** | **651** | **(536)** | **6,901** |
| Early retirement benefits | | **7,353** | **841** | **(1,429)** | **6,765** |
| Compensation to employees for termination of employment relationship | | **8** | **19** | **(20)** | **7** |
| Total | | **26,708** | **60,188** | **(56,374)** | **30,522** |

| | Note | 2009 As at 1 January | 2009 Accrued during the year | 2009 Payments made | 2009 As at 31 December |
|---|---|---|---|---|---|
| Salaries, bonuses, allowances and subsidies | | 8,327 | 34,299 | (32,409) | 10,217 |
| Defined contribution retirement schemes | | 444 | 5,902 | (5,888) | 458 |
| Other social insurance and welfare | | 742 | 4,292 | (4,021) | 1,013 |
| Housing funds | | 71 | 2,931 | (2,921) | 81 |
| Union running costs and employee education costs | | 732 | 1,232 | (1,172) | 792 |
| Supplementary retirement benefits | (1) | 6,556 | 743 | (513) | 6,786 |
| Early retirement benefits | | 7,926 | 819 | (1,392) | 7,353 |
| Compensation to employees for termination of employment relationship | | 9 | 18 | (19) | 8 |
| Total | | 24,807 | 50,236 | (48,335) | 26,708 |

(Expressed in millions of RMB, unless otherwise stated)

## 44 Accrued staff costs (continued)

### (1) Supplementary retirement benefits

The Group's obligations in respect of the supplementary retirement benefits as at the end of the reporting period were calculated using the projected unit credit actuarial cost method and reviewed by qualified staff (a member of Society of Actuaries of the United States of America) of an external independent actuary: Towers, Perrin, Forster & Crosby, Inc., Hong Kong.

(a) *Breakdowns of supplementary retirement benefits of the Group and the Bank are as follows:*

| | **2010** | 2009 |
|---|---|---|
| Present value of supplementary retirement benefit obligations | **6,646** | 6,766 |
| Unrecognised actuarial gains | **255** | 20 |
| As at 31 December | **6,901** | 6,786 |

(b) *Movements of supplementary retirement benefits of the Group and the Bank are as follows:*

| | **2010** | 2009 |
|---|---|---|
| As at 1 January | **6,786** | 6,556 |
| Payments made | **(536)** | (513) |
| Expenses recognised in profit or loss | | |
| – Interest cost | **219** | 206 |
| – Past service costs | **432** | 537 |
| As at 31 December | **6,901** | 6,786 |

Interest cost was recognised in other general and administrative expenses. Past service costs were recognised in staff costs.

(c) *Principal actuarial assumptions of the Group and the Bank as at the end of the reporting period:*

| | **2010** | 2009 |
|---|---|---|
| Discount rate | **4.00%** | 3.50% |
| Health care cost increases | **7.00%** | 7.00% |
| Average expected future lifetime of eligible employees | **14.1 years** | 14.7 years |

(2) The Group and the Bank had no overdue balance of accrued staff costs as at the end of the reporting period.

## 45 Taxes payable

| | **Group** | | **Bank** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Income tax | **27,748** | 20,627 | **27,554** | 20,362 |
| Business tax and surcharges | **5,739** | 4,562 | **5,704** | 4,545 |
| Others | **754** | 651 | **687** | 642 |
| Total | **34,241** | 25,840 | **33,945** | 25,549 |

(Expressed in millions of RMB, unless otherwise stated)

## 46 Interest payable

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Deposits from banks and non-bank financial institutions | **1,002** | 961 | **982** | 959 |
| Deposits from customers | **62,966** | 56,738 | **62,906** | 56,708 |
| Debt securities issued | **1,575** | 1,650 | **1,575** | 1,651 |
| Others | **116** | 138 | **129** | 124 |
| Total | **65,659** | 59,487 | **65,592** | 59,442 |

## 47 Provisions

| | Group and Bank | |
|---|---|---|
| | **2010** | 2009 |
| Litigation provisions | **691** | 894 |
| Others | **2,708** | 450 |
| Total | **3,399** | 1,344 |

## 48 Debt securities issued

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Note | **2010** | 2009 | **2010** | 2009 |
| Certificates of deposit issued | (1) | **13,414** | 15,893 | **11,530** | 15,502 |
| Bonds issued | (2) | **–** | 2,863 | **–** | 2,993 |
| Subordinated bonds issued | (3) | **79,901** | 79,888 | **79,901** | 79,888 |
| Total | | **93,315** | 98,644 | **91,431** | 98,383 |

(1) Certificates of deposit were mainly issued by Hong Kong branch, New York branch of the Bank and CCB Asia in Hong Kong and recognised at amortised cost.

(2) The Group repaid the fixed rate RMB bonds issued in Hong Kong on the maturity date of September 2010.

(3) Subordinated bonds issued

The carrying value of the Group and the Bank's subordinated bonds issued upon the approval of the PBOC and the CBRC is as follows:

| | | Group and Bank | |
|---|---|---|---|
| | Note | **2010** | 2009 |
| 3.20% subordinated fixed rate bonds maturing in February 2019 | (a) | **12,000** | 12,000 |
| 4.00% subordinated fixed rate bonds maturing in February 2024 | (b) | **28,000** | 28,000 |
| 3.32% subordinated fixed rate bonds maturing in August 2019 | (c) | **10,000** | 10,000 |
| 4.04% subordinated fixed rate bonds maturing in August 2024 | (d) | **10,000** | 10,000 |
| 4.80% subordinated fixed rate bonds maturing in December 2024 | (e) | **20,000** | 20,000 |
| Total nominal value | | **80,000** | 80,000 |
| Less: Unamortised issuance cost | | **(99)** | (112) |
| Carrying value as at 31 December | | **79,901** | 79,888 |

(a) The interest rate per annum on the subordinated fixed rate bonds issued in February 2009 is 3.20%. The Group has an option to redeem the bonds on 26 February 2014. If they are not redeemed by the Group, the interest rate will increase to 6.20% per annum from 26 February 2014 for the next five years.

(b) The interest rate per annum on the subordinated fixed rate bonds issued in February 2009 is 4.00%. The Group has an option to redeem the bonds on 26 February 2019. If they are not redeemed by the Group, the interest rate will increase to 7.00% per annum from 26 February 2019 for the next five years.

(c) The interest rate per annum on the subordinated fixed rate bonds issued in August 2009 is 3.32%. The Group has an option to redeem the bonds on 11 August 2014. If they are not redeemed by the Group, the interest rate will increase to 6.32% per annum from 11 August 2014 for the next five years.

(d) The interest rate per annum on the subordinated fixed rate bonds issued in August 2009 is 4.04%. The Group has an option to redeem the bonds on 11 August 2019. If they are not redeemed by the Group, the interest rate will increase to 7.04% per annum from 11 August 2019 for the next five years.

(e) The interest rate per annum on the subordinated fixed rate bonds issued in December 2009 is 4.80%. The Group has an option to redeem the bonds on 22 December 2019. If they are not redeemed by the Group, the interest rate will increase to 7.80% per annum from 22 December 2019 for the next five years.

(Expressed in millions of RMB, unless otherwise stated)

## 49 Other liabilities

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Dormant accounts | **3,388** | 4,290 | **3,388** | 4,290 |
| Securities underwriting and redemption payable | **1,977** | 1,813 | **1,977** | 1,813 |
| Payment and collection clearance account | **491** | 454 | **487** | 450 |
| Payables to China Jianyin Investment Limited ("Jianyin") | **150** | 372 | **150** | 372 |
| Settlement accounts | **555** | 135 | **555** | 135 |
| Others | **18,099** | 13,514 | **15,898** | 12,997 |
| Total | **24,660** | 20,578 | **22,455** | 20,057 |

## 50 Share capital

### (a) Structure of share capital

| | **2010** | 2009 |
|---|---|---|
| Listed in Hong Kong (H share) | **240,417** | 224,689 |
| Listed in Mainland China (A share) | **9,594** | 9,000 |
| Total | **250,011** | 233,689 |

All H and A shares are ordinary shares and rank pari passu with the same rights and benefits.

### (b) Movement of share capital

| | **2010** | 2009 |
|---|---|---|
| As at 1 January | **233,689** | 233,689 |
| Rights Issue | **16,322** | – |
| Of which: H share | **15,728** | – |
| A share | **594** | – |
| Total | **250,011** | 233,689 |

As described in Note 1, the Bank issued 594 million A shares and 15,728 million H shares with a par value of RMB1 each as a result of Rights Issue in 2010. KPMG Huazhen issued verification reports KPMG-A(2010)CR No.0027 and KPMG-A(2010)CR No.0026 on 15 November and 13 December 2010 respectively whereby the received capital were verified.

## 51 Capital reserve

| | **2010** | 2009 |
|---|---|---|
| Share premium | **135,047** | 90,210 |
| Others | **89** | 56 |
| Total | **135,136** | 90,266 |

Share premium arises from the issuance of share of prices in excess of their par value.

The Bank issued a total of 16,322 million shares of RMB1 each at a total consideration of RMB61,273 million as a result of Rights Issue in 2010. After accounting for costs directly associated with the Rights Issue, the Bank credited the share premium of RMB44,837 million to capital reserve.

(Expressed in millions of RMB, unless otherwise stated)

## 51 Capital reserve (continued)

Movements of capital reserve during the year were as follows:

| | A share | H share | Total |
|---|---|---|---|
| As at 1 January | 48,119 | 42,091 | 90,210 |
| Rights Issue | 2,238 | 59,035 | 61,273 |
| Less: Gross proceeds upon issue of shares | (594) | (15,728) | (16,322) |
| Costs of issuing shares | (12) | (102) | (114) |
| Total share premium credited during the year | 1,632 | 43,205 | 44,837 |
| As at 31 December | 49,751 | 85,296 | 135,047 |

## 52 Investment revaluation reserve

The changes in fair value of available-for-sale financial assets were recognised in "investment revaluation reserve". Movements of investment revaluation reserve are as follows:

### Group

| | 2010 | | |
|---|---|---|---|
| | **Before-tax amount** | **Tax (expense)/benefit** | **Net-of-tax amount** |
| As at 1 January | **17,566** | **(4,403)** | **13,163** |
| Losses during the year | | | |
| – Debt securities | **(6,140)** | **1,485** | **(4,655)** |
| – Equity instruments | **(2,018)** | **504** | **(1,514)** |
| | **(8,158)** | **1,989** | **(6,169)** |
| Reclassification adjustments | | | |
| – Impairment | **295** | **(74)** | **221** |
| – Disposals | **(735)** | **184** | **(551)** |
| – Others | **56** | **(14)** | **42** |
| | **(384)** | **96** | **(288)** |
| As at 31 December | **9,024** | **(2,318)** | **6,706** |

| | 2009 | | |
|---|---|---|---|
| | Before-tax amount | Tax (expense)/benefit | Net-of-tax amount |
| As at 1 January | 14,890 | (3,734) | 11,156 |
| (Losses)/gains during the year | | | |
| – Debt securities | (6,050) | 1,511 | (4,539) |
| – Equity instruments | 8,212 | (2,052) | 6,160 |
| | 2,162 | (541) | 1,621 |
| Reclassification adjustments | | | |
| – Impairment | 999 | (250) | 749 |
| – Disposals | (925) | 232 | (693) |
| – Others | 440 | (110) | 330 |
| | 514 | (128) | 386 |
| As at 31 December | 17,566 | (4,403) | 13,163 |

(Expressed in millions of RMB, unless otherwise stated)

## 52 Investment revaluation reserve (continued)

### Bank

| | 2010 | | |
|---|---|---|---|
| | **Before-tax amount** | **Tax (expense)/benefit** | **Net-of-tax amount** |
| As at 1 January | **17,629** | **(4,416)** | **13,213** |
| Losses during the year | | | |
| – Debt securities | **(6,017)** | **1,477** | **(4,540)** |
| – Equity instruments | **(2,056)** | **513** | **(1,543)** |
| | **(8,073)** | **1,990** | **(6,083)** |
| Reclassification adjustments | | | |
| – Impairment | **139** | **(34)** | **105** |
| – Disposals | **(712)** | **178** | **(534)** |
| – Others | **56** | **(14)** | **42** |
| | **(517)** | **130** | **(387)** |
| As at 31 December | **9,039** | **(2,296)** | **6,743** |

| | 2009 | | |
|---|---|---|---|
| | Before-tax amount | Tax (expense)/benefit | Net-of-tax amount |
| As at 1 January | 14,862 | (3,724) | 11,138 |
| (Losses)/gains during the year | | | |
| – Debt securities | (5,947) | 1,487 | (4,460) |
| – Equity instruments | 8,200 | (2,051) | 6,149 |
| | 2,253 | (564) | 1,689 |
| Reclassification adjustments | | | |
| – Impairment | 999 | (250) | 749 |
| – Disposals | (925) | 232 | (693) |
| – Others | 440 | (110) | 330 |
| | 514 | (128) | 386 |
| As at 31 December | 17,629 | (4,416) | 13,213 |

Others refer to the amortisation of accumulated losses previously recognised in revaluation reserve for the year. These accumulated losses were related to certain debt securities reclassified from available-for-sale financial assets to held-to-maturity investments in prior years.

## 53 Surplus reserve

Surplus reserves consist of statutory surplus reserve fund and discretionary surplus reserve fund.

The Bank is required to allocate 10% of its net profit, as determined under the Accounting Standards for Business Enterprises and other relevant requirements issued by the MOF ("PRC GAAP"), to the statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital. After making appropriations to the statutory surplus reserve fund, the Bank may also allocate its net profit to the discretionary surplus reserve fund upon approval by shareholders in general meeting.

(Expressed in millions of RMB, unless otherwise stated)

## 54 General reserve

The general reserve of the Group and the Bank is set up based upon the requirements of:

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Note | **2010** | 2009 | **2010** | 2009 |
| MOF | (1) | **60,475** | 46,093 | **60,475** | 46,093 |
| Hong Kong Banking Ordinance | (2) | **692** | 592 | **105** | 105 |
| Other regulatory bodies in Mainland China | (3) | **151** | 109 | **–** | – |
| Other overseas regulatory bodies | | **29** | 12 | **28** | 11 |
| As at 31 December | | **61,347** | 46,806 | **60,608** | 46,209 |

(1) Pursuant to relevant regulations issued by MOF, the Bank is required to set aside a general reserve through appropriations of profit after tax according to a certain provision ratio of the ending balance of gross risk-bearing assets to cover potential losses against their assets. In principle, the general reserve balance should not be lower than 1% of the ending balance of gross risk-bearing assets.

(2) Pursuant to requirements of the Hong Kong Banking Ordinance, the Group's banking operations in Hong Kong are required to set aside amounts in a regulatory reserve in respect of losses which it will, or may, incur on loans and advances to customers, in addition to impairment losses recognised in accordance with the accounting policies of the Group. Transfers to and from the regulatory reserve are made through retained earnings.

(3) Pursuant to the relevant regulatory requirements in Mainland China, the Bank's subsidiary is required to appropriate a certain amount of its net profit as general reserve.

## 55 Profit distribution

On the Annual General Meeting held on 24 June 2010, the shareholders approved the profit distribution for the year ended 31 December 2009. The Bank appropriated cash dividend for the year ended 31 December 2009 in an aggregate amount of RMB47,205 million.

On 25 March 2011, Board of Directors proposed the following profit distribution scheme for the year ended 31 December 2010:

(1) Appropriate statutory surplus reserve amounted to RMB13,260 million, based on 10% of the net profit of the Bank amounted to RMB132,604 million. It has been recorded in "Surplus reserve" as at the end of the reporting period.

(2) Appropriate general reserve amounted to RMB5,983 million, pursuant to relevant regulations issued by MOF.

(3) Appropriate cash dividend RMB0.2122 per share before tax and in aggregation amount of RMB53,052 million to all shareholders. Proposed dividends after the end of the reporting period are not recognised as a liability.

Above proposed profit distribution scheme is subject to the approval of Shareholders Meeting. Cash dividends will be distributed to all shareholders registered at the relevant date upon approval.

## 56 Cash and cash equivalents

| | **2010** | 2009 |
|---|---|---|
| Cash | **48,201** | 40,396 |
| Surplus deposit reserves with central banks | **170,938** | 265,453 |
| Demand deposits with banks and non-bank financial institutions | **17,910** | 20,280 |
| Deposits with banks and non-bank financial institutions with original maturity with or within three months | **7,000** | 36,226 |
| Placements with banks and non-bank financial institutions with original maturity with or within three months | **57,250** | 17,894 |
| Total | **301,299** | 380,249 |

## 57 Operating segments

As mentioned in Note 4(21), the Group has presented the operating segments in a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment. Measurement of segment assets and liabilities and segment income and results is based on the Group's accounting policies.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense". Interest income and expense earned from third parties are referred to as "external net interest income/expense".

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. Segment income, results, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the period to acquire fixed assets, intangible assets and other long-term assets.

### (1) Geographical segments

The Group operates principally in Mainland China with branches covering all provinces, autonomous regions and municipalities directly under the central government, and several subsidiaries located in Mainland China. The Group also has bank branch operations in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo, Seoul, New York, Sydney and Ho Chi Minh City and certain subsidiaries operating in Hong Kong and London.

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branches and subsidiaries that generate the income. Segment assets, liabilities and capital expenditure are allocated based on their geographical location.

Geographical segments of the Group, as defined for management reporting purposes, are defined as follows:

– "Yangtze River Delta" refers to the following areas serviced by the subsidiary and tier-1 branches of the Bank: Shanghai Municipality, Jiangsu Province, Zhejiang Province, City of Ningbo and City of Suzhou;

– "Pearl River Delta" refers to the following areas serviced by the tier-1 branches of the Bank: Guangdong Province, City of Shenzhen, Fujian Province and City of Xiamen;

– "Bohai Rim" refers to the following areas serviced by the subsidiaries and tier-1 branches of the Bank: Beijing Municipality, Shandong Province, Tianjin Municipality, Hebei Province and City of Qingdao;

– the "Central" region refers to the following areas serviced by the subsidiaries and tier-1 branches of the Bank: Shanxi Province, Guangxi Autonomous Region, Hubei Province, Henan Province, Hunan Province, Jiangxi Province, Hainan Province, Anhui Province and the Three Gorges Area;

– the "Western" region refers to the following areas serviced by the tier-1 branches of the Bank: Sichuan Province, Chongqing Municipality, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Inner Mongolia Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region; and

– the "Northeastern" region refers to the following areas serviced by the tier-1 branches of the Bank: Liaoning Province, Jilin Province, Heilongjiang Province and City of Dalian.

(Expressed in millions of RMB, unless otherwise stated)

# 57 Operating segments (continued)

## (1) Geographical segments (continued)

| | 2010 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Yangtze River Delta | Pearl River Delta | Bohai Rim | Central | Western | North Eastern | Head Office | Overseas | Total |
| External net interest income | 36,485 | 19,546 | 23,000 | 25,777 | 30,198 | 8,368 | 104,896 | 3,230 | 251,500 |
| Internal net interest income/(expense) | 8,994 | 12,488 | 14,741 | 11,886 | 9,638 | 6,282 | (63,899) | (130) | – |
| **Net interest income** | 45,479 | 32,034 | 37,741 | 37,663 | 39,836 | 14,650 | 40,997 | 3,100 | 251,500 |
| Net fee and commission income | 16,101 | 12,173 | 10,097 | 9,770 | 8,799 | 3,752 | 4,091 | 1,349 | 66,132 |
| Net trading gain | 313 | 362 | 209 | 59 | 143 | 90 | 1,124 | 1,209 | 3,509 |
| Dividend income | 2 | – | 25 | 51 | 64 | – | 34 | 52 | 228 |
| Net gain arising from investment securities | 41 | 8 | 69 | 463 | 102 | 258 | 845 | 117 | 1,903 |
| Other operating income/(loss), net | 487 | 457 | 494 | 451 | 897 | 174 | (1,601) | 1,149 | 2,508 |
| **Operating income** | 62,423 | 45,034 | 48,635 | 48,457 | 49,841 | 18,924 | 45,490 | 6,976 | 325,780 |
| Operating expenses | (21,601) | (16,109) | (18,330) | (20,617) | (20,204) | (8,821) | (12,864) | (2,820) | (121,366) |
| Impairment losses | (7,596) | (4,289) | (3,119) | (5,547) | (5,580) | (1,689) | (495) | (977) | (29,292) |
| Share of profits less losses of associates-and jointly controlled entities | – | – | – | – | – | – | – | 34 | 34 |
| **Profit before tax** | 33,226 | 24,636 | 27,186 | 22,293 | 24,057 | 8,414 | 32,131 | 3,213 | 175,156 |
| Capital expenditure | 3,204 | 1,876 | 2,563 | 3,424 | 3,483 | 1,962 | 3,573 | 74 | 20,159 |
| Depreciation and amortisation | 1,966 | 1,409 | 1,736 | 2,098 | 1,845 | 915 | 1,752 | 106 | 11,827 |
| Segment assets | 2,054,133 | 1,663,001 | 1,913,481 | 1,672,191 | 1,717,538 | 694,294 | 4,781,069 | 271,052 | 14,766,759 |
| Interests in associates and jointly controlled entities | – | – | – | – | – | – | – | 1,777 | 1,777 |
| | 2,054,133 | 1,663,001 | 1,913,481 | 1,672,191 | 1,717,538 | 694,294 | 4,781,069 | 272,829 | 14,768,536 |
| Deferred tax assets | | | | | | | | | 17,825 |
| Elimination | | | | | | | | | (3,976,044) |
| Total assets | | | | | | | | | 10,810,317 |
| Segment liabilities | 2,050,953 | 1,659,607 | 1,907,041 | 1,669,392 | 1,715,699 | 692,888 | 4,142,555 | 247,078 | 14,085,213 |
| Deferred tax liabilities | | | | | | | | | 243 |
| Elimination | | | | | | | | | (3,976,044) |
| Total liabilities | | | | | | | | | 10,109,412 |
| Off-balance sheet credit commitments | 559,761 | 322,547 | 430,258 | 270,124 | 265,379 | 126,394 | 12,002 | 49,355 | 2,035,820 |

(Expressed in millions of RMB, unless otherwise stated)

## 57 Operating segments (continued)

### (1) Geographical segments (continued)

| | 2009 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Yangtze River Delta | Pearl River Delta | Bohai Rim | Central | Western | North Eastern | Head Office | Overseas | Total |
| External net interest income | 31,201 | 15,457 | 17,347 | 20,601 | 25,352 | 5,684 | 93,325 | 2,918 | 211,885 |
| Internal net interest income/(expense) | 12,109 | 13,386 | 17,594 | 13,764 | 11,003 | 7,391 | (75,106) | (141) | – |
| **Net interest income** | 43,310 | 28,843 | 34,941 | 34,365 | 36,355 | 13,075 | 18,219 | 2,777 | 211,885 |
| Net fee and commission income | 11,848 | 8,506 | 7,770 | 7,496 | 6,638 | 2,679 | 2,625 | 497 | 48,059 |
| Net trading gain/(loss) | 121 | 238 | 105 | 23 | 92 | 41 | (290) | 1,903 | 2,233 |
| Dividend income | 9 | – | 8 | 12 | 13 | – | 36 | 22 | 100 |
| Net gain arising from investment securities | 5 | – | 11 | 416 | 348 | 305 | 3,296 | 90 | 4,471 |
| Other operating income/(loss), net | 478 | 306 | 279 | 307 | 741 | 171 | (435) | 719 | 2,566 |
| **Operating income** | 55,771 | 37,893 | 43,114 | 42,619 | 44,187 | 16,271 | 23,451 | 6,008 | 269,314 |
| Operating expenses | (19,352) | (13,947) | (16,342) | (17,847) | (17,587) | (7,605) | (10,398) | (2,068) | (105,146) |
| Impairment losses | (7,384) | (3,880) | (3,867) | (4,364) | (711) | (1,584) | (996) | (2,674) | (25,460) |
| Share of profits less losses of associates-and jointly controlled entities | – | – | – | – | – | – | – | 17 | 17 |
| **Profit before tax** | 29,035 | 20,066 | 22,905 | 20,408 | 25,889 | 7,082 | 12,057 | 1,283 | 138,725 |
| Capital expenditure | 3,229 | 1,794 | 2,990 | 3,361 | 3,138 | 1,636 | 5,447 | 179 | 21,774 |
| Depreciation and amortisation | 1,846 | 1,331 | 1,590 | 1,900 | 1,659 | 800 | 1,660 | 90 | 10,876 |
| Segment assets | 1,890,649 | 1,462,959 | 1,675,219 | 1,500,338 | 1,508,896 | 642,640 | 4,418,463 | 232,669 | 13,331,833 |
| Interests in associates and jointly controlled entities | – | – | – | – | – | – | – | 1,791 | 1,791 |
| | 1,890,649 | 1,462,959 | 1,675,219 | 1,500,338 | 1,508,896 | 642,640 | 4,418,463 | 234,460 | 13,333,624 |
| Deferred tax assets | | | | | | | | | 10,790 |
| Elimination | | | | | | | | | (3,721,059) |
| Total assets | | | | | | | | | 9,623,355 |
| Segment liabilities | 1,888,969 | 1,460,261 | 1,670,431 | 1,497,353 | 1,505,890 | 641,924 | 3,910,613 | 209,737 | 12,785,178 |
| Deferred tax liabilities | | | | | | | | | 216 |
| Elimination | | | | | | | | | (3,721,059) |
| Total liabilities | | | | | | | | | 9,064,335 |
| Off-balance sheet credit commitments | 475,571 | 318,201 | 431,592 | 240,055 | 223,893 | 115,788 | 14,956 | 41,417 | 1,861,473 |

### (2) Business segments

Business segments, as defined for management reporting purposes, are as follows:

*Corporate banking*

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, trade financing, deposit taking activities, agency services, financial consulting and advisory services, cash management services, remittance and settlement services, custody services and guarantee services, etc.

(Expressed in millions of RMB, unless otherwise stated)

# 57 Operating segments (continued)

## (2) Business segments (continued)

*Personal banking*

This segment represents the provision of a range of financial products and services to individual customers. The products and services comprise personal loans, deposit taking activities, card business, personal wealth management services, remittance services and securities agency services, etc.

*Treasury business*

This segment covers the Group's treasury operations. The treasury enters into inter-bank money market transactions, repurchase and resale transactions, and invests in debt securities. It also trades in derivatives and foreign currency for its own account. The treasury carries out customer-driven derivatives, foreign currency and precious metal trading. Its function also includes the management of the Group's overall liquidity position, including the issuance of debt securities.

*Others*

These represent equity investments and the revenues, results, assets and liabilities of overseas branches and subsidiaries.

| | 2010 | | | | |
|---|---|---|---|---|---|
| | Corporate banking | Personal banking | Treasury business | Others | Total |
| External net interest income/(expense) | 150,070 | (3,659) | 101,116 | 3,973 | 251,500 |
| Internal net interest (expense)/income | (14,511) | 74,156 | (58,441) | (1,204) | – |
| **Net interest income** | 135,559 | 70,497 | 42,675 | 2,769 | 251,500 |
| Net fee and commission income | 28,563 | 23,919 | 11,898 | 1,752 | 66,132 |
| Net trading (loss)/gain | (1) | 350 | 1,940 | 1,220 | 3,509 |
| Dividend income | – | – | – | 228 | 228 |
| Net gain arising from investment securities | – | – | 504 | 1,399 | 1,903 |
| Other operating income/(loss), net | 754 | 278 | (1,591) | 3,067 | 2,508 |
| **Operating income** | 164,875 | 95,044 | 55,426 | 10,435 | 325,780 |
| Operating expenses | (50,151) | (62,278) | (3,573) | (5,364) | (121,366) |
| Impairment losses | (23,557) | (2,176) | (655) | (2,904) | (29,292) |
| Share of profits less losses of associates and jointly controlled entities | – | – | – | 34 | 34 |
| **Profit before tax** | 91,167 | 30,590 | 51,198 | 2,201 | 175,156 |
| Capital expenditure | 6,065 | 13,048 | 777 | 269 | 20,159 |
| Depreciation and amortisation | 3,558 | 7,655 | 456 | 158 | 11,827 |
| Segment assets | 4,343,277 | 1,361,904 | 4,684,227 | 487,968 | 10,877,376 |
| Interests in associates and jointly controlled entities | – | – | – | 1,777 | 1,777 |
| | 4,343,277 | 1,361,904 | 4,684,227 | 489,745 | 10,879,153 |
| Deferred tax assets | | | | | 17,825 |
| Elimination | | | | | (86,661) |
| Total assets | | | | | 10,810,317 |
| Segment liabilities | 5,238,032 | 4,489,333 | 110,697 | 357,768 | 10,195,830 |
| Deferred tax liabilities | | | | | 243 |
| Elimination | | | | | (86,661) |
| Total liabilities | | | | | 10,109,412 |
| Off-balance sheet credit commitments | 1,781,695 | 205,092 | – | 49,033 | 2,035,820 |

(Expressed in millions of RMB, unless otherwise stated)

## 57 Operating segments (continued)

### (2) Business segments (continued)

| | 2009 | | | | |
|---|---|---|---|---|---|
| | Corporate banking | Personal banking | Treasury business | Others | Total |
| External net interest income/(expense) | 142,914 | (21,796) | 87,633 | 3,134 | 211,885 |
| Internal net interest (expense)/income | (18,525) | 84,613 | (65,434) | (654) | – |
| **Net interest income** | 124,389 | 62,817 | 22,199 | 2,480 | 211,885 |
| Net fee and commission income | 19,884 | 17,882 | 9,518 | 775 | 48,059 |
| Net trading (loss)/gain | (169) | 36 | 459 | 1,907 | 2,233 |
| Dividend income | – | – | – | 100 | 100 |
| Net gain arising from investment securities | – | – | 3,242 | 1,229 | 4,471 |
| Other operating income/(loss), net | 558 | 232 | (378) | 2,154 | 2,566 |
| **Operating income** | 144,662 | 80,967 | 35,040 | 8,645 | 269,314 |
| Operating expenses | (43,029) | (53,492) | (3,802) | (4,823) | (105,146) |
| Impairment losses | (17,476) | (4,164) | (944) | (2,876) | (25,460) |
| Share of profits less losses of associates and jointly controlled entities | – | – | – | 17 | 17 |
| **Profit before tax** | 84,157 | 23,311 | 30,294 | 963 | 138,725 |
| Capital expenditure | 6,567 | 13,964 | 987 | 256 | 21,774 |
| Depreciation and amortisation | 3,280 | 6,975 | 493 | 128 | 10,876 |
| Segment assets | 3,879,101 | 1,073,608 | 4,449,759 | 256,060 | 9,658,528 |
| Interests in associates and jointly controlled entities | – | – | – | 1,791 | 1,791 |
| | 3,879,101 | 1,073,608 | 4,449,759 | 257,851 | 9,660,319 |
| Deferred tax assets | | | | | 10,790 |
| Elimination | | | | | (47,754) |
| Total assets | | | | | 9,623,355 |
| Segment liabilities | 4,723,263 | 4,002,153 | 101,545 | 284,912 | 9,111,873 |
| Deferred tax liabilities | | | | | 216 |
| Elimination | | | | | (47,754) |
| Total liabilities | | | | | 9,064,335 |
| Off-balance sheet credit commitments | 1,573,849 | 249,504 | – | 38,120 | 1,861,473 |

## 58 Entrusted lending business

As at the end of the reporting period, the entrusted loans and funds were as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Entrusted loans | **778,349** | 609,565 | **776,418** | 609,565 |
| Entrusted funds | **778,349** | 609,565 | **776,418** | 609,565 |

(Expressed in millions of RMB, unless otherwise stated)

## 59 Pledged assets

### (1) Assets pledged as security

*(a) Carrying value of pledged assets analysed by asset type*

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Pledged deposits | **559** | 342 | **559** | 342 |
| Loans | **2,000** | – | **8,222** | 2,625 |
| PBOC bills | **2,860** | – | **2,860** | – |
| Equity instruments | **43** | – | **–** | – |
| Financial institution bonds | **543** | 579 | **543** | 579 |
| Total | **6,005** | 921 | **12,184** | 3,546 |

*(b) Carrying value of pledged assets analysed by classification*

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Deposits with banks and non-bank financial institutions | **559** | 342 | **559** | 342 |
| Loans and advances to customers | **2,000** | – | **8,222** | 2,625 |
| Available-for-sale financial assets | **543** | 579 | **543** | 579 |
| Financial assets at fair value through profit or loss | **43** | – | **–** | – |
| Held-to-maturity investments | **2,860** | – | **2,860** | – |
| Total | **6,005** | 921 | **12,184** | 3,546 |

### (2) Collateral accepted as securities for assets

The Group conducts resale agreements under usual and customary terms of placements, and holds collateral for these transactions. As at 31 December 2010 and 2009, the Group did not hold for resale agreements any collateral which it was permitted to sell or repledge in the absence of default for the transactions.

## 60 Commitments and contingent liabilities

### (1) Credit commitments

Credit commitments take the form of approved loans with signed contracts, credit card limits, financial guarantees and letters of credit. The Group assesses and makes allowance for any probable losses accordingly.

The contractual amounts of loans and credit card commitments represent the cash outflows should the contracts be fully drawn upon. The amounts of guarantees and letters of credit represent the maximum potential loss that would be recognised if counterparties failed completely to perform as contracted. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

As the facilities may expire without being drawn upon, the total of the contractual amounts set out in the following table is not representative of expected future cash outflows.

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Loan commitments | | | | |
| – with an original maturity under one year | **123,092** | 84,261 | **120,071** | 80,050 |
| – with an original maturity of one year or over | **461,785** | 443,366 | **461,636** | 443,138 |
| Credit card commitments | **227,478** | 260,656 | **205,092** | 240,391 |
| | **812,355** | 788,283 | **786,799** | 763,579 |
| Bank acceptances | **393,671** | 339,354 | **393,522** | 339,240 |
| Financing guarantees | **162,824** | 149,750 | **162,410** | 153,468 |
| Non-financing guarantees | **446,010** | 415,342 | **445,936** | 415,277 |
| Sight letters of credit | **58,135** | 47,091 | **58,135** | 47,091 |
| Usance letters of credit | **131,045** | 72,373 | **130,710** | 72,480 |
| Others | **31,780** | 49,280 | **31,881** | 49,604 |
| Total | **2,035,820** | 1,861,473 | **2,009,393** | 1,840,739 |

(Expressed in millions of RMB, unless otherwise stated)

## 60 Commitments and contingent liabilities (continued)

### (2) Credit risk-weighted amount

The credit risk-weighted amount refers to the amount as computed in accordance with the rules set out by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% of contingent liabilities and commitments.

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Credit risk-weighted amount of contingent liabilities and commitments | **954,706** | 898,284 | **953,856** | 897,511 |

### (3) Operating lease commitments

The Group and the Bank lease certain property and equipment under operating leases, which typically run for an initial period of one to five years and may include an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals. As at the end of the reporting period, the future minimum lease payments under non-cancellable operating leases for property and equipment were as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Within one year | **3,002** | 3,012 | **2,742** | 2,760 |
| After one year but within two years | **2,319** | 2,293 | **2,243** | 2,112 |
| After two years but within three years | **1,766** | 1,822 | **1,727** | 1,706 |
| After three years but within five years | **2,171** | 2,319 | **1,968** | 2,249 |
| After five years | **1,388** | 1,767 | **1,359** | 1,442 |
| Total | **10,646** | 11,213 | **10,039** | 10,269 |

### (4) Capital commitments

As at the end of the reporting period, the Group and the Bank had capital commitments as follows:

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Note | **2010** | 2009 | **2010** | 2009 |
| Contracted for | (a) | **3,815** | 5,511 | **3,726** | 5,394 |
| Authorised but not contracted for | | **1,619** | 1,652 | **1,603** | 1,635 |
| Total | | **5,434** | 7,163 | **5,329** | 7,029 |

(a) As at 31 December 2010, the Group's and the Bank's capital commitments contracted for include the consideration for the acquisition of 51% equity interests of Pacific-Antai Life Insurance Co. Ltd., amounting to RMB816 million.

### (5) Underwriting obligations

As at 31 December 2010, the unexpired underwriting commitments of the Group and the Bank were RMB51,846 million (2009: RMB3,890 million).

### (6) Redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations, which represent the nominal value of government bonds underwritten and sold by the Group and the Bank, but not yet matured as at 31 December 2010, were RMB91,578 million (2009: RMB81,424 million).

(Expressed in millions of RMB, unless otherwise stated)

## 60 Commitments and contingent liabilities (continued)

### (7) Outstanding litigation and disputes

As at 31 December 2010, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB1,976 million (2009: RMB2,418 million). Provisions have been made for the estimated losses arising from such litigations based upon the opinions of the Group's internal and external legal counsels (Note 47). The Group considers that the provisions made are reasonable and adequate.

### (8) Provision against commitments and contingent liabilities

The Group and the Bank assessed and made provisions for any probable outflow of economic benefits in relation to the above commitments and contingent liabilities in accordance with their accounting policies (Note 4(13)).

## 61 Related party relationships and transactions

### (1) Transactions with parent companies and their affiliates

The parent companies of the Group are CIC and Huijin.

Approved by the State Council, CIC was established on 29 September 2007 with a registered capital of USD200 billion. As a wholly owned subsidiary of CIC, Huijin exercises its rights and obligations as an investor on behalf of PRC government.

Huijin was incorporated on 16 December 2003 as a wholly state-owned investment company with the approval of the State Council. It was registered in Beijing with a registered capital of RMB552,117 million. Its principal activities are equity investments as authorised by the State Council, without engaging in other commercial operations. As at 31 December 2010, Huijin directly held 57.10% shares of the Bank.

The related companies under parent companies include the subsidiaries under parent companies and other associates and jointly controlled entities.

The Group's transactions with parent companies and their affiliates mainly include deposit taking, entrusted asset management, operating leases, lending, purchase and sale of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under normal commercial terms.

The Group has issued subordinated debts with a nominal value of RMB80 billion (2009: RMB80 billion). These are bearer bonds and tradable in secondary market. Accordingly, the Group has no information in respect of the amount of the bonds held by the affiliates of parent companies as at the end of the reporting period.

#### *(a) Transactions with parent companies*

In the ordinary course of the business, transactions that the Group and the Bank entered into with parent companies are as follows:

*Amounts*

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Amount** | **Ratio to similar transactions** | Amount | Ratio to similar transactions |
| Interest income | **185** | **0.05%** | – | – |
| Interest expense | **68** | **0.05%** | 394 | 0.31% |
| Fee and commission income | **2** | **0.00%** | – | – |

*Balances outstanding as at the end of the reporting period*

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Balance** | **Ratio to similar transactions** | Balance | Ratio to similar transactions |
| Interest receivable | **185** | **0.42%** | – | – |
| Held-to-maturity investments | **16,680** | **0.89%** | – | – |
| Deposits from banks and non-bank financial institutions | **–** | **–** | 688 | 0.09% |
| Deposits from customers | **4,934** | **0.05%** | 2,508 | 0.03% |
| Interest payable | **1** | **0.00%** | 21 | 0.04% |

(Expressed in millions of RMB, unless otherwise stated)

## 61 Related party relationships and transactions (continued)

### (1) Transactions with parent companies and their affiliates (continued)

*(b) Transactions with the affiliates of parent companies*

In the ordinary course of the business, transactions that the Group and the Bank entered into with the affiliates of parent companies are as follows:

*Amounts*

| | | 2010 | | 2009 | |
|---|---|---|---|---|---|
| | Note | **Amount** | **Ratio to similar transactions** | Amount | Ratio to similar transactions |
| Interest income | | **15,123** | **4.00%** | 12,916 | 3.80% |
| Interest expense | | **1,670** | **1.32%** | 1,529 | 1.20% |
| Fee and commission income | | **201** | **0.29%** | 136 | 0.27% |
| Fee and commission expense | | **113** | **5.58%** | 94 | 5.28% |
| Other operating income, net | | **10** | **0.40%** | 10 | 0.39% |
| Operating expenses | (i) | **967** | **0.80%** | 854 | 0.81% |

*Balances outstanding as at the end of the reporting period*

| | | 2010 | | 2009 | |
|---|---|---|---|---|---|
| | Note | **Balance** | **Ratio to similar transactions** | Balance | Ratio to similar transactions |
| Deposits with banks and non-bank financial institutions | | **9,436** | **12.05%** | 33,245 | 32.86% |
| Placements with banks and non-bank financial institutions | | **19,478** | **30.45%** | 8,165 | 36.75% |
| Financial assets at fair value through profit or loss | | **1,353** | **7.80%** | 3,795 | 20.11% |
| Positive fair value of derivatives | | **830** | **7.39%** | 213 | 2.25% |
| Financial assets held under resale agreements | | **1,401** | **0.77%** | 2,005 | 0.34% |
| Interest receivable | | **5,875** | **13.33%** | 4,860 | 12.05% |
| Loans and advances to customers | | **15,306** | **0.28%** | 1,586 | 0.03% |
| Available for sale financial assets | | **85,682** | **12.30%** | 69,457 | 10.66% |
| Held-to-maturity investments | | **372,605** | **19.78%** | 297,382 | 21.11% |
| Debt securities classified as receivables | | **34,049** | **11.10%** | 43,103 | 8.63% |
| Other assets | (ii) | **157** | **1.03%** | 157 | 1.15% |
| Deposits from banks and non-bank financial institutions | (iii) | **53,529** | **7.83%** | 99,152 | 12.80% |
| Placements from banks and non-bank financial institutions | | **14,018** | **21.15%** | 12,338 | 32.37% |
| Negative fair value of derivatives | | **628** | **6.71%** | 132 | 1.54% |
| Deposits from customers | | **13,597** | **0.15%** | 5,989 | 0.07% |
| Interest payable | | **69** | **0.11%** | 170 | 0.29% |
| Other liabilities | | **150** | **0.61%** | 372 | 1.81% |

(i) Operating expenses mainly represent rental expenses paid by the Group for leased assets, including properties and motor vehicles, owned by parent companies and its affiliates, and fees for related services provided by parent companies and its affiliates.

(ii) Other assets mainly represent other receivables from the affiliates of parent companies.

(iii) Deposits from the affiliates of parent companies are unsecured and are repayable under normal commercial terms.

(Expressed in millions of RMB, unless otherwise stated)

## 61 Related party relationships and transactions (continued)

### (2) Transactions with associates and jointly controlled entities of the Group

Transactions between the Group and its associates and jointly controlled entities are conducted in the normal and ordinary course of the business and under normal commercial terms. In the ordinary course of the business, transactions that the Group entered into with associates and jointly controlled entities are as follows:

*Amounts*

| | **2010** | 2009 |
|---|---|---|
| Interest income | **3** | 5 |
| Interest expense | **–** | 1 |

*Balances outstanding as at the end of the reporting period*

| | **2010** | 2009 |
|---|---|---|
| Loans and advances to customers | **567** | 211 |
| Deposits from customers | **–** | 442 |

### (3) Transactions between the Bank and its subsidiaries

Transactions between the Bank and its subsidiaries are conducted in the normal and ordinary course of the business and under normal commercial terms. All the inter-group transactions and inter-group balances are eliminated when preparing the consolidated financial statements as mentioned in Note 4(1)(b).

In the ordinary course of the business, transactions that the Bank entered into with its subsidiaries are as follows:

*Amounts*

| | **2010** | 2009 |
|---|---|---|
| Interest income | **128** | 82 |
| Interest expense | **169** | 135 |
| Fee and commission income | **260** | 124 |
| Fee and commission expense | **28** | 11 |
| Dividend income | **65** | 33 |
| Net trading gain/(loss) | **60** | (3) |
| Other operating income, net | **13** | 23 |
| Operating expenses | **–** | 13 |

Balances outstanding as at the end of the reporting period are presented in Note 38.

For the year ended 31 December 2010, the total maximum guarantee limit of guarantee letters issued by the Bank with its subsidiaries as beneficiary is RMB4,262 million (2009: RMB4,282 million).

For the year ended 31 December 2010, the transactions between subsidiaries of the Group are mainly deposit taking and ordinary receivables and payables. As at 31 December 2010, the balances of the above transactions were RMB737 million and RMB220 million respectively.

### (4) Transactions with other PRC state-owned entities

State-owned entities refer to those entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organizations. Transactions with other state-owned entities include but are not limited to: lending and deposit taking; taking and placing of inter-bank balances; entrusted lending and other custody services; insurance and securities agency, and other intermediary services; sale, purchase, underwriting and redemption of bonds issued by other state-owned entities; purchase, sale and leases of property and other assets; and rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group's pricing strategy and approval processes for major products and services, such as loans, deposits and commission income, do not depend on whether the customers are state-owned entities or not. Having due regard to the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(Expressed in millions of RMB, unless otherwise stated)

# 61 Related party relationships and transactions (continued)

## (5) Key management personnel

Key management personnel are those persons having authorities and responsibilities for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and senior executives.

The compensation of directors and supervisors is disclosed in Note 14. The senior executives' annual compensation before individual income tax during the year is as follows:

| | 2010 | | | |
|---|---|---|---|---|
| | Remuneration paid RMB'000 | Contributions to defined contribution retirement schemes RMB'000 | Other benefits in kind (note (i)) RMB'000 | Total RMB'000 |
| ***Executive vice president*** | | | | |
| Hu Zheyi (note (ii)) | **564** | **29** | **246** | **839** |
| ***Executive vice president*** | | | | |
| Pang Xiusheng (note (ii)) | **564** | **29** | **241** | **834** |
| ***Executive vice president*** | | | | |
| Zhao Huan | | | | **N/A** |
| ***Member of senior management*** | | | | |
| Zhang Gengsheng | | | | **N/A** |
| ***Chief Financial Officer*** | | | | |
| Zeng Jianhua | | | | **N/A** |
| ***Chief Risk Officer*** | | | | |
| Huang Zhiling | | | | **N/A** |
| ***Chief Audit Officer*** | | | | |
| Yu Jingbo | | | | **N/A** |
| ***Secretary to the board of directors*** | | | | |
| Chen Caihong (note (ii)) | **498** | **29** | **211** | **738** |
| ***Controller of wholesale banking*** | | | | |
| Gu Jingpu (note (ii)) | **498** | **29** | **211** | **738** |
| ***Controller of retail banking*** | | | | |
| Du Yajun (note (ii)) | **498** | **29** | **211** | **738** |
| ***Controller of investment and wealth management banking*** | | | | |
| Mao Yumin | **4,576** | **10** | **21** | **4,607** |
| ***Former vice president*** | | | | |
| Fan Yifei (note (ii)) | **235** | **12** | **100** | **347** |
| ***Former chief audit officer*** | | | | |
| Yu Yongshun (note (ii)) | **498** | **29** | **211** | **738** |
| | **7,931** | **196** | **1,452** | **9,579** |

(Expressed in millions of RMB, unless otherwise stated)

## 61 Related party relationships and transactions (continued)

### (5) Key management personnel (continued)

| | 2010 | | | | |
|---|---|---|---|---|---|
| | Salaries and allowance RMB'000 | Variable compensation RMB'000 | Contributions to defined contribution retirement schemes RMB'000 | Other benefits in kind (note(i)) RMB'000 | Total RMB'000 |
| ***Company secretary*** | | | | | |
| Chan Mei Sheung | 2,289 | 2,348 | 183 | 16 | 4,836 |
| ***Qualified accountant*** | | | | | |
| Yuen Yiu Leung | 2,116 | 1,185 | 148 | 19 | 3,468 |
| | 4,405 | 3,533 | 331 | 35 | 8,304 |

| | 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Basic annual salaries RMB'000 | Annual performance bonus RMB'000 | Allowance RMB'000 | Welfare RMB'000 | Total (before tax) (note (iii)) RMB'000 | Including: deferral payment RMB'000 | The actual payment in 2009 (before tax) RMB'000 |
| ***Vice president*** | | | | | | | |
| Fan Yifei | 338 | 891 | – | 264 | 1,493 | 445 | 1,048 |
| ***Vice president and chief risk officer*** | | | | | | | |
| Zhu Xiaohuang | 338 | 892 | – | 261 | 1,491 | 446 | 1,045 |
| ***Vice president*** | | | | | | | |
| Hu Zheyi | 338 | 891 | – | 261 | 1,490 | 445 | 1,045 |
| ***Vice president and chief financial officer*** | | | | | | | |
| Pang Xiusheng | 310 | 818 | – | 230 | 1,358 | 409 | 949 |
| ***Chief audit officer*** | | | | | | | |
| Yu Yongshun | 310 | 817 | – | 230 | 1,357 | 409 | 948 |
| ***Secretary to the board of directors*** | | | | | | | |
| Chen Caihong | 310 | 817 | – | 230 | 1,357 | 409 | 948 |
| ***Controller of wholesale banking*** | | | | | | | |
| Gu Jingpu | 310 | 817 | – | 230 | 1,357 | 409 | 948 |
| ***Controller of retail banking*** | | | | | | | |
| Du Yajun | 310 | 817 | – | 230 | 1,357 | 409 | 948 |
| ***Controller of investment and wealth management banking*** | | | | | | | |
| Mao Yumin | 4,330 | 400 | – | 36 | 4,766 | – | 4,766 |
| | 6,894 | 7,160 | – | 1,972 | 16,026 | 3,381 | 12,645 |

(Expressed in millions of RMB, unless otherwise stated)

# 61 Related party relationships and transactions (continued)

## (5) Key management personnel (continued)

| | 2009 | | | | |
|---|---|---|---|---|---|
| | Salaries and allowance RMB'000 | Variable compensation RMB'000 | Contributions to defined contribution retirement schemes RMB'000 | Other benefits in kind (note(i)) RMB'000 | Total RMB'000 |
| ***Company secretary*** | | | | | |
| Chan Mei Sheung | 2,180 | 1,638 | 174 | 16 | 4,008 |
| ***Qualified accountant*** | | | | | |
| Yuen Yiu Leung | 2,064 | 731 | 150 | 20 | 2,965 |
| | 4,244 | 2,369 | 324 | 36 | 6,973 |

Notes:

(i) Other benefits in kind included the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities. Other benefits also included the Bank's contribution to its own corporate annuity plan (which was set up in accordance with the relevant policies issued by the government authorities) and supplementary medical insurance.

(ii) The total compensation package for these key management personnel for the year ended 31 December 2010 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact on the Group's and the Bank's financial statements for the year ended 31 December 2010. The final compensation will be disclosed in a separate announcement when determined.

(iii) The total compensation package for certain key management personnel for the year ended 31 December 2009 had not been finalised in accordance with regulations of the PRC relevant authorities till the date that the 2009 financial statements were announced. The aforesaid total compensation package for the key management personnel for the year ended 31 December 2009 was the final amount and the Bank made the relevant supplementary announcement on 29 April 2010.

## (6) Loans and advances to directors, supervisors and senior executives

The Group had no material balance of loans and advances to directors, supervisors and senior executives as at the end of the reporting period. Those loans and advances to directors, supervisors and senior executives were conducted in the normal and ordinary course of the business and under normal commercial terms or on the same terms and conditions that are available to other employees, based on terms and conditions granted to third parties adjusted for reduced risk.

## (7) Contributions to defined contribution retirement schemes

The Group participates in various defined contribution retirement schemes organised by municipal and provincial governments for its employees in Mainland China. For its overseas employees, the Group participates in various defined contribution retirement schemes at funding rates determined in accordance with the local practices and regulations. The details of the Group's defined contribution retirement schemes are described in Note 4(12)(b).

# 62 Risk Management

The Group has exposure to the following risks from its use of financial instruments:

– credit risk
– market risk
– liquidity risk
– operational risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

## Risk management framework

The board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk strategy and risk management policies and evaluating the Group's risk exposures regularly.

To identify, evaluate, monitor and manage risk, the Group has designed a comprehensive governance framework, internal control policies and procedures. The Chief Risk Officer, who reports directly to the President, is responsible for the Group's overall risk management. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and standardised and procedural management, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

# 62 Risk Management (continued)

## Risk management framework (continued)

The Group Audit Committee is responsible for monitoring and evaluating internal controls, and monitoring the compliance of core businesses sectors and their management procedures. The Group Audit Committee is assisted in these functions by Audit Department. Audit Department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Group Audit Committee.

### (1) Credit risk

*Credit risk management*

Credit risk represents the financial loss that arises from the failure of a debtor or counterparty to discharge its contractual obligations or commitments to the Group.

*Credit business*

The Risk Management Department, under the supervision of the Chief Risk Officer, is responsible for establishing credit risk management policies and performing credit risk measurement and analysis. The Credit Management Department is responsible for monitoring the implementation of credit risk management policies and coordinating credit approval and credit ratings activities. The Credit Management Department works together with the Corporate Banking Department, the Institutional Banking Department, the International Business Department, the Housing Finance & Personal Lending Department, the Credit Card Center, the Special Assets Resolution Department and the Legal and Compliance Department to implement credit risk management policies and procedures.

With respect to the credit risk management of corporate and institutional business, the Group has sped up the adjustment of its credit portfolio structure, enhanced post-lending monitoring, and refined the industry-specific guideline and policy baseline for credit approval. Management also fine-tuned the credit acceptance and exit policies, and optimised its economic capital and credit risk limit management. All these policies have implemented to improve the overall asset quality. The Group manages credit risk throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring. The Group performs pre-lending evaluations by assessing the entity's credit ratings based on internal rating criteria and assessing the risk and rewards with respect to the proposed project. Credit approvals are granted by designated Credit Approval Officers. The Group continually monitors loans, particularly those related to targeted industries, geographical segments, products and clients. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately and measures are implemented to prevent and control risks. In 2010, the Bank has further emphasised the importance of segregation of duties as well as enhancing the operating mechanism as a whole. During the process of optimizing the parallel operation, the Bank has also begun to escalate its business focus from parallel operation to post-lending management. The centralized risk management was also expedited in the cities' where the first-tier branches are located, and the Bank will continue to explore the ways of specifying the operating characteristic for those branches, in addition to develop an intensive management for risk, reallocation of resource, improving the quality and efficiency.

With respect to the personal credit business, the Group relies on credit assessment of applicants as the basis for loan approval. Customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and recommendations to the loan-approval departments for consent. The Group monitors borrowers' repayment ability, the status of collateral and any changes to collateral value. Once a loan becomes overdue, the Group starts the recovery process according to standard personal loan recovery procedures.

To mitigate risks, the Group requests the customers to provide collateral and guarantees where there are appropriate. A fine management system and operating workflow for collateral have already developed, and there is a guideline to specify the suitability of accepting specific types of collateral, as well as determining evaluation parameters. Collateral structures and legal covenants are regularly reviewed to ensure that they still serve their intended purposes and conform to market practices.

*Loan grading classification*

The Group adopts a loan risk classification approach to manage the loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their level of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances when one or more events demonstrate there is objective evidence of a loss event which triggers impairment. The allowance for impairment loss on impaired loans and advances is collectively or individually assessed as appropriate.

(Expressed in millions of RMB, unless otherwise stated)

# 62 Risk Management (continued)

## (1) Credit risk (continued)

*Loan grading classification (continued)*

The core definitions of the five categories of loans and advances are 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' abilities to service their loans are in question and they cannot rely entirely on normal business 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: Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

*Treasury business*

For risk management purposes, credit risk arising on debt securities and exposures relating to the Group's derivatives portfolio is managed independently and information thereon is disclosed in notes (1)(h) and (1)(i) below. The Group sets credit limits for treasury activities and monitors them regularly with reference to the fair values of the relevant financial instruments.

*(a) Maximum credit risk exposure*

The maximum exposure to credit risk as at the end of the reporting period without taking into consideration any collateral held or other credit enhancement is represented by the carrying amount of each type of financial assets in the statement of financial position after deducting any impairment allowance. A summary of the maximum exposure is as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Deposits with central banks | **1,799,828** | 1,418,252 | **1,793,907** | 1,415,172 |
| Deposits with banks and non-bank financial institutions | **78,318** | 101,163 | **78,198** | 100,679 |
| Placements with banks and non-bank financial institutions | **63,962** | 22,217 | **68,528** | 23,143 |
| Financial liabilities at fair value through profit or loss | **7,860** | 14,517 | **3,044** | 10,251 |
| Positive fair value of derivatives | **11,224** | 9,456 | **10,153** | 7,730 |
| Financial assets held under resale agreements | **181,075** | 589,606 | **181,075** | 588,706 |
| Interest receivable | **44,088** | 40,345 | **43,861** | 40,129 |
| Loans and advances to customers | **5,526,026** | 4,692,947 | **5,428,279** | 4,626,024 |
| Available-for-sale debt securities | **676,840** | 626,763 | **675,277** | 627,598 |
| Held-to-maturity investments | **1,884,057** | 1,408,873 | **1,883,927** | 1,408,465 |
| Debt securities classified as receivables | **306,748** | 499,575 | **306,748** | 499,575 |
| Other financial assets | **10,994** | 8,436 | **27,835** | 28,068 |
| Total | **10,591,020** | 9,432,150 | **10,500,832** | 9,375,540 |
| Off-balance sheet credit commitments | **2,035,820** | 1,861,473 | **2,009,393** | 1,840,739 |
| Maximum credit risk exposure | **12,626,840** | 11,293,623 | **12,510,225** | 11,216,279 |

(Expressed in millions of RMB, unless otherwise stated)

## 62 Risk Management (continued)

### (1) Credit risk (continued)

*(b) Distribution of loans and advances to customers in terms of credit quality is analysed as follows:*

| | Note | Group 2010 | Group 2009 | Bank 2010 | Bank 2009 |
|---|---|---|---|---|---|
| Individually assessed and impaired gross amount | | **58,658** | 64,794 | **58,584** | 64,717 |
| Allowances for impairment losses | | **(37,352)** | (46,360) | **(37,278)** | (46,308) |
| Subtotal | | **21,306** | 18,434 | **21,306** | 18,409 |
| Collectively assessed and impaired gross amount | | **6,054** | 7,362 | **5,920** | 7,208 |
| Allowances for impairment losses | | **(3,657)** | (4,838) | **(3,648)** | (4,832) |
| Subtotal | | **2,397** | 2,524 | **2,272** | 2,376 |
| Overdue but not impaired | (i) | | | | |
| – less than 90 days | | **15,971** | 15,183 | **15,707** | 14,981 |
| – 90-180 days | | **–** | 2,289 | **–** | 2,289 |
| Gross amount | | **15,971** | 17,472 | **15,707** | 17,270 |
| Allowances for impairment losses | (ii) | **(916)** | (1,328) | **(912)** | (1,328) |
| Subtotal | | **15,055** | 16,144 | **14,795** | 15,942 |
| Neither overdue nor impaired | | | | | |
| – Unsecured loans | | **1,513,872** | 1,287,097 | **1,492,970** | 1,273,397 |
| – Guaranteed loans | | **1,161,167** | 970,460 | **1,130,549** | 956,733 |
| – Loans secured by tangible assets other than monetary assets | | **2,364,592** | 2,011,662 | **2,322,350** | 1,974,642 |
| – Loans secured by monetary assets | | **548,814** | 460,926 | **544,460** | 458,168 |
| Gross amount | | **5,588,445** | 4,730,145 | **5,490,329** | 4,662,940 |
| Allowances for impairment losses | (ii) | **(101,177)** | (74,300) | **(100,423)** | (73,643) |
| Subtotal | | **5,487,268** | 4,655,845 | **5,389,906** | 4,589,297 |
| Total | | **5,526,026** | 4,692,947 | **5,428,279** | 4,626,024 |

Notes:

(i) As at 31 December 2010, the gross amount of loans and advances of the Group, which were overdue but not impaired and were subject to individual assessment, was RMB2,464 million (2009: RMB1,440 million). The covered portion and uncovered portion of these loans and advances were RMB462 million (2009: RMB601 million) and RMB2,001 million (2009: RMB839 million) respectively. The fair value of collateral held against these loans and advances amounted to RMB536 million (2009: RMB1,015 million).

As at 31 December 2010, the gross amount of loans and advances of the Bank, which were overdue but not impaired and were subject to individual assessment, was RMB2,385 million (2009: RMB1,417 million). The covered portion and uncovered portion of these loans and advances were RMB387 million (2009: RMB583 million) and RMB1,998 million (2009: RMB834 million) respectively. The fair value of collateral held against these loans and advances amounted to RMB454 million (2009: RMB996 million).

The fair value of collateral was estimated by the Group based on the latest available external valuations adjusted by taking into account the current realisation experience as well as the market situation.

(ii) The balances represent collectively assessed allowances of impairment losses.

(Expressed in millions of RMB, unless otherwise stated)

## 62 Risk Management (continued)

### (1) Credit risk (continued)

*(c) Loans and advances to customers analysed by economic sector concentrations*

*Group*

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **Gross loan balance** | **Percentage** | **Balance secured by collateral** | Gross loan balance | Percentage | Balance secured by collateral |
| Corporate loans and advances | | | | | | |
| – Manufacturing | **1,010,527** | **17.83%** | **357,152** | 826,282 | 17.14% | 310,105 |
| – Transportation, storage and postal services | **660,308** | **11.65%** | **267,123** | 540,606 | 11.22% | 229,723 |
| – Production and supply of electric power, gas and water | **528,279** | **9.32%** | **129,473** | 494,354 | 10.26% | 123,504 |
| – Real estate | **435,234** | **7.68%** | **354,485** | 388,872 | 8.07% | 327,265 |
| – Leasing and commercial services | **361,713** | **6.38%** | **146,145** | 308,362 | 6.40% | 119,977 |
| – Wholesale and retail trade | **243,738** | **4.30%** | **91,752** | 164,744 | 3.42% | 78,825 |
| – Water, environment and public utility management | **216,328** | **3.82%** | **95,955** | 206,206 | 4.28% | 94,620 |
| – Construction | **150,736** | **2.66%** | **53,883** | 118,875 | 2.47% | 43,868 |
| – Mining | **148,261** | **2.62%** | **23,731** | 106,977 | 2.22% | 18,495 |
| – Education | **100,193** | **1.77%** | **38,738** | 93,446 | 1.94% | 35,043 |
| – Telecommunications, computer services and software | **28,498** | **0.50%** | **7,085** | 28,592 | 0.59% | 7,715 |
| – Others | **251,180** | **4.40%** | **107,221** | 202,275 | 4.18% | 97,725 |
| Total corporate loans and advances | **4,134,995** | **72.93%** | **1,672,743** | 3,479,591 | 72.19% | 1,486,865 |
| Personal loans and advances | **1,390,957** | **24.54%** | **1,295,659** | 1,111,435 | 23.06% | 1,043,794 |
| Discounted bills | **143,176** | **2.53%** | **–** | 228,747 | 4.75% | 15 |
| Total loans and advances to customers | **5,669,128** | **100.00%** | **2,968,402** | 4,819,773 | 100.00% | 2,530,674 |

Details of impaired loans, impairment allowances, charges, and amounts written off in respect of economic sectors which constitute 10% or more of total gross loans and advances to customers are as follows:

| | 2010 | | | | |
|---|---|---|---|---|---|
| | **Gross impaired loans** | **Individually assessed impairment allowances** | **Collectively assessed impairment allowances** | **Charged to profit or loss during the year** | **Written off during the year** |
| Manufacturing | **22,538** | **(14,627)** | **(22,345)** | **10,316** | **3,637** |
| Transportation, storage and postal services | **6,646** | **(3,194)** | **(12,541)** | **1,839** | **82** |

| | 2009 | | | | |
|---|---|---|---|---|---|
| | Gross impaired loans | Individually assessed impairment allowances | Collectively assessed impairment allowances | Charged to profit or loss during the year | Written off during the year |
| Manufacturing | 21,522 | (15,861) | (14,548) | 5,615 | 2,083 |
| Transportation, storage and postal services | 10,168 | (4,679) | (9,335) | 4,516 | 236 |
| Production and supply of electric power, gas and water | 3,991 | (2,882) | (9,313) | (249) | 109 |

(Expressed in millions of RMB, unless otherwise stated)

# 62 Risk Management (continued)

## (1) Credit risk (continued)

### (c) *Loans and advances to customers analysed by economic sector concentrations (continued)*

*Bank*

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **Gross loan balance** | **Percentage** | **Balance secured by collateral** | Gross loan balance | Percentage | Balance secured by collateral |
| Corporate loans and advances | | | | | | |
| – Manufacturing | **994,814** | **17.86%** | **355,803** | 817,326 | 17.20% | 309,361 |
| – Transportation, storage and postal services | **653,718** | **11.74%** | **264,290** | 538,229 | 11.33% | 228,330 |
| – Production and supply of electric power, gas and water | **522,734** | **9.38%** | **128,549** | 491,211 | 10.34% | 123,229 |
| – Real estate | **413,977** | **7.43%** | **337,168** | 371,676 | 7.82% | 312,629 |
| – Leasing and commercial services | **361,451** | **6.49%** | **145,918** | 308,285 | 6.49% | 119,971 |
| – Wholesale and retail trade | **230,543** | **4.14%** | **88,661** | 159,030 | 3.35% | 77,484 |
| – Water, environment and public utility management | **216,163** | **3.88%** | **95,924** | 206,175 | 4.34% | 94,603 |
| – Construction | **149,348** | **2.68%** | **53,632** | 118,240 | 2.49% | 43,817 |
| – Mining | **145,810** | **2.62%** | **23,731** | 106,535 | 2.24% | 18,495 |
| – Education | **100,045** | **1.80%** | **38,620** | 93,351 | 1.96% | 35,035 |
| – Telecommunications, computer services and software | **27,572** | **0.49%** | **6,900** | 28,389 | 0.60% | 7,699 |
| – Others | **245,523** | **4.40%** | **105,837** | 197,759 | 4.15% | 94,826 |
| Total corporate loans and advances | **4,061,698** | **72.91%** | **1,645,033** | 3,436,206 | 72.31% | 1,465,479 |
| Personal loans and advances | **1,365,684** | **24.52%** | **1,276,534** | 1,087,182 | 22.88% | 1,025,289 |
| Discounted bills | **143,158** | **2.57%** | **–** | 228,747 | 4.81% | 15 |
| Total loans and advances to customers | **5,570,540** | **100.00%** | **2,921,567** | 4,752,135 | 100.00% | 2,490,783 |

Details of impaired loans, impairment allowances, charges, and amounts written off in respect of economic sectors which constitute 10% or more of total gross loans and advances to customers are as follows:

| | 2010 | | | | |
|---|---|---|---|---|---|
| | **Gross impaired loans** | **Individually assessed impairment allowances** | **Collectively assessed impairment allowances** | **Charged to profit or loss during the year** | **Written off during the year** |
| Manufacturing | **22,465** | **(14,554)** | **(22,181)** | **10,210** | **3,637** |
| Transportation, storage and postal services | **6,646** | **(3,194)** | **(12,479)** | **1,791** | **82** |

| | 2009 | | | | |
|---|---|---|---|---|---|
| | Gross impaired loans | Individually assessed impairment allowances | Collectively assessed impairment allowances | Charged to profit or loss during the year | Written off during the year |
| Manufacturing | 21,446 | (15,810) | (14,441) | 5,519 | 2,038 |
| Transportation, storage and postal services | 10,168 | (4,679) | (9,320) | 4,502 | 235 |
| Production and supply of electric power, gas and water | 3,991 | (2,882) | (9,284) | (256) | 109 |

(Expressed in millions of RMB, unless otherwise stated)

## 62 Risk Management (continued)

### (1) Credit risk (continued)

*(d) Loans and advances to customers analysed by geographical sector concentrations*

*Group*

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Gross loan balance | Percentage | Balance secured by collateral | Gross loan balance | Percentage | Balance secured by collateral |
| Yangtze River Delta | **1,321,708** | **23.31%** | **765,533** | 1,136,447 | 23.58% | 660,273 |
| Bohai Rim | **1,008,340** | **17.79%** | **456,068** | 859,885 | 17.84% | 379,304 |
| Western | **963,636** | **17.00%** | **532,143** | 819,337 | 17.00% | 454,429 |
| Central | **922,185** | **16.27%** | **477,127** | 782,763 | 16.24% | 391,903 |
| Pearl River Delta | **858,420** | **15.14%** | **515,678** | 728,639 | 15.12% | 446,513 |
| Northeastern | **350,584** | **6.18%** | **163,249** | 299,385 | 6.21% | 139,419 |
| Head office | **63,638** | **1.12%** | **494** | 41,679 | 0.86% | 497 |
| Overseas | **180,617** | **3.19%** | **58,110** | 151,638 | 3.15% | 58,336 |
| Gross loans and advances to customers | **5,669,128** | **100.00%** | **2,968,402** | 4,819,773 | 100.00% | 2,530,674 |

Details of impaired loans and impairment allowances in respect of geographic sectors which constitute 10% or more of total gross loans and advances to customers are as follows:

| | 2010 | | |
|---|---|---|---|
| | Gross impaired loans | Individually assessed impairment allowances | Collectively assessed impairment allowances |
| Yangtze River Delta | **13,830** | **(8,106)** | **(24,260)** |
| Central | **12,222** | **(6,290)** | **(17,403)** |
| Western | **10,340** | **(6,138)** | **(19,073)** |
| Bohai Rim | **9,400** | **(6,618)** | **(18,816)** |
| Pearl River Delta | **8,491** | **(5,133)** | **(16,507)** |

| | 2009 | | |
|---|---|---|---|
| | Gross impaired loans | Individually assessed impairment allowances | Collectively assessed impairment allowances |
| Bohai Rim | 14,488 | (11,174) | (14,623) |
| Yangtze River Delta | 13,653 | (8,321) | (17,981) |
| Central | 10,706 | (7,302) | (13,482) |
| Western | 9,478 | (6,636) | (14,717) |
| Pearl River Delta | 9,058 | (5,825) | (12,301) |

The definitions of geographical segments are set out in Note 57(1).

(Expressed in millions of RMB, unless otherwise stated)

# 62 Risk Management (continued)

## (1) Credit risk (continued)

### (d) Loans and advances to customers analysed by geographical sector concentrations (continued)

*Bank*

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **Gross loan balance** | **Percentage** | **Balance secured by collateral** | Gross loan balance | Percentage | Balance secured by collateral |
| Yangtze River Delta | **1,320,810** | **23.71%** | **765,222** | 1,136,301 | 23.91% | 660,244 |
| Bohai Rim | **978,095** | **17.56%** | **448,493** | 849,067 | 17.87% | 377,063 |
| Western | **963,592** | **17.30%** | **532,117** | 819,337 | 17.24% | 454,429 |
| Central | **920,626** | **16.53%** | **476,579** | 780,564 | 16.43% | 391,238 |
| Pearl River Delta | **858,420** | **15.41%** | **515,678** | 728,639 | 15.33% | 446,513 |
| Northeastern | **350,584** | **6.29%** | **163,249** | 299,385 | 6.30% | 139,419 |
| Head office | **63,638** | **1.14%** | **494** | 41,679 | 0.88% | 497 |
| Overseas | **114,775** | **2.06%** | **19,735** | 97,163 | 2.04% | 21,380 |
| Gross loans and advances to customers | **5,570,540** | **100.00%** | **2,921,567** | 4,752,135 | 100.00% | 2,490,783 |

Details of impaired loans and impairment allowances in respect of geographic sectors which constitute 10% or more of total gross loans and advances to customers are as follows:

| | 2010 | | |
|---|---|---|---|
| | **Gross impaired loans** | **Individually assessed impairment allowances** | **Collectively assessed impairment allowances** |
| Yangtze River Delta | **13,830** | **(8,106)** | **(24,251)** |
| Central | **12,222** | **(6,290)** | **(17,387)** |
| Western | **10,340** | **(6,138)** | **(19,073)** |
| Bohai Rim | **9,400** | **(6,618)** | **(18,461)** |
| Pearl River Delta | **8,491** | **(5,133)** | **(16,507)** |

| | 2009 | | |
|---|---|---|---|
| | Gross impaired loans | Individually assessed impairment allowances | Collectively assessed impairment allowances |
| Bohai Rim | 14,488 | (11,174) | (14,482) |
| Yangtze River Delta | 13,653 | (8,321) | (17,980) |
| Central | 10,706 | (7,302) | (13,459) |
| Western | 9,478 | (6,636) | (14,717) |
| Pearl River Delta | 9,058 | (5,825) | (12,301) |

The definitions of geographical segments are set out in Note 57(1).

### (e) Loans and advances to customers analysed by types of collateral

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Unsecured loans | **1,520,613** | 1,291,942 | **1,499,484** | 1,277,924 |
| Guaranteed loans | **1,180,113** | 997,157 | **1,149,489** | 983,428 |
| Loans secured by tangible assets other than monetary assets | **2,412,285** | 2,062,981 | **2,369,804** | 2,025,848 |
| Loans secured by monetary assets | **556,117** | 467,693 | **551,763** | 464,935 |
| Gross loans and advances to customers | **5,669,128** | 4,819,773 | **5,570,540** | 4,752,135 |

(Expressed in millions of RMB, unless otherwise stated)

# 62 Risk Management (continued)

## (1) Credit risk (continued)

### (f) *Rescheduled loans and advances to customers*

*Group*

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Total | % of gross loans and advances to customers | Total | % of gross loans and advances to customers |
| Rescheduled loans and advances to customers | 2,070 | 0.04% | 3,739 | 0.08% |
| Less: | | | | |
| Rescheduled loans and advances overdue for more than 90 days | 668 | 0.01% | 1,855 | 0.04% |
| Rescheduled loans and advances overdue for not more than 90 days | 1,402 | 0.03% | 1,884 | 0.04% |

*Bank*

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Total | % of gross loans and advances to customers | Total | % of gross loans and advances to customers |
| Rescheduled loans and advances to customers | 1,926 | 0.03% | 3,589 | 0.08% |
| Less: | | | | |
| Rescheduled loans and advances overdue for more than 90 days | 666 | 0.01% | 1,853 | 0.04% |
| Rescheduled loans and advances overdue for not more than 90 days | 1,260 | 0.02% | 1,736 | 0.04% |

### (g) *Distribution of amounts due from banks and non-bank financial institutions in terms of credit quality is as follows:*

Amount due from banks and non-bank financial institutions includes deposits with banks and non-bank financial institutions, placements with banks and non-bank financial institutions and financial assets held under resale agreements of which counterparties are banks and non-bank financial institutions.

| | Group | | Bank | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Individually assessed and impaired gross amount | 105 | 163 | 105 | 163 |
| Allowances for impairment losses | (95) | (149) | (95) | (149) |
| Subtotal | 10 | 14 | 10 | 14 |
| Neither overdue nor impaired | | | | |
| – grade A to AAA | 186,796 | 227,903 | 186,957 | 224,543 |
| – grade B to BBB | 90 | 125 | 90 | 59 |
| – unrated | 136,459 | 23,444 | 140,744 | 26,411 |
| Subtotal | 323,345 | 251,472 | 327,791 | 251,013 |
| Total | 323,355 | 251,486 | 327,801 | 251,027 |

Amounts neither overdue nor impaired are analysed above according to the Group and the Bank's internal credit rating. Unrated amounts due from banks and non-bank financial institutions include amounts due from a number of domestic banks and non-bank financial institutions for which the Group and the Bank have not assigned an internal credit rating.

(Expressed in millions of RMB, unless otherwise stated)

# 62 Risk Management (continued)

## (1) Credit risk (continued)

### *(h) Distribution of debt securities investments analysed by rating*

The Group adopts a credit rating approach to manage the credit risk of the debt securities portfolio held by its operations in Mainland China. Debt securities are rated with reference to Bloomberg Composite, or major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analysed by the rating agency designations as at the end of the reporting period are as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Individually assessed and impaired gross amount | **19,784** | 23,063 | **19,784** | 23,063 |
| Allowances for impairment losses | **(10,462)** | (12,295) | **(10,462)** | (12,295) |
| Subtotal | **9,322** | 10,768 | **9,322** | 10,768 |
| Neither overdue nor impaired | | | | |
| Bloomberg Composite | | | | |
| – AAA | **3,381** | 6,480 | **3,381** | 6,480 |
| – AA- to AA+ | **2,811** | 3,715 | **2,811** | 3,715 |
| – A- to A+ | **7,142** | 8,177 | **7,142** | 8,177 |
| – lower than A- | **702** | 815 | **702** | 815 |
| Subtotal | **14,036** | 19,187 | **14,036** | 19,187 |
| Other agency ratings | | | | |
| – AAA | **194,574** | 155,962 | **194,574** | 155,962 |
| – AA- to AA+ | **13,352** | 12,798 | **13,352** | 12,798 |
| – A- to A+ | **2,609,336** | 2,322,456 | **2,609,206** | 2,322,356 |
| – lower than A- | **2,212** | 1,343 | **–** | 973 |
| Subtotal | **2,819,474** | 2,492,559 | **2,817,132** | 2,492,089 |
| Subtotal of debt securities held by operations in Mainland China | **2,842,832** | 2,522,514 | **2,840,490** | 2,522,044 |
| Debt securities held by overseas operations | **32,673** | 27,213 | **28,506** | 23,844 |
| Total | **2,875,505** | 2,549,727 | **2,868,996** | 2,545,888 |

Amounts of debts securities rated from A- to A+ include those issued by the PRC government, PBOC and PRC policy banks which for the Group amounted to RMB1,909,104 million (2009: RMB1,624,007 million) and for the Bank amounted to RMB1,908,974 million (2009: RMB1,623,907 million).

### *(i) Credit risk arising from the Group's derivatives exposures*

The majority of the Group's derivatives transactions with domestic customers are hedged back-to-back with overseas banks and non-bank financial institutions. The Group is exposed to credit risk both in respect of the domestic customers and the overseas banks and non-bank financial institutions. The Group manages this risk by monitoring this exposure on a regular basis.

### *(j) Settlement risk*

The Group's activities may give rise to settlement risk at the time of the settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement or clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

(Expressed in millions of RMB, unless otherwise stated)

## 62 Risk Management (continued)

### (2) Market risk

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices. Market risk arises from both the Group's trading and non-trading business.

The Risk Management Department is responsible for formulating a standardised market risk management policies and rules and supervising the implementation of market risk management policies and rules of the Bank. The Asset and Liability Management Department (the "ALM") is responsible for managing the size and structure of the assets and liabilities in response to non-trading market risk. The Financial Market Department manages the Head Office's RMB and foreign currency investment portfolios, conducts proprietary and customer-driven transactions, as well as implementing market risk management policies and rules. The Audit Department is responsible for regularly performing independent audits of the reliability and effectiveness of the processes constituting the risk management system.

The Group is primarily exposed to structural interest rate risk arising from interest generating commercial banking assets and interest bearing commercial banking liabilities. Interest rate risk is inherent in many of its businesses and largely arises from mismatches between the re-pricing dates of assets and liabilities. The Group manages this risk through regular interest rate gap analysis.

The Group's foreign exchange exposure mainly comprises exposures from foreign currency portfolios within treasury proprietary investments in debt securities and money market placements, and currency exposures from its overseas business. The Group manages its foreign exchange exposure by entering into cross currency interest rate swaps to hedge these exposures on a portfolio basis.

The Group is also exposed to market risk in respect of its customer driven derivatives portfolio and manages this risk by entering into back-to-back hedging transactions on a trade-by-trade basis with overseas banks and non-bank financial institutions.

The Group considers that the market risk arising from commodity or stock prices in respect of its investment portfolios is minimal.

The Group monitors market risk separately in respect of trading portfolios and non-trading portfolios. Trading portfolios include exchange rate and interest rate derivatives as well as trading securities. The historical simulation model for the Value-at-risk ("VaR") analysis is a major tool used by the Bank to measure and monitor the market risk of its trading portfolio and available-for-sale debt securities. Net interest income sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major tools used by the Group to monitor the market risk of its overall businesses.

#### (a) *VaR analysis*

VaR is a technique which estimates the potential losses that could occur on risk positions taken, due to movements in market interest rates, foreign exchange rates and other market prices over a specified time horizon and at a given level of confidence. The Risk Management Department calculates interest rate VaR for the Bank's debt investments as well as interest rate and exchange rate VaR for the Bank's derivatives. By reference to historical movements in market rates and prices, the Risk Management Department calculates VaR on a daily basis for foreign currency portfolio and at least on a weekly basis for RMB portfolios. VaR is calculated at a confidence level of 99% and with a holding period of one day.

A summary of the VaR of the Bank's trading portfolio and available-for-sale debt securities as at the end of the reporting period and during the respective year is as follows:

| | 2010 | | | |
|---|---|---|---|---|
| | **As at 31 December** | **Average** | **Maximum** | **Minimum** |
| **RMB trading portfolio** | | | | |
| Interest rate risk | **2** | **18** | **56** | **2** |
| **RMB available-for-sale debt securities** | | | | |
| Interest rate risk | **1,146** | **765** | **1,147** | **394** |
| **Foreign currency trading portfolio** | | | | |
| Interest rate risk | **29** | **19** | **21** | **19** |
| Foreign currency risk | **163** | **67** | **163** | **28** |
| Diversification | **(27)** | **(14)** | **(19)** | **(10)** |
| | **165** | **72** | **165** | **37** |
| **Foreign currency available- for-sale debt securities** | | | | |
| Interest rate risk | **100** | **112** | **145** | **82** |

(Expressed in millions of RMB, unless otherwise stated)

## 62 Risk Management (continued)

### (2) Market risk (continued)

#### (a) *VaR analysis (continued)*

| | 2009 | | | |
|---|---|---|---|---|
| | As at 31 December | Average | Maximum | Minimum |
| **RMB trading portfolio** | | | | |
| Interest rate risk | 13 | 16 | 24 | 8 |
| **RMB available-for-sale debt securities** | | | | |
| Interest rate risk | 1,137 | 734 | 1,163 | 301 |
| **Foreign currency trading portfolio** | | | | |
| Interest rate risk | 30 | 82 | 141 | 30 |
| Foreign currency risk | 63 | 455 | 1,123 | 63 |
| Diversification | (30) | (58) | (115) | (30) |
| | 63 | 479 | 1,149 | 63 |
| **Foreign currency available- for-sale debt securities** | | | | |
| Interest rate risk | 143 | 168 | 330 | 106 |

The above average, maximum and minimum VaR for interest rate risk, foreign currency risk and diversification of the trading portfolio represent a breakdown of the average, maximum and minimum VaR for the whole portfolio and not the individual average, maximum and minimum VaR for each risk within the portfolio.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations, including the following:

— A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;

— A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is one percent probability that losses could exceed the VaR;

— VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;

— The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and

— The VaR measure is dependent upon the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

#### (b) *Net interest income sensitivity analysis*

In monitoring interest rate risk on its overall non-derivative financial assets and liabilities, the Bank regularly measures its future net interest income sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant financial position). An incremental 100 basis points parallel fall or rise in all yield curves, other than that applicable to balances with central banks, would increase or decrease planned net interest income for the next twelve months from the reporting date by RMB34,771 million (2009: RMB30,230 million). Had the impact of yield curves movement for demand deposits from customers been excluded, the planned net interest income for the next twelve months from the reporting date would decrease or increase by RMB21,214 million (2009: RMB17,285 million).

The above interest rate sensitivity is for illustration purposes only and is assessed based on simplified assumptions. The figures here indicate estimated net interest income movements under various predicted yield curve scenarios and subject to the Bank's current interest rate exposures. However, account has not been taken of the possible risk management measures that can be undertaken by the Risk Management Department or related business departments to mitigate interest rate risk. In practice, the Risk Management Department strives to reduce loss arising from interest rate risk while increasing its net income. These figures are estimated on the assumption that the interest rates on various maturities will move within similar ranges, and therefore do not reflect the potential net interest income changes in the event that interest rates on some maturities may change and others remain unchanged. Moreover, the above estimations are based on other simplified assumptions, including that all positions will be held to maturity and rolled over upon maturity.

(Expressed in millions of RMB, unless otherwise stated)

# 62 Risk Management (continued)

## (2) Market risk (continued)

### *(c) Interest rate repricing gap analysis*

Interest rate risk is inherent in many of the Group's businesses. It mainly arises from mismatches between the repricing dates of assets and liabilities.

The ALM regularly monitors such interest rate risk positions. In terms of measuring and managing the interest rate risk, the Group regularly measures interest rate repricing gaps. The primary objective of interest rate repricing gaps is to analyse potential adverse effects on net interest income due to interest rate movements.

The following tables indicate the effective interest rates for the respective year, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities as at the end of the reporting period.

*Group*

| | | 2010 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Note | Effective interest rate Note (i) | Non-interest bearing | Less than three months | Between three months and one year | Between one year and five years | More than five years | Total |
| **Assets** | | | | | | | | |
| Cash and deposits with central banks | | 1.52% | 65,649 | 1,782,380 | – | – | – | 1,848,029 |
| Deposits and placements with banks and non-bank financial institutions | | 1.51% | – | 138,366 | 3,864 | 50 | – | 142,280 |
| Financial assets held under resale agreements | | 1.68% | – | 160,915 | 20,160 | – | – | 181,075 |
| Loans and advances to customers | (ii) | 5.07% | – | 2,753,781 | 2,682,962 | 21,099 | 68,184 | 5,526,026 |
| Investments | (iii) | 2.83% | 31,269 | 595,367 | 660,904 | 886,509 | 732,725 | 2,906,774 |
| Other assets | | – | 206,133 | – | – | – | – | 206,133 |
| Total assets | | 3.74% | 303,051 | 5,430,809 | 3,367,890 | 907,658 | 800,909 | 10,810,317 |
| **Liabilities** | | | | | | | | |
| Borrowings from central banks | | 2.34% | – | 1,781 | – | – | – | 1,781 |
| Deposits and placements from banks and non-bank financial institutions | | 1.73% | – | 679,934 | 31,497 | 38,378 | – | 749,809 |
| Financial liabilities at fair value through profit or loss | | 1.32% | 2,926 | 9,963 | 51 | 2,347 | – | 15,287 |
| Financial assets sold under repurchase agreements | | 1.82% | – | 4,868 | 54 | – | – | 4,922 |
| Deposits from customers | | 1.73% | 41,602 | 6,708,141 | 1,951,209 | 367,097 | 7,320 | 9,075,369 |
| Debt securities issued | | 3.78% | – | 7,563 | 3,401 | 2,446 | 79,905 | 93,315 |
| Other liabilities | | – | 168,929 | – | – | – | – | 168,929 |
| Total liabilities | | 1.34% | 213,457 | 7,412,250 | 1,986,212 | 410,268 | 87,225 | 10,109,412 |
| Asset-liability gap | | 2.40% | 89,594 | (1,981,441) | 1,381,678 | 497,390 | 713,684 | 700,905 |

(Expressed in millions of RMB, unless otherwise stated)

# 62 Risk Management (continued)

## (2) Market risk (continued)

### *(c) Interest rate repricing gap analysis (continued)*

*Group (continued)*

| | Note | Effective interest rate Note (i) | Non-interest bearing | Less than three months | Between three months and one year | Between one year and five years | More than five years | Total |
|---|---|---|---|---|---|---|---|---|
| | | 2009 | | | | | | |
| **Assets** | | | | | | | | |
| Cash and deposits with central banks | | 1.48% | 48,520 | 1,410,128 | – | – | – | 1,458,648 |
| Deposits and placements with banks and non-bank financial institutions | | 1.05% | 136 | 78,661 | 33,241 | 11,342 | – | 123,380 |
| Financial assets held under resale agreements | | 1.18% | – | 453,686 | 135,920 | – | – | 589,606 |
| Loans and advances to customers | (ii) | 5.37% | – | 2,258,105 | 2,378,007 | 21,726 | 35,109 | 4,692,947 |
| Investments | (iii) | 3.11% | 30,862 | 277,299 | 985,178 | 613,303 | 673,948 | 2,580,590 |
| Other assets | | – | 178,184 | – | – | – | – | 178,184 |
| Total assets | | 3.85% | 257,702 | 4,477,879 | 3,532,346 | 646,371 | 709,057 | 9,623,355 |
| **Liabilities** | | | | | | | | |
| Borrowings from central banks | | 1.89% | – | 6 | – | – | – | 6 |
| Deposits and placements from banks and non-bank financial institutions | | 1.73% | – | 673,617 | 29,937 | 109,351 | – | 812,905 |
| Financial liabilities at fair value through profit or loss | | 3.62% | 2,359 | 5,633 | – | – | – | 7,992 |
| Deposits from customers | | 1.51% | 41,763 | 5,824,497 | 1,710,949 | 415,971 | 8,143 | 8,001,323 |
| Debt securities issued | | 3.81% | – | 11,394 | 4,616 | 24,719 | 57,915 | 98,644 |
| Other liabilities | | – | 143,465 | – | – | – | – | 143,465 |
| Total liabilities | | 1.55% | 187,587 | 6,515,147 | 1,745,502 | 550,041 | 66,058 | 9,064,335 |
| Asset-liability gap | | 2.30% | 70,115 | (2,037,268) | 1,786,844 | 96,330 | 642,999 | 559,020 |

Notes:

(i) Effective interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.

(ii) For loans and advances to customers, the "less than three months" category includes overdue amounts (net of allowances for impairment losses) of RMB23,433 million as at 31 December 2010 (2009: RMB27,518 million).

(iii) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investment, debt securities classified as receivables and investments in associate and jointly controlled entity.

(Expressed in millions of RMB, unless otherwise stated)

# 62 Risk Management (continued)

## (2) Market risk (continued)

### (c) *Interest rate repricing gap analysis (continued)*

*Bank*

| | | 2010 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Note | Effective interest rate Note (i) | Non-interest bearing | Less than three months | Between three months and one year | Between one year and five years | More than five years | Total |
| **Assets** | | | | | | | | |
| Cash and deposits with central banks | | 1.52% | 65,408 | 1,776,459 | – | – | – | 1,841,867 |
| Deposits and placements with banks and non-bank financial institutions | | 1.46% | – | 137,516 | 9,210 | – | – | 146,726 |
| Financial assets held under resale agreements | | 1.68% | – | 160,915 | 20,160 | – | – | 181,075 |
| Loans and advances to customers | (ii) | 5.07% | – | 2,693,227 | 2,648,564 | 18,464 | 68,024 | 5,428,279 |
| Investments | (iii) | 2.83% | 27,623 | 593,104 | 660,150 | 883,051 | 732,691 | 2,896,619 |
| Other assets | | – | 220,239 | – | – | – | – | 220,239 |
| Total assets | | 3.73% | 313,270 | 5,361,221 | 3,338,084 | 901,515 | 800,715 | 10,714,805 |
| **Liabilities** | | | | | | | | |
| Borrowings from central banks | | 2.34% | – | 1,781 | – | – | – | 1,781 |
| Deposits and placements from banks and non-bank financial institutions | | 1.69% | – | 660,043 | 29,463 | 37,396 | – | 726,902 |
| Financial liabilities at fair value through profit or loss | | 1.32% | 2,926 | 9,963 | 51 | – | – | 12,940 |
| Financial assets sold under repurchase agreements | | 1.29% | – | 6,774 | 4,315 | – | – | 11,089 |
| Deposits from customers | | 1.28% | 41,602 | 6,656,114 | 1,943,158 | 366,508 | 7,264 | 9,014,646 |
| Debt securities issued | | 3.70% | – | 6,203 | 3,145 | 2,182 | 79,901 | 91,431 |
| Other liabilities | | – | 164,651 | – | – | – | – | 164,651 |
| Total liabilities | | 1.34% | 209,179 | 7,340,878 | 1,980,132 | 406,086 | 87,165 | 10,023,440 |
| Asset-liability gap | | 2.39% | 104,091 | (1,979,657) | 1,357,952 | 495,429 | 713,550 | 691,365 |

(Expressed in millions of RMB, unless otherwise stated)

# 62 Risk Management (continued)

## (2) Market risk (continued)

### *(c) Interest rate repricing gap analysis (continued)*

*Bank (continued)*

| | Note | 2009<br>Effective interest rate Note (i) | Non-interest bearing | Less than three months | Between three months and one year | Between one year and five years | More than five years | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and deposits with central banks | | 1.48% | 48,322 | 1,407,048 | – | – | – | 1,455,370 |
| Deposits and placements with banks and non-bank financial institutions | | 1.14% | 123 | 77,087 | 35,270 | 11,342 | – | 123,822 |
| Financial assets held under resale agreements | | 1.18% | – | 452,786 | 135,920 | – | – | 588,706 |
| Loans and advances to customers | (ii) | 5.41% | – | 2,205,339 | 2,365,034 | 20,703 | 34,948 | 4,626,024 |
| Investments | (iii) | 3.10% | 31,197 | 277,392 | 984,008 | 610,609 | 673,880 | 2,577,086 |
| Other assets | | – | 194,123 | – | – | – | – | 194,123 |
| Total assets | | 3.86% | 273,765 | 4,419,652 | 3,520,232 | 642,654 | 708,828 | 9,565,131 |
| **Liabilities** | | | | | | | | |
| Borrowings from central banks | | 1.89% | – | 6 | – | – | – | 6 |
| Deposits and placements from banks and non-bank financial institutions | | 1.74% | – | 672,665 | 26,534 | 109,351 | – | 808,550 |
| Financial liabilities at fair value through profit or loss | | 3.62% | 2,359 | 5,633 | – | – | – | 7,992 |
| Financial assets sold under repurchase agreements | | 1.80% | – | 1,778 | 847 | – | – | 2,625 |
| Deposits from customers | | 1.51% | 41,677 | 5,779,323 | 1,710,669 | 415,486 | 8,085 | 7,955,240 |
| Debt securities issued | | 3.82% | – | 11,621 | 4,445 | 24,402 | 57,915 | 98,383 |
| Other liabilities | | – | 141,016 | – | – | – | – | 141,016 |
| Total liabilities | | 1.56% | 185,052 | 6,471,026 | 1,742,495 | 549,239 | 66,000 | 9,013,812 |
| Asset-liability gap | | 2.30% | 88,713 | (2,051,374) | 1,777,737 | 93,415 | 642,828 | 551,319 |

Notes:

(i) Effective interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.

(ii) For loans and advances to customers, the "less than three months" category includes overdue amounts (net of allowances for impairment losses) of RMB23,092 million as at 31 December 2010 (2009: RMB27,304 million).

(iii) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, debt securities classified as receivables and investments in subsidiaries.

(Expressed in millions of RMB, unless otherwise stated)

# 62 Risk Management (continued)

## (2) Market risk (continued)

### *(d) Currency risk*

The Group's foreign exchange exposure mainly comprises exposures that arise from the foreign currency portfolio within the treasury's proprietary investments, and currency exposures originated by the Group's overseas businesses.

The Group manages other currency risk by spot and forward foreign exchange transactions and by matching its foreign currency denominated assets with corresponding liabilities in the same currency, and also uses derivatives (principally foreign exchange swaps and cross currency swaps) in the management of its own foreign currency asset and liability portfolios and structural positions.

The currency exposures of the Group's and the Bank's assets and liabilities as at the end of the reporting period are as follows:

*Group*

| | | 2010 | | | |
|---|---|---|---|---|---|
| | Note | RMB | USD (RMB equivalent) | Others (RMB equivalent) | Total |
| **Assets** | | | | | |
| Cash and deposits with central banks | | 1,815,825 | 5,960 | 26,244 | 1,848,029 |
| Deposits and placements with banks and non-bank financial institutions | (i) | 254,409 | 26,068 | 42,878 | 323,355 |
| Loans and advances to customers | | 5,194,760 | 223,264 | 108,002 | 5,526,026 |
| Investments | | 2,834,022 | 35,416 | 37,336 | 2,906,774 |
| Other assets | | 198,160 | 1,769 | 6,204 | 206,133 |
| Total assets | | 10,297,176 | 292,477 | 220,664 | 10,810,317 |
| **Liabilities** | | | | | |
| Borrowings from central banks | | 6 | 1,054 | 721 | 1,781 |
| Deposits and placements from banks and non-bank financial institutions | (ii) | 619,166 | 68,882 | 66,683 | 754,731 |
| Financial liabilities at fair value through profit or loss | | 12,865 | 75 | 2,347 | 15,287 |
| Deposits from customers | | 8,833,230 | 126,643 | 115,496 | 9,075,369 |
| Debt securities issued | | 79,910 | 3,610 | 9,795 | 93,315 |
| Other liabilities | | 146,955 | 9,392 | 12,582 | 168,929 |
| Total liabilities | | 9,692,132 | 209,656 | 207,624 | 10,109,412 |
| **Net position** | | 605,044 | 82,821 | 13,040 | 700,905 |
| Net notional amount of derivatives | | 56,482 | (65,331) | 10,622 | 1,773 |

(Expressed in millions of RMB, unless otherwise stated)

# 62 Risk Management (continued)

## (2) Market risk (continued)

### *(d) Currency risk (continued)*

*Group (continued)*

| | | 2009 | | | |
|---|---|---|---|---|---|
| | Note | RMB | USD (RMB equivalent) | Others (RMB equivalent) | Total |
| **Assets** | | | | | |
| Cash and deposits with central banks | | 1,429,270 | 5,001 | 24,377 | 1,458,648 |
| Deposits and placements with banks and non-bank financial institutions | (i) | 674,002 | 31,229 | 7,755 | 712,986 |
| Loans and advances to customers | | 4,420,375 | 163,925 | 108,647 | 4,692,947 |
| Investments | | 2,516,653 | 41,228 | 22,709 | 2,580,590 |
| Other assets | | 169,692 | 1,857 | 6,635 | 178,184 |
| Total assets | | 9,209,992 | 243,240 | 170,123 | 9,623,355 |
| **Liabilities** | | | | | |
| Borrowings from central banks | | 6 | – | – | 6 |
| Deposits and placements from banks and non-bank financial institutions | (ii) | 737,888 | 54,571 | 20,446 | 812,905 |
| Financial liabilities at fair value through profit or loss | | 7,939 | 27 | 26 | 7,992 |
| Deposits from customers | | 7,767,928 | 116,533 | 116,862 | 8,001,323 |
| Debt securities issued | | 82,760 | 5,206 | 10,678 | 98,644 |
| Other liabilities | | 127,626 | 11,402 | 4,437 | 143,465 |
| Total liabilities | | 8,724,147 | 187,739 | 152,449 | 9,064,335 |
| **Net position** | | 485,845 | 55,501 | 17,674 | 559,020 |
| Net notional amount of derivatives | | 54,182 | (53,884) | (154) | 144 |

Notes:

(i) Including financial assets held under resale agreements

(ii) Including financial assets sold under repurchase agreements

(Expressed in millions of RMB, unless otherwise stated)

## 62 Risk Management (continued)

### (2) Market risk (continued)

#### *(d) Currency risk (continued)*

*Bank*

| | Note | 2010 | | | |
|---|---|---|---|---|---|
| | | **RMB** | **USD (RMB equivalent)** | **Others (RMB equivalent)** | **Total** |
| **Assets** | | | | | |
| Cash and deposits with central banks | | **1,815,109** | **5,960** | **20,798** | **1,841,867** |
| Deposits and placements with banks and non-bank financial institutions | (i) | **258,007** | **28,914** | **40,880** | **327,801** |
| Loans and advances to customers | | **5,162,066** | **209,412** | **56,801** | **5,428,279** |
| Investments | | **2,837,047** | **33,378** | **26,194** | **2,896,619** |
| Other assets | | **217,396** | **2,025** | **818** | **220,239** |
| Total assets | | **10,289,625** | **279,689** | **145,491** | **10,714,805** |
| **Liabilities** | | | | | |
| Borrowings from central banks | | **6** | **1,054** | **721** | **1,781** |
| Deposits and placements from banks and non-bank financial institutions | (ii) | **601,454** | **74,872** | **61,665** | **737,991** |
| Financial liabilities at fair value through profit or loss | | **12,865** | **75** | **–** | **12,940** |
| Deposits from customers | | **8,827,457** | **116,157** | **71,032** | **9,014,646** |
| Debt securities issued | | **79,909** | **2,435** | **9,087** | **91,431** |
| Other liabilities | | **152,348** | **8,913** | **3,390** | **164,651** |
| Total liabilities | | **9,674,039** | **203,506** | **145,895** | **10,023,440** |
| **Net position** | | **615,586** | **76,183** | **(404)** | **691,365** |
| Net notional amount of derivatives | | **60,175** | **(61,683)** | **3,033** | **1,525** |

| | Note | 2009 | | | |
|---|---|---|---|---|---|
| | | RMB | USD (RMB equivalent) | Others (RMB equivalent) | Total |
| **Assets** | | | | | |
| Cash and deposits with central banks | | 1,428,959 | 4,979 | 21,432 | 1,455,370 |
| Deposits and placements with banks and non-bank financial institutions | (i) | 673,226 | 32,010 | 7,292 | 712,528 |
| Loans and advances to customers | | 4,407,375 | 156,665 | 61,984 | 4,626,024 |
| Investments | | 2,521,148 | 38,227 | 17,711 | 2,577,086 |
| Other assets | | 188,935 | 825 | 4,363 | 194,123 |
| Total assets | | 9,219,643 | 232,706 | 112,782 | 9,565,131 |
| **Liabilities** | | | | | |
| Borrowings from central banks | | 6 | – | – | 6 |
| Deposits and placements from banks and non-bank financial institutions | (ii) | 736,756 | 55,778 | 18,641 | 811,175 |
| Financial liabilities at fair value through profit or loss | | 7,939 | 27 | 26 | 7,992 |
| Deposits from customers | | 7,766,173 | 108,134 | 80,933 | 7,955,240 |
| Debt securities issued | | 82,890 | 5,035 | 10,458 | 98,383 |
| Other liabilities | | 126,244 | 11,291 | 3,481 | 141,016 |
| Total liabilities | | 8,720,008 | 180,265 | 113,539 | 9,013,812 |
| **Net position** | | 499,635 | 52,441 | (757) | 551,319 |
| Net notional amount of derivatives | | 54,152 | (54,349) | 107 | (90) |

Notes:

(i) Including financial assets held under resale agreements

(ii) Including financial assets sold under repurchase agreements

(Expressed in millions of RMB, unless otherwise stated)

## 62 Risk Management (continued)

### (3) Liquidity risk

Liquidity risk is the risk that funds will not be available at reasonable price to meet liabilities as they fall due. It is caused by mismatches of assets and liabilities in terms of their amounts and maturity dates. In accordance with liquidity policies, the Group monitors the future cash flows to ensure that an appropriate level of highly liquid assets is maintained.

At the Group level, liquidity is managed and coordinated through the ALM. The ALM is responsible for formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

– adopting a prudent strategy and ensuring sufficient funds are available at any moment to satisfy any payment request;

– optimising the Group's asset and liability structure, diversifying and stabilising the source of funds, and reserving an appropriate proportion of highly credit-rated and liquid asset portfolio; and

– managing and utilising centrally the Bank's liquid funds.

The Group principally uses liquidity analysis and gap analysis to measure the liquidity risk. Gap analysis is used to predict the cash flow within one year. Scenario analyses are then applied to assess the impact of liquidity risk.

*(a) Maturity analysis*

The following tables provide an analysis of the assets and liabilities of the Group and the Bank based on the remaining periods to repayment as at the end of the reporting period:

*Group*

| | 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Indefinite | Repayable on demand | Within one month | Between one month and three months | Between three months and one year | Between one year and five years | More than five years | Total |
| **Assets** | | | | | | | | |
| Cash and deposits with central banks | 1,628,890 | 219,139 | – | – | – | – | – | 1,848,029 |
| Deposits and placements with banks and non-bank financial institutions | – | 53,210 | 74,247 | 9,638 | 5,135 | 50 | – | 142,280 |
| Financial assets held under resale agreements | – | – | 99,961 | 60,954 | 20,160 | – | – | 181,075 |
| Loans and advances to customers | 28,796 | 68,102 | 182,745 | 395,284 | 1,278,290 | 1,504,855 | 2,067,954 | 5,526,026 |
| Investments | | | | | | | | |
| – Financial assets at fair value through profit or loss | 9,484 | – | 796 | 1,239 | 1,576 | 3,945 | 304 | 17,344 |
| – Available-for-sale financial assets | 28,437 | – | 30,095 | 130,872 | 143,758 | 238,283 | 125,403 | 696,848 |
| – Held-to-maturity investments | 2,035 | – | 52,824 | 198,229 | 355,341 | 761,587 | 514,041 | 1,884,057 |
| – Debt securities classified as receivables | – | – | – | – | 16,494 | 3,628 | 286,626 | 306,748 |
| – Investments in associate and jointly controlled entity | 1,777 | – | – | – | – | – | – | 1,777 |
| Other assets | 124,387 | 47,792 | 3,613 | 5,664 | 9,779 | 5,520 | 9,378 | 206,133 |
| Total assets | 1,823,806 | 388,243 | 444,281 | 801,880 | 1,830,533 | 2,517,868 | 3,003,706 | 10,810,317 |
| **Liabilities** | | | | | | | | |
| Borrowings from central banks | – | 1,781 | – | – | – | – | – | 1,781 |
| Deposits and placements from banks and non-bank financial institutions | – | 518,773 | 77,774 | 16,846 | 61,039 | 75,377 | – | 749,809 |
| Financial liabilities at fair value through profit or loss | – | 2,926 | 3,043 | 6,896 | 24 | 2,347 | 51 | 15,287 |
| Financial assets sold under repurchase agreements | – | – | 2,868 | 2,000 | 54 | – | – | 4,922 |
| Deposits from customers | – | 5,162,475 | 809,818 | 775,614 | 1,949,539 | 367,799 | 10,124 | 9,075,369 |
| Debt securities issued | | | | | | | | |
| – Certificates of deposit issued | – | – | 794 | 898 | 6,569 | 5,149 | 4 | 13,414 |
| – Subordinated bonds issued | – | – | – | – | – | – | 79,901 | 79,901 |
| Other liabilities | 243 | 76,817 | 8,056 | 15,598 | 58,579 | 3,946 | 5,690 | 168,929 |
| Total liabilities | 243 | 5,762,772 | 902,353 | 817,852 | 2,075,804 | 454,618 | 95,770 | 10,109,412 |
| Long/(short) position | 1,823,563 | (5,374,529) | (458,072) | (15,972) | (245,271) | 2,063,250 | 2,907,936 | 700,905 |
| Notional amount of derivatives | | | | | | | | |
| – Interest rate contracts | – | – | 3,475 | 24,497 | 49,557 | 70,726 | 32,875 | 181,130 |
| – Exchange rate contracts | – | – | 159,043 | 146,726 | 275,359 | 27,309 | 11,012 | 619,449 |
| – Other contracts | – | – | 1,576 | 331 | 731 | 1,237 | – | 3,875 |
| Total | – | – | 164,094 | 171,554 | 325,647 | 99,272 | 43,887 | 804,454 |

(Expressed in millions of RMB, unless otherwise stated)

# 62 Risk Management (continued)

## (3) Liquidity risk (continued)

### *(a) Maturity analysis (continued)*

*Group (continued)*

| | 2009 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Indefinite | Repayable on demand | Within one month | Between one month and three months | Between three months and one year | Between one year and five years | More than five years | Total |
| **Assets** | | | | | | | | |
| Cash and deposits with central banks | 1,152,799 | 305,849 | – | – | – | – | – | 1,458,648 |
| Deposits and placements with banks and non-bank financial institutions | 83 | 34,450 | 23,651 | 20,613 | 33,241 | 11,342 | – | 123,380 |
| Financial assets held under resale agreements | – | – | 194,531 | 259,155 | 135,920 | – | – | 589,606 |
| Loans and advances to customers | 27,877 | 34,097 | 181,801 | 346,437 | 1,172,502 | 1,447,143 | 1,483,090 | 4,692,947 |
| Investments | | | | | | | | |
| – Financial assets at fair value through profit or loss | 4,354 | – | 123 | 1,323 | 2,166 | 8,140 | 2,765 | 18,871 |
| – Available-for-sale financial assets | 34,786 | – | 16,523 | 58,777 | 285,746 | 148,149 | 107,499 | 651,480 |
| – Held-to-maturity investments | 2,926 | – | 17,305 | 58,048 | 425,461 | 546,935 | 358,198 | 1,408,873 |
| – Debt securities classified as receivables | – | – | – | 19,639 | 132,152 | 22,103 | 325,681 | 499,575 |
| – Investments in associate and jointly controlled entity | 1,791 | – | – | – | – | – | – | 1,791 |
| Other assets | 111,606 | 37,405 | 2,731 | 10,432 | 7,195 | 2,968 | 5,847 | 178,184 |
| Total assets | 1,336,222 | 411,801 | 436,665 | 774,424 | 2,194,383 | 2,186,780 | 2,283,080 | 9,623,355 |
| **Liabilities** | | | | | | | | |
| Borrowings from central banks | – | 6 | – | – | – | – | – | 6 |
| Deposits and placements from banks and non-bank financial institutions | – | 622,129 | 39,231 | 12,257 | 29,937 | 109,351 | – | 812,905 |
| Financial liabilities at fair value through profit or loss | – | 2,359 | – | 5,580 | – | – | 53 | 7,992 |
| Deposits from customers | – | 4,806,603 | 374,168 | 684,135 | 1,708,954 | 416,806 | 10,657 | 8,001,323 |
| Debt securities issued | | | | | | | | |
| – Certificates of deposit issued | – | – | 1,241 | 3,774 | 4,760 | 6,113 | 5 | 15,893 |
| – Bonds issued | – | – | – | – | 2,863 | – | – | 2,863 |
| – Subordinated bonds issued | – | – | – | – | – | – | 79,888 | 79,888 |
| Other liabilities | 216 | 32,487 | 8,308 | 17,186 | 58,795 | 16,446 | 10,027 | 143,465 |
| Total liabilities | 216 | 5,463,584 | 422,948 | 722,932 | 1,805,309 | 548,716 | 100,630 | 9,064,335 |
| Long/(short) position | 1,336,006 | (5,051,783) | 13,717 | 51,492 | 389,074 | 1,638,064 | 2,182,450 | 559,020 |
| Notional amount of derivatives | | | | | | | | |
| – Interest rate contracts | – | – | 2,219 | 1,761 | 35,061 | 92,522 | 41,607 | 173,170 |
| – Exchange rate contracts | – | – | 84,519 | 73,773 | 337,413 | 3,464 | 11,662 | 510,831 |
| – Other contracts | – | – | 1,244 | – | 1,040 | 391 | 109 | 2,784 |
| Total | – | – | 87,982 | 75,534 | 373,514 | 96,377 | 53,378 | 686,785 |

(Expressed in millions of RMB, unless otherwise stated)

# 62 Risk Management (continued)

## (3) Liquidity risk (continued)

### (a) *Maturity analysis (continued)*

*Bank*

| | 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Indefinite | Repayable on demand | Within one month | Between one month and three months | Between three months and one year | Between one year and five years | More than five years | Total |
| **Assets** | | | | | | | | |
| Cash and deposits with central banks | 1,628,372 | 213,495 | – | – | – | – | – | 1,841,867 |
| Deposits and placements with banks and non-bank financial institutions | – | 49,494 | 72,580 | 14,172 | 10,480 | – | – | 146,726 |
| Financial assets held under resale agreements | – | – | 99,961 | 60,954 | 20,160 | – | – | 181,075 |
| Loans and advances to customers | 27,826 | 68,098 | 178,306 | 389,016 | 1,259,594 | 1,468,371 | 2,037,068 | 5,428,279 |
| Investments | | | | | | | | |
| – Financial assets at fair value through profit or loss | – | – | 599 | 1,007 | 653 | 515 | 270 | 3,044 |
| – Available-for-sale financial assets | 26,182 | – | 29,844 | 130,722 | 144,408 | 236,504 | 125,371 | 693,031 |
| – Held-to-maturity investments | 2,035 | – | 52,824 | 198,209 | 355,231 | 761,587 | 514,041 | 1,883,927 |
| – Debt securities classified as receivables | – | – | – | – | 16,494 | 3,628 | 286,626 | 306,748 |
| – Investments in subsidiaries | 9,869 | – | – | – | – | – | – | 9,869 |
| Other assets | 142,005 | 47,456 | 3,093 | 5,209 | 8,012 | 5,081 | 9,383 | 220,239 |
| Total assets | 1,836,289 | 378,543 | 437,207 | 799,289 | 1,815,032 | 2,475,686 | 2,972,759 | 10,714,805 |
| **Liabilities** | | | | | | | | |
| Borrowings from central banks | – | 1,781 | – | – | – | – | – | 1,781 |
| Deposits and placements from banks and non-bank financial institutions | – | 520,782 | 77,870 | 14,111 | 40,889 | 73,250 | – | 726,902 |
| Financial liabilities at fair value through profit or loss | – | 2,926 | 3,043 | 6,896 | 24 | – | 51 | 12,940 |
| Financial assets sold under repurchase agreements | – | – | 3,446 | 3,328 | 4,315 | – | – | 11,089 |
| Deposits from customers | – | 5,163,478 | 772,509 | 759,893 | 1,941,488 | 367,210 | 10,068 | 9,014,646 |
| Debt securities issued | | | | | | | | |
| – Certificates of deposit issued | – | – | 487 | 1,481 | 5,657 | 3,905 | – | 11,530 |
| – Subordinated bonds issued | – | – | – | – | – | – | 79,901 | 79,901 |
| Other liabilities | 4 | 76,101 | 7,453 | 15,053 | 56,523 | 3,807 | 5,710 | 164,651 |
| Total liabilities | 4 | 5,765,068 | 864,808 | 800,762 | 2,048,896 | 448,172 | 95,730 | 10,023,440 |
| Long/(short) position | 1,836,285 | (5,386,525) | (427,601) | (1,473) | (233,864) | 2,027,514 | 2,877,029 | 691,365 |
| Notional amount of derivatives | | | | | | | | |
| – Interest rate contracts | – | – | 3,475 | 23,719 | 43,435 | 69,163 | 32,875 | 172,667 |
| – Exchange rate contracts | – | – | 129,103 | 132,548 | 250,552 | 27,309 | 11,012 | 550,524 |
| – Other contracts | – | – | 1,502 | – | 90 | 33 | – | 1,625 |
| Total | – | – | 134,080 | 156,267 | 294,077 | 96,505 | 43,887 | 724,816 |

(Expressed in millions of RMB, unless otherwise stated)

## 62 Risk Management (continued)

### (3) Liquidity risk (continued)

#### (a) *Maturity analysis (continued)*

*Bank (continued)*

| | 2009 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Indefinite | Repayable on demand | Within one month | Between one month and three months | Between three months and one year | Between one year and five years | More than five years | Total |
| **Assets** | | | | | | | | |
| Cash and deposits with central banks | 1,152,594 | 302,776 | – | – | – | – | – | 1,455,370 |
| Deposits and placements with banks and non-bank financial institutions | 83 | 27,723 | 26,009 | 23,395 | 35,270 | 11,342 | – | 123,822 |
| Financial assets held under resale agreements | – | – | 193,631 | 259,155 | 135,920 | – | – | 588,706 |
| Loans and advances to customers | 27,447 | 33,520 | 176,277 | 345,682 | 1,160,784 | 1,423,558 | 1,458,756 | 4,626,024 |
| Investments | | | | | | | | |
| – Financial assets at fair value through profit or loss | – | – | – | 864 | 1,452 | 5,238 | 2,697 | 10,251 |
| – Available-for-sale financial assets | 32,450 | – | 16,734 | 58,606 | 284,946 | 149,772 | 107,471 | 649,979 |
| – Held-to-maturity investments | 2,926 | – | 16,997 | 58,048 | 425,361 | 546,935 | 358,198 | 1,408,465 |
| – Debt securities classified as receivables | – | – | – | 19,639 | 132,152 | 22,103 | 325,681 | 499,575 |
| – Investments in subsidiaries | 8,816 | – | – | – | – | – | – | 8,816 |
| Other assets | 129,659 | 38,453 | 2,374 | 10,109 | 5,145 | 2,609 | 5,774 | 194,123 |
| Total assets | 1,353,975 | 402,472 | 432,022 | 775,498 | 2,181,030 | 2,161,557 | 2,258,577 | 9,565,131 |
| **Liabilities** | | | | | | | | |
| Borrowings from central banks | – | 6 | – | – | – | – | – | 6 |
| Deposits and placements from banks and non-bank financial institutions | – | 624,126 | 39,652 | 8,887 | 26,534 | 109,351 | – | 808,550 |
| Financial liabilities at fair value through profit or loss | – | 2,359 | – | 5,580 | – | – | 53 | 7,992 |
| Financial assets sold under repurchase agreements | – | – | 1,694 | 84 | 847 | – | – | 2,625 |
| Deposits from customers | – | 4,793,194 | 352,547 | 673,906 | 1,708,673 | 416,321 | 10,599 | 7,955,240 |
| Debt securities issued | | | | | | | | |
| – Certificates of deposit issued | – | – | 1,195 | 4,567 | 4,076 | 5,664 | – | 15,502 |
| – Bonds issued | – | – | – | – | 2,993 | – | – | 2,993 |
| – Subordinated bonds issued | – | – | – | – | – | – | 79,888 | 79,888 |
| Other liabilities | 22 | 31,319 | 8,429 | 17,107 | 57,871 | 16,267 | 10,001 | 141,016 |
| Total liabilities | 22 | 5,451,004 | 403,517 | 710,131 | 1,800,994 | 547,603 | 100,541 | 9,013,812 |
| Long/(short) position | 1,353,953 | (5,048,532) | 28,505 | 65,367 | 380,036 | 1,613,954 | 2,158,036 | 551,319 |
| Notional amount of derivatives | | | | | | | | |
| – Interest rate contracts | – | – | 2,108 | 1,701 | 34,227 | 90,789 | 41,573 | 170,398 |
| – Exchange rate contracts | – | – | 70,253 | 66,540 | 272,910 | 3,450 | 11,662 | 424,815 |
| – Other contracts | – | – | 1,244 | – | – | 34 | – | 1,278 |
| Total | – | – | 73,605 | 68,241 | 307,137 | 94,273 | 53,235 | 596,491 |

(Expressed in millions of RMB, unless otherwise stated)

# 62 Risk Management (continued)

## (3) Liquidity risk (continued)

### *(b) Contractual undiscounted cash flow*

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities and off balance sheet loan commitments and credit card commitments of the Group and the Bank as at the end of the reporting period. The Group's and the Bank's expected cash flows on these instruments may vary significantly from this analysis.

*Group*

| | 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Carrying amount** | **Gross cash outflow** | **Repayable on demand** | **Within one month** | **Between one month and three months** | **Between three months and one year** | **Between one year and five years** | **More than five years** |
| Non-derivative financial liabilities | | | | | | | | |
| Borrowings from central banks | **1,781** | **1,781** | **1,781** | **–** | **–** | **–** | **–** | **–** |
| Deposits and placements from banks and non-bank financial institutions | **749,809** | **773,294** | **518,852** | **78,010** | **16,966** | **67,208** | **92,258** | **–** |
| Financial liabilities at fair value through profit or loss | **15,287** | **15,503** | **2,926** | **3,052** | **6,915** | **24** | **2,535** | **51** |
| Financial assets sold under repurchase agreements | **4,922** | **4,956** | **–** | **2,872** | **2,027** | **57** | **–** | **–** |
| Deposits from customers | **9,075,369** | **9,206,516** | **5,163,295** | **816,968** | **790,309** | **2,008,784** | **415,469** | **11,691** |
| Debt securities issued | | | | | | | | |
| – Certificates of deposit issued | **13,414** | **13,628** | **–** | **827** | **915** | **6,653** | **5,228** | **5** |
| – Subordinated bonds issued | **79,901** | **121,121** | **–** | **–** | **1,504** | **1,696** | **12,800** | **105,121** |
| Other financial liabilities | **38,970** | **38,970** | **37,630** | **227** | **55** | **86** | **460** | **512** |
| Total | **9,979,453** | **10,175,769** | **5,724,484** | **901,956** | **818,691** | **2,084,508** | **528,750** | **117,380** |
| Off balance sheet loan commitments and credit card commitments (Note) | | **812,355** | **481,802** | **52,753** | **49,993** | **117,755** | **68,140** | **41,912** |
| Financial guarantees issued maximum amount guaranteed (Note) | | **798,014** | **–** | **235,130** | **92,683** | **200,576** | **237,075** | **32,550** |

| | 2009 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Gross cash outflow | Repayable on demand | Within one month | Between one month and three months | Between three months and one year | Between one year and five years | More than five years |
| Non-derivative financial liabilities | | | | | | | | |
| Borrowings from central banks | 6 | 6 | 6 | – | – | – | – | – |
| Deposits and placements from banks and non-bank financial institutions | 812,905 | 835,834 | 622,149 | 39,300 | 12,488 | 30,329 | 131,568 | – |
| Financial liabilities at fair value through profit or loss | 7,992 | 8,009 | 2,359 | – | 5,580 | 1 | 8 | 61 |
| Deposits from customers | 8,001,323 | 8,139,908 | 4,809,129 | 377,963 | 695,661 | 1,755,130 | 482,243 | 19,782 |
| Debt securities issued | | | | | | | | |
| – Certificates of deposit issued | 15,893 | 16,055 | – | 1,255 | 3,786 | 4,838 | 6,171 | 5 |
| – Bonds issued | 2,863 | 2,939 | – | – | 23 | 2,916 | – | – |
| – Subordinated bonds issued | 79,888 | 136,420 | – | – | 1,504 | 1,696 | 12,800 | 120,420 |
| Other financial liabilities | 31,006 | 31,006 | 23,498 | 1,452 | 673 | 1,489 | 3,377 | 517 |
| Total | 8,951,876 | 9,170,177 | 5,457,141 | 419,970 | 719,715 | 1,796,399 | 636,167 | 140,785 |
| Off balance sheet loan commitments and credit card commitments (Note) | | 788,283 | 648,295 | 41,554 | 16,680 | 40,256 | 32,448 | 9,050 |
| Financial guarantees issued maximum amount guaranteed (Note) | | 684,556 | – | 120,067 | 73,247 | 151,916 | 180,049 | 159,277 |

(Expressed in millions of RMB, unless otherwise stated)

## 62 Risk Management (continued)

### (3) Liquidity risk (continued)

#### (b) *Contractual undiscounted cash flow (continued)*

*Bank*

| | 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Carrying amount** | **Gross cash outflow** | **Repayable on demand** | **Within one month** | **Between one month and three months** | **Between three months and one year** | **Between one year and five years** | **More than five years** |
| Non-derivative financial liabilities | | | | | | | | |
| Borrowings from central banks | **1,781** | **1,781** | **1,781** | **–** | **–** | **–** | **–** | **–** |
| Deposits and placements from banks and non-bank financial institutions | **726,902** | **749,660** | **520,806** | **78,142** | **14,198** | **46,487** | **90,027** | **–** |
| Financial liabilities at fair value through profit or loss | **12,940** | **12,968** | **2,926** | **3,051** | **6,916** | **24** | **–** | **51** |
| Financial assets sold under repurchase agreements | **11,089** | **11,378** | **–** | **3,450** | **3,373** | **4,555** | **–** | **–** |
| Deposits from customers | **9,014,646** | **9,145,793** | **5,164,298** | **779,659** | **774,588** | **2,000,733** | **414,880** | **11,635** |
| Debt securities issued | | | | | | | | |
| – Certificates of deposit issued | **11,530** | **11,743** | **–** | **520** | **1,498** | **5,741** | **3,984** | **–** |
| – Subordinated bonds issued | **79,901** | **121,121** | **–** | **–** | **1,504** | **1,696** | **12,800** | **105,121** |
| Other financial liabilities | **36,046** | **36,046** | **34,719** | **225** | **48** | **86** | **456** | **512** |
| Total | **9,894,835** | **10,090,490** | **5,724,530** | **865,047** | **802,125** | **2,059,322** | **522,147** | **117,319** |
| Off balance sheet loan commitments and credit card commitments (Note) | | **786,799** | **481,802** | **30,098** | **49,139** | **115,964** | **67,884** | **41,912** |
| Financial guarantees issued maximum amount guaranteed (Note) | | **797,191** | **–** | **235,164** | **92,315** | **200,576** | **236,586** | **32,550** |

| | 2009 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Gross cash outflow | Repayable on demand | Within one month | Between one month and three months | Between three months and one year | Between one year and five years | More than five years |
| Non-derivative financial liabilities | | | | | | | | |
| Borrowings from central banks | 6 | 6 | 6 | – | – | – | – | – |
| Deposits and placements from banks and non-bank financial institutions | 808,550 | 831,379 | 624,146 | 39,720 | 9,056 | 26,889 | 131,568 | – |
| Financial liabilities at fair value through profit or loss | 7,992 | 8,009 | 2,359 | – | 5,580 | 1 | 8 | 61 |
| Financial assets sold under repurchase agreements | 2,625 | 2,632 | – | 1,694 | 84 | 854 | – | – |
| Deposits from customers | 7,955,240 | 8,093,816 | 4,796,409 | 355,650 | 685,433 | 1,754,849 | 481,752 | 19,723 |
| Debt securities issued | | | | | | | | |
| – Certificates of deposit issued | 15,502 | 15,656 | – | 1,209 | 4,578 | 4,151 | 5,718 | – |
| – Bonds issued | 2,993 | 3,073 | – | – | 24 | 3,049 | – | – |
| – Subordinated bonds issued | 79,888 | 136,420 | – | – | 1,504 | 1,696 | 12,800 | 120,420 |
| Other financial liabilities | 29,876 | 29,876 | 22,425 | 1,728 | 655 | 1,321 | 3,230 | 517 |
| Total | 8,902,672 | 9,120,867 | 5,445,345 | 400,001 | 706,914 | 1,792,810 | 635,076 | 140,721 |
| Off balance sheet loan commitments and credit card commitments (Note) | | 763,579 | 648,295 | 21,289 | 15,664 | 37,227 | 32,054 | 9,050 |
| Financial guarantees issued maximum amount guaranteed (Note) | | 688,316 | – | 119,925 | 73,376 | 151,465 | 180,019 | 163,531 |

Note: The off balance sheet loan commitments and credit card commitments may expire without being drawn upon. Financial guarantees issued do not represent the amount to be paid.

## 62 Risk Management (continued)

### (4) Operational risk

Operational risk represents the risk of loss due to deficient and flawed internal processes, personnel and information system, or other external events.

The Group manages this risk through a control-based environment by establishing a framework of policies and procedures in order to identify, assess, report, manage and control risks. The framework covers all business functions ranging from finance, accounting, credit, settlement, savings, treasury, intermediary business, application and management of information system, assets safeguard and legal compliance. This has allowed the Group to comprehensively identify and address the operational risk inherent in all key products, activities, processes and systems. Major operational risk management measures adopted by the Group include:

— further improved the self-assessment of operational risk, increased the coverage of business, identified and assessed key risk area and measures of internal control; continuously improved and optimised the regulations, processes and services;

— enhanced the controls over operational risks arising from essential segments of business unit; continuously carried out key risk point monitoring inspection, re-inspection, adjustment and extension of the scope and content of control check; strengthened operational risk precaution measures of key business areas and key parts of operations;

— strengthen business operational checks and balance between departments and different positions, as well as the centralised appointment and rotation of key personnel; continue to strengthen the system construction and management of incompatible positions (responsibilities), highlight the rigid constraints on the position balances;

— constantly revise and improve the internal control system, standardize management and strict constraints on employee behaviours, enhance staff training and implement strict accountability system to ensure compliance of policies and procedures; formulate relevant policies and procedures so that managers need to be responsible for violations of subordinates staff, to prevent operational risk caused by human factors;

— establish internal reporting system for any staff misconduct which may adversely affect the Group's business. Under the system, statistics for staff misconduct are reported regularly to the head office while significant incidents shall be reported to the head office within 24 hours after such incidents are uncovered;

— developed a systematic authorisation management and business operational policies;

— continue to improve operational risk management tools, and promote operational risk management information system; build up a standard platform for operational risk management throughout the Bank to achieve self-evaluation of operational risk and internal controls, and enhance the interaction and application of management tools of historical loss database and key risk indicators so as to support the operational risk management and decision-making;

— continue to boost business continuity management, set up emergency recovery plans for major production systems, conduct contingent drills, so as to enhance emergency recovery ability of the Bank;

— to minimize the operational risk caused by system failure, data backup mechanism for important data processing system is set up by the Group. A disaster recovery centre is under development to automatically backup operational data; strengthen construction of information systems and security checks, carry out information security risk assessment checks, as well as evaluate security technology of critical information systems; for the potential risks of information systems, organize emergency response drills to ensure network and information systems operate normally; and

— set up an anti-money laundering team within the Legal and Compliance Department to coordinate and monitor anti-money laundering activities, ensure the regulatory requirements of anti-money laundering are properly satisfied by verifying clients' identities, preserving clients' identity documents and transactions records, reporting money laundering transactions, suspicious transactions and transactions which potentially related to financial criminal activities, as well as conducting anti-money laundering training and publicity activities.

(Expressed in millions of RMB, unless otherwise stated)

## 62 Risk Management (continued)

### (5) Fair value

*(a) Financial assets*

The Group's financial assets mainly include cash and deposits with central banks, deposits and placements with banks and non-bank financial institutions, financial assets at fair value through profit or loss, financial assets held under resale agreements, loans and advances to customers, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.

*Deposits with central banks, deposits and placements with banks and non-bank financial institutions and financial assets held under resale agreements*

Deposits with central banks, deposits and placements with banks and non-bank financial institutions and financial assets held under resale agreements are mainly priced at market interest rates and mature within one year. Accordingly, the carrying values approximate the fair values.

*Loans and advances to customers*

Majority of the loans and advances to customers are repriced at least annually to the market rate. Accordingly, their carrying values approximate the fair values.

*Investments*

Available-for-sale financial assets and financial assets at fair value through profit or loss are stated at fair value in the financial statements. The following table shows the carrying values and the fair values of the debt securities classified as receivables and held-to-maturity investments which are not presented in the statement of financial position at their fair values.

*Group*

| | **Carrying value** | | **Fair value** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Debt securities classified as receivables | **306,748** | 499,575 | **282,996** | 473,719 |
| Held-to-maturity investments | **1,884,057** | 1,408,873 | **1,864,881** | 1,420,608 |
| Total | **2,190,805** | 1,908,448 | **2,147,877** | 1,894,327 |

*Bank*

| | **Carrying value** | | **Fair value** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Debt securities classified as receivables | **306,748** | 499,575 | **282,996** | 473,719 |
| Held-to-maturity investments | **1,883,927** | 1,408,465 | **1,864,751** | 1,420,200 |
| Total | **2,190,675** | 1,908,040 | **2,147,747** | 1,893,919 |

*(b) Financial liabilities*

The Group's financial liabilities mainly include borrowings from central banks, deposits and placements from banks and non-bank financial institutions, financial liabilities at fair value through profit or loss, financial assets sold under repurchase agreements, deposits from customers, and debt securities issued. The carrying values of financial liabilities approximated their fair values as at the end of the reporting period, except that the fair value of subordinated bonds issued as at 31 December 2010 was RMB75,779 million (2009: RMB75,816 million), which was lower than their carrying value of RMB79,901 million (2009: RMB79,888 million).

### (6) Valuation of financial instruments

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

(Expressed in millions of RMB, unless otherwise stated)

# 62 Risk Management (continued)

## (6) Valuation of financial instruments (continued)

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

*Group*

| | 2010 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Assets** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| *Financial assets held for trading purpose* | | | | |
| – Debt securities | **51** | **2,993** | **–** | **3,044** |
| – Equity instruments and funds | **1,541** | **–** | **–** | **1,541** |
| *Financial assets designated as at fair value through profit or loss* | | | | |
| – Debt securities | **1,309** | **508** | **2,999** | **4,816** |
| – Equity instruments | **4,372** | **–** | **3,571** | **7,943** |
| Positive fair value of derivatives | **–** | **8,763** | **2,461** | **11,224** |
| Available-for-sale financial assets | | | | |
| – Debt securities | **15,594** | **657,106** | **4,140** | **676,840** |
| – Equity instruments and funds | **16,666** | **400** | **374** | **17,440** |
| Total | **39,533** | **669,770** | **13,545** | **722,848** |
| **Liabilities** | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| *Financial liabilities designated as at fair value through profit or loss* | **–** | **12,916** | **2,371** | **15,287** |
| Negative fair value of derivatives | **–** | **7,212** | **2,146** | **9,358** |
| Total | **–** | **20,128** | **4,517** | **24,645** |

| | 2009 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| *Financial assets held for trading purpose* | | | | |
| – Debt securities | 93 | 10,513 | – | 10,606 |
| – Equity instruments and funds | 867 | – | – | 867 |
| *Financial assets designated as at fair value through profit or loss* | | | | |
| – Debt securities | 526 | 905 | 2,480 | 3,911 |
| – Equity instruments | 977 | – | 2,510 | 3,487 |
| Positive fair value of derivatives | – | 5,422 | 4,034 | 9,456 |
| Available-for-sale financial assets | | | | |
| – Debt securities | 23,531 | 600,398 | 2,834 | 626,763 |
| – Equity instruments and funds | 16,552 | 2,228 | 704 | 19,484 |
| Total | 42,546 | 619,466 | 12,562 | 674,574 |
| **Liabilities** | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| *Financial liabilities designated as at fair value through profit or loss* | – | 7,963 | 29 | 7,992 |
| Negative fair value of derivatives | – | 5,490 | 3,085 | 8,575 |
| Total | – | 13,453 | 3,114 | 16,567 |

(Expressed in millions of RMB, unless otherwise stated)

## 62 Risk Management (continued)

### (6) Valuation of financial instruments (continued)

*Bank*

| | 2010 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Assets** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| *Financial assets held for trading purpose* | | | | |
| – Debt securities | **51** | **2,993** | **–** | **3,044** |
| Positive fair value of derivatives | **–** | **8,033** | **2,120** | **10,153** |
| Available-for-sale financial assets | | | | |
| – Debt securities | **15,100** | **658,183** | **1,994** | **675,277** |
| – Equity instruments | **15,952** | **–** | **–** | **15,952** |
| Total | **31,103** | **669,209** | **4,114** | **704,426** |
| **Liabilities** | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| *Financial liabilities designated as at fair value through profit or loss* | **–** | **12,916** | **24** | **12,940** |
| Negative fair value of derivatives | **–** | **6,617** | **2,117** | **8,734** |
| Total | **–** | **19,533** | **2,141** | **21,674** |

| | 2009 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| *Financial assets held for trading purpose* | | | | |
| – Debt securities | 93 | 10,158 | – | 10,251 |
| Positive fair value of derivatives | – | 4,666 | 3,064 | 7,730 |
| Available-for-sale financial assets | | | | |
| – Debt securities | 23,265 | 601,499 | 2,834 | 627,598 |
| – Equity instruments | 16,234 | 2,157 | – | 18,391 |
| Total | 39,592 | 618,480 | 5,898 | 663,970 |
| **Liabilities** | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| *Financial liabilities designated as at fair value through profit or loss* | – | 7,963 | 29 | 7,992 |
| Negative fair value of derivatives | – | 4,838 | 3,056 | 7,894 |
| Total | – | 12,801 | 3,085 | 15,886 |

For the year ended 31 December 2010 and 2009, there were no significant transfer between level 1 and level 2 of the fair value hierarchy.

(Expressed in millions of RMB, unless otherwise stated)

## 62 Risk Management (continued)

### (6) Valuation of financial instruments (continued)

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in level 3 of the fair value hierarchy:

*Group*

| | 2010 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Financial assets designated as at fair value through profit or loss | | | Available-for-sale financial assets | | | Financial liabilities designated as at fair value through profit or loss | | |
| | Debt securities | Equity instruments and funds | Positive fair value of derivatives | Debt securities | Equity instruments and funds | Total assets | | Negative fair value of derivatives | Total liabilities |
| As at 1 January 2010 | 2,480 | 2,510 | 4,034 | 2,834 | 704 | 12,562 | (29) | (3,085) | (3,114) |
| Total gains or losses: | | | | | | | | | |
| In profit or loss | 143 | (1,449) | (603) | 244 | – | (1,665) | (31) | 386 | 355 |
| In other comprehensive income | – | – | – | 193 | 60 | 253 | – | – | – |
| Purchases | 3,236 | 2,510 | – | 2,146 | 140 | 8,032 | (2,311) | – | (2,311) |
| Sales and settlements | (2,860) | – | (829) | (1,212) | (530) | (5,431) | – | 547 | 547 |
| Transfer out | – | – | (141) | (65) | – | (206) | – | 6 | 6 |
| As at 31 December 2010 | 2,999 | 3,571 | 2,461 | 4,140 | 374 | 13,545 | (2,371) | (2,146) | (4,517) |
| Total gains or losses for the period included in profit or loss for assets and liabilities held at the end of the reporting period | (61) | (1,449) | (152) | 244 | – | (1,418) | (31) | (64) | (95) |

| | 2009 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Financial assets designated as at fair value through profit or loss | | | Available-for-sale financial assets | | | Financial liabilities designated as at fair value through profit or loss | | |
| | Debt securities | Equity instruments and funds | Positive fair value of derivatives | Debt securities | Equity instruments and funds | Total assets | | Negative fair value of derivatives | Total liabilities |
| As at 1 January 2009 | 2,195 | 2,564 | 8,008 | 8,916 | 320 | 22,003 | (27) | (7,590) | (7,617) |
| Total gains or losses: | | | | | | | | | |
| In profit or loss | 189 | 211 | (3,375) | 68 | 23 | (2,884) | (2) | 4,001 | 3,999 |
| In other comprehensive income | – | – | – | 647 | 149 | 796 | – | – | – |
| Purchases | 1,131 | – | – | – | 1,915 | 3,046 | – | – | – |
| Sales and settlements | (1,035) | (265) | (599) | (6,797) | (1,703) | (10,399) | – | 504 | 504 |
| As at 31 December 2009 | 2,480 | 2,510 | 4,034 | 2,834 | 704 | 12,562 | (29) | (3,085) | (3,114) |
| Total gains or losses for the period included in profit or loss for assets and liabilities held at the end of the reporting period | (82) | 170 | (2,327) | (326) | – | (2,565) | (2) | 2,953 | 2,951 |

(Expressed in millions of RMB, unless otherwise stated)

# 62 Risk Management (continued)

## (6) Valuation of financial instruments (continued)

*Bank*

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Positive fair value of derivatives | Available-for-sale debt securities | Total assets | Financial liabilities designated as at fair value through profit or loss | Negative fair value of derivatives | Total liabilities |
| As at 1 January 2010 | 3,064 | 2,834 | 5,898 | (29) | (3,056) | (3,085) |
| Total gains or losses: | | | | | | |
| In profit or loss | (387) | 244 | (143) | 5 | 394 | 399 |
| In other comprehensive income | – | 193 | 193 | – | – | – |
| Sales and settlements | (549) | (1,212) | (1,761) | – | 545 | 545 |
| Transfer out | (8) | (65) | (73) | – | – | – |
| As at 31 December 2010 | 2,120 | 1,994 | 4,114 | (24) | (2,117) | (2,141) |
| Total gains or losses for the period included in profit or loss for assets and liabilities held at the end of the reporting period | 64 | 244 | 308 | 5 | (57) | (52) |

| | 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Positive fair value of derivatives | Available-for-sale debt securities | Total assets | Financial liabilities designated as at fair value through profit or loss | Negative fair value of derivatives | Total liabilities |
| As at 1 January 2009 | 7,494 | 8,916 | 16,410 | (27) | (7,590) | (7,617) |
| Total gains or losses: | | | | | | |
| In profit or loss | (3,938) | 68 | (3,870) | (2) | 4,030 | 4,028 |
| In other comprehensive income | – | 647 | 647 | – | – | – |
| Sales and settlements | (492) | (6,797) | (7,289) | – | 504 | 504 |
| As at 31 December 2009 | 3,064 | 2,834 | 5,898 | (29) | (3,056) | (3,085) |
| Total gains or losses for the period included in profit or loss for assets and liabilities held at the end of the reporting period | (2,890) | (326) | (3,216) | (2) | 2,982 | 2,980 |

In Level 3 of the fair value hierarchy, total gains or losses included in profit or loss for the year in the above table are presented in net trading gain, net gain arising from investment securities and impairment losses of the statement of comprehensive income.

(Expressed in millions of RMB, unless otherwise stated)

## 62 Risk Management (continued)

### (7) Capital management

The Group's capital management comprises the management of the capital adequacy ratio, capital financing, and economic capital, of which the prime focus is capital adequacy ratio management. The Group calculates capital adequacy ratio in accordance with the guidelines issued by the CBRC. The capital of the Group is analysed into core capital and supplementary capital.

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.

Capital adequacy ratio management is a core issue of capital management. The capital adequacy ratio reflects the Group's quality of operations and risk management. The Group's capital adequacy ratio management objectives are to meet the legal and regulatory requirements, and to prudently determine the capital adequacy ratio under realistic exposures with reference to the capital adequacy ratio levels of leading global banks and the Group's operating situations.

The Group predicts, plans, and manages the capital adequacy ratio by using scenario models and stress tests based on its strategic development plans, business expansion needs, and risk exposure trends.

The Group's consolidated regulatory capital positions calculated in accordance with the guidance issued by the CBRC as at the balance sheet dates are as follows:

| | Note | **2010** | 2009 |
|---|---|---|---|
| Core capital adequacy ratio | (a) | **10.40%** | 9.31% |
| Capital adequacy ratio | (b) | **12.68%** | 11.70% |
| Components of capital base | | | |
| Core capital: | | | |
| – Share capital | | **250,011** | 233,689 |
| – Capital reserve, investment revaluation reserve and exchange reserve | (c) | **127,536** | 82,427 |
| – Surplus reserve and general reserve | | **112,028** | 84,227 |
| – Retained earnings | (c),(d) | **140,995** | 87,564 |
| – Non-controlling interests | | **4,113** | 3,545 |
| | | **634,683** | 491,452 |
| Supplementary capital: | | | |
| – General provision for doubtful debts | | **57,359** | 48,463 |
| – Positive changes in fair value of financial instruments at fair value through profit or loss | | **7,547** | 10,815 |
| – Subordinated bonds issued | | **80,000** | 80,000 |
| | | **144,906** | 139,278 |
| Total capital base before deductions | | **779,589** | 630,730 |
| Deductions: | | | |
| – Goodwill | | **(1,534)** | (1,590) |
| – Unconsolidated equity investments | | **(13,695)** | (8,903) |
| – Others | (e) | **(1,911)** | (12,004) |
| Net capital | | **762,449** | 608,233 |
| Risk-weighted assets | (f) | **6,015,329** | 5,197,545 |

## 62 Risk Management (continued)

### (7) Capital management (continued)

Notes:

(a) Core capital adequacy ratio is calculated by dividing the net amount of core capital, which is after deductions of 100% of goodwill and 50% of unconsolidated equity investments, and other items, by risk-weighted assets.

(b) Capital adequacy ratio is calculated by dividing the net capital by risk-weighted assets.

(c) The investment revaluation reserve arising from the accumulated 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. In addition, the unrealised accumulated net positive changes in fair value of financial instruments at fair value through profit or loss, net of income tax, are excluded from the core capital and included in the supplementary capital.

(d) The dividend proposed after the reporting period has been deducted from retained earnings.

(e) Others mainly represent investments in those asset backed securities specified by CBRC which required reduction.

(f) The balances of risk-weighted assets include an amount equal to 12.5 times the Group's market risk capital.

## 63 Events after the reporting period

There are no significant events after the reporting period.

## 64 Comparative figures

Certain comparative figures have been adjusted to conform with changes in disclosures in current year.

## 65 Ultimate parent

As stated in Note 1, the immediate and ultimate parent of the Group is Huijin and CIC respectively.

## 66 Possible impact of amendments, new standards and interpretations issued but not yet effective

Up to the date of issue of the financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2010 and which have not been adopted in the these financial statements.

- Revised IAS 24, *Related party disclosures*
- IFRS 9, *Financial instruments*
- Improvements to IFRSs 2010
- Amendments to IAS 12, *Income taxes*

The Group is in the process of making assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position except for IFRS 9, *Financial instruments*, which may have an impact on the Group's results and financial position.

(Expressed in millions of RMB, unless otherwise stated)

The following information of the Group does not form part of the audited financial statements, and is included herein for information purposes only.

## 1 Difference between the financial statements prepared under IFRS and those prepared in accordance with PRC GAAP

China Construction Bank Corporation (the “Bank”) prepares consolidated financial statements, which include the financial statements of the Bank and its subsidiaries (collectively the “Group”), in accordance with International Financial Reporting Standards (“IFRS”) and its interpretations promulgated by the International Accounting Standards Board and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

As a financial institution incorporated in the People’s Republic of China (the “PRC”) and listed in the Shanghai Stock Exchange, the Group also prepares its consolidated financial statements for the year ended 31 December 2010 in accordance with the Accounting Standards for Business Enterprises and other relevant regulations issued by the regulatory bodies of the PRC (collectively “PRC GAAP”).

There is no difference in the net profit for the year ended 31 December 2010 or total equity as at 31 December 2010 between the Group’s consolidated financial statements prepared under IFRS and those prepared under PRC GAAP respectively.

## 2 Liquidity ratios

| | **As at 31 December 2010** | **Average for the year ended 31 December 2010** | As at 31 December 2009 | Average for the year ended 31 December 2009 |
|---|---|---|---|---|
| RMB current assets to RMB current liabilities | **51.96%** | **51.66%** | 49.63% | 48.20% |
| Foreign currency current assets to foreign currency current liabilities | **57.20%** | **55.70%** | 61.86% | 95.18% |

The above liquidity ratios are calculated in accordance with the formula promulgated by the China Banking Regulatory Commission.

The Hong Kong Banking (Disclosure) Rules (the “Rules”) took effect on 1 January, 2007. It requires the disclosure of average liquidity ratio, which being the arithmetic mean of each calendar month liquidity ratio. The Group prepared liquidity ratio on a semi-annual basis and the disclosed average liquidity ratio is the arithmetic mean of two consecutive liquidity ratios as at 30 June and 31 December.

## 3 Currency concentrations

| | **2010** | | | |
|---|---|---|---|---|
| | **USD (RMB equivalent)** | **HKD (RMB equivalent)** | **Others (RMB equivalent)** | **Total** |
| Spot assets | **308,292** | **130,700** | **93,394** | **532,386** |
| Spot liabilities | **(225,572)** | **(125,218)** | **(86,053)** | **(436,843)** |
| Forward purchases | **254,778** | **25,861** | **60,516** | **341,155** |
| Forward sales | **(320,109)** | **(11,472)** | **(64,283)** | **(395,864)** |
| Net long position | **17,389** | **19,871** | **3,574** | **40,834** |
| Net structural position | **22** | **173** | **167** | **361** |

| | 2009 | | | |
|---|---|---|---|---|
| | USD (RMB equivalent) | HKD (RMB equivalent) | Others (RMB equivalent) | Total |
| Spot assets | 261,575 | 136,801 | 35,768 | 434,144 |
| Spot liabilities | (206,074) | (116,857) | (38,038) | (360,969) |
| Forward purchases | 216,426 | 22,873 | 35,663 | 274,962 |
| Forward sales | (270,310) | (15,499) | (43,191) | (329,000) |
| Net long/(short) position | 1,617 | 27,318 | (9,798) | 19,137 |
| Net structural position | 67 | 127 | 157 | 351 |

(Expressed in millions of RMB, unless otherwise stated)

## 3 Currency concentrations (continued)

The net option position is calculated using the delta equivalent approach required by the Hong Kong Monetary Authority (the "HKMA"). The net structural position of the Group includes the structural positions of the Bank's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

— investments in property and equipment, net of accumulated depreciation;

— capital and statutory reserves of overseas branches; and

— investments in overseas subsidiaries and related companies.

## 4 Cross-border claims

The Group is principally engaged in business operations within Mainland China, and regards all claims on overseas third parties as cross-border claims.

For the purpose of this unaudited supplementary financial information, Mainland China excludes the Hong Kong Special Administrative Region of the PRC ("Hong Kong"), the Macau Special Administrative Region of the PRC ("Macau") and Taiwan.

Cross-border claims include loans and advances to customers, deposits and placements with banks and non-bank financial institutions, holdings of trade bills and certificates of deposit and investment securities.

Cross-border claims have been disclosed by country or geographical area. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

| | **2010** | | | |
|---|---|---|---|---|
| | **Banks and non-bank financial institutions** | **Public sector entities** | **Others** | **Total** |
| Asia Pacific excluding Mainland China | **43,815** | **758** | **114,959** | **159,532** |
| – of which attributed to Hong Kong | **34,712** | **670** | **83,822** | **119,204** |
| Europe | **15,738** | **134** | **32,845** | **48,717** |
| North and South America | **35,377** | **1,068** | **18,927** | **55,372** |
| | **94,930** | **1,960** | **166,731** | **263,621** |

| | 2009 | | | |
|---|---|---|---|---|
| | Banks and non-bank financial institutions | Public sector entities | Others | Total |
| Asia Pacific excluding Mainland China | 15,236 | 1,360 | 72,457 | 89,053 |
| – of which attributed to Hong Kong | 6,263 | 685 | 47,916 | 54,864 |
| Europe | 10,160 | 156 | 4,829 | 15,145 |
| North and South America | 47,246 | 2,288 | 23,462 | 72,996 |
| | 72,642 | 3,804 | 100,748 | 177,194 |

The above cross-border claims are disclosed in accordance with the requirements of the Rules. According to these requirements, "others" includes the transactions with sovereign counterparties.

(Expressed in millions of RMB, unless otherwise stated)

## 5 Overdue loans and advances to customers by geographical sector

| | 2010 | 2009 |
|---|---|---|
| Yangtze River Delta | **9,152** | 12,184 |
| Bohai Rim | **6,894** | 12,816 |
| Central | **5,992** | 9,555 |
| Pearl River Delta | **5,278** | 6,979 |
| Western | **5,246** | 6,949 |
| Northeastern | **3,345** | 5,241 |
| Head office | **1,619** | 1,587 |
| Overseas | **122** | 385 |
| Total | **37,648** | 55,696 |

The above analysis represents the gross amount of loans and advances overdue for more than 90 days as required by the Rules.

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

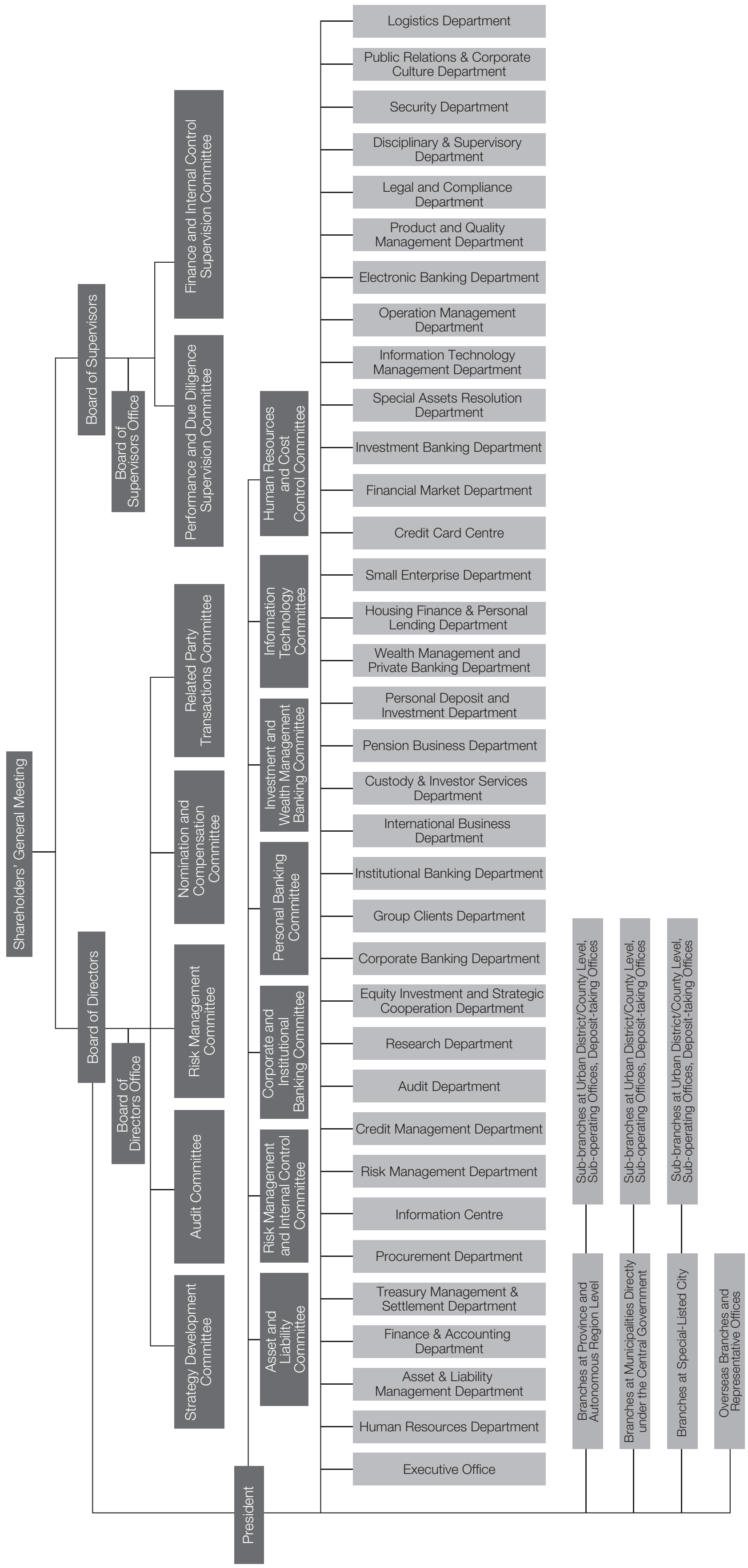
Loans and advances repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instructions. If the loans and advances repayable on demand are outside the approved limit that was advised to the borrower, they are also considered as overdue.

As at 31 December 2010, the amounts of RMB32,257 million (2009: RMB47,075 million) and RMB5,391 million (2009: RMB8,621 million) of the above overdue loans and advances were subject to individual assessment and collective assessment for impairment respectively. The covered portion and uncovered portion of these individually assessed loans and advances were RMB3,818 million and RMB28,439 million respectively (2009: RMB6,459 million and RMB40,616 million respectively). The fair value of collateral held against these individually assessed loans and advances was RMB4,338 million (2009: RMB6,763 million). The fair value of collateral was estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience as well as market situation. The impairment allowances made against these individually assessed loans and advances were RMB27,471 million (2009: RMB39,358 million).

## 6 Non-bank Mainland China exposure

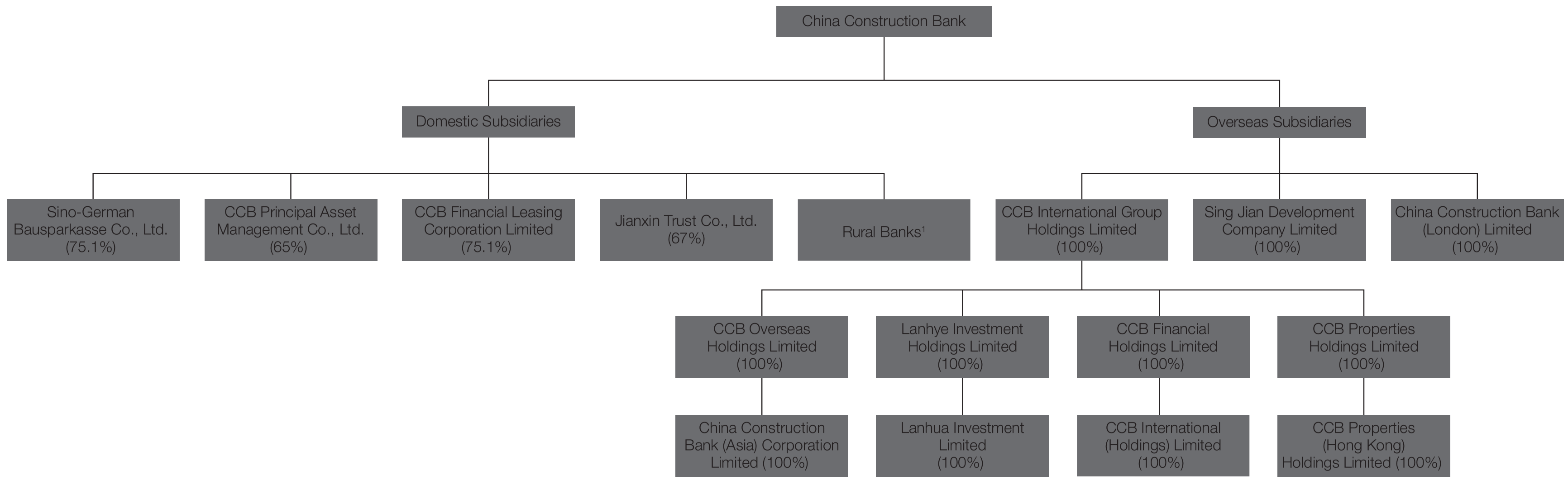
The Bank is a commercial bank incorporated in Mainland China with its banking business primarily conducted in Mainland China. As at 31 December 2010, substantial amounts of the Bank's exposures arose from businesses with Mainland China entities or individuals. Analyses of various types of exposures by counterparty have been disclosed in the respective notes to the financial statements.

# Organisational Structure




**CCB's Management Structure**

# CCB's Equity Investment Structure




1. As of 31 December 2010, the Bank had set up nine rural banks in total, namely, Hunan Taojiang Jianxin Rural Bank Corporation Limited, Zhejiang Cangnan Jianxin Rural Bank Corporation Limited, Zhejiang Qingtian Jianxin Oversea-Chinese Rural Bank Company Limited, Zhejiang Wuyi Jianxin Rural Bank Company Limited, Anhui Fanchang Jianxin Rural Bank Company Limited, Shanxi Ansai Jianxin Rural Bank Company Limited, Hebei Fengning Jianxin Rural Bank Company Limited, Shanghai Pudong Jianxin Rural Bank Company Limited, and Suzhou Changshu Jianxin Rural Bank Company Limited.

# Branches and Subsidiaries

## Tier-one Branches in Mainland China

| Branches | Address | Telephone | Facsimile |
|---|---|---|---|
| **Anhui Branch** | No. 253, Huizhou Road, Hefei<br>Postcode: 230001 | (0551) 2874100 | (0551) 2872014 |
| **Beijing Branch** | No. 4, Building 28, Xuanwumen West Street, Beijing<br>Postcode: 100053 | (010) 63603664 | (010) 63603656 |
| **Chongqing Branch** | No. 123, Minzu Road, Yuzhong District, Chongqing<br>Postcode: 400010 | (023) 63771855 | (023) 63771835 |
| **Dalian Branch** | No. 1, Jiefang Street, Zhongshan District, Dalian<br>Postcode: 116001 | (0411) 82818818 | (0411) 82804560 |
| **Fujian Branch** | No. 142, Guping Road, Fuzhou<br>Postcode: 350003 | (0591) 87811098 | (0591) 87856865 |
| **Gansu Branch** | No. 77, Qin'an Road, Lanzhou<br>Postcode: 730030 | (0931) 4891555 | (0931) 4891862 |
| **Guangdong Branch** | No. 509, Dongfengzhong Road, Guangzhou<br>Postcode: 510045 | (020) 83018888 | (020) 83013950 |
| **Guangxi Branch** | No. 92, Minzu Road, Nanning<br>Postcode: 530022 | (0771) 5513110 | (0771) 5513012 |
| **Guizhou Branch** | No. 56, Zhonghua North Road, Guiyang<br>Postcode: 550001 | (0851) 6696000 | (0851) 6696377 |
| **Hainan Branch** | CCB Plaza, No. 8, Guomao Avenue, Haikou<br>Postcode: 570125 | (0898) 68587268 | (0898) 68587569 |
| **Hebei Branch** | No. 40, Ziqiang Road, Shijiazhuang<br>Postcode: 050000 | (0311) 87888866 | (0311) 88601010 |
| **Henan Branch** | No. 80, Huayuan Road, Zhengzhou<br>Postcode: 450003 | (0371) 65556699 | (0371) 65556688 |
| **Heilongjiang Branch** | No. 67, Hongjun Street, Nan'gang District, Harbin<br>Postcode: 150001 | (0451) 53619788 | (0451) 53625552 |
| **Hubei Branch** | No. 709, Jianshe Street, Wuhan<br>Postcode: 430015 | (027) 65775888 | (027) 65775881 |
| **Hunan Branch** | Yin'gang Plaza, No. 2, Baisha Road, Changsha<br>Postcode: 410005 | (0731) 84419192 | (0731) 4419141 |
| **Jilin Branch** | No. 810, Xi'an Road, Changchun<br>Postcode: 130061 | (0431) 88573030 | (0431) 88988748 |
| **Jiangsu Branch** | No. 188, Hongwu Road, Nanjing<br>Postcode: 210002 | (025) 84200545 | (025) 84209316 |
| **Jiangxi Branch** | No. 366, Bayi Street, Nanchang<br>Postcode: 330006 | (0791) 6848200 | (0791) 6848318 |
| **Liaoning Branch** | No. 176, Zhongshan Road, Heping District, Shenyang<br>Postcode: 110002 | (024) 22787600 | (024) 22856915 |
| **Inner Mongolia Branch** | No. 9, Zhao Wuda Street, Huhhot<br>Postcode: 010010 | (0471) 6200256 | (0471) 6200257 |
| **Ningbo Branch** | No. 31, Guangji Street, Ningbo<br>Postcode: 315010 | (0574) 87313888 | (0574) 87325019 |
| **Ningxia Branch** | No. 98, Nanxun West Road, Yinchuan<br>Postcode: 750001 | (0951) 4126111 | (0951) 4106165 |
| **Qingdao Branch** | No. 71, Guizhou Road, Qingdao<br>Postcode: 266002 | (0532) 82651888 | (0532) 82670157 |
| **Qinghai Branch** | No. 59, West Street, Xining<br>Postcode: 810000 | (0971) 8261181 | (0971) 8261225 |
| **Three Gorges Branch** | No. 1, Xiling First Road, Yichang, Hubei<br>Postcode: 443000 | (0717) 6736888 -3515 | (0717) 6738137 |

| Branches | Address | Telephone | Facsimile |
|---|---|---|---|
| **Shaanxi Branch** | No. 38, South Guangji Street, Xi'an<br>Postcode: 710002 | (029) 87617515 | (029) 87617514 |
| **Shandong Branch** | No. 178, Luoyuan Street, Jinan<br>Postcode: 250012 | (0531) 82088108 | (0531) 86169108 |
| **Shanxi Branch** | No. 126, Yingze Street, Taiyuan<br>Postcode: 030001 | (0351) 4957800 | (0351) 4957871 |
| **Shanghai Branch** | No.900, Lujiazui Ring Road, Shanghai<br>Postcode: 200120 | (021) 58880000 | (021) 58781818 |
| **Shenzhen Branch** | A Section, Rongchao Business Center, 6003 Yitian Road,<br>Futian District, Shenzhen<br>Postcode: 518026 | (0755) 23828888 | (0755) 23828111 |
| **Sichuan Branch** | Sichuan CCB Plaza, No. 86, Tidu Street, Chengdu<br>Postcode: 610016 | (028) 86767161 | (028) 86767187 |
| **Suzhou Branch** | No. 18, Suhua Road, Suzhou Industrial Park, Suzhou<br>Postcode: 215021 | (0512) 62788787 | (0512) 62788783 |
| **Tianjin Branch** | Plus 1 No. 19, Nanjing Road, Hexi District, Tianjin<br>Postcode: 300203 | (022) 23401616 | (022) 23400503 |
| **Xiamen Branch** | No. 98, Lujiang Road, Xiamen<br>Postcode: 361001 | (0592) 2158888 | (0592) 2158862 |
| **Tibet Branch** | No. 21, Beijing West Road, Lhasa<br>Postcode: 850008 | (0891) 6838792 | (0891) 6836818 |
| **Xinjiang Branch** | No. 99, Minzhu Road, Urumqi<br>Postcode: 830002 | (0991) 2848666 | (0991) 2819160 |
| **Yunnan Branch** | CCB Plaza, No. 306, Jinbi Road, Kunming<br>Postcode: 650021 | (0871) 3060997 | (0871) 3060333 |
| **Zhejiang Branch** | No. 288, Tiyuchang Road, Hangzhou<br>Postcode: 310003 | (0571) 85313263 | (0571) 85313001 |

## Branches and Representative Offices outside Mainland China

**Hong Kong Branch**

44-45/F, Tower One, Lippo Centre,
89 Queensway, Admiralty, Hong Kong
Telephone : (852) 28684438
Facsimile : (852) 25377182
Website : www.ccbhk.com

**Singapore Branch**

9 Raffles Place, #33-01/02,
Republic Plaza, Singapore 048619
Telephone : (65) 65358133
Facsimile : (65) 65356533
Website : www.ccb.com.sg

**Frankfurt Branch**

Bockenheimer Landstrasse 51-53,
60325 Frankfurt am Main, Germany
Telephone : (49) 69-9714950
Facsimile : (49) 69-97149588, 97149577
Website : www.ccbff.de

**Johannesburg Branch**

95 Grayston Drive, Morningside,
Sandton, South Africa 2196
Telephone : (27) 11-5209400
Facsimile : (27) 11-5209411
Website : www.ccbjhb.com

**Tokyo Branch**

Toranomon 2, Chome Building 8F,
2-3-17 Toranomon Minatoku, Tokyo 105-0001, Japan
Telephone : (81) 3-5511-0188
Facsimile : (81) 3-5511-0189
Website : www.ccbtokyo.com

**Seoul Branch**
7th Floor, Seoul Finance Centre,
84 Taepyungro 1-GA, Chung-gu, Seoul 100-768, Korea
Telephone : (82) 2-67301702
Facsimile : (82) 2-67301701
Website : www.ccbseoul.com

**New York Branch**
33rd Floor, 1095 Avenue of the Americas,
New York, USA
NY 10036
Telephone : (1) 212-207-8188
Facsimile : (1) 212-207-8288

**Ho Chi Minh City Branch**
1105-1106 Sailing Tower, 111A Pasteur Street,
District 1, Ho Chi Minh City, Vietnam
Telephone : (84) 8 382 95533
Facsimile : (84) 8 382 75533

**Sydney Branch**
Level 33, Deutsche Bank Place, 126 Phillip Street, Sydney,
NSW 2000, Australia
Telephone : (61) 2-92328818
Facsimile : (61) 2-92239099

# Subsidiaries

**China Construction Bank (Asia) Corporation Limited**
16/F, York House, The Landmark,
15 Queen's Road Central, Central, Hong Kong
Telephone : (852) 37182288
Facsimile : (852) 37182019
Website : www.asia.ccb.com

**China Construction Bank (London) Limited**
18th Floor, 40 Bank Street, Herons Quay,
Canary Wharf, London E145NR
Telephone : 0044-207-0386000
Facsimile : 0044-207-0386001

**CCB International (Holdings) Limited**
34/F, Two Pacific Place, 88 Queensway,
Admiralty, Hong Kong
Telephone : (852) 25326100
Facsimile : (852) 29180588
Website : www.ccbintl.com

**Sino-German Bausparkasse Co. Ltd.**
No.19 Guizhou Road, Heping District, Tianjin
Postcode : 300051
Telephone : (022) 58086840
Facsimile : (022) 58086808
Website : www.sgb.cn

**CCB Principal Asset Management Co., Ltd.**
16/F, Winland International Finance Centre,
No. 7, Financial Street, Xicheng District, Beijing
Postcode : 100034
Telephone : (010) 66228888
Facsimile : (010) 66228889
Website : www.ccbfund.cn

**CCB Financial Leasing Corporation Limited**
6th Floor, 1-4, Naoshikou Street,
Xicheng District, Beijing, China
Postcode : 100031
Telephone : (010) 67594575
Facsimile : (010) 66275809
Website : www.ccbleasing.com

**Jianxin Trust Co., Limited**
No. 45, Jiushiqiao Street, Hefei, Anhui Province
Postcode : 230001
Telephone : (0551) 5295555
Facsimile : (0551) 2679542
Website : www.ccbtrust.com.cn

**Hunan Taojiang Jianxin Rural Bank Corporation Limited**
Junction of Furong Road and Taohui Road,
Taohuajiang Town, Taojiang County, Hunan Province
Postcode : 413400
Telephone : (0737) 8213820
Facsimile : (0737) 8213820

| | |
|---|---|
| **Zhejiang Cangnan Jianxin Rural Bank Corporation Limited** | No. 102-104, Building No.2,Yihe City Homeland,<br>Yucang Road, Lingxi Town,<br>Cangnan County, Zhejiang Province<br>Postcode : 325800<br>Telephone : (0577) 68857896<br>Facsimile : (0577) 68857893 |
| **Zhejiang Qingtian Jianxin Oversea-Chinese Rural Bank Company Limited** | Building A, Shenhua Business Square,<br>No. 59-75, Shenzhi Street, Qingtian County, Zhejiang Province<br>Postcode : 323900<br>Telephone : (0578) 6812966<br>Facsimile : (0578) 6812910 |
| **Zhejiang Wuyi Jianxin Rural Bank Company Limited** | 1th Floor, No. 4 Area, Business Hall, Jiefang Middle Street,<br>Wuyi County, Zhejiang Province<br>Postcode : 321200<br>Telephone : (0579) 87679091<br>Facsimile : (0579) 87679091 |
| **Anhui Fanchang Jianxin Rural Bank Company Limited** | 1th Floor, Oversea-Chinese International Hotel, Fanyang Town,<br>Fanchang County, Anhui Province<br>Postcode : 241200<br>Telephone : (0553) 7853939<br>Facsimile : (0553) 7853939 |
| **Shanxi Ansai Jianxin Rural Bank Company Limited** | Chengbei District, Ansai County, Shanxi Province<br>Postcode : 717400<br>Telephone : (0911) 6211077<br>Facsimile : (0911) 6211077 |
| **Hebei Fengning Jianxin Rural Bank Company Limited** | No. 5-7, Fengheyuan Community, Xinfeng Road, Dage Town,<br>Fengning County, Hebei Province<br>Postcode : 068350<br>Telephone : (0314) 5975005<br>Facsimile : (0314) 5975005 |
| **Shanghai Pudong Jianxin Rural Bank Company Limited** | No. 26, Beishi Street, Chuansha Town, Pudong<br>New District, Shanghai<br>Postcode : 201200<br>Telephone : (021) 58385938<br>Facsimile : (021) 58385938 |
| **Suzhou Changshu Jianxin Rural Bank Company Limited** | No. 33, North Haiyu Road, Changshu City,<br>Jiangsu Province<br>Postcode : 215500<br>Telephone : (0512) 51910526<br>Facsimile : (0512) 51910526 |
| **Sing Jian Development Company Limited** | 11th Floor, Devon House, 979 King's Road, Hong Kong<br>Telephone : 00852-37182288<br>Facsimile : 00852-37182797 |

# Definitions

In this annual report, unless the context otherwise requires, the following terms shall have the meanings set out below.

| | |
|---|---|
| "Bank" | China Construction Bank Corporation |
| "Bank of America" | Bank of America Corporation |
| "Baosteel Group" | Baosteel Group Corporation |
| "Board" | Board of directors |
| "CBRC" | China Banking Regulatory Commission |
| "CCB Asia" | China Construction Bank (Asia) Corporation Limited |
| "CCB Financial Leasing" | CCB Financial Leasing Corporation Limited |
| "CCB International" | CCB International (Holdings) Limited |
| "CCB London" | China Construction Bank (London) Limited |
| "CCB Principal Asset Management" | CCB Principal Asset Management Co., Ltd. |
| "Company Law" | The Company Law of the People's Republic of China |
| "CSRC" | China Securities Regulatory Commission |
| "Fullerton Financial" | Fullerton Financial Holdings Pte Ltd |
| "Group", "CCB" | China Construction Bank Corporation and its subsidiaries |
| "Hong Kong Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Huijin" | China SAFE Investments Limited |
| "IFRS" | International Financial Reporting Standards |
| "Jianyin" | China Jianyin Investment Limited |
| "Jianxin Trust" | Jianxin Trust Co., Limited |
| "Listing Rules of Hong Kong Stock Exchange" | Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |
| "MOF" | Ministry of Finance of the People's Republic of China |
| "PBC" | People's Bank of China |
| "PRC GAAP" | *Accounting Standards for Business Enterprises* promulgated by the MOF on 15 February 2006 and other relevant requirements |
| "RMB" | Renminbi |
| "SAFE" | State Administration of Foreign Exchange |
| "SFO" | Securities and Futures Ordinance |
| "Sino-German Bausparkasse" | Sino-German Bausparkasse Corporation Limited |
| "State Grid" | State Grid Corporation of China |
| "Temasek" | Temasek Holdings (Private) Limited |
| "Yangtze Power" | China Yangtze Power Co., Limited |