兴业银行
年度报告
2010

Industrial Bank Annual Report

兴业银行
INDUSTRIAL BANK CO.,LTD.

STOCK CODE:601166

CONTENTS

Chairman: Gao Jianping

Chairman's Statement

2010 was the concluding year of the Company's 2006-2010 Development Plan. Over the past five years, the Company has taken appropriate measures in response to the complicated changes in economic situation in China and abroad, under the guidance of the Scientific Outlook on Development and by concrete implementation of the macro economic policies and financial regulation requirements. It has attained the targets defined in the previous five-year plan, and achieved a series of major breakthroughs in areas including market position, corporate governance, strategic development and operating transformation.

During the past five years, the Company witnessed for the first time both its assets and deposits exceeding RMB 1 trillion, its net capital above RMB 100 billion and its annual net profit exceed above RMB 10 billion; while the non-performing loans (NPL) reduced consecutively in terms of both balance and ratio, and the NPL ratio fell below 0.5% for the first time. As of the end of 2010, the Company became one of the global top 100 banks and one of the global top 300 public companies, with its assets standing at RMB 1,849.673 billion, deposits balance at RMB 1,132.767 billion, loans balance at RMB 854.339 billion, and net capital at RMB 111.943 billion, respectively 3.89 times, 3.20 times, 3.52 times and 5.58 times of those figures at the end of 2005. A net profit of RMB 18.521 billion was recorded in 2010, 7.51 times of that in 2005, while its ROE maintained around 25% for five straight years and received the title of "Most Profitable Bank in Asia".

Over the past five years, the Company has been constantly improving its corporate governance mechanism, with ever increasing level of soundness in major decision-making process and refined operation and management. The smooth transition between the sixth and seventh Board of Directors was completed, and the composition of Board members was further optimized, while competence of the committees under the Board was strengthened. The strategic decision-making function of the Board was reinforced and the execution capability of the operating management was enhanced; the corporate governance transmission mechanism was crystallized, which enabled the effective communication of the concept, spirit and principles of corporate governance across the Company, so as to guarantee the overall operating quality and efficiency of the Company. The competence of the senior management team was enhanced, while job rotation was put in place for all the heads of level one branches, and the management team is evolving into a more youthful one with professional expertise.

Over the past five years, the Company has achieved material breakthroughs in its strategic moves by stressing the guidance role of the development plan. Capital supplement was conducted through various means; the A-share IPO and rights issue were successfully completed, and the subordinated bonds and hybrid capital bonds were issued at appropriate times to support the continuous growth of the business portfolio. The advances in integrated operation are steadily under way; the boundary for the Company's strategic growth is being extended as the financial leasing company is given approval to commence business, the acquisition of Union Trust Limited has been officially approved and attempts are being made to enter the sectors such as funds and futures. 11 level one branches were opened together with 25 level two branches and 249 sub-branches, which enabled the countrywide presence of business offices as well as the extended coverage in regions of strategic importance.

Over the past five years, the Company has also made significant progress in its operating transformation through practical implementation of sustainable development philosophy. The treasury business and retail business have achieved leapfrog development; the emerging businesses, such as investment banking, assets custody and wealth management, have started to be shaped; the RMB market making, bank-to-bank platform, green finance and agency trading of precious metals, among other financial products, have stood out with distinctive features. The Retail Banking Headquarters has started reforms on its Strategic Business Unit (SBU) structure, with the operation of various operation units becoming increasingly mature. The operation and development are underpinned by increasingly strong support in respect of management, technology, workforce and culture.

2011 is the starting year of the "12th Five-Year Plan". The international and domestic macroeconomic situation are still complicated, and difficulties will remain ahead for the Company as it seeks to develop. We will take advantage of the opportunities offered by accelerated transformation in the country's economic development pattern, while the financial sector in China is becoming more market-based, international and comprehensive. We will keep a sober mind and strengthen the sense of urgency, while advancing the operation transformation, integrating the resources, and benefiting from a synergy effect, in order to continue to reward our customers and investors with quality services and prominent performance, laying a solid foundation for the new five-year plan.

Chairman:

President's Report

In 2010, despite facing an extremely complicated macro-economic situation, the Company has effectively implemented the decisions made by the Board of Directors, as well as the macro control policies of the state and financial regulatory requirements, while capitalizing on the opportunities and overcoming difficulties with creative thinking. As such, all the businesses continued to grow rapidly, steadily and healthily; new records have been achieved in size, quality and profitability, with all goals set by the Board of Directors fully accomplished.

As of the end of the reporting period, total assets of the Company stood at RMB 1,849.673 billion, up 38.85% from the beginning of the period. The balance of deposits totaled RMB 1,132.767 billion and the balance of loans stood at RMB 854.339 billion, representing respective growth of 25.74% and 21.77% compared with the beginning of the period. The balance of NPLs was RMB 3.616 billion with an NPL ratio of 0.42%, as the Company continued to achieve a reduction in both the amount and the ratio of its NPLs. The assets quality was satisfactory and the provision was adequate with a coverage ratio at 325.51%. The profitability of the Company has significantly improved, as the full-year net profit reached RMB 18.521 billion, up 39.44% year-on-year.

The transformation of operation was continuously pushed ahead, as our customer base was better consolidated, our product line was further extended, and our business features became more distinct. The corporate finance business has been more professional, and our market leading position was maintained in sustainable finance and other featured businesses. The structure of retail finance business has been further optimized, with improved profitability and market position. The interbank finance business featured extended areas and elevated level of cooperation, and the scale effect and comprehensive benefit of the bank-to-bank platform were further manifested. In respect of the financial market and asset management business, the Company now has an enhanced capability in interpreting the environment and capitalizing on the growth opportunities. The innovations for growth were sped up, and the Company continued to maintain a high market share and brand awareness in the featured businesses such as the precious metals agency trading.

The overall risk management capability has been constantly enhanced, while the Company was better positioned in the risk and internal control management with improved thoroughness and professionalism. The Company proactively adapted to market changes and adjusted its policies regarding assets, liabilities and business management in a flexible manner. The contents of overall risk management have been complemented, and the risk tolerance indicator system was adjusted and optimized, with reinforced risk monitor and management over the key, hot areas and emerging businesses. The implementation of the New Capital Accord was advanced as planned, and important periodical achievements have been made in quantitative model development, internal rating system development, credit system upgrading and retrofit.

The Company's fundamental management works were strengthened, and the ability to provide support and safeguard continued to improve steadily. The SBU structure reform in the Retail Banking Headquarters was further advanced to consolidate and crystallize the reform achievements. The reasonable work arrangement and effective collaboration were strengthened between the front, middle and back offices in an effort to create a professional and efficient "process bank". The building and application of information system were enhanced to further increase the support provided by information technology. The human resource management system was reformed and improved, with enhanced building of professional teams and steadily increased professional service capacity. The Hohhot branch and Changchun branch were opened as planned; the wholly-owned Industrial Bank Financial Leasing Co., Ltd. started operation and earned a profit; the acquisition of Union Trust Limited has been officially approved by the CBRC. The electronic banking service such as on-line banking, telephone banking and mobile banking were vigorously developed, to form a nationwide service network in combination with the physical outlets.

The macro conditions will be even more complicated in 2011. The Company will continue to adopt the Scientific Outlook on Development, consistently implement the national macro-economic policies and financial regulatory requirements, and diligently execute the operating strategy and development plan set by the Board of Directors. The Company will also promote confidence in its sustainable development, speed up the operating transformation and create an advantage by differentiated competitiveness, continue to push forward all the undertakings in a stable, coordinated and healthy manner.

President:

Director, President: Li Renjie

Chairwoman of the Board of Supervisors: Bi Zhonghua

Important Notice

The Company's Board of Directors, Board of Supervisors, directors, supervisors and senior management hereby warrant that the information contained in this report is free from any false representation, misleading statement or material omission, and assume joint and several liabilities for the truthfulness, accuracy and completeness of the contents herein contained.

The Company's Annual Report 2010 and Abstract were reviewed and approved at the third meeting of the seventh Board of Directors on March 25, 2011. 15 directors should attend the meeting, and 15 directors were in fact present. There were no directors, supervisors or senior management who could not warrant or disagreed with the truthfulness, accuracy and completeness of the contents of this annual report.

The financial data and indicators contained in this annual report were prepared in compliance with the accounting standard of China, and unless otherwise specified, they represent the consolidated data of Industrial Bank Co., Ltd. and its wholly-owned subsidiary Industrial Bank Financial Leasing Co., Ltd.

Unless otherwise specified, all the amounts in this report are presented in millions of RMB.

The Company's 2010 financial statements have been audited by Fujian Huaxing Certified Public Accountants Co., Ltd. and Ernst & Young in accordance with Chinese Auditing Standards ("CAS") and International Auditing Standards ("IAS") respectively, and both firms have issued standard and unqualified auditors' reports.

The Board of Directors of Industrial Bank Co., Ltd.

The Company's Chairman Gao Jianping, President Li Renjie and Financial Director Li Jian, hereby warrant that the financial statements in the Annual Report 2010 are true and complete.

Honors and Awards

According to the Top 1000 World Banks 2010 Ranking by *The Banker* magazine (UK), ranked 97th based on Tier Ⅰ capital and ranked 93rd based on total assets, ranking among the world's top 100 banks.

According to the Global Top 500 Companies 2010 Ranking by the *Financial Times* (UK), ranked 282nd based on total market value, ranking among the world's top 300 companies.

According to the Global Top 2000 Companies 2010 Ranking by the *Forbes*, ranked 245th based on the overall score on 4 indicators of sales revenue, profit, total assets and market value, ranking among the world's top 300 listed companies.

Won the "2010 Asia's Most Profitable Bank" award organized by the in association with the Chinese University of Hong Kong and many other authoritative institutions and organizations, ranking among the top 10 Asian commercial banks in terms of overall competitiveness.

Awarded the “China Baosteel Environmental Excellence Prize” founded by the Ministry of Environmental Protection together with 13 ministries, commissions and organizations, including the Environment and Resources Protection Committee of the National People's Congress and the Ministry of Civil Affairs.

Ranked fourth among 100 Chinese listed companies in terms of corporate governance by Protiviti and the Center for Corporate Governance of IWEP. This is the second consecutive year that IB has been listed among the top 10.

Awarded the “Best Corporate Governance for a Financial Institution Prize” by the Center for Study of Corporate Governance of Nankai University.

Won "The Best Board of Directors Award" for Chinese listed companies in 2010 organized by the *Directors & Boards* magazine.

Won "The Best Board of Directors Award" for Chinese listed companies in 2010 organized by *Money Week*.

Named “Favorite Public Listed Company among Investors in China's Securities Market over the Last 20 Years” by the “Most Influential” series of appraisals aimed at documenting the 20-year history of China's stock markets.

Named “Runner-up in the Top 100 Chinese A-Share Listed Companies for Investor Relations” and won the "Social Responsibility Contribution Award" and "Investor Relations Innovation Award" organized by the China Listed Company Investor Relations Management Research Center.

Won the 2010 Sina Jin Qilin "Most Socially Responsible Bank" award organized by Sina Finance.

Won the first place of "Best Company for Social Responsibility" by *Chinese Securities Journal* and other media organizations.

Won the "Gold Cicada Award" and the "Listed Bank with the Highest Investment Value Award" jointly organized by *China Times* and CCTV-Finance.

Named "2010 Low-carbon Pioneer Enterprise" by the Institute for Urban and Environmental Studies of the Chinese Academy of Social Sciences and *21st Century Business Herald*. The bank was also covered in the report "Low-carbon Development of Chinese Enterprises in 2010".

Named among "China's Top 50 Green Companies" by *Business Week* with its financing products for energy-saving and emission-reduction projects named among "China's Top 10 Green Products".

Won the "Best Corporate Finance Award", "Best Investment Banking Award ", "Best Green Bank Award" and "Best Cash Management Innovation Award" organized by the *CFO* magazine.

Named "Best Retail Bank in China", "Best SME Credit Bank" (Xin Ye Tong) and "Best Public Welfare Credit Card" by *Money Week*.

Won the NetEase Golden Diamond Award for "2010 Best Personal Financial Product" organized by NetEase Finance.

Won the 2010 CBN Financial Value Ranking - "Annual Banking and Finance Brand Award" jointly organized by *China Business News* and the Institute of Finance of the Chinese Academy of Social Sciences.

Won the "Best Capital Operation Bank" award of the "2009-2010 Gold Medal List of Chinese Financial Institutions" jointly organized by the *Financial Times* and the Institute of Finance of the Chinese Academy of Social Sciences.

The Company's low-carbon credit card won the “Best Contribution Credit Card” award at the “2010 China Credit Card Summit Forum and Tencent Credit Card Appraisal Release Ceremony” held by Tencent and the Chinese Banking Research Center of the Central University of Finance and Economics.

The Company's online banking platform “IB Online” won the “2010 China Best Online Banking Feature Award” during the “2010 Annual Publicity Campaign for the Assured and Secure Use of Online Banking” organized by the China Financial Certification Authority (CFCA).

Won the "2010 Best Service Award of China's Excellent Customer Service Center" granted by the China Banking Association.

Corporate Profile

I Legal Chinese Name: 兴业银行股份有限公司 (Abbreviation: 兴业银行)

Legal English Name: INDUSTRIAL BANK CO., LTD. (Hereinafter referred to as “the Company”)

II Legal representative: Gao Jianping

III Secretary to the Board of Directors: Tang Bin

Representative for Securities Affairs: Chen Zhiwei

Address: 154 Hudong Road, Fuzhou, PRC

Postcode: 350003

Tel : (86) 591-87824863

Fax: (86) 591-87842633

Investor Email: irm@cib.com.cn

IV Registered Address: 154 Hudong Road, Fuzhou, PRC

Office Address: 154 Hudong Road, Fuzhou City, PRC

Postcode: 350003

Website: www.cib.com.cn

V Designated Newspapers for Information Disclosure:

China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily

Website Designated by China Securities Regulatory Commission for Publishing Annual Reports: www.sse.com.cn

Place of Regular Reports Prepared for Inquiry: the Company’s Office of the Board of Directors

VI Place of Stock Listing: Shanghai Stock Exchange

Stock Abbreviation: Industrial Bank

Stock Code: 601166

VII Other Related Information of the Company:

Date of First Registration: August 22, 1988

Place of First Registration: Fujian Provincial Administration Bureau of Industry and Commerce

Date of Registration Change: January 10, 2011

Place of Registration Change: Fujian Provincial Administration Bureau of Industry and Commerce

Corporate Entity Business License No.: 350000100009440

Taxation Registration No.: State Tax Rongtai Zi 350100158142711

Local Tax Min Zi 350102158142711

Domestic Certified Public Accountants Firm Engaged by the Company:

Fujian Huaxing Certified Public Accountants Co., Ltd.

Office Address: 7-9 Floor, Block B, Zhongshan Building, 152 Hudong Road, Fuzhou

International Certified Public Accountants Firm Engaged by the Company: Ernst & Young

Office Address: 18 Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong

VIII This report is prepared in both Chinese and English. Should there be any discrepancy in interpretation, the Chinese version shall prevail.

Summary of Key Financial and Performance Indicators

I. MAJOR FINANCIAL DATA AND INDICATORS DURING THE REPORTING PERIOD

In: RMB 1 million

Item	By Chinese Accounting Standards (CAS)	By International Accounting Standards (IAS)
Operating profit	23,897	23,916
Total profit	24,005	24,005
Net profits attributable to the parent company shareholders	18,521	18,521
Net profits attributable to the parent company shareholders, after deduction of non-recurring gains and losses	18,336	18,521

Items and amounts of the non-recurring gains and losses:

In: RMB 1 million

Item	Amount
Gains and losses on the disposal of non-current assets	80
Government subsidies booked into the gains and losses in current period	20
Write-back of assets written-off in previous years	107
Net non-operating income & expense in addition to the above	42
Impact on income tax	(64)
Total	**185**

II. KEY ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE PREVIOUS THREE YEARS AS OF THE END OF THE REPORTING PERIOD

In: RMB 1 million

Key accounting data and financial indicators	2010	2009	Increase/ decrease in 2010 compared with 2009 (%)	2008
Operating income	43,456	31,679	37.18	29,715
Total profit	24,005	17,229	39.33	14,037
Net earnings attributable to the parent company shareholders	18,521	13,282	39.44	11,385
Net earnings attributable to the parent company shareholders, after deduction of non-recurring gains and losses	18,336	12,596	45.56	11,187
EPS, basic (RMB)	3.28	2.50	31.09	2.14
EPS, diluted (RMB)	3.28	2.50	31.09	2.14
EPS, basic, after deduction of non-recurring gains and losses (RMB)	3.24	2.37	36.85	2.11
Return on total assets (%)	1.16	1.13	Up 0.03 ppt	1.22
Weighted average ROE (%)	24.64	24.54	Up 0.10 ppt	26.06
Weighted average ROE, after deduction of non-recurring gains and losses (%)	24.39	23.27	Up 1.12 ppts	25.61
Cost/income ratio	32.91	36.69	Down 3.78 ppts	34.90

II. KEY ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE PREVIOUS THREE YEARS AS OF THE END OF THE REPORTING PERIOD *(continued)*

In: RMB 1 million

Key accounting data and financial indicators	2010	2009	Increase/ decrease in 2010 compared with 2009 (%)	2008
Net cash flow generated from operating activities	117,652	71,848	63.75	3,329
Net cash flow per share generated from operating activities (RMB)	19.63	14.37	36.63	0.67
	2010-12-31	2009-12-31	Increase/decrease at the end of 2010 compared with the end of 2009 (%)	2008-12-31
Total assets	1,849,673	1,332,162	38.85	1,020,899
Shareholders' equity	91,995	59,597	54.36	49,022
Net assets per share attributable to the parent company shareholders (RMB)	15.35	11.92	28.80	9.80
NPL ratio (%)	0.42	0.54	Down 0.12 ppt	0.83
Provision coverage ratio (%)	325.51	254.93	Up 70.58 ppts	226.58

Notes:

1. As the Company implemented the rights issue plan during the reporting period, the EPS indicator for the same period in the preceding year was re-calculated in accordance with the requirements in the Rule No.9 for the Preparation of Information Disclosure of Companies with Public Offering – the Calculation and Disclosure of ROE and EPS (revised in 2010) issued by China Securities Regulatory Commission (CSRC) and the requirement of the accounting standard.
2. All the financial data in 2010 is based on the consolidated statements. The consolidated subsidiary is Industrial Bank Financial Leasing Co., Ltd., which was approved for operation in August 2010.

III. MAJOR FINANCIAL DATA AUDITED UNDER CAS AND IAS AND DIFFERENCES ARISING THEREFROM

In: RMB 1 million

	Net profit		Net assets	
	2010	2009	2010-12-31	2009-12-31
Prepared under PRC GAAP	18,521	13,282	91,995	59,597
Prepared under IFRS	18,521	13,282	91,995	59,597

IV. SUPPLEMENTARY FINANCIAL DATA OF THE PREVIOUS THREE YEARS AS OF THE END OF THE REPORTING PERIOD

In: RMB 1 million

Item	2010-12-31	2009-12-31	2008-12-31
Total liabilities	1,757,678	1,272,564	971,877
Placements from banks and other financial institutions	26,137	1,763	12,718
Total deposits	**1,132,767**	**900,884**	**632,426**
Incl: Demand deposits	552,772	455,931	279,521
Time deposits	495,167	373,398	278,258
Other deposits	84,828	71,555	74,647
Total loans	**854,339**	**701,598**	**499,386**
Incl: Corporate loans	619,604	505,882	312,920
Personal loans	225,007	169,014	128,937
Discount	9,728	26,702	57,530
Loan loss provision	11,771	9,635	9,401

V. APPENDIX TO INCOME STATEMENT FOR THE REPORTING PERIOD

1. Audited under CAS

In: RMB 1 million

Item	2010	Weighted average ROE (%)	EPS, basic (RMB per share)	EPS, diluted (RMB per share)
Net profits attributable to the parent company shareholders	18,521	24.64	3.28	3.28
Net profits attributable to the parent company shareholders, after deduction of non-recurring gains and losses	18,336	24.39	3.24	3.24

Note: The related data is calculated in accordance with the provisions in the Rule No.9 for the Preparation of Information Disclosure of Companies with Public Offering – the Calculation and Disclosure of ROE and EPS (revised in 2010).

2. Audited under IAS

In: RMB 1 million

Item	2010	Weighted average ROE (%)	EPS, basic (RMB per share)	EPS, diluted (RMB per share)
Net profits attributable to the parent company shareholders	18,521	24.64	3.28	3.28
Net profits attributable to the parent company shareholders, after deduction of non-recurring gains and losses	18,521	24.64	3.28	3.28

VI. SUPPLEMENTARY FINANCIAL INDICATORS OF THE PREVIOUS THREE YEARS AS OF THE END OF THE REPORTING PERIOD

In: %

Key indicator	Standard value	2010-12-31	2009-12-31	2008-12-31
Loan-to-deposit ratio (converted to RMB)	≤75	71.21	71.90	70.82
Liquidity ratio (converted to RMB)	≥25	38.45	32.07	41.04
Inter-bank placement ratio (Inter-bank borrowing in RMB)	≤ 4	1.44	-	1.72
(Inter-bank lending in RMB)	≤ 8	1.65	1.48	1.34
Proportion of loans to the largest single borrower	≤10	5.36	6.53	2.82
Proportion of loans to the largest ten borrowers	≤50	30.21	38.71	19.77
Migration ratio of pass loans	-	0.69	1.21	1.90
Migration ratio of special-mentioned loans	-	6.99	8.84	13.04
Migration ratio of substandard loans	-	83.13	62.07	46.26
Migration ratio of doubtful loans	-	29.43	9.49	6.06

Notes:

1. The data of Industrial Bank Financial Leasing Co., Ltd. is not included in this table;
2. Loan-to-deposit ratio, liquidity ratio, proportion of loans to the largest single borrower, proportion of loans to the largest ten borrowers, and migration ratios in this table are calculated based on data reported to regulatory authorities, while the interbank placement ratio is calculated based on relevant data contained in this report;
3. Pursuant to Document YJF [2008] No. 187, Document YJF [2006] No. 345 and Document YJF [2005] No. 253 issued by China Banking Regulatory Commission (CBRC), loans originated from funds raised from the Company's financial bonds issues are not included in loan-to-deposit ratio calculation;
4. Pursuant to Document YJF [2007] No. 84, starting from 2008, when calculating the "loan-to-deposit ratio", there is no need to deduct "discount" from "loans" in the numerator;
5. Inter-bank placement ratio (inter-bank borrowing in RMB) = inter-bank borrowing in RMB / RMB deposits×100%;
6. Inter-bank placement ratio (inter-bank lending in RMB) = inter-bank lending in RMB / RMB deposits×100%.

VII. CHANGES IN SHAREHOLDERS' EQUITY DURING THE REPORTING PERIOD

1. Audited under CAS

In: RMB 1 million

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Share capital	5,000	992	-	5,992
Capital reserve	17,239	16,699	1,314	32,624
General reserve	8,101	1,836	-	9,937
Surplus reserve	3,403	-	-	3,403
Undistributed earnings	25,854	18,521	4,336	40,039
Total	**59,597**	**38,048**	**5,650**	**91,995**

2. Audited under IAS

In: RMB 1 million

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Share capital	5,000	992	-	5,992
Capital reserve	17,560	16,699	-	34,259
Surplus reserve	3,403	-	-	3,403
General reserve	8,101	1,836	-	9,937
Undistributed earnings	25,854	18,521	4,336	40,039
Unrealized gains and losses on investments, after tax	(321)	-	1,314	(1,635)
Total	**59,597**	**38,048**	**5,650**	**91,995**

VIII. CAPITAL COMPOSITION AND CHANGES

In: RMB 100 million

Item	2010-12-31	2009-12-31	2008-12-31
Net capital	1,119.43	770.13	577.17
Incl: Core capital	893.23	570.89	463.15
Supplementary capital	255.50	208.02	122.37
Deductions	29.31	8.79	8.35
Risk weighted assets	9,917.02	7,130.57	5,095.70
Market risk capital	5.00	2.47	3.18
Capital adequacy ratio (%)	11.22	10.75	11.24
Core capital adequacy ratio (%)	8.80	7.91	8.94

Note: The data in this table are those reported to the regulatory authorities; the data of Industrial Bank Financial Leasing Co., Ltd. is not included. As of the end of the reporting period, the consolidated net capital is RMB 113.785 billion, within which the core capital is RMB 88.595 billion.

IX. ITEMS MEASURED AT FAIR VALUE

In: RMB 1 million

Item	2009-12-31	Gains and losses from changes in fair value in the period	Accumulated changes in fair value recognized in equity	Provision for impairment made in the period	2010-12-31
Financial assets:					
Held-for-trading financial assets	3,363	(19)	-	-	5,537
Precious metals	126	7	-	-	685
Derivative financial assets	1,399	902	-	-	2,301
Available-for-sale financial assets	111,101	-	(2,174)	-	147,214
Total financial assets	**115,989**	**890**	**(2,174)**	**-**	**155,737**
Financial liabilities:					
Held-for-trading financial liabilities	-	-	-	-	-
Derivative financial liabilities	1,602	(715)	-	-	2,317
Total financial liabilities	**1,602**	**(715)**	**-**	**-**	**2,317**

Notes:

1. Held-for-trading financial assets: the held-for-trading financial assets are primarily the held-for-trading RMB bonds held for the purpose of market making trading. The Company adjusts the position of its held-for-trading RMB bonds in a dynamic process, based on the trading activity level in the bond market and its judgment on the market movement. The gains and losses of held-for-trading financial assets from changes in fair value was minus RMB 19 million in 2010, only having a quite limited impact on the profit of the Company.

2. Precious metals: based on the overall judgment on the gold market, the position of the Company in the domestic precious metals spot trading was to long gold as of the end of the reporting period; the balance in domestic precious metals spot trading increased RMB 559 million compared with the beginning of the period.

3. Derivative financial assets and liabilities: the derivative financial assets and liabilities had increased significantly from a year ago, partly due to the increased trading volume of the derivative product of forex forward contracts, and partly due to the year-on-year increase in the net offset balance of the forex forward contracts (derivative financial assets – derivative financial liabilities) resulting from large fluctuations in market price. Apart from the derivative product of forex forward contracts, there were only small changes in other derivative financial assets and liabilities compared with a year ago.

4. Available-for-sale financial assets: the Company had a balance of RMB 147.232 billion in its available-for-sale financial assets as of the end of the reporting period, increasing RMB 36.084 billion from the beginning of the period. The Company moderately increased its investment in RMB bonds during the reporting period out of the need of asset management, as well as based on its judgment of the bond market movement and analysis on the interbank market liquidity.

I. CHANGES IN SHARES DURING THE REPORTING PERIOD

(I) Changes in shares

In: share

	2009-12-31		Changes during the reporting period			2010-12-31	
	Quantity	Percentage (%)	New share issue	Others(Release of restricted shares)	Subtotal	Quantity	Percentage (%)
I. Restricted shares							
i. State-owned shares	1,020,000,000	20.40	-	-1,020,000,000	-1,020,000,000	-	-
ii. Shares held by state-owned legal persons	-	-	-	-	-	-	-
iii. Shares held by other domestic investors	-	-	-	-	-	-	-
Incl: Shares held by domestic non-state-owned legal persons	-	-	-	-	-	-	-
Shares held by domestic natural persons	-	-	-	-	-	-	-
iv. Shares held by foreign investors	-	-	-	-	-	-	-
Incl: Shares held by foreign legal persons	-	-	-	-	-	-	-
Shares held by foreign natural persons	-	-	-	-	-	-	-
Total	**1,020,000,000**	**20.40**	**-**	**-1,020,000,000**	**-1,020,000,000**	**-**	**-**
II. Unrestricted floating shares							
i. RMB ordinary shares	3,980,000,000	79.60	992,450,630	1,020,000,000	2,012,450,630	5,992,450,630	100
ii. Domestically listed shares held by foreign investors	-	-	-	-	-	-	-
iii. Overseas listed shares held by foreign investors	-	-	-	-	-	-	-
iv. Others	-	-	-	-	-	-	-
Total	**3,980,000,000**	**79.60**	**992,450,630**	**1,020,000,000**	**2,012,450,630**	**5,992,450,630**	**100**
III. Total shares	**5,000,000,000**	**100**	**992,450,630**	**-**	**992,450,630**	**5,992,450,630**	**100**

I. CHANGES IN SHARES DURING THE REPORTING PERIOD *continued*

(I) Changes in shares *continued*

Notes:

1. Pursuant to the approval of the first extraordinary shareholders' meeting of the Company in 2009 and the Document ZJ Permit [2010] No.586 of CSRC, the Company implemented a rights issue program during the reporting period, whereby all the shareholders were offered two shares at the price of RMB 18.00 per share for every 10 shares they held. The actual number of shares issued in that rights issue was 992,450,630 shares, all of which were floating shares without sales restriction. The total shares of the Company were 5,992,450,630 upon the completion of that rights issue, and all the shares had been registered at the Shanghai Branch of China Securities Depository and Clearing Corporation Limited. Upon the approval of Shanghai Stock Exchange, the total of 992,450,630 RMB ordinary shares in that rights issue have been tradable on the market since June 8, 2010.

2. The Finance Bureau of Fujian Province, the largest shareholder of the Company, held 1.02 billion pre-IPO shares and committed that the lock-up period of such shares would be three years from the date of listing. The lock-up period of the above shares has expired on February 4, 2010, and these shares have become tradable since February 5, 2010. For further details, please refer to the announcement of the Company dated January 29, 2010.

(II) Share Issuance and Listing

1. Share issues by the Company in the past three years

Stock type	Issue date	Issue price (RMB)	Issued quantity (share)	Date of listing	Quantity of tradable shares (share)	Date of trade termin-ation
RMB ordinary shares	May 25-31, 2010	18.00	992,450,630	June 8, 2010	992,450,630	-

2. The Company currently does not have any internal employee shares.

II. SHAREHOLDERS

(I) Total number of shareholders

As at the end of the reporting period, the Company had a total of 242,596 shareholder accounts.

(II) Top ten shareholders as at the end of the reporting period

In: share

Name of shareholder	Type of shareholder	Changes during the period	Number of shares held at 2010-12-31	Percentage in total share capital (%)	Number of restricted shares	Pledged or frozen shares
Finance Bureau of Fujian Province	State organ	208,010,727	1,248,064,359	20.83	-	44,224,323 (frozen)
Hang Seng Bank Limited	Overseas legal person	127,818,000	766,908,000	12.80	-	-
Tetrad Ventures Pte Ltd.	Overseas legal person	38,280,000	229,680,000	3.83	-	-
Fujian Tobacco Haisheng Investment Management Co., Ltd.	State-owned legal person	26,666,667	160,000,000	2.67	-	-
COFCO Limited	State-owned legal person	7,200,000	155,270,721	2.59	-	7,370,721 (frozen)
China Tobacco Hunan Industrial Co., Ltd	State-owned legal person	14,000,000	84,000,000	1.40	-	-
Longyan Municipal Bureau of Finance, Fujian Province	State organ	14,000,000	84,000,000	1.40	-	35,000,000 (pledged) 3,035,003 (frozen)
Inner Mongolia Xishui Venture Co., Ltd.	Domestic non-state-owned legal person	11,220,784	78,453,334	1.31	-	78,333,334 (pledged)
Guangfa Jufeng Stock Fund	Domestic non-state-owned legal person	5,000,000	70,000,000	1.17	-	-
E Fund 50 Index Securities Investment Fund	Domestic non-state-owned legal person	21,732,237	69,758,293	1.16	-	-

Note: Both the Finance Bureau of Fujian Province and Longyan Municipal Bureau of Finance, Fujian Province were local finance authorities. There was no associated relationship among the above shareholders, and they were not parties acting in concert.

II. SHAREHOLDERS *continued*

(III) Top ten shareholders of non-restricted shares as at the end of the reporting period

In: share

Name of shareholder	Number of non-restricted shares	Percentage in total share capital (%)	Stock type
The Finance Bureau of Fujian Province	1,248,064,359	20.83	RMB ordinary shares
Hang Seng Bank Limited	766,908,000	12.80	RMB ordinary shares
Tetrad Ventures Pte Ltd.	229,680,000	3.83	RMB ordinary shares
Fujian Tobacco Haisheng Investment Management Co., Ltd.	160,000,000	2.67	RMB ordinary shares
COFCO Limited	155,270,721	2.59	RMB ordinary shares
China Tobacco Hunan Industrial Co., Ltd	84,000,000	1.40	RMB ordinary shares
Longyan Municipal Bureau of Finance, Fujian Province	84,000,000	1.40	RMB ordinary shares
Inner Mongolia Xishui Venture Co., Ltd.	78,453,334	1.31	RMB ordinary shares
Guangfa Jufeng Stock Fund	70,000,000	1.17	RMB ordinary shares
E Fund 50 Index Securities Investment Fund	69,758,293	1.16	RMB ordinary shares

Note: Both the Finance Bureau of Fujian Province and Longyan Municipal Bureau of Finance, Fujian Province were local finance authorities. There was no associated relationship among the top ten shareholders of non-restricted shares, and they were not parties acting in concert.

(IV) Shareholders holding over 5% of the Company's shares

1. The Finance Bureau of Fujian Province is a government institution legal person. Its legal representative is Mr. Chen Xiaoping and the address is 5 Zhongshan Road, Fuzhou. The Finance Bureau of Fujian Province is the largest shareholder of the Company by holding 20.83% shares.

2. Hang Seng Bank Limited is one of the largest Hong Kong-incorporated listed banks by market capitalization. Its legal representative is Mrs Margaret Leung Ko May Yee. The registered capital is HKD 11 billion and the legal address is 83 Des Voeux Road, Central, Hong Kong. Hang Seng Bank is a member of the HSBC Group. HSBC Holdings indirectly held a 62.14% stake in Hang Seng Bank through its subsidiaries.

Directors, Supervisors, Senior Management and Employees

I. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Basic information

Name	Title	Gender	Date of birth	Tenure	Total pre-tax remuneration from the Company during the reporting period (RMB 10,000)	Whether remuneration is received from shareholder companies or other related parties
Gao Jianping	Chairman	Male	1959.07	2010.10.28-2013.10.27	304.00	No
Liao Shizhong	Director	Male	1962.10	2010.10.28-2013.10.27	-	Yes
Andrew H C Fung	Director	Male	1957.07	2010.10.28-2013.10.27	-	Yes
Chua Phuay Hee	Director	Male	1953.09	2010.10.28-2013.10.27	-	No
Lu Xiaodong	Director	Male	1964.09	2010.12.30-2013.10.27	-	Yes
Xu Chiyun	Director	Female	1968.08	2010.12.30-2013.10.27	-	Yes
Li Renjie	Director, President	Male	1955.03	2010.10.28-2013.10.27	295.00	No
Kang Yukun	Director, Vice president	Male	1954.05	2010.10.28-2013.10.27	276.00	No
Chen Dekang	Director, Vice president	Male	1954.09	2010.10.28-2013.10.27	257.00	No
Tang Bin	Director, Board secretary	Male	1957.02	2010.10.28-2013.10.27	221.50	No
Ba Shusong	Independent director	Male	1969.08	2010.10.28-2013.10.27	27.19	No
Xu Bin	Independent director	Male	1944.09	2010.10.28-2013.10.27	27.30	No
Li Ruoshan	Independent director	Male	1949.02	2010.12.06-2013.10.27	7.50	No
Wu Shinong	Independent director	Male	1956.12	2010.12.06-2013.10.27	24.00	No
Lim Peng Khoon	Independent director	Male	1949.08	2010.10.28-2013.10.27	26.75	No
Bi Zhonghua	Chairwoman of Board of Supervisors	Female	1952.07	2010.10.28-2013.10.27	280.00	No
Wu Xiaohui	Supervisor	Female	1961.01	2010.10.28-2013.10.27	-	Yes
Xu Guoping	Supervisor	Male	1968.01	2010.10.28-2013.10.27	-	Yes
Li Zhaoming	Supervisor	Male	1968.07	2010.10.28-2013.10.27	-	Yes
Zhou Yuhan	Supervisor	Female	1968.10	2010.10.28-2013.10.27	-	Yes
Tu Baogui	Supervisor	Male	1953.01	2010.10.28-2013.10.27	240.30	No
Lai Furong	Supervisor	Male	1968.10	2010.10.28-2013.10.27	172.00	No
Wang Guogang	External supervisor	Male	1955.11	2010.10.28-2013.10.27	25.25	No
Zhou Yeliang	External supervisor	Male	1949.06	2010.10.28-2013.10.27	6.00	No
Lin Zhangyi	Vice president	Male	1971.09	2010.10.28-2013.10.27	234.00	No
John Law	Director	Male	1950.09	2007.10.19-2010.10.27	-	Yes
Li Xiaochun	Director	Male	1964.09	2007.10.19-2010.10.27	-	Yes
Deng Liping	Independent director	Male	1954.11	2007.10.19-2010.10.27	26.50	No
Chen Xiaohong	Supervisor	Female	1965.11	2007.10.19-2010.10.27	-	Yes
Deng Weili	Supervisor	Male	1964.09	2007.10.19-2010.10.27	-	Yes
Hua Bing	Supervisor	Male	1966.11	2007.10.19-2010.10.27	156.60	No
Li Shuang	External supervisor	Male	1944.08	2007.10.19-2010.10.27	16.50	No

I. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *continued*

(I) Basic information *continued*

1. The remuneration for directors, supervisors and senior management who held full-time positions in the Company during the reporting period has included annual risk fund, of which, Gao Jianping (Chairman) is RMB 1.065 million, Li Renjie (Director, President) is RMB 1.035 million, Bi Zhonghua (Chairwoman of the Board of Supervisors) is RMB 0.995 million, Kang Yukun (Director, Vice president) is RMB 0.985 million, Chen Dekang (Director, Vice president) is RMB 0.935 million, Lin Zhangyi (Vice president) is RMB 0.885 million, Tang Bin(Director, Board secretary) is RMB 0.825 million. In accordance with the Measures on Senior Management Risk Fund Evaluation and Disbursement of the Company, the risk fund should be disbursed in three years following evaluation.

2. As at the end of the reporting period, any director, supervisor or senior management of the Company did not hold any share of the Company.

3. The decision-making procedures, criteria for determination and actual payment of remuneration for directors, supervisors and senior management : remuneration for directors, supervisors and senior management was set and paid in accordance with Regulations on Independent Directors' Allowance of Industrial Bank, Regulations on External Supervisors' Allowance of Industrial Bank, Measures of Industrial Bank for Performance Evaluation of Senior Management and Administrative Measures of Industrial Bank for Remuneration of Senior Management. The specific criteria were as follows: directors and supervisors holding full-time positions in the Company should receive remuneration for their roles in the Company; shareholding directors and supervisors who did not hold full-time positions in the Company should receive remuneration from the companies in which they held full-time positions; allowance for independent directors and external supervisors was composed of three parts: basic allowance, committee allowance and work subsidy, which were disbursed in accordance with the provisions set out in Regulations of Industrial Bank on Independent Directors' Allowance, Regulations of Industrial Bank on External Supervisors' Allowance; preliminary plans on remuneration package for the Company's senior management were prepared by the Remuneration and Evaluation Committee under the Board of Directors and then submitted to the Board for consideration and approval.

(II) Positions held by directors and supervisors in shareholder companies

Name	Shareholder company	Title
Andrew H C Fung	Hang Seng Bank Limited	General manager and head of Treasury and Investment
Lu Xiaodong	Fujian Branch, China National Tobacco Corporation	Division chief
	Fujian Tobacco Haisheng Investment Management Co., Ltd.	Director
Wu Xiaohui	COFCO Limited	Chief accountant
Xu Guoping	China Tobacco Hunan Industrial Co., Ltd.	Deputy head of Financial Management Department
Li Zhaoming	China Electronic Information Industry Group Corporation	Deputy head of Finance Department
John Law	International Finance Corporation	Principal banking specialist of Global Financial Markets
Li Xiaochun	China Electronic Information Industry Group Corporation	Chief accountant
Chen Xiaohong	Fujian Branch, China National Tobacco Corporation	Head of Audit Department
Deng Weili	Shanghai Guoxin Investment & Development Co., Ltd.	CEO

As at the end of the reporting period, other directors and supervisors of the Company did not hold any position in existing shareholder companies.

(III) Major work experience of directors, supervisors and senior management, and their appointments or concurrent appointments in organizations other than the Company or shareholder companies

Name	Major work experience	Appointments or concurrent appointments in organizations other than the Company or shareholder companies
Gao Jianping	Bachelor degree, senior economist. He served previously as Deputy General Manager of the General Office of Industrial Bank, Director of the Industrial Bank's Office in Fuzhou Economic and Technological Development Zone, General Manager of the Office of Industrial Bank, Head of Industrial Bank's Shanghai Branch Preparatory Team, Vice President of Industrial Bank and President of Industrial Bank's Shanghai Branch, Vice President of Industrial Bank (in charge of overall management), Secretary of Communist Party Committee, Chairman and President of Industrial Bank, and currently as Secretary of Communist Party Committee and Chairman of Industrial Bank.	None
Liao Shizhong	Master degree, associate research fellow. He served previously as assistant research fellow, Deputy Director and Associate Research Fellow of Scientific Research Division of Economics Institute of Fujian Provincial Academy of Social Sciences, Deputy Director and Director of Fujian Provincial Institute for Fiscal Science Research, Vice President and Secretary-general of Fujian Provincial Society of Finance; and currently as Vice President of Fujian Provincial Society of Finance.	Vice President of Fujian Provincial Society of Finance
Andrew H C Fung	University graduate. He served previously as Managing Director of Global Financial Market of DBS Bank Ltd., Deputy General Manager and Head of Investment and Insurance of Hang Seng Bank, General Manager and Head of Investment and Insurance of Hang Seng Bank, and currently as General Manager and Head of Treasury and Investment of Hang Seng Bank.	Director and General Manager of Hang Seng Investment Management Ltd., Director of Hang Seng Asset Management Pte Ltd., Hang Seng Bullion, Hang Seng Life and Hang Seng Securities
Chua Phuay Hee	Master degree. He served previously as Director of Insurance and Statistics Department, Manager of Human Resources and Administration Department, Director of Securities Business Department of Monetary Authority of Singapore, General Manager of Investment and Plan Department, Chief Financial Officer, Chief Risk Officer of Keppel TatLee Bank of Singapore, and currently as Executive Director of Wilmar International Limited.	Executive Director of Wilmar International Limited
Lu Xiaodong	University graduate, accountant. He served previously as the Office Secretary and Section Chief of the People's Government of Yongding County, Director and Vice General Manager of Dongxing Mining Development Company of Yongding County, Financial manager and Office manager of Longyan Sanhua Color Print Company, Chief of Audit Division, Director of Audit Office of Tobacco Company of Longyan City, Division Chief of Fujian Provincial Tobacco Monopoly Bureau (Company); and currently as Division Chief of Fujian Provincial Tobacco Monopoly Bureau (Company) and Director of Fujian Tobacco Haisheng Investment Management Co., Ltd.	None
Xu Chiyun	University graduate, senior accountant. She previously served as Deputy Section Chief, Principal Staff Member, Section Chief of Longyan Municipality Finance Bureau, Fujian Province, Secretary General of Western Fujian Youth Finance Research Association; and currently as Deputy President and Secretary General of Accountants Society of Longyan City.	Deputy President and Secretary General of Accountants Society of Longyan City
Li Renjie	Bachelor degree, senior economist. He served previously as Director of Planning Division of Fujian Branch of the People's Bank of China (PBOC), Executive Director of Hong Kong Jiang Nan Finance Ltd., Chairman of Great Wall Securities Co., Ltd., Head of Preparatory Team, President of Industrial Bank's Shenzhen Branch, Vice President of Industrial Bank; and currently as Communist Party Committee Member and President of Industrial Bank.	None

I. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *continued*

(III) Major work experience of directors, supervisors and senior management, and their appointments or concurrent appointments in organizations other than the Company or shareholder companies *continued*

Name	Major work experience	Appointments or concurrent appointments in organizations other than the Company or shareholder companies
Kang Yukun	Bachelor degree, senior economist. He served previously as Deputy Manager of Industrial Bank's Credit Department, Vice President of Industrial Bank's Putian Branch, Vice President, President of Industrial Bank's Fuzhou Branch, and currently as Communist Party Committee Member and Vice President of Industrial Bank.	None
Chen Dekang	Bachelor degree, senior economist. He served previously as Vice President of Industrial Bank's Ningde Branch, Deputy General Manager, General Manager of Industrial Bank's Business Operation Department, Vice President (in charge of overall management), President of Industrial Bank's Xiamen Branch, and currently as Communist Party Committee Member and Vice President of Industrial Bank.	None
Tang Bin	Bachelor degree, MBA, senior economist. He served as Deputy Director of Trade Statistics Department, Deputy Director of Foreign Trade Statistics Department of Fujian Provincial Statistics Bureau, Deputy Director of Integrated Planning Department, Director of Distribution System Department, System Reform Commission of Fujian Province, General Manager of Industrial Bank's General Office, Business Department, Corporate Finance Department, Head of Preparatory Team of Industrial Bank's Hangzhou Branch, General Manager of Secretariat of Industrial Bank's Board of Directors, Board Secretary and General Manager of Board Office of Industrial Bank; and currently as Board Secretary of Industrial Bank.	None
Ba Shusong	PhD degree, research fellow. He served previously as Deputy Division Director of Development and Planning Department of Bank of China Head Office, Vice President of Bank of China's Hangzhou Branch, Assistant General Manager of Bank of China (Hong Kong) Ltd., Director of Development and Strategy Committee of Securities Association of China, Deputy Head of the Economic Affairs Department of the Liaison Office of the Central People's Government in HK S.A.R.; and currently as Vice Director, Research Fellow and PhD Tutor of Financial Research Institute of Development and Research Center of the State Council.	Vice Director of Financial Research Institute of Development and Research Center of the State Council, Independent Director of BoCommLife Insurance, Shanghai Great Wisdom, Guosen Securities and Guoyuan Securities
Xu Bin	PhD degree, senior economist. He served previously as Director of PBOC Dandong Municipal Administration Office of Liaoning Province, Vice President of PBOC Dandong Municipal Branch, Vice President of PBOC Liaoning Provincial Branch, Vice Director of State Administration of Foreign Exchange, President, Chairman of China Everbright Bank, Vice Chairman of China Everbright (Group) Corporation, Vice Chairman of Hong Kong China Everbright Group Corporation Limited, Vice Chairman of Hong Kong-listed China Everbright Holding Company Limited; and currently as Director of Sun Life Everbright Life Insurance.	Director of Sun Life Everbright Life Insurance
Li Ruoshan	PhD degree, professor, Chinese Certified Public Accountant. He served previously as Deputy Dean of Accounting Department, School of Economics, Vice President of School of Economics, Xiamen University; Dean of Accounting Department, Dean of Finance Department, School of Management, Vice President of School of Management, Fudan University; currently as MPACC Academic Dean, Professor, PhD tutor, School of Management, Fudan University.	MPACC Academic Dean, Professor, School of Management of Fudan University, Independent Director of Pacific Insurance, Ningbo Guangbo and Zhejiang Wanfeng Auto Wheel

Name	Major work experience	Appointments or concurrent appointments in organizations other than the Company or shareholder companies
Wu Shinong	PhD degree, professor. He served previously as Director of MBA Center, President of School of Business Administration, Standing Vice President, President of School of Management, Xiamen University; and currently as Vice Chancellor, Professor and PhD Tutor of Xiamen University.	Vice Chancellor, Professor of Xiamen University, Independent Director of Xiamen C&D, Xiamen International Airport, Xiamen Bank, Dong-E E-Jiao, and Amoi Technology, External Director of Fuyao Glass
Lim Peng Khoon	Member of UK Chartered Institute of Bankers, senior member of Malaysia Institute of Bankers. He served previously as Director of Foreign Exchange Reserve Administration Department of the Central Bank of Malaysia, Consultant of Supervision of Markets Division, Hong Kong Securities and Futures Commission, Consultant of Hong Kong/Malaysia HT Consulting Ltd., Consultant of Hong Kong Chinfosys Limited, Senior Consultant of Monetary Management and Financial Infrastructure Department of Hong Kong Monetary Authority; and currently as Consultant of Business Restructuring of Malaysian Bison Group.	Consultant of Business Restructuring of Malaysian Bison Group, Director of Malaysia Electronic Clearing Corp. S/B and Malaysian North Star Solutions S/B
Bi Zhonghua	Bachelor degree, senior economist. She served previously as Head of Cadre Section of Human Resources Department, Head of Statistics Section of General Planning Department, Deputy Director of Deposits and Remittances Department of Bank of China's Fuzhou Branch, Vice General Manager, General Manager of International Business Department, President Assistant of Industrial Bank and General Manager of International Business Department, Industrial Bank, General Manager of Business Operation Department, Communist Party Committee Member, Director, Vice President of Industrial Bank; and currently as Communist Party Committee Member and Chairwoman of the Board of Supervisors of Industrial Bank.	None
Wu Xiaohui	Master degree, senior accountant. She served previously as Accountant, Deputy General Manager of Planning & Finance Department of China Cereals, Oils and Foods Import and Export Company, General Manager of Planning & Finance Department, Director of Financial Department, China Cereals, Oils and Foods Import and Export (Group) Co., Ltd.; and currently as Chief Accountant of COFCO Limited.	Chairwoman of COFCO Trust, Aviva-COFCO Life Insurance, Aon-COFCO Insurance Brokerage and COFCO Finance Company, and Director of Longjiang Bank Corporation
Xu Guoping	College graduate, accountant. He served previously as Account of Finance Department, Hunan Provincial Tobacco Monopoly Bureau (Company), Accountant of Finance Audit Department, China Tobacco Hunan Industrial Company, Accountant of Financial Management Department, China Tobacco Hunan Industrial Co., Ltd; and currently as Deputy Director of Financial Management Department, China Tobacco Hunan Industrial Co., Ltd.	None
Li Zhaoming	University graduate, senior accountant. He served previously as Principal Staff Member of Finance Department, Deputy Director of Finance and Asset Management Department, General Manager Secretary and Party Secretary (director-level) of China Electronic Information Industry Group Corporation; currently as Deputy Director of Finance Department, China Electronic Information Industry Group Corporation.	None
Zhou Yuhan	Master degree. She previously served as Deputy Director of ASI Project Development, Executive Director of Asia Pacific Region of iLink Global, Managing Director of China Merchants China Investment Management Limited, Project Leader of CIMC Overseas Development; and currently as Managing Director of China Merchants China Investment Management Limited, Executive Director of China Merchants China Direct Investments Limited and Managing Director of China Merchants Industrial Development (Shenzhen) Limited.	Executive Director of China Merchants China Direct Investments Limited, Managing Director of China Merchants China Investment Management Limited and Managing Director of China Merchants Industrial Development (Shenzhen) Limited.

I. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *continued*

(III) Major work experience of directors, supervisors and senior management, and their appointments or concurrent appointments in organizations other than the Company or shareholder companies *continued*

Name	Major work experience	Appointments or concurrent appointments in organizations other than the Company or shareholder companies
Tu Baogui	College graduate, senior accountant. He served previously as Deputy Head of Zhenghe County Phosphate Fertilizer Plant, Fujian Province, Deputy Director of Ecomomic Commission of Zhenghe County, Fujian Province, Director of Zhenghe County Finance Bureau, Fujian Province, Section chief of Finance Bureau of Nanping Region, Fujian Province, Director of Nanping Office, Vice President, President of Nanping Branch, Industrial Bank, General Manager of Saving & Credit Card Division, General Manager of Head Office Operation Department, Industrial Bank, General Manager of Hualin Office of Industrial Bank, President of Fuzhou Branch of Industrial Bank; and currently as Party Committee Secretary and President of Shanghai Branch, Industrial Bank.	None
Lai Furong	Bachelor degree, senior accountant. He served previously as Head of Jin'an Sub-branch, Fuzhou Branch of Industrial Bank, Deputy General Manager of Finance and Accounting Department of Industrial Bank, Vice President of Guangzhou Branch of Industrial Bank, Deputy General Manager of Planning and Financial Department of Industrial Bank; and currently as General Manager of Audit Department of Industrial Bank.	None
Wang Guogang	PhD degree, research fellow. He served previously as a teacher of Fujian Normal University, Professor of International Business School of Nanjing University, General Manager of Jiangsu Xingda Securities Investment Service Co., Ltd., Chairman of Jiangsu Xingda Certified Public Accountants Limited, Vice President of China Huaxia Securities Co., Ltd., Research Fellow of Chinese Academy of Social Sciences; and currently as Vice Director of Financial Research Institute, Chinese Academy of Social Sciences.	Vice Director of Financial Research Institute, Chinese Academy of Social Sciences
Zhou Yeliang	Bachelor degree. He served previously as Deputy Head of Nanping Region Sub-branch, PBOC, Vice President, Jianyang Region Branch, PBOC, President of Nanping City Branch, PBOC, Vice President of Fujian Provincial Branch, PBOC, Head of Fuzhou Central Sub-branch, PBOC, Head of Hangzhou Central Sub-branch, PBOC; and currently as Advisor of PBOC.	Advisor of PBOC, Independent Director of Union Trust.
Lin Zhangyi	University graduate, master degree, senior economist. He served previously as Deputy Section Chief of General Section of General Office, Industrial Bank, Deputy Head (in charge of overall management) of Fuqing Sub-branch, Fuzhou Branch, Industrial Bank, President Assistant and Manager of Personnel & Education of Fuzhou Branch, Industrial Bank, Vice President of Fuzhou Branch, Industrial Bank, Vice President of Shanghai Branch, Industrial Bank, General Manager of General Office, Industrial Bank; and currently as Party Committee Member, Vice President of Industrial Bank, and Chairman of Industrial Bank Financial Leasing Co., Ltd.	Chairman of Industrial Bank Financial Leasing Co., Ltd.

Name	Major work experience	Appointments or concurrent appointments in organizations other than the Company or shareholder companies
John Law	Master degree. He served previously as Business Risk Reviewer for Asia Pacific Region and Business Head for North China Region of Citibank, Training Head for Asia Pacific Region, Risk Manager for Greater China of J.P. Morgan Chase, and Senior Credit Officer for Asia Pacific Region of Euroclear, Regional Credit Officer for Asia Pacific Financial Markets of Citibank; and currently as Principal Banking Specialist, Global Financial Markets of International Finance Corporation (IFC).	None
Li Xiaochun	Master degree, research-fellow senior accountant. He served previously as a technical in former Electronics Ministry's 711 Factory, assistant staff, Vice Director, Director, Vice General Manager of Material Department of Second Academy of China Aerospace, Director and Chairman of China Aerospace Science and Industry Financial Company Limited; and currently as Chief Accountant of China Electronic Information Industry Group Corporation.	None
Deng Li ping	PhD degree, PhD tutor. He served previously as Professor of Economics Department of Mount Allison University (tenured professor) in Canada, Professor and PhD Tutor of School of Economics, Xiamen University, Director of International Trade Department of Xiamen University, Deputy Dean of School of Economics, Xiamen University, Dean of School of Online Education, Xiamen University, Chancellor Assistant and Vice Chancellor of Xiamen University; and currently as President of Xiamen National Accounting College, Professor of Xiamen University.	President of Xiamen National Accounting College, Professor of Xiamen University
Chen Xiaohong	Bachelor degree, senior accountant. She served previously as Principal Staff Member of the Finance Bureau of Fujian Province, Principal Staff, Vice Director, Director of Fujian Tobacco Company; and currently as Director of Audit Department of China National Tobacco Corporation Fujian Provincial Company.	None
Deng Weili	PhD degree, associate professor. He served previously as Lecturer, Deputy Secretary of Communist Party Committee of Management Science Department and Fiscal Department of Fudan University, Associate Professor of School of Management, Fudan University, Deputy Director of Human Resources Department of Fudan University, Deputy General Manager of Shanghai Tiancheng Venture Capital Co., Ltd.; and currently as CEO of Shanghai Guoxin Investment & Development Co., Ltd.	Independent Director of Shanghai Erfangji Co., Ltd.
Hua Bing	Master degree, economist. He served previously as a teacher of Law Department of Anhui Finance and Trade College, a Lawyer in Guangdong Lingnan Law Firm and Guangzhou Lide Law Firm, Assistant to General Manager, Deputy General Manager of the Secretariat of the Board of Directors of Industrial Bank, Director of Legal Affairs Office, Deputy General Manager of Risk Management Department and Deputy General Manager of the Secretariat of the Board of Directors, Industrial Bank, General Manager of Office of the Board of Supervisors and Deputy General Manager of Risk Management Department, Director of Law Affairs Center, Industrial Bank; and currently as General Manager of Legal and Compliance Department of Industrial Bank.	None
Li Shuang	Master degree, PhD tutor. He served previously as Professor, Dean, Provost of Accounting Department of Central University of Finance and Economics, Vice Chancellor of Central University of Finance and Economics, Deputy Secretary-general and Consultant of Chinese Institute of Certified Public Accountants; and currently as Professor of Central University of Finance and Economics.	Professor of Central University of Finance and Economics, Independent Director of Air China and Jiangsu Shuangdeng Group Co., Ltd.

I. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *continued*

(IV) Changes of directors, supervisors and senior management during the reporting period

1. On December 8, 2009, Andrew H C Fung was elected as a director of the sixth Board of Directors of the Company at the 2009 First Extraordinary Shareholders' General Meeting . The qualification of Fung as a director was approved by the Fujian Bureau of CBRC on January 13, 2010.

2. On January 8, 2010, the Board of Directors of the Company appointed Lin Zhangyi as Vice President, whose qualification was approved by the Fujian Bureau of CBRC on March 15, 2010.

3. On March 26, 2010, Tang Bin was elected as a director of the sixth Board of Directors of the Company at the 2009 Annual Shareholders' General Meeting. The qualification of Tang as a director was approved by the Fujian Bureau of CBRC on April 16, 2010.

4. On October 18, 2010, Bi Zhonghua, Tu Baogui and Lai Furong were elected as staff supervisors to the fifth Board of Supervisors at the Company's Staff Representatives Conference.

5. On October 28, 2010, Gao Jianping, Liao Shizhong, Andrew H C Fung, Chua Phuay Hee, Lu Xiaodong, Xu Chiyun, Li Renjie, Kang yukun, Chen Dekang, Tang Bin, Ba Shusong, Xu Bin, Li Ruoshan, Wu Shinong and Lim Peng Khooh were elected as directors of the seventh Board of Directors at the 2010 First Extraordinary Shareholders' General Meeting, and Wu Xiaohui, Xu Guoping, Li Zhaoming, Zhou Yuhan, Wang Guogang and Zhou Yeliang were elected as supervisors of the fifth Board of Supervisors.

Among them, Lu Xiaodong, Xu Chiyun, Li Ruoshan and Wu Shinong were new directors; the qualification of Li Ruoshan and Wu Shinong as independent directors were approved by the Fujian Bureau of CBRC on December 6, 2010, and the qualification of Lu Xiaodong and Xu Chiyun as directors were approved by the Fujian Bureau of CBRC on December 30, 2010.

6. On October 28, 2010, Gao Jianping was elected as Chairman of the seventh Board of Directors at the first meeting of the seventh Board of Directors of the Company; Li Renjie continued to be appointed as the President, and Kang Yukun, Chen Dekang and Lin Zhangyi continued to be appointed as Vice Presidents; Tang Bin was appointed as Secretary to the seventh Board of Directors.

7. On October 28, 2010, Bi Zhonghua was elected to be Chairwoman of the fifth Board of Supervisors at the first meeting of the fifth Board of Supervisors of the Company.

II. EMPLOYEES

As at the end of the reporting period, the Company had a total of 29,214 employees and 188 retirees. The particulars of the employees of the Company are listed as follows:

(I) By education

Educational degree	Number of Employees	Percentage (%)
Master and above	1,921	6.58
Bachelor	20,271	69.39
College	5,415	18.54
Technical secondary school and below	1,607	5.50
Total	**29,214**	**100**

(II) By post category

Post category	Number of Employees	Percentage (%)
Management	1,991	6.82
Business	23,688	81.08
Support	3,535	12.10
Total	**29,214**	**100**

Corporate Governance Structure

I. CORPORATE GOVERNANCE OVERVIEW

The Company successfully completed the election of the new Board of Directors during the reporting period, which enabled further optimization of the structure of Board members in terms of discipline and expertise; the committees under the Board were strengthened to boost the decision-making function of the Board. The senior management team was further enhanced by the appointments of two new vice presidents, and consequently the structure of members of the senior management team was optimized to improve the operation and management capacity. The basic system building of the Board was constantly enhanced; some terms in the Articles of Association were revised; basic rules, including the Rules on Reputation Risk Management and Policy on IT Risk Management were developed; the Opinions on Further Strengthening the Building of Board of Directors was released to urge the different levels in corporate governance effectively perform their duties and ensure the steady, efficient implementation of decisions adopted. An effective transmission mechanism for the major decisions of the Board was established and improved; two issues of Board Meeting Minute were prepared and five communication letters for the Board were dispatched to provide a timely feedback to the Board or the relevant committees about the implementation conditions in order to enhance the authoritativeness of the decisions made by the Board. Over ten surveys and seminars were conducted in connection with the Company's strategic priorities in order to reinforce the supervision and guidance over the operation and management work. Innovations on sustainable financial business models continued to be advanced under the guide of sustainable development philosophy, in order to facilitate the steady, sustainable development of the Company and safeguard the interests of all shareholders and stakeholders.

(I) Shareholders and the general shareholders' meeting

During the reporting period, the Company normalized the convening, holding, deliberation and voting procedures of the general shareholders' meeting in accordance with relevant laws and regulations, the Articles of Association of the Company and the rules of procedures of the general shareholders' meeting, and the statutory rights of its shareholders had been fully protected. Meanwhile, the Company had taken steps to strengthen the ways that it communicated with its shareholders, to listen to its shareholders' opinions and suggestions, and to ensure that the rights of shareholders were safeguarded, namely, the right to be informed, be involved in and to vote on the major issues of the Company by laws and regulations.

The Finance Bureau of Fujian Province was the largest shareholder of the Company by holding 20.83% shares. The Company was totally independent from its largest shareholder in all aspects, including assets, personnel, finance, institutions and business. The major decisions of the Company were made and implemented by the Company itself on an independent basis. None of the Company's major shareholders has possessed the capital of the Company in violation of regulations or has requested the Company to act as a guarantor for a third party in any way whatsoever.

(II) Directors and Board of Directors

The Board of Directors of the Company consisted of 15 directors. 6 were shareholding directors (including 2 foreign shareholding directors), 5 were independent directors and 4 were senior management directors. Geographically speaking, 12 were residents in China whereas the other 3 were from abroad. Five committees were established under the Board of Directors, namely the Executive Committee, the Risk Management Committee, the Audit and Related Party Transaction Control Committee, the Nomination Committee and the Remuneration and Evaluation Committee. Except for the Executive Committee, the other four committees were all chaired by independent directors. Fully exercising their professional strength, the committees reviewed and discussed a number of important issues, and submitted their opinions to the Board of Directors for consideration and approval, whereby the corporate governance level and operating efficiency were improved effectively. During the reporting period, 9 meetings of the Board of Directors were convened, and a total of 47 proposals were considered and approved, while 13 reports were heard at these meetings. The committees under the

Board held 20 meetings in total, at which 77 proposals were considered or heard.

(III) Supervisors and Board of Supervisors

The Board of Supervisors consisted of 9 supervisors, including 4 shareholding supervisors, 3 employee supervisors and 2 external supervisors. Two specialized committees operated under the Board of Supervisors, namely the Supervision Committee and the Nomination, Remuneration & Evaluation Committee. All the committees were headed by external supervisors. By attaching priority to the interests of shareholders and the Company as a whole, the Board of Supervisors fulfilled its supervision duties by carrying out specific investigations and audits, monitoring the financial activities, compliance operation and internal control of the Company as well as appraising the due diligence of the Board of Directors and senior management. During the reporting period, a total of 6 meetings of the Board of Supervisors (including 2 conference calls) were convened. Those meetings considered and approved 19 proposals and heard 7 reports. The committees under the Board of Supervisors convened 4 meetings in total at which 8 proposals were considered and approved.

(IV) Senior management

As at the end of the reporting period, the Company had 5 senior management members, including a President and 4 Vice Presidents. Authorized by the Board of Directors, the President took responsibility for running the bank, guiding daily operations, overseeing the implementation of resolutions approved by the general shareholders' meetings and the Board of Directors, and formulating annual business plans, investment plans, annual financial budgets and final accounts, profit distribution plans, basic management rules and regulations in accordance with laws, regulations and the Articles of Association.

There are several committees operating under the senior management, namely the Franchise Management Committee, Asset and Liability Management Committee, Risk Management Committee, Credit Approval Committee, Internal Control Committee, Credit Accountability Committee and Major Purchases Committee.

(V) Related party transaction

In order to control the risk of related party transactions and safeguard the overall interests of the Company and its shareholders, while facilitating the stable growth of business, the Company strictly performed the procedures for review and approval of related party transactions in accordance with the Administrative Measures of Industrial Bank Co., Ltd. for Related Party Transactions (revised in December 2009) and Implementation Rules of Industrial Bank Co., Ltd. for Management of Related Party Transactions (revised in December 2009), so as to ensure the related party transactions were priced under the principle of fairness and reasonableness, making compensation for equal value. The respective responsibilities of the head office and branches were defined for the specific management of related party transactions; the management procedures for related party transactions were further clarified; and the Company's information disclosure system of related party transactions was improved.

(VI) Special activities of corporate governance

In order to further enhance corporate governance and consolidate the achievements made in the special corporate governance activities in 2007, the Company made constant efforts to strengthen its strategic planning management, improve internal control systems, standardize the management of related party transactions and information disclosure, and implement its report on corporate governance rectification of the special campaign. As at the end of the reporting period, almost all of the problems discovered in the special campaign had been rectified with good results. The only exception was the option incentive mechanism, which was unable to achieve substantial progress due to the relevant state policies yet to be introduced.

During the reporting period, the Board of Directors of the Company was granted such honors as the fourth winner of the "Top 100 Listed Companies of China on Corporate Governance Assessment 2010", "Award of Financial Institutions with Best Corporate Governance", "Award of Best Board of Directors" by the Chinese Academy of Social Sciences and other agencies; the Company received the honors of the "Listed Company Most Favored by Investors over the 20 Years of China Securities Market", "Listed Bank with Best Investment Value 2009", and the second place among the "Top 100 Chinese A-Share

I. CORPORATE GOVERNANCE OVERVIEW *continued*

(VI) Special activities of corporate governance *continued*

Companies with Best Investor Relations"; Chairman Gao Jianping was named the "Best Chairman" and Tang Bin, Board Secretary, was named the "Best Executive" and "New Fortune's Gold Medal Board Secretary", which reflected the wide recognition from the market and investors.

II. DUTY FULFILLMENT OF INDEPENDENT DIRECTORS

The Board of Directors of the Company had 5 independent directors, representing one third of the total number of directors. The independent directors represented a majority in the Audit and Related Party Transaction Control Committee, the Nomination Committee and the Remuneration & Evaluation Committee under the Board of Directors. The Risk Management Committee, the Audit & Related Party Transaction Control Committee, the Nomination Committee and the Remuneration & Evaluation Committee were all chaired by independent directors. During the reporting period, the independent directors gave full play to their expertise as they actively participated in the meetings of the Board of Directors and the committees, as well as the surveys and trainings organized by the Company and regulators. In line with the principles of being objective, independent and prudent, and with an aim to safeguard the interests of investors and other stakeholders, they fulfilled their duties by offering independent opinions on profit distribution, performance-linked remuneration plans for senior management, nomination of directors, appointments of senior management and material related party transactions, among other important issues. In doing so, they played an important role in enhancing the level of rational decision making by the Board of Directors and promoting the sound, sustainable growth of the Company's business.

(I) Attendance of independent directors at meetings of the Board of Directors during the reporting period

In: time

Name	Expected attendance	Attendance in-person	Attendance by a proxy	Absence	Reasons for absence and other remarks
Wang Guogang	8	8	0	0	-
Ba Shusong	9	8	1	0	At the 27th meeting of the 6th Board of Directors, Mr. Ba Shusong authorized Mr. Xu Bin to exercise voting right on his behalf due to his being occupied with official business
Deng Li ping	8	7	1	0	At the 21st meeting of the 6th Board of Directors, Mr. Deng Liping authorized Mr. Wang Guogang to exercise voting right on his behalf due to his participation of NPC and CPPCC.
Xu Bin	9	9	0	0	-
Lim Peng Khoon	9	9	0	0	-
Li Ruoshan	1	1	0	0	-
Wu Shinong	1	1	0	0	-

Note: In the seventh Board of Directors elected by the Company's Shareholders' General Meeting in October, 2010, Mr. Li Ruoshan and Mr. Wu Shinong were elected as the independent directors of the Company, whereas Mr. Wang Guogang and Mr. Deng Liping left their roles as the independent directors due to expiry of their six-year tenure.

(II) During the reporting period, the independent directors did not have any objections against the proposals of the Board or other non-board proposals.

III. CORPORATE DECISION MAKING SYSTEM

The general shareholders' meeting was the highest authority in the Company. The Board of Directors was the highest decision-making organ in charge of making key decisions of the Company and establishing annual operating goals. The Board of Supervisors was the supervisory organ in the Company, responsible for monitoring the activities of the Board of Directors and senior management. Senior management operated under the leadership of the Board of Directors and the supervision of the Board of Supervisors; it was responsible for running the Company's businesses in accordance with the law. In the Company, the decision-making system was centered on the Board of Directors; the senior management system was centered on senior management and the supervision system was centered on the Board of Supervisors. This constituted a system of checks and balances in which the responsibilities of each organ were clearly and rationally defined.

All internal decisions of the Company were independent of all shareholders, including the largest shareholder.

IV. PERFORMANCE EVALUATION AND INCENTIVE & RESTRICTION SYSTEM FOR SENIOR MANAGEMENT

The senior management members of the Company were subject to appraisal and supervision by the Board of Directors. The Board of Directors has formulated the Method of Appraisal of the Operating Results of Senior Management Members and the Administrative Measures for the Remuneration of Senior Management Members. By adopting reasonable and rational appraisal indicators and creating an appraisal mechanism that linked the payment to senior management with their duties, risks and operating results, the subjective initiative of senior management was fully exerted. Furthermore, incentives and restrictions were linked together. The remuneration structure for senior management member has been optimized to motivate them to work hard in line with the Company's interests.

V. INVESTOR RELATIONS AND INFORMATION DISCLOSURE

The Company attached great importance to investor relations; it established and maintained diversified communication means to adequately listen to the opinions and suggestions from the investors. During the reporting period, the Company continued to enhance its communication with the investors by organizing nearly 20 periodic performance presentations and other forms of investor meetings, 4 surveys for institutional investors, visiting 50 plus shareholders, receiving 50 plus visits of analysts, replying 160 emails from investors and answering over 600 phone calls from investors. The Company's financial status and operating information were delivered in an objective manner. The Company closely tracked the dynamics in the market, while having collected and summarized inquires of investors and research reports of analysts, and provided answers to the concerns of investors. By taking advantage of the electronic information networks, the Company continuously improved its investor management and communication platform, ensuring smooth and effective communications with investors by timely updating of its investor relations web page and keeping in good status the investor hotline and mailbox.

Insisting on legal and adequate disclosure, the Company continuously strengthened its building of the information disclosure system and improved its internal management process for information disclosure. During the reporting period, the Company went to great lengths to prepare the periodic reports and proactively enriched the contents of periodic reports, describing the development of businesses in an objective manner and highlighting the concerns of investors to help the investors gain a comprehensive insight into the Company. The Company reinforced its monitoring and management of substantial, sensitive

V. INVESTOR RELATIONS AND INFORMATION DISCLOSURE *continued*

information; over 40 ad hoc announcements and governance documents were disclosed properly and timely, including the resolutions of the Board of Directors and Board of Supervisors. The internal trainings on information disclosure were stressed. 16 issues of special newsletters on information disclosure were dispatched successively; the regulatory requirements and related processes were explained; special lectures, seminars and trainings were delivered. The awareness of the units and staff about information disclosure was raised by those measures to boost the efficient operation of internal information disclosure.

VI. LEGAL AND COMPLIANCE MANAGEMENT

The Company has always been upholding the philosophy of prudent and compliant operation. It was committed to the refinement and professionalism of legal and compliance management by complementing its system and mechanism for legal and compliance management, strengthening the promotion and trainings about compliance concept, and nurturing a compliance culture. During the reporting period, the Company continuously enhanced its fundamental work for compliance management, improving the effectiveness of compliance management, actively nurturing a compliance culture, concretely advancing the compliance-related trainings, and further improving the organizational structure for compliance management. The Guidelines of Industrial Bank on the Setting-up of Legal and Compliance Functions in the Branches were introduced to further normalize the compliance management divisions in branches with regard to organizational structure, responsibilities, positions and staffing. The implementation of compliance appraisal and accountability mechanism was advanced to further define and clarify the contents of compliance management appraisal, put in place the accountability system and reinforce the enforcement of rule. It was stressed to utilize and share the previous results of building a comprehensive compliance management system; the continuous improvement and effective operation of the comprehensive compliance management system was advanced; the pilot program of compliance monitoring was furthered to amplify its demonstrative effect; the building of ex-ante warning and ex-post tracking mechanism was stressed; the information system for the compliance management was elevated as marked by the successful online operation of the phase II comprehensive compliance management system.

VII. ESTABLISHMENT AND IMPROVEMENT OF THE COMPANY'S INTERNAL CONTROL SYSTEM

The Company continuously strengthened its internal control measures and improved its internal control mechanism. The existing internal control system has demonstrated good completeness, reasonableness and effectiveness in respect of improving the internal control environment, reinforcing risk identification, monitoring and appraisal capacity, upgrading risk control measures, improving information communication and feedback mechanism, enhancing the supervision appraisal and rectification mechanism, thus paving a good foundation for implementation of the state's laws and regulations, and realization of the operating objectives and development strategy of the Company. During the reporting period, the Company modified and improved a range of internal control rules, covering corporate governance, human resource, fixed asset loans, working capital loans, project financing, syndicate loans, M&A loans, as well as the liquidity risk of commercial banks, reputation risk, implementation of the New Capital Accord and IT risk, in accordance with the evolution of the external macro economics, the changes in legal and regulatory environment, and the requirements of business growth and internal management. The mechanism of risk management operation was continuously optimized across the bank; attentions were paid to different kinds of risk; and the internal control rules and processes were further improved. Meanwhile, by taking advantage of the promotion of internal control and compliance system as well as the campaign of "the year of implementation of internal control and preventive measures", the Company conducted the continuous sorting-out and consolidation of the normative documents such as rules and notices of the head office and branches; the daily routine management work were progressively standardized and normalized; the review of new rules were strengthened with regard to their compliance, practicality, standardization and effectiveness, in order to facilitate the formation of effective interface and virtuous cycles between the different stages of rule proposal, review, appraisal, feedback and modification; the lateral collaboration and interaction between different divisions at the head office were strengthened, while the vertical information transmission between the head office and branches were created to enable the internal rules of the Company to better adapt to the external regulatory changes and better serve the business growth.

The Company has been committed to the building of a modern financial system. By taking experience of the advanced management practice in financial institutions at home and abroad and complying with the principles of separated responsibilities and check and balance, a strict internal control system and approval procedures were established for the preparation of financial accounts and financial reports, whereby the approval authorization granted to units at different levels and related posts was clearly defined to ensure the well-defined responsibilities, check and balance and mutual supervision between the different units and positions.

The internal audit department was the inspection and supervision unit for the internal control of the Company, providing independent, objective supervision, appraisal and consulting of the risk management and internal control across the bank. In accordance with the principle of “unified leadership and vertical management”, the internal audit department employed a two-level management structure, whereby the Audit Department was set up at the head office while five audit department branches were established regionally in Beijing, Shanghai, Shenzhen, Wuhan and Xiamen. As the subordinates of the Audit Department at the head office, the audit department branches performed the auditing, supervision and appraisal functions for the branches in their respective territory on behalf of the head office, and reported to the Audit Department at the head office. The Audit Department at the head office had sections including the Credit Business Audit Division, Non-credit Business Audit Division, Off-site Audit Division, IT Audit Division, plus a Quality Control Division which conducted unified, overall control over the quality of audit, thereby creating a relatively independent and vertical quality control system.

During the reporting period, the Company’s internal audit function continuously advanced its ongoing, dynamic supervision of the Company’s units and businesses, while actively facilitating the building of related mechanisms and processes. Close attentions had been paid to the different risk factors that might arise out of the changes in current operating environment, and the project audit were arranged rationally with risk orientation: firstly, comprehensive audit of a number of branches were conducted with a focus on the credibility of the assets, liabilities and income/losses, as well as on the soundness and effectiveness of the internal control; secondly, a number of audit investigations and special audit programs were performed to address the key businesses and hot issues in the bank’s operation and management, aiming at elevating the Company’s capability in comprehensive management and service. The government financing vehicles loans, emerging businesses and interbank cooperation businesses were the key areas for audit during the reporting period. Meanwhile, the audit quality management was enhanced by enforcement of strict quality control throughout the process of audit programs, including the preparation of audit program, implementation of audit, preparation of audit report, and the tracking of rectifications. Innovations in the audit work approaches and methods were encouraged to further improve the quality and result of audit programs. During the reporting period, a total of 113 audit programs were conducted in the Company, covering almost 70% of all units.

During the reporting period, the role of daily supervision was stressed in the internal audit of the Company; and a daily supervision system was established, which comprised information collection, site visits, continuous tracking and internal control appraisal performed by the supervisors, providing a basis for the advances of various supervisory work. The results of rectification were improved through tracking the issues by various means, based on the key findings in the on-site audits and daily supervision; the audit findings were followed up by purposeful site visits and the promotion of internal control appraisal and regular disclosure of internal control reports; the specificity and continuousness of audit were further enhanced through the interactions between the daily supervision and audit program, combined with the active building of off-site audit approaches to serve the on-site audit programs.

During the reporting period, the Company continued to advance its self-appraisal on internal control. Following the completion of the internal control self-appraisal at the head office, Shanghai Branch and Shenzhen Branch in 2009, the pilot works were carried out at Nanjing Branch and Chongqing Branch respectively to promote the integration of the existing comprehensive compliance management system

VII. ESTABLISHMENT AND IMPROVEMENT OF THE COMPANY'S INTERNAL CONTROL SYSTEM *continued*

with the internal control appraisal system. While the management of internal control was enhanced at the pilot branches, the preliminary creation of the internal control documentation and appraisal template, together with the complementary daily operation rules have been completed. With reference to the internal control self-appraisal work implemented at the related units, the internal audit department made an independent annual appraisal on the overall effectiveness of the Company's internal control.

During the reporting period, no substantial defects were detected in the mechanism or rules of the Company's internal control in terms of completeness and reasonableness.

VIII. IMPLEMENTATION OF INSIDER MANAGEMENT RULES

In accordance with the requirements in related documents of CSRC and its branch in Fujian, the Company formulated Measures on Insiders Management based on its existing rules on information disclosure, in order to enhance the confidentiality of insider information, normalize the internal communication and external disclosure of substantial information, enhance the documentation and registration of insiders, thereby preventing the information from being leaked, better avoiding and eliminating the insider trading or other illegal acts, maintaining the fairness principle in information disclosure. During the reporting period, the Company strictly enforced the related information disclosure rules and timely submitted to and filing with the securities regulator the information about insiders; and no instance occurred that the insiders traded the stocks by taking advantage of insider information prior to the disclosure of substantial information.

IX. ESTABLISHMENT AND IMPROVEMENT OF THE COMPANY'S RULES ON MANAGEMENT OF EXTERNAL INFORMATION USERS

In accordance with the Administrative Measures for Information Disclosure by Listed Companies of CSRC and the Rules Governing the Listing of Stocks on Shanghai Stock Exchange, the Company formulated the Measures Insiders Management wherein special section was included to set out the procedures concerning the provision and management of external information, in order to reinforce the management of external information users. It was expressly required that the external parties and people should be registered as insiders and they should strictly abide by their confidentiality obligation during their use of the Company's information, whereby the responsibilities of confidentiality were clearly defined.

X. ESTABLISHMENT OF THE ACCOUNTABILITY RULES REGARDING MATERIAL ERRORS IN ANNUAL REPORT INFORMATION DISCLOSURE

The Company continuously enhanced the management of periodic reports disclosure issues, to ensure the authenticity, accuracy and completeness of the disclosed information. The contents of periodic reports were constantly enriched and the quality of information disclosure was improved. It was specified in the Company's Administrative Measures on Information Disclosure, the Administrative Rules on Information Disclosure Issues and the Internal Reporting Rules on Information Disclosure that should material errors appear in the disclosed information (including annual reports, interim reports, quarterly reports and other ad hoc announcements), the division and persons directly responsible for such errors will be subject to penalties including criticism, warning, demotion and up to termination of employment. The offenders will also be liable to compensation of damages and subject to legal liabilities when necessary. No material errors occurred in the annual report information disclosure of the Company during the reporting period.

General Shareholders' Meeting

The Company held two general shareholders' meetings during the reporting period, namely the 2009 annual general shareholders' meeting and the 2010 first extraordinary general shareholders' meeting. The specific details of the meetings are given below:

I. 2009 ANNUAL GENERAL SHAREHOLDERS' MEETING

On March 4, 2010, the Board of Directors of the Company posted the Announcement of the Resolutions of the 21st Meeting of the Sixth Board of Directors & Announcement of Convening the 2009 Annual General Shareholders' Meeting in the *China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily* and on the website of the Shanghai Stock Exchange (www.sse.com.cn).

The 2009 annual general shareholders' meeting was held on March 26, 2010 in Fuzhou. Totally 34 shareholders and authorized representatives of shareholders attended that shareholders' meeting, representing a total of 2,177,732,449 voting shares or 43.5546% of the Company's total number of shares, which was in line with the related provisions in the Company Law of the People's Republic of China and the Articles of Association of the Company.

The meeting reviewed and approved 11 proposals by means of voting by open ballot. The motions adopted included the Proposal on Election of Mr. Tang Bin as a Director of the Sixth Board of Directors, 2009 Annual Work Report of the Board of Directors, 2009 Annual Work Report of the Board of Supervisors, 2009 Annual Appraisal Report on Duty Performance of Directors, 2009 Annual Appraisal Report on Duty Performance of Supervisors, 2009 Annual Appraisal Report by the Board of Supervisors on the Duty Performance of Directors and Senior Management, 2009 Report on Final Financial Accounts & 2009 Financial Budget Plan, 2009 Annual Profit Distribution Plan, Proposal on Appointment of Public Accounting Firms for 2010, 2010 Annual Report and Abstract, and Agenda on the 'Report on Use of the Funds Raised Last Time'.

The Grandall Legal Group (Shanghai) Office witnessed the meeting and issued Legal Opinions, in which it attested to the legality and validity of such matters as the convention and meeting procedures, credentials of shareholders attending the meeting, proposals and voting procedures.

II. 2010 FIRST EXTRAORDINARY GENERAL SHAREHOLDERS' MEETING

On October 12, 2010, the Board of Directors of the Company posted the Announcement of the Resolutions of the 27th Meeting of the Sixth Board of Directors & Announcement of Convening the 2010 First Extraordinary General Shareholders' Meeting in the *China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily* and on the website of the Shanghai Stock Exchange (www.sse.com.cn).

The 2010 first extraordinary general shareholders' meeting was held on October 28, 2010 in Fuzhou. Totally 106 shareholders and authorized representatives of shareholders attended that shareholders' meeting, representing a total of 3,483,928,406 voting shares or 58.1386% of the Company's total number of shares, which was in line with the related provisions in the Company Law of the People's Republic of China and the Articles of Association of the Company.

The meeting reviewed and approved 6 proposals by means of voting by open ballot. The motions adopted included Proposal on Election of Directors for the Seventh Board of Directors, Proposal on Election of Shareholding Supervisors and External Supervisors for the Fifth Board of Supervisors, Proposal on Amending the Articles of Association, Proposal on Amending the Regulations on Independent Directors Allowance, Proposal on Amending the Regulations on External Supervisors' Allowance and Proposal on Changing the Registered Capital.

The Grandall Legal Group (Shanghai) Office witnessed the meeting and issued Legal Opinions, in which it attested to the legality and validity of such matters as the convention and meeting procedures, credentials of shareholders attending the meeting, proposals and voting procedures.

Report of the Board of Directors

I. MANAGEMENT ANALYSIS AND DISCUSSION

(I) Review of operations during the reporting period

1. Overall operation of the Company

During the reporting period, despite facing the complicated macro-economic situation, the Company has strictly implemented the macro-economic policies of the state and financial regulatory requirements under the guidance of the Scientific Outlook on Development, while capitalizing on the opportunities emerging during the process of economic adjustment and policy changes. With the strategy of “pursuing growth through changes and sitting tight in face of all the changes”, all the businesses continued to grow rapidly, steadily and healthily; new records have been achieved in size, quality and profitability, with all goals set by the Board of Directors fully accomplished.

(1) Proactively responding to challenges, capitalizing on arising opportunities; all the key performance indicators were at the best level in history. As at the end of the reporting period, the total assets of the Company stood at RMB 1,849.673 billion, up 38.85% from the beginning of the period. The balance of deposits in local and foreign currencies exceeded RMB 1 trillion for the first time to stand at RMB 1,132.767 billion, up 25.74% from the beginning of the period. The balance of loans in local and foreign currencies was RMB 854.339 billion, up 21.77% from the beginning of the period. The A-share rights issue was successfully completed with totally RMB 17.864 billion raised, which further enhanced the shareholders’ equity and our capital strength. The Company’s net assets balance was RMB 91.995 billion, up 54.36% from the beginning of the period. The net capital exceeded RMB 100 billion for the first time to reach RMB 111.943 billion, up 45% from the beginning of the period. The capital adequacy ratio reached 11.22%, up 0.47 ppt from the beginning of the period. The core capital adequacy ratio was 8.80%, up 0.89 ppt from the beginning of the period. The asset-liability ratio was healthy, and all the regulation indicators were in line with the requirements. The net profit in the reporting period reached RMB 18.521 billion, up 39.44% year-on-year; the revenue from intermediary business amounted to RMB 5.282 billion, up 38.68% year-on-year and accounting for 12.16% of the total revenue with an increase of 0.14 ppt year-on-year. The non-performing loans (NPLs) dropped in both amount and ratio as calculated based on the five-category classification; the assets quality had reached an advanced level. As at the end of the reporting period, the balance of NPLs was RMB 3.616 billion, decreasing RMB 163 million as compared with the beginning of the period; and the NPL ratio decreased by 0.12 ppt to 0.42%. The loan provision coverage ratio reached 325.51%, 70.58 ppts higher than that at the beginning of the period, marking further improved risk resistance capacity. Major breakthroughs were achieved in integrated operation. The acquisition of Union Trust Limited has been officially approved, and the wholly-owned Industrial Bank Financial Leasing Co., Ltd. started operation and earned a profit.

(2) The operation transformation continued to advance and the business foundations were further strengthened. The mechanisms and systems of management for various business lines were further streamlined. In respect of the corporate finance line, the focus was to improve the organizational structure and streamline the work responsibilities, while the performance management, plan management, information transmission and the coordination between business and risk lines were strengthened. A development mechanism which featured coordinated operation between the head office and branches, between the front, middle and back offices was created and improved to form a synergy across the line, thus improving the professional marketing and business management capability. In respect of the retail finance line, the “large retail” strategy continued to be followed whereby the reforms on Retail SBU structure were conducted, the level-2 divisions of the Retail SBU were set up at the branch level, and the building of retail marketing and service teams were carried out at the sub-branch level, so as to steadily improve the level of retail marketing and customer service. In respect of the interbank finance, financial market and asset management lines, the information sharing and business cooperation between different divisions of the same line, or between the front, middle and back offices were further enhanced; the mechanism for creation, review and sales of wealth management products, which could boost the rapid growth of corporate wealth management business,

continued to be explored and improved; the market-based pricing mechanism, which could boost the rapid growth of interbank liabilities, was created and improved; the building of professional teams was strengthened with the focus on improving the specialized sequence management, aiming at the continuous progress in innovation capacity.

(3) The management reform was steadily advanced and the risk internal control management became more comprehensive and effective. The IT risk, reputation risk and outsourcing risk were included in the comprehensive risk management strategy system; the risk tolerance indicators system was refined to enrich the contents of comprehensive risk management and improve the reasonableness and effectiveness of risk tolerance management. The changes in market conditions were closely monitored and the financial regulatory requirements were strictly enforced; the sorting of local government financing vehicles loans was performed; and the loan risk management was reinforced for the loans for real estate development, “high-energy-consumption and high-pollution” industries, industries with excessive capacity, industries with outdated production capacity, in order to avoid credit risks. The “three measures and one guideline” were implemented; and the stress test was conducted for the credit risks in select industries. The risk management for market and emerging businesses was improved; the building of operation risk management system was in process to continuously improve the approaches and mechanism for operation risk management. The implementation of the New Capital Accord was advanced as planned and the internal rating system was created; important periodical achievements had been made in quantitative model development, internal assessment system development, credit system upgrading and retrofit.

(4) The operation management was constantly strengthened, and the ability to provide support and safeguard continued to improve steadily. The building of branches was accelerated during the reporting period. The Hohhot and Changchun branches were successfully opened, and 19 out-of-town offices, 53 in-town sub-branches were opened, while 5 sub-branches were upgraded to branches; the total number of the Company’s branches and sub-branches reached 577. 618 new self-help machines such as ATM were put into operation, bringing the total number of self-help machines in operation to 4,140. The transaction amount of e-banking, such as online banking, telephone banking and mobile banking, reached RMB 16.07 trillion, up 37.32% year-on-year; the number of transactions was 72 million, up 54.04% year-on-year and exceeding the total number of transactions at all of the business outlets of the Company. The replacement ratio of counter transactions by e-banking was 55.35%, up 6.86 ppts year-on-year.

(5) The brand awareness and market recognition were further improved. In a series of elections organized by authoritative organizations at home and abroad, the Company successively received in 2010 the honors of “Most Profitable Bank in Asia”, “Bank with Best Capital Operation”, “Award of Financial Institution with Best Corporate Governance”, “The Listed Company with the Strongest Sense of Social Responsibilities”, “Listed Company Most Favored by Investors over the 20 Years of China Securities Market”, the second place among the “Top 100 Chinese A-Share Companies with Best Investor Relations”, and “The Best Chinese Bank with Technology Applications”. According to the latest list of global top 1000 banks released by *The Banker* Magazine of UK in July 2010, the Company ranked 97th in terms of tier 1 capital, up 20 places than a year ago; and ranked 93rd in terms of total assets, up 15 places than a year ago, for the first time entering into the list of global top 100 banks.

2. Composition of operating revenue and operating profit

During the reporting period, operating revenue of the Company was RMB 43.456 billion, and operating profit was RMB 23.897 billion.

(1) The Company divided its business regions into eight segments according to the principle of importance and comparability, namely, Head Office (including the headquarters and its affiliated operating units), Fujian, Beijing, Shanghai, Guangdong, Zhejiang, Jiangsu and others. Operating revenue and operating profit of various regions were as follows:

In: RMB 1 million

Region	Operating revenue	Operating profit
Head office	3,590	1,057
Fujian	6,107	3,606
Beijing	3,672	2,385
Shanghai	4,177	2,945
Guangdong	4,547	2,203
Zhejiang	2,994	1,584
Jiangsu	2,420	1,273
Others	15,949	8,844
Total	**43,456**	**23,897**

(2) Among the operating revenue, the amount, proportion and year-on-year change of items such as loan, interbank placements, due from central bank, due from banks and other financial institutions, reverse repo, investment, and fee & commission are listed as follows:

In: RMB 1 million

Item	Amount	Percentage in total operating revenue (%)	Year-on-year change (%)
Loan revenue	47,315	61.59	27.58
Placement revenue	501	0.65	55.92
Due from central bank revenue	2,533	3.30	53.32
Due from banks and other financial institutions revenue	531	0.69	(72.94)
Revenue from reverse repo	12,258	15.96	309.67
Investment revenue	8,078	10.51	27.01
Fee and commission revenue	5,229	6.81	50.16
Lease interest revenue	111	0.14	-
Other revenue	272	0.35	(63.77)
Total	**76,828**	**100**	**39.99**

I. MANAGEMENT ANALYSIS AND DISCUSSION *continued*

(I) Review of operations during the reporting period *continued*

3. Financial performance and operating results

(1) Changes in major financial indicators and reasons thereof

In: RMB 1 million

Item	2010-12-31	Change over 2009 year-end (%)	Brief reasons
Total assets	1,849,673	38.85	Steady and rapid growth of various asset business
Total liabilities	1,757,678	38.12	Steady and rapid growth of various liability business
Shareholders' equity	91,995	54.36	Funds raised from rights issue and transfer of profit earned in current period
Item	**2010**	**Year-on-year change (%)**	**Brief reasons**
Net profit	18,521	39.44	Steady and rapid growth of various businesses, leading to rapid growth in total assets; year-on-year increase of deposit-loan spread, and stabilized net interest margin; flexible allocation of assets by capturing the market opportunities; rapid growth of intermediary business; good asset quality, and the cost-to-revenue ratio being maintained at a low level
Weighted average ROE (%)	24.64	Up 0.10 ppt	Net profit grew 39.44% yoy. The weighted average ROE grew 39% after the fund raising from rights issue, slightly lower than the yoy growth of net profit

(2) Major accounting items with changes over 30%

In: RMB 1 million

Major accounting item	2010-12-31	Change over 2009 year-end (%)	Brief reasons
Cash and due from central bank	288,641	67.91	Increased reserves deposited at the central bank
Precious metals	685	441.70	Increased proprietary gold trading
Loans to other banks	21,099	54.19	Short-term funds were used as loans to other banks in order to improve the yield of short-term funds
Held-for-trading financial assets	5,537	64.62	Increased investment in held-for-trading bonds
Derivative financial assets	2,301	64.50	Increased interest rate derivatives
Reverse repurchase financial assets	374,005	90.93	The Company took advantage of its traditional strength in interbank business, expanding its reverse repo business and increasing the income from non-credit business by capitalizing on the market opportunities
Interest receivable	6,655	52.84	Increased interest receivable for reverse repurchase financial assets
Available-for-sale financial assets	147,232	32.46	Increased investment in available-for-sale bonds
Investment in accounts receivable	61,321	50.35	Increased investment in wealth management products and capital trust plan
Financing lease receivables	8,693	0 at the beginning of the period	The financial leasing company started operation in August 2010
Long-term equity investments	771	85.18	Equity expansion of Bank of Jiujiang
Construction in process	3,080	60.03	Construction payment for the offices and outlets of head office and branches
Other assets	6,373	36.54	Prepayment of financial leasing company for purchase of lease assets
Borrowing from central bank	365	802.82	Increased bill rediscount with central bank
Deposits from banks and other financial institutions	417,655	76.22	The Company took advantage of its traditional strengths in interbank business, enhancing the absorption of deposits from other banks and expanding the sources of liabilities
Loans from other banks	26,137	1382.89	The Company aggressively expanded the loans from interbank market to increase the sources of liabilities
Derivative financial liabilities	2,317	44.66	Increased derivative financial liabilities
Repurchase financial assets	89,585	95.13	The Company increased its income through non-credit business by capitalizing on market opportunities
Tax payable	3,486	53.99	Increased income tax payable
Interest payable	8,591	49.87	Increased interest payable for absorbed deposits
Other liabilities	7,294	71.60	Increased agency wealth management capital

I. MANAGEMENT ANALYSIS AND DISCUSSION *continued*

(I) Review of operations during the reporting period *continued*

3. Financial performance and operating results *continued*

Major accounting item	Year of 2010	Year-on-year change (%)	Brief reasons
Net interest revenue	38,032	39.81	Increased size of interest-bearing assets; stabilized interest margin
Interest revenue	70,976	41.84	Increased size of interest-bearing assets
Interest expense	32,944	44.26	Increased size of interest-bearing liabilities
Fee and commission revenue	5,229	50.16	Rapid growth of revenue from intermediary business
Investment income	354	-64.83	Reduced investment income from available-for-sale equities; the non-recurring income from sales of stake in Industrial Securities in 2009
Gains from changes in fair value	175	Negative in the same period a year ago	Increased gains from changes in fair value of derivative instruments
Exchange gains	53	-83.65	Reduced realized gains from exchange rate products
Assets impairment loss	2,342	351.82	Low basis in the preceding year. The provisions in the reporting period primarily consisted of provision for loan portfolio impairment due to increased size of loans
Other operating costs	295	97.70	Mortgage wealth management accounts business expenses
Income tax cost	5,485	38.94	Increased profit before tax

(II) Analysis of balance sheet

1. Assets

As at the end of the reporting period, the total assets of the Company stood at RMB 1,849.673 billion, up 38.85% from the beginning of the period. Among which, loans increased RMB 152.741 billion or 21.77% from the beginning of the period; the reverse repurchase financial assets increased RMB 178.120 billion or 90.93% during the period.

The details of loans were as follows:

(1) Classification of loans

In: RMB 1 million

Type	2010-12-31	2009-12-31
Corporate loans	619,604	505,882
Personal loans	225,007	169,014
Bill discount	9,728	26,702
Total	**854,339**	**701,598**

As at the end of the reporting period, the proportion of corporate loans was 72.52%, up 0.42 ppt from the beginning of the period; the proportion of personal loans increased by 2.25 ppts to 26.34%; the proportion of bill discount dropped by 2.67 ppts to 1.14%. During the reporting period, the Company enforced the macro economic policies of the state and the financial regulatory requirement, reasonably adjusted both the total amount and pace of credit provision, enhanced the support to real economy, and continued to maintain the rapid, balanced growth in key area such as corporate and retail businesses.

(2) Loan distribution by industry

As at the end of the reporting period, the top five industries of loan distribution are: personal loans; manufacturing; water resource, environment and public facilities management; real estate; and lease & business services. The detailed distribution by industry was as follows:

In: RMB 1 million

Industry	2010-12-31			2009-12-31		
	Loan balance	Percentage (%)	NPL ratio (%)	Loan balance	Percentage (%)	NPL ratio (%)
Agriculture, forestry, animal husbandry and fishery	2,518	0.29	0.08	1,163	0.17	1.51
Mining	22,913	2.68	0.06	15,577	2.22	0.25
Manufacturing	132,235	15.48	0.94	107,481	15.32	1.49
Electricity, gas and water production and supply	29,044	3.40	0.07	26,604	3.79	0.08
Construction	32,289	3.78	0.27	21,985	3.13	0.35
Transportation, warehousing and postal	51,994	6.09	0.12	48,950	6.98	0.14
Information transmission, computer services and software	3,542	0.41	1.23	2,755	0.39	1.62
Wholesales and retails	59,281	6.94	1.77	42,306	6.03	2.43
Accommodation and catering	3,570	0.42	0.04	1,576	0.22	0.60
Finance	5,048	0.60	0.10	3,327	0.48	0.15
Real estate	84,835	9.93	0.44	65,867	9.39	0.42
Lease and business services	74,098	8.67	0.38	57,264	8.16	0.34
Scientific research, technical service and geological prospecting	1,011	0.12	0.15	684	0.10	0.04
Water resource, environment and public facilities management	93,274	10.92	0	84,053	11.98	0
Residential services and other related services	2,769	0.32	1.57	1,842	0.26	0.28
Education	771	0.09	0.68	1,496	0.21	0
Sanitation, social security and other social services	2,329	0.27	0	3,194	0.46	0
Culture, sporting and entertainment	2,331	0.27	0	2,693	0.38	0
Public administration and social organizations	15,752	1.84	0	17,065	2.43	0
Personal loans	225,007	26.34	0.17	169,014	24.09	0.23
Bill discount	9,728	1.14	0	26,702	3.81	0
Total	**854,339**	**100**	**0.42**	**701,598**	**100**	**0.54**

During the reporting period, the Company followed the general direction of "focusing on developing customers matching well the strength and business of the Company; strengthening some businesses while controlling others; realigning the customer and credit portfolio; ensuring the stable growth of businesses". While the researches on key industries were reinforced, detailed entry rules were developed for 19 key industries to serve as a rational guide to the credit provision.

As of the end of the reporting period, the Company's loans were well distributed among different industries. The assets quality was good, as the NPL ratio maintained stable or decreased to a varied extent in almost all the industries, except for the slight increase of NPL ratio from the beginning of the period in "residential services and other related services", which only accounted for a small part in the total loans.

(II) Analysis of balance sheet *continued*

1. Assets *continued*

(3) Loan distribution by geographical region

In: RMB 1 million

Region	2010-12-31		2009-12-31	
	Loan balance	Percentage (%)	Loan balance	Percentage (%)
Fujian	132,336	15.49	106,333	15.16
Guangdong	90,264	10.57	77,321	11.02
Zhejiang	77,180	9.03	69,253	9.87
Shanghai	62,948	7.37	54,977	7.84
Beijing	56,101	6.57	49,204	7.01
Jiangsu	47,731	5.59	39,111	5.57
Head office	11,547	1.35	15,272	2.18
Others	376,232	44.03	290,127	41.35
Total	**854,339**	**100**	**701,598**	**100**

During the reporting period, the Company's loans kept stable in terms of geographical distribution and were mainly in such developed regions as Fujian, Guangdong, Zhejiang, Shanghai, Beijing and Jiangsu. The relative larger size of economy in the above regions offered a favorable environment and conditions for the rapid growth of the Company's businesses. According to the deployment of business outlets and the regional features of economic development, the Company actively participated in the local economic activities by providing strong support to the pillar industries, key projects and quality enterprises with a competitive edge in the regions. By effectively playing its role of financial services provider, the Company shared the achievements in local economic development.

(4) Forms of loan guarantee

In: RMB 1 million

Form of guarantee	2010-12-31		2009-12-31	
	Loan balance	Percentage (%)	Loan balance	Percentage (%)
Credit	199,121	23.31	167,228	23.84
Guarantee	193,113	22.60	164,828	23.49
Mortgage	411,276	48.14	307,047	43.76
Pledge	41,100	4.81	35,793	5.10
Discount	9,728	1.14	26,702	3.81
Total	**854,339**	**100**	**701,598**	**100**

During the reporting period, the Company stressed more on using mortgage as an important instrument to mitigate of customers' credit risk. The proportion of loans secured by mortgage rose 4.38 ppts from the beginning of the period, suggesting enhanced capability of risk resistance.

(5) Loans to top ten borrowers

As at the end of the reporting period, the top ten borrowers of the Company were Henan Coal and Chemical Industry Group Co., Ltd., Chongqing Yufu Assets Operation and Management Co., Ltd., Beijing Land Arrangement and Storage Centre (Chaoyang Branch Centre), Minsheng Investment Co., Ltd. of Harbin Investment Group, Tianjin Bohai Assets Operation and Management Co., Ltd., Chongqing Land Properties Group, Jinan Urban Redevelopment Investment and Operation Co., Ltd., Kunming Land Development Investment Management Co., Ltd., Urumchi Urban Construction Investment Co., Ltd., and Harbin Urban Construction Investment Group Co., Ltd. The outstanding loans to the above borrowers amounted to RMB 33.814 billion, accounting for 3.96% of the total ending balance of loans.

As at the end of the reporting period, the largest single borrower of the Company was Henan Coal and Chemical Industry Group Co., Ltd., whose ending balance of loans was RMB 6 billion, accounting for 5.36% of the net capital of the Company. This complied with the requirement of the regulatory authority that the loan balance for a single borrower should not exceed 10% of the net capital of a bank.

(6) Structure of personal loans

In: RMB 1 million

Item	2010-12-31			2009-12-31		
	Loan balance	Percentage (%)	NPL ratio (%)	Loan balance	Percentage (%)	NPL ratio (%)
Loans for residential & commercial housing	178,267	79.23	0.12	149,091	88.21	0.14
Credit cards	11,330	5.03	1.02	6,396	3.79	2.14
Others	35,410	15.74	0.12	13,527	8.00	0.34
Total	**225,007**	**100**	**0.17**	**169,014**	**100**	**0.23**

During the reporting period, the state reinforced the regulation of housing market by launching a series of regulating policies; the uncertainties in housing market augmented. The Company took the initiative to adjust and optimize its structure of personal loans accordingly; the support to personal business loans and other personal loans was reinforced, while the growth in personal loans for residential and commercial housing was curbed. The ending balance of personal loans for residential and commercial housing dropped 8.98 ppts from the period beginning, while the ending balance of other personal loans rose 7.74 ppts in the same period, resulting in a more reasonable structure of personal loans.

During the reporting period, the Company took steps to reinforce the risk control of personal housing loans by strictly enforcing differentiated credit policies for personal housing, strengthening the examination for loan granting as well as management after granting. As at the end of the reporting period, the overall NPL ratios in personal loans for residential and commercial housing, credit cards and other personal loans decreased to a varied extent from the basis of the beginning of the period, reflecting the effective control over the assets quality.

(7) Government financing vehicles loans

During the reporting period, the Company steadily advanced the work on examination, rectification and preservation of loans on government financing vehicles in line with the related regulatory requirements on risk control, and the risk was effectively mitigated. The Company insisted on its business principles as a commercial bank, bringing the risk under control while expanding its financing vehicles business. It went to great lengths to track and investigate the borrower on the financing vehicles, the compliance of project, the availability of the project's capital fund, the progress of the project, the guarantee or payment safeguarding measures, and the ability and willingness of the government to make payment of loans. As of the end of the reporting period, the examination of the Company's loans to the government financing vehicles was steadily advanced in accordance with the timeframe set by the regulator. The measures to ensure the loan payment were further enhanced and the risk was effectively controlled.

The details of reverse repurchase financial assets were as follows:

As at the end of the reporting period, the Company had RMB 374.005 billion reverse repurchase financial assets, increasing RMB 178.121 billion or 90.93% from the beginning of the period. The Company took advantage of its traditional strength in interbank business, increasing the income from non-credit business by capitalizing on the market opportunities.

(II) Analysis of balance sheet *continued*

1. Assets *continued*

In: RMB 1 million

Item	2010-12-31		2009-12-31	
	Balance	Percentage (%)	Balance	Percentage (%)
Securities	11,206	2.99	6,170	3.15
Bills	287,174	76.78	122,163	62.36
Trust beneficiary right	1,450	0.39	-	-
Credit assets	74,175	19.83	67,551	34.49
Total	**374,005**	**100**	**195,884**	**100**

The details of investment were as follows:

As at the end of the reporting period, the net investment of the Company stood at RMB 249.151 billion, increasing RMB 51.083 billion or 25.79% from the beginning of the period. The specific composition of investments was as follows:

(1) Classification based on accounting item

In: RMB 1 million

Item	2010-12-31		2009-12-31	
	Balance	Percentage (%)	Balance	Percentage (%)
Held-for-trading	5,537	2.22	3,363	1.70
Available-for-sale	147,232	59.09	111,148	56.12
Receivable	61,321	24.61	40,786	20.59
Held-to-maturity	34,290	13.77	42,354	21.38
Long-term equity investment	771	0.31	416	0.21
Total	**249,151**	**100**	**198,068**	**100**

During the reporting period, the funding front on the interbank market was firstly slack and then tightened. Based on its judgment on the funding liquidity in the market and the movement of the bond market, the Company adjusted its bond size and portfolio in a dynamic process. It cut its holdings of relatively long-term bonds in Q2 and Q3 when the market moved range-bound; and increased its position in the available-for-sale and receivable types of bonds in Q4 when the yields surged in bond market and the absolute yields showed valuation advantages.

(2) Classification based on issuer

In: RMB 1 million

Item	2010-12-31		2009-12-31	
	Balance	Percentage (%)	Balance	Percentage (%)
Government bonds	65,993	26.49	71,881	36.29
Central bank notes & financial bonds	79,444	31.89	74,943	37.84
Other bonds	42,257	16.96	28,792	14.54
Other investment	60,686	24.36	22,036	11.12
Long-term equity investment	771	0.31	416	0.21
Total	**249,151**	**100**	**198,068**	**100**

During the reporting period, the Company cut its position in select long-term government bonds and financial bonds in Q2 and Q3, and increased the holdings of select bonds with relatively high yields in Q4 when the bond yield rates surged.

(3) Long-term equity investments and major investments of non-raised capital's projects

As at the end of the reporting period, the long-term equity investments of the Company stood at RMB 771 million, with details as follows:

1. The Company purchased 80.12 million shares of Bank of Jiujiang when the bank conducted its fifth round of equity expansion in March 2010, for a total amount of RMB 264 million. As at the end of the reporting period, the Company held totally 223.2 million shares of Bank of Jiujiang, representing 20% of the bank's total diluted shares.

2. As at the end of the reporting period, the Company owned in aggregate 62.50 million equity shares of China UnionPay Co., Ltd.

2. Liabilities

As at the end of the reporting period, the total liabilities of the Company stood at RMB 1,757.678 billion, increasing RMB 485.114 billion or 38.12% from the beginning of the period. Among which, the customer deposits increased RMB 231.883 billion from the beginning of the period, up 25.74%; the deposits from banks and other financial institutions increased RMB 180.641 billion from the beginning of the period, up 76.22%; the repurchase financial assets increased RMB 43.675 billion from the beginning of the period, up 95.13%.

The composition of major liabilities was as follows:

In: RMB 1 million

Item	2010-12-31		2009-12-31	
	Amount	Percentage (%)	Amount	Percentage (%)
Customer deposits	1,132,767	64.45	900,884	70.79
Deposits from other banks and financial institutions	417,655	23.76	237,013	18.62
Reverse repurchase financial assets	89,585	5.10	45,910	3.61
Bonds issued	64,935	3.69	68,928	5.42
Other liabilities	52,736	3.00	19,829	1.56
Total	**1,757,678**	**100**	**1,272,564**	**100**

Among which, the specific composition of customer deposits was as follows:

In: RMB 1 million

Item	2010-12-31		2009-12-31	
	Amount	Percentage (%)	Amount	Percentage (%)
Demand deposits	552,772	48.80	455,931	50.61
Incl: Corporate	471,562	41.63	398,129	44.19
Personal	81,210	7.17	57,802	6.42
Time deposits	495,167	43.71	373,398	41.45
Incl: Corporate	390,551	34.48	284,292	31.56
Personal	104,616	9.24	89,106	9.89
Other deposits	84,828	7.49	71,555	7.94
Total	**1,132,767**	**100**	**900,884**	**100**

I. MANAGEMENT ANALYSIS AND DISCUSSION *continued*

(II) Analysis of balance sheet *continued*

2. Liabilities *continued*

The details of deposits from other banks and financial institutions were as follows:

As at the end of the reporting period, the Company had a balance of RMB 417.655 billion in deposits from other banks and financial institutions, increasing RMB 180.641 billion or 76.22% from the beginning of the period. The primary cause was that the Company took advantage of its traditional strength in interbank business, having enhanced the absorption of deposits from other banks and expanding the sources of liabilities.

In: RMB 1 million

Transaction counterpart	2010-12-31		2009-12-31	
	Balance	Percentage (%)	Balance	Percentage (%)
Bank peers	214,709	51.41	89,733	37.86
Non-bank peers	202,946	48.59	147,280	62.14
Total	**417,655**	**100**	**237,013**	**100**

The details of repurchase financial assets were as follows:

As at the end of the reporting period, the Company had a balance of RMB 89.585 billion in repurchase financial assets, increasing RMB 43.675 billion or 95.13% from the beginning of the period. The primary cause was that the Company took advantage of its traditional strength in interbank business, having increased the income from non-credit business by aggressively capitalizing on the market opportunities.

In: RMB 1 million

Item	2010-12-31		2009-12-31	
	Balance	Percentage (%)	Balance	Percentage (%)
Securities	20,927	15.68	30,269	65.93
Bills	68,658	83.92	15,001	32.68
Credit assets	-	-	640	1.39
Total	**89,585**	**100**	**45,910**	**100**

(III) Analysis of income statement

During the reporting period, the Company has seen: steady and rapid growth of various liability businesses, leading to rapid growth in total assets; year-on-year increase of deposit-loan spread, and stabilized net interest margin; flexible allocation of assets by capturing the market opportunities; rapid growth of intermediary business; good asset quality, and the cost-to-revenue ratio being maintained at a low level. The net earnings recorded for the year were RMB 18.521 billion, up 39.44% yoy.

In: RMB 1 million

Item	2010	2009
Operating income	43,456	31,679
Net interest income	38,032	27,202
Net non-interest income	5,424	4,477
Business tax and surcharges	(2,915)	(2,321)
Operating and administrative expense	(14,007)	(11,474)
Assets impairment loss	(2,342)	(518)
Other operating costs	(295)	(149)
Net non-operating income and expense	109	13
Profit before tax	24,005	17,229
Income tax	(5,485)	(3,948)
Net profit	18,521	13,282

1. Interest income

During the reporting period, interest income of the Company were RMB 70.976 billion, up RMB 20.937 billion or 41.84% from a year ago. The specific composition of interest income was as follows:

In: RMB 1 million

Item	2010		2009	
	Amount	Percentage (%)	Amount	Percentage (%)
Interest income from corporate and personal loans	41,935	59.08	32,257	64.48
Interest income from discount	5,380	7.58	4,831	9.65
Interest income from investment	7,723	10.88	6,026	12.04
Interest income from amount due from central bank	2,533	3.57	1,652	3.30
Interest income from placements with other banks and financial institutions	501	0.71	322	0.64
Interest income from reverse repo	12,258	17.27	2,992	5.98
Interest income from amount due from other banks and other financial institutions	531	0.75	1,958	3.91
Lease interest income	111	0.16	-	-
Other interest income	4	0.01	1	0
Total	**70,976**	**100**	**50,039**	**100**

(III) Analysis of income statement *continued*

2. Interest expense

During the reporting period, interest expense of the Company were RMB 32.944 billion, up RMB 10.107 billion or 44.26% from a year ago. The specific composition of interest expenses was as follows:

In: RMB 1 million

Item	2010		2009	
	Amount	Percentage (%)	Amount	Percentage (%)
Interest expense on deposits	14,595	44.30	12,420	54.39
Interest expense on bonds	2,622	7.96	2,665	11.67
Interest expense on transfer discount and rediscount	4,529	13.75	3,154	13.81
Interest expense on amount due to banks and other financial institutions	7,912	24.02	3,820	16.73
Interest expense on placements with other banks and financial institutions	315	0.96	159	0.69
Interest expense on repurchase agreements	2,916	8.85	607	2.66
Other interest expense	55	0.16	12	0.05
Total	**32,944**	**100**	**22,837**	**100**

3. Non-interest income

During the reporting period, non-interest income of the Company was RMB 5.424 billion, up RMB 947 million or 21.15% from a year ago, which accounted for 12.48% of the operating income. The income from intermediary business (income from fee and commission and exchange gains and losses) were RMB 5.282 billion, up 38.68% year-on-year. The specific composition of non-interest income was as follows:

In: RMB 1 million

Item	2010	2009
Net fee and commissions	4,801	3,116
Investment income	354	1,008
Gains from changes in fair value	175	(13)
Exchange gains	54	326
Income from other businesses	40	40
Total	**5,424**	**4,477**

Net income from fee and commissions: in the reporting period, the Company realized RMB 5.229 billion of income from fee and commissions, up RMB 1.747 billion or 50.16% year-on-year. That mainly consisted of a RMB 753 million year-on-year growth in fee revenues from consulting service, up 41.08%; a RMB 509 million year-on-year growth in fee income from agency business, up 100.09%; a RMB 258 million year-on-year growth in fee income from bank cards, up 48.31%. The items of higher percentage in the fee and commission income were fee income from consulting service and fee income from agency service, which accounted for 48.20% and 19.47% respectively.

In: RMB 1 million

Item	2010		2009	
	Amount	Percentage (%)	Amount	Percentage (%)
Fee and commission income:				
Fee income from payment and settlement	159	3.04	85	2.45
Fee income from bank cards	792	15.14	534	15.33
Fee income from agency business	1,018	19.47	509	14.61
Fee income from guarantee commitment	309	5.92	261	7.52
Fee income from trading business	47	0.89	69	1.97
Fee income from custody business	230	4.39	153	4.41
Fee income from consulting service	2,520	48.20	1,767	50.73
Fee income from lease business	13	0.25	-	-
Other fee income	141	2.70	104	2.98
Subtotal	5,229	100	3,482	100
Fee and commission expense	428		366	
Net income from fee and commissions	**4,801**		**3,116**	

Investment income: in the reporting period, the Company realized RMB 354 million of investment income, decreasing RMB 654 million year-on-year. That was chiefly because of the realization of the non-recurring income in 2009 by selling the equity in Industrial Securities, which resulted in yoy reduction in 2010 in the investment income from available-for-sale equities. The specific composition was as follows:

In: RMB 1 million

Item	2010	2009
Profit declared distributed by the investees (using the cost method of accounting)	2	2
Investment income recognized with equity method	90	44
Investment income from available-for-sale equities	33	766
Gains from bond trading	213	223
Gains from precious metal trading	32	70
Investment income from held-for-trading financial liabilities	(78)	-
Gains and losses from derivatives	62	(97)
Total	**354**	**1,008**

(III) Analysis of income statement *continued*

4. Operating and administrative expense

During the reporting period, operating expense of the Company were RMB 14.007 billion, up RMB 2.533 billion or 22.08% from a year ago. The specific composition of operating expense was as follows:

In: RMB 1 million

Item	2010		2009	
	Amount	Percentage (%)	Amount	Percentage (%)
Employee compensation	6,314	45.07	5,185	45.19
Depreciation and amortization	875	6.25	713	6.21
Office expense	2,591	18.50	2,066	18.01
Publicity expense	1,166	8.32	825	7.19
Lease expense	971	6.93	767	6.69
Professional service expense	222	1.58	300	2.61
Other expense	1,868	13.35	1,618	14.10
Total	**14,007**	**100**	**11,474**	**100**

The major reasons for increase in the operating and administrative expense included: (1) higher investment in the business development and strategic transformation in line with the enlarged business scale and heightened market competition; (2) higher costs resulting from setup of new branches and sub-branches, combined with associated staffing.

5. Assets impairment loss

In the reporting period, The Company's assets impairment loss reached RMB 2.342 billion, a year-on-year increase of RMB 1.824 billion or 351.82%. That was chiefly caused by the RMB 1.662 billion increase from the preceding year in loan impairment loss. The specific composition of assets impairment loss was as follows:

In: RMB 1 million

Item	2010		2009	
	Amount	Percentage (%)	Amount	Percentage (%)
Loan impairment loss	2,221	94.79	559	107.85
Impairment loss on investment in accounts receivables	17	0.71	6	1.25
Impairment loss on lease payment receivables	99	4.24	-	-
Impairment loss on other receivables	4	0.17	(49)	(9.47)
Assets impairment loss on debt-repaid assets	1	0.09	2	0.37
Total	**2,342**	**100**	**518**	**100**

During the reporting period, the provision for loan impairment loss was primarily the result of loan growth and the corresponding provision for the loan portfolio; the significant increase yoy in loan impairment loss was chiefly attributable to the low basis in 2009.

6. Income tax

During the reporting period, the effective income tax rate applying to the Company was 22.85%, down 0.06 ppt yoy and lower than the statutory tax rate by 2.15 ppts. The differences between income tax expense and the amount calculated according to the 25% statutory tax rate was as follows:

In: RMB 1 million

Item	2010
Profit before tax	24,005
Statutory tax rate (%)	25
Income tax calculated at statutory tax rate	6,001
Effect on tax due to adjustment on the following items:	
Tax-exempt income	(478)
Non-deductible items	104
Supplementary income tax	(130)
Effect of lower tax rates applicable in some regions	(12)
Income tax	**5,485**

(IV) Use of raised capital and changes in application

During the reporting period, the Company implemented A-share rights issue plan, whereby all shareholders were offered 2 shares at the price of RMB 18.00 per share for every 10 shares they held. Through that rights issue, RMB 17.864 billion was raised in a total issue of 992,450,630 shares. All the proceeds were used for capital supplement after deduction of the issue expenses.

During the reporting period, the Company had no change to the application of the raised capital.

(V) Major changes in operating environment and macro policies, laws and regulations during the reporting period and the impact thereof

1. Impact of macroeconomic control

During the reporting period, the macro economic and financial conditions were extremely complicated. At the year beginning, the central bank continued to implement the moderately easy monetary policy in line with the decisions of the Communist Party and the State Council. As the economic was well on the track of steady and rapid growth, the central bank shifted its monetary guidance from counter-crisis to a normal status, successively raising the ratio of required reserve (RRR) for six times in the year and the benchmark rates for deposits and loans for two times. Meanwhile, the financial regulator strengthened its counter-cyclical regulation of the commercial banks, by adopting a more prudent mindset. The Company has strictly implemented the macro economic policies of the state and financial regulatory requirements under the guidance of the Scientific Outlook on Development, while adapting itself to the changes in regulatory policies and operating environment. With the strategy of “pursuing growth through changes and sitting tight in face of all the changes”, all the businesses continued to grow rapidly, steadily and healthily; new records have been achieved in size, quality and profitability.

2. Impact of interest rates adjustment

During the reporting period, as the monetary conditions gradually normalized, the regulator reinforced its control over the credit lines. The central bank successively raised the ratio of required reserve for six times and the benchmark rates for deposits and loans for two times, leading to tightened liquidity within the banking system. As the Company’s demand deposits had a weight of around 50%, the rate hikes induced a positive impact; however, the hiked RRR had certain negative impact on the yields of the Company’s interest-bearing assets, on top of the freezing of additional funding available. The overall impact was neutral. As at the end of the reporting period, the 1-month Shibor soared 243% from the beginning of the period, while the 6-month Shibor rose 86% in the same period. Because the Company successfully captured the market opportunities in the reporting period to upsize its use of the interbank capital, the rebound of market interest rates worked positively on improving the Company’s net income.

I. MANAGEMENT ANALYSIS AND DISCUSSION *continued*

(V) Major changes in operating environment and macro policies, laws and regulations during the reporting period and the impact thereof *continued*

3. Impact of fluctuations in the capital market

During the reporting period, the A-share index fluctuated and trended downward. As a result of the sluggish performance of the capital market, investors were not active to participate in trading, which in turn posed challenges to the offering of funds. Nevertheless, the Company still managed to maintain a stable growth in its total fund distribution. Meanwhile, the Company actively engaged in the wealth management business, offering those services to its customers for instance, which led to stable growth of the intermediary business while driving the transformation of earning model and business model.

4. Impact of exchange rate changes

PBOC announced on June 19, 2010 that it would further advance the reforms on RMB exchange rate forming mechanism, while enhancing the flexibility of RMB exchange rate. This move in the exchange rate policy stressed more on the role the currency basket playing in exchange rate determination, which means that the fluctuations of RMB exchange rate can to a certain extent be freed from the changes in bilateral exchange rates. The two-way movements of the RMB exchange rate will stimulate the normal, sustained and coordinated growth of the Company's foreign exchange business. As at the end of the reporting period, the median exchange rate of USD to RMB was 6.6227, signifying a 3% appreciation of RMB from the period beginning. During the reporting period, the Company promptly used pricing means to balance the funding sources and applications of foreign exchanges, and supported the quality foreign exchange loan business on a selective basis. As the Company implemented a policy of zero exposure to foreign exchange risk, the risk related to rate fluctuations was concentrated in the principal part, thus the risk was generally controllable.

(VI) Problems and challenges existing in operations and countermeasures

During the reporting period, there were still some problems existing in the operations of the Company while the business lines maintained steady and fast growth, which mainly included:

1. The development of different businesses was not very well balanced, as the liability business grew slowly in relation to the asset business. Against the backdrop of continuous RRR hikes, the comprehensive implementation of the "three measures and one guidance" and heightened competition in the industry, the Company had seen marked growth in the deposits from various sources, yet that growth was still slow in relation to the growth of credit business in the same period.

2. The liquidity management faced pressure. Since the beginning of 2010, the macro conditions have transited to a more normalized status from the counter-crisis theme in 2009, accompanied by the multiple RRR hikes. The traditional asset-liability indicators, such as the loan-to-deposit ratio and liquidity ratios, became important targets for macro control; and the CBRC is considering about the introduction of new liquidity regulatory indicators set out in Basel Accord III, which include the liquidity coverage ratio and net stable funding ratio, among others. Consequently, the commercial banks have a compressed space for increasing the earnings through mismatch augment, facing greater pressure in liquidity management.

The Company adopted the following counter-measures to address the above problems and challenge:

1. Adjustment to and optimization of resource allocation mechanism and business development model; expansion of the core liability business. Firstly, the Company adjusted and optimized its resource allocation mechanism; stressed the appraisal of business units on loan-to-deposit ratio, and increased the weight of core liability indicator in the comprehensive appraisal to support the growth of liability business, especially the core liability business. Secondly, the Company strengthened the integrated marketing and management of its basic upstream and downstream customers. A sustainable liability business development model was pursued, by means of innovation in business model and processes in combination with improved comprehensive service capacity, thus driving the continuous, steady and fast growth of the core liability business.

2. Breakdown and issuance of the liquidity control indicators to guide the business units substantially improve their liquidity conditions. The Company communicated to its business units the loan-to-deposit control plan as required by the regulator and required the self-sufficiency between deposits and loans. The liquidity ratio management was strengthened and improved, as the responsibility thereof started to be shared between the business units and the head office, instead of being assumed by the head office alone, which was the previous case. The weight management of median to long-term loans was enhanced to increase the percentage of median to long-term funding sources, thereby reducing the mismatch between assets and liabilities.

(VII) Outlook for future development of the Company

1. Development trend of the industry and market competition facing the Company

From the perspective of macro conditions, the foundation for the country's fast economic growth has been more solid following the policy stimulus and optimization over the past almost two years. However, there are still a lot of difficulties and challenges ahead which include rising inflation, slack external demand, insufficient domestic demand and investment reliance. While ensuring the growth, inflation containment will be the central work for the macro control in 2011. The massive liquidity unleashed by the easy monetary policies in developed economies, combined with the high credit provision and high money growth aiming at achieving high economic growth in China, has become the major driving force to push up the continued inflation rise in the country. In respect of monetary policy, the "soundness" will be the key tone, as the stabilization of overall price level will attract greater emphasis. While continuing to strictly control the size of new credits, the central bank will implement differentiated RRR subject to dynamic adjustment, which will work in combination with other tools such as the adjustment to interest rates and RRR and open market operations, in its efforts to reinforce the liquidity management and create a prudential counter-cyclical financial regulation framework. As far as the commercial banks are concerned, the overall credit size in 2011 will be relatively tight, while the interest rate risk amid a rate hike cycle and the liquidity risk in policy operations will be further manifested; the regulatory measures will be more diversified, detailed and stringent. In general, the economic and financial conditions in China and other countries will improve in 2011; the operating environment and regulatory environment for commercial banks will be more normalized and the businesses will still have a great potential to grow.

2. Operating objectives for 2011

- Total assets to reach RMB 2,100 billion, up 14%;

- Balance of customers' deposits to increase by RMB 270 billion, up 24%;

- Balance of loans to increase by RMB 140 billion, up 16.5%;

- Net profit expected to increase by 17% yoy;

- Year-end NPL ratio to be controlled below 0.42% (before write-off) according to the "five-category classification".

3. Funds necessary to fulfill future development strategy, utilization plan and source of funds

The Company will adhere to the established business development strategy, strengthen the integrated management of assets and liabilities, and rationally arrange the sources and utilization of funds by taking into account factors such as classification, term and price of assets and liabilities. In respect of funding applications, it will actively implement the macro control policy of the state, rationally control the pace of loan disbursement, continuously optimize asset structure, steadily improve the return on assets, continue to support the energy conservation and emission reduction projects, the loans for SMEs and retail loans, reinforce the development of non-credit products, and flexibly use the interbank funds. In respect of the funding sources, it will intensify the expansion of core liabilities and focus its efforts on core liabilities; it will strengthen the work on nurturing basic customers and creating professional products, build up its capacity of comprehensive services, effectively driving the constant, stable, rapid growth of core liabilities while progressively increasing its market share with regard to the core liabilities. It will adjust and optimize the resource allocation and performance examination

I. MANAGEMENT ANALYSIS AND DISCUSSION *continued*

(VII) Outlook for future development of the Company *continued*

3. Funds necessary to fulfill future development strategy, utilization plan and source of funds *continued*

of liability business, actively expanding interbank funds, including the settlement funds of securities trading. In light of the level of market interest rate and the need of matching assets and liabilities, the Company will select the right timing to absorb large agreement deposits and issue financial bonds, develop new liability instrument, broaden the sources of liabilities. The Company will actively replenish its supplementary capital through issue of subordinated debts to further raise its capital adequacy ratio.

(VIII) Reasons and impact of changes in accounting policies and accounting estimates, or correction of significant accounting errors

During the reporting period, the Company made no changes in its accounting policies, accounting estimates or correction of significant accounting errors.

II. BUSINESS OVERVIEW

(I) Network information

1. Overview of business units

Unit	Address	Number of outlets	Employees	Size of assets (in RMB 1 million)
Head office	154 Hudong Road, Fuzhou	-	2,079	351,593
Financial Markets	168 Jiangning Road, Shanghai	-	137	378,158
Credit Card Center	500 Lai'an Road, Pudong New District, Shanghai	-	886	11,170
Assets Custody Department	168 Jiangning Road, Shanghai	-	43	4,212
Investment Banking Department	9 Chegongzhuang Street, Xicheng District, Beijing	-	31	197
Beijing branch	11 3rd Block, Anzhen Xili, Chaoyang District, Beijing	35	1,556	145,816
Tianjin branch	219 Yongan Blvd., Hexi District, Tianjin	16	877	34,259
Taiyuan branch	209 Fudong Street, Taiyuan	8	633	32,724
Shenyang branch	36 Shiyiwei Road, Heping District, Shenyang	11	625	34,352
Dalian branch	136 Zhongshan Road, Zhongshan District, Dalian	7	302	20,263
Harbin branch	88 Huanghe Road, Nangang District, Harbin	7	374	23,326
Shanghai branch	168 Jiangning Road, Shanghai	35	1,577	169,557
Nanjing branch	63 Zhujiang Road, Nanjing	27	1,299	103,462
Hangzhou branch	40 Qingchun Road, Hangzhou	41	1,677	88,163
Ningbo branch	905 Baizhang East Road, Ningbo	11	585	26,266
Hefei branch	99 Fuyang Road, Hefei	9	547	25,230
Fuzhou branch	32 Wuyi Middle Road, Fuzhou	33	1,034	65,339
Xiamen branch	78 Hubin North Road, Xiamen	24	762	42,020
Putian branch	22 Xueyuan South Road, Chengxiang District, Putian	6	202	21,892

Unit	Address	Number of outlets	Employees	Size of assets (in RMB 1 million)
Sanming branch	1 Liedong Street, Meilie District, Sanming	7	230	6,984
Quanzhou branch	Xingye Building, Fengze Street, Quanzhou	25	1,126	41,895
Zhangzhou branch	27 Shengli West Road, Zhangzhou	11	430	15,740
Nanping branch	399 Binjiang Middle Road, Nanping	8	262	6,409
Longyan branch	46 Jiuyi South Road, Longyan	7	242	9,707
Ningde branch	11 Jiaocheng South Road, Ningde	6	228	6,452
Nanchang branch	119 Dieshan Road, Nanchang	7	356	19,328
Ji'nan branch	86 Jingqi Road, Ji'nan	14	1,032	59,805
Qingdao branch	7A Shangdong Road, Shinan District, Qingdao	7	405	19,119
Zhengzhou branch	22 Nongye Road, Zhengzhou	19	701	55,767
Wuhan branch	156 Zhongbei Road, Wuchang District, Wuhan	18	775	42,597
Changsha branch	192 Shaoshan North Road, Changsha	20	635	45,307
Guangzhou branch	15 Tianhe Road, Guangzhou	55	2,128	97,735
Shenzhen branch	4013 Shenzhen Road, Futian District, Shenzhen	23	1,270	115,809
Nanning branch	115 Minzu Road, Nanning	9	424	15,047
Chongqing branch	1 Honghuang Road, Hongqihegou, Jiangbei District, Chongqing	16	627	44,969
Chengdu branch	206 Shuncheng Street, Qingyang District, Chengdu	20	708	54,209
Kunming branch	138 Tuodong Road, Kunming	9	379	16,907
Xi'an branch	Block A, Vanmetropolis, 1 Tangyan Road, Xi'an	13	908	50,406
Urumqi branch	37 Renmin Road, Urumqi	7	293	22,869
Shijiazhuang branch	37 Ziqiang Road, Qiaoxi District, Shijiazhuang	4	339	25,858
Huhhot branch	5 Xing'an South Road, Xincheng District, Huhhot	1	205	20,173
Changchun branch	309 Changchun Street, Changchun	1	285	15,822
	Netting and summation adjustment within the system			(545,090)
Total		**577**	**29,214**	**1,841,823**

Note: Only level 1 branches which have been in operation as of the end of the reporting period are listed on the above table, while the data of level 2 branches and other sub-branches are included in the data of the level 1 branches in accordance with management structure.

2. Overview of subsidiary

Industrial Bank Financial Leasing Co., Ltd.: a wholly-owned company established and run by the Company, which was incorporated in Tianjin with a registered capital of RMB 2 billion in 2010 in accordance with the Reply of CBRC regarding the Opening of Industrial Bank Financial Leasing Co., Ltd. (YJF [2010] No. 401). The business scope includes financing lease business, receipt of lease security from lessee, transfer of due rental to commercial banks, issue of financial bonds subject to approval, interbank placement, borrowing from financial institutions, overseas borrowing in foreign exchange, sales and disposal of residual value of lease articles, economic consulting and other businesses approved by the CBRC.

II. BUSINESS OVERVIEW *continued*

(II) Analysis of business segments

1. Institutional business

(1) Corporate finance business

During the reporting period, the corporate finance business focused on the expansion and optimization of customer base, while expanding the core liabilities, developing the featured financial products, and accelerating the transformation of operation. Firstly, the size of corporate deposits and loans grew markedly. As at the end of the reporting period, the balance of corporate deposits amounted to RMB 946.941 billion, increasing RMB 192.964 billion or 25.59% over the beginning of the period. Outstanding loans (not including discounts) amounted to RMB 619.604 billion, increasing RMB 113.722 or 22.48% over the beginning of the period. Secondly, the Company strengthened its customer management and professional services by providing differentiated financial service package to different customer, resulting in a constantly expansion of customer base. As at the end of the reporting period, the number of customers of the Company stood at 216,300, increasing by 47,200 or 27.91% from the beginning of the period. Thirdly, the Company enhanced its marketing efforts, while improving the quality of services for cash management customers and extending the value-added cash management services; the cash management business maintained the strong growth momentum. As of the end of the reporting period, 282 new cash management accounts were extended, with a daily average deposit of RMB 23.973 billion in those accounts. Fourthly, the Company further exploited the opportunities present in the energy conservation and emission reduction market by promoting its integrated financial services for the whole industry chain; its leading position in that space was consolidated. As at the end of the reporting period, the balance of loans for energy conservation and emission reduction stood at RMB 39.135 billion, increasing RMB 25.172 billion or 180.28% from the period beginning. The projects supported by the loans can achieve in China an annual saving of 18.7141 million tonnes standard coal, together with an annual emission reduction of 51.6508 million tonnes carbon dioxide, 768,400 tonnes chemical oxygen demand (COD), 20,100 tonnes sulfur dioxide, as well as integrated utilization of 6.7376 million tonnes solid waste a year and an annual water conservation of 43.891 million tonnes. Fifthly, the Company effectively achieved the rapid development of trade financing business, while having established and improved its business operation model, reinforced the product development work, aggressively developed the supply chain finance business, and worked well in the pilot program of cross-border RMB settlement. During the reporting period, international settlement totaled USD 32.518 billion, the settlement and sales of foreign exchange totaled USD 23.403 billion.

The Company received the “Award of Best Cash Management Innovations”, “Award of Best Corporate Wealth Management” and “Award of Best Green Bank” in the election of “2010 Most Trusted Banks by Chinese CFOs” sponsored by CFO World Magazine.

(2) Small enterprise business

During the reporting period, the Company enforced the CBRC’s requirements of “six mechanisms” on small business financing, having reinforced the building of specialized business units for small businesses by establishing small business centers in 14 branches to further promote the specialized operation and management of small corporate business. As at the end of the reporting period, the Company's balance of loans with the small businesses (as defined by the state) was RMB 358.183 billion, accounting for 41.93% of its total loans; the new loans extended to small businesses were RMB 83.569 billion, accounting for 54.77% of the total amount of newly extended loans; the loan growth in small businesses was 30.43%, 8.69 ppts higher than the overall loan growth. A number of innovative products targeted at small businesses were launched, which received wide recognition of the market and the praise of regulatory authority, including the "Industrial Bank Sesame Flowering" growth and listing program for SMEs, joint loan and joint guarantee program for small businesses, mortgage loans for self-owned industrial plants, equipment mortgage loans and working capital loan extension for small businesses.

(3) Investment banking business

By capitalizing on the favorable opportunity of accelerated development of domestic direct financing market, the Company aggressively developed the underwriting business of debt financing instruments issued by non-financial enterprises, such as short-term financing bills and mid-term notes. During the reporting period, the Company completed the registration of non-financial enterprise debt financing instruments of RMB 43.715 billion for 41 enterprises, and issued 69 non-financial enterprise debt financing instruments for 53 enterprises, with a total amount of RMB 66.138 billion, up 120.09% yoy. The Company steadily advanced its M&A loans and the syndicate loans business, aggressively exploring and conducting new businesses such as acting as IPO financial advisor, financial advisor for refinancing by listed companies, financial advisor for private placement financing, financial advisor for M&A financing, in an effort to expand the spectrum of its investment banking products. The contracted syndicate loans led by the Company mounted RMB 20.809 billion, while the accumulated revenues from financial advisory business were RMB 83.0721 million, up 153.13% from the previous year. The Company enhanced its innovations in products and services, and constantly improved its professional service capacity by releasing the first credit risk mitigation product paid by investors in interbank market, while certain breakthroughs were also achieved in product innovations concerning floating bonds, collective notes for SMEs, private equity investment funds, ultra-short term financing bills, etc. The Company received the "Award of Best Investment banking" in the election of "2010 Most Trusted Banks by Chinese CFOs" sponsored by CFO World Magazine.

2. Retail business

The Company's retail business grew quickly, featuring good assets quality, improved service capacity, more concrete customer base and significantly improved profitability. As at the end of reporting period, the number of retail credit accounts was 478,100, up 14.57%; the number of third-party depository personal cardholders was 1,772,700, up 13.91%; the retail deposits totaled RMB 185.826 billion, up 26.49% from the period beginning; the balance of personal loans was RMB 225.007 billion, up 33.13% from the period beginning; the personal NPL ratio was 0.17%, down 0.06 ppt. During the reporting period, interest income from personal loans were RMB 9.714

II. BUSINESS OVERVIEW *continued*

(II) Analysis of business segments *continued*

2. Retail business *continued*

billion, up 39.34%; the revenues from retail intermediary business were RMB 993 million, up 55.64% from a year ago. In respect of innovation, "Xing Ye Tong" (Industry Prosperity) was the highlight, which was a comprehensive financial service solution for those "growth business owners", such as self-employed people, individual business operators, partners and owners of private businesses. As of the end of the reporting period, personal operation loans granted under "Xing Ye Tong" stood at 20,152 in number, totaling RMB 27.719 billion; a good start has been achieved with regard to both brand building and marketing, which provided an effective means to address the financing difficulties of the owners of SMEs. Aiming at facilitating the effective supply of products and reinforcing the management adaptive to sales, the wealth management business grew strongly during reporting period, with the sales of integrated wealth management product reaching RMB 381.587 billion, up 124.54%. The wealth management of the Company also received the honors which included the "Award of Best Personal Wealth Management Product 2010" in the Netease Golden Diamond Awards and the "Bank Wealth Management Brand of the Year" named by CBN.

The credit card business continued to be refined, following the principles of "size, quality and profitability". While the product innovation and marketing were strengthened, the first low-carbon credit card in China was issued to lead the trend of green credit cards. Both "quality" and "quantity" were emphasized in the operation of credit card business, while the customer base continued to expand, and the continued optimization in the customer structure, product structure and revenues structure further pushed up the profitability. As of the end of the reporting period, the Company had issued 7.2014 million credit cards in aggregate, while 1.3809 million cards were new issues; the NPL ratio of credit cards was 1.02%, decreased by 1.12 ppts yoy and ranking among the top in the industry in terms of the quality of credit card assets. During the reporting period, the transaction amount of credit cards amounted to RMB 66.25 billion, up 44.14% yoy; the accumulated revenues were RMB 1.182 billion, up 40.83% yoy; the book profit was RMB 303 million, up 110.24% yoy.

3. Interbank business, financial markets and asset management business

(1) Interbank business

The interbank business grew stably. During the reporting period, 191 interbank core customers were developed and 76 online products were added to the bank-to-bank platform, bring the number of accumulated online products to 312; 3.9596 million settlement transactions were completed in the bank-to-bank platform, up 51.33% yoy, with the settled amount totaling RMB 519.235 billion; RMB 76.733 billion wealth management products were sold to the cooperative banks, up 49.08% yoy; the sales revenues from wealth management products were RMB 134 million. As of the end of the reporting period, the accumulated number of contracted customers was 246, and accumulate 177 accounts were networked. The IT management export service continued to grow stably, with the information systems put in operation successively for 7 cooperative commercial banks, and related system maintenance services were provided to altogether 16 cooperative banks; 93 securities traders were networked for the third party custody service; the size of trust wealth management amounted to RMB 184.371 billion, up 42.69% yoy. The application of interbank “Bank-to-Bank” trademark was officially approved by the Trademark Office by the state, which marked the official launch of the “Bank-to-Bank” trademark.

(2) Treasury business

In respect of proprietary investment, based on its correct judgment of the changes in market conditions under a “loose money, tight credit” environment, the Company reinforced its operation of short-term assets, including the reverse repo of note asset and monetary market assets; the portfolio of proprietary investment was adjusted in a flexible manner, while the short-duration defensive allocation of bond investment was maintained, combined with enhanced short-term operations; a good return was achieved, which outperformed the market. In respect of market making transactions, the Company actively participated in the product innovations and maintained its mainstream status in the domestic market. The qualification for gold import was acquired during the period, and the first gold import trade was also completed. As one of first members of the credit risk mitigation tools, the Company participated in the first transactions of credit risk mitigation contracts. In respect of the brokerage business, a total of RMB 193.535 billion wealth management products were created and issued during the reporting period, up 205.98% yoy; RMB 232.566 billion was recorded in the agency precious metal business, up 152.51% yoy, marking the No.1 position in the market was maintained in terms of agency trading volume; the contracted customers in the agency precious metal trading business exceeded 570,000 in number, increasing by about 360,000 from the beginning of the period.

During the reporting period, the Company was named for its treasury business the “Best Bank of the Year in Funding Operation” by Financial News, the “Top 5 (Chinese) Financial Institution in Market Prediction of the Finance Value Ranking 2010” by First Financial, the “Award of Bank with Greatest Influence in RMB Market”, “Award of Best Derivatives Trading in RMB Interbank Market”, “Third Award of Financial Innovations in Shanghai 2010” and "Prominent Member of Shanghai Gold Exchange”.

(3) Assets custody business

In respect of the assets custody business, marketing efforts were strengthened, while the public offering market, such as funds and securities collective programs, was explored, combined with innovations in custody products of insurance, trust, wealth management of other banks, targeted assets, special accounts, and private placement. As at the end of the reporting period, the assets under custody exceeded RMB 200 billion for the first time to reach RMB 227.15 billion, representing an increase of 64.88% over the beginning of the period, and the fee & commission revenue from the custody business reached RMB 230 million, representing a year-on-year increase of 52%. The Company had 12 securities investment funds under the custody in value of RMB 34.666 billion, ranking No. 3 among the 12 small and medium custody banks countrywide. The Company also had a total of 964 trust products under custody with an asset size of RMB 160.031 billion, representing an increase of 109% from the beginning of the period. The new custody of insurance debt program marked the beginning of insurance fund custody, wherein the custody size was 1.001 billion; an all-round and multiple-area asset custody service system has taken its initial shape.

(4) Futures finance business

The cooperation with futures companies, futures exchanges and commodity markets was reinforced with the aim to extend the spectrum of customer offerings and constantly improve the customer service. During the reporting period, the Company conducted cooperation with 43 future company legal persons in the placement

(II) Analysis of business segments *continued*

3. Interbank business, financial markets and asset management business *continued*

of proprietary funds, with an average daily balance of RMB 1.672 billion, up 50% from the previous year; strategic cooperation agreements were executed with 4 commodity exchanges, and 8,385 accounts were added as the accounts of bank-exchange transfer, while the accumulated number of customers ranked the second place among the settlement banks of Bohai Commodity Exchange. Presently, the Company was the first commercial bank in China which was approved for financing against the pledge of standard contracts of traded product at all the three futures exchanges, including Shanghai Futures Exchange, Zhengzhou Commodity Exchange and Dalian Commodity Exchange. It also took an initiative to launch the precious metal pledge financing for Shanghai Gold Exchange.

4. E-banking

The Company's e-banking business focused on improving the customer experience by strengthening the process consolidation and optimization, consolidating the basic services and highlighting the featured services. The replacement ratio of counter transactions by e-banking was improved and significant yoy growth was recorded in the number of e-banking customers. As at the end of the reporting period, the Company had 56,700 active corporate online banking customers, up 51.91% from the beginning of the period; 2,944,800 active personal online banking customers, up 55.19% from the beginning of the period; 6,057,200 active telephone banking customers, up 45.60% from the beginning of the period; 2,640,900 mobile banking customers, up 50.78% from the beginning of the period. The e-banking transactions continued to surge year-on-year in indicators such as number and volume of transaction. During the reporting period, the number of corporate online banking transactions was 17.5014 million, up 43.65% yoy, while the transaction amount was RMB 13.7 trillion, up 25.27% yoy; the number of personal online banking transaction was 50.8881 million, up 54.78% yoy, while the transaction amount was RMB 2.25 trillion, up 215.13% yoy; the number of telephone banking transaction was 1.7606 million, up 63.99% yoy, while the transaction amount was RMB 86.496 billion, up 121.52% yoy; the number of mobile banking transaction was 1.9279 million, up 190.92% yoy, while the transaction amount was RMB 23.492 billion, up 236.75% yoy. The replacement rate of counter transactions by e-banking had reached 55.35%, up 6.86 ppts yoy; the number of e-banking transactions had surpassed the total number of transactions at all of the Company's business outlets.

The Company's e-banking business received a number of honors, including the "Award of Best Online Banking Features", "Award of Best Service of the Excellent Customer Service Centers in China Banking Industry", "Award of Best E-banking Service", "Award of Best Mobile Banking", "Award of Best Innovative Service of Online Banking" and "Award of Best Banking Portal Website", granted by China Financial Certification Authority, China Banking Association, Securities Times, Moneyweek and hexun.com.

(III) Analysis of loan quality

1. Five-category classification of loans

In: RMB 1 million

Item	2010-12-31		2009-12-31	
	Balance	Percentage (%)	Balance	Percentage (%)
Pass	844,073	98.80	690,339	98.39
Special mentioned	6,650	0.78	7,479	1.07
Substandard	696	0.08	1,383	0.20
Doubtful	2,010	0.23	1,954	0.28
Loss	910	0.11	442	0.06
Total	**854,339**	**100**	**701,598**	**100**

During the reporting period, the Company conducted ongoing monitor and prudent classification of potentially problematic credit assets by examining the industry, region and customers. Disposal plans were prepared in a timely fashion, in combination with risk alerts and repeated examinations, to prevent and mitigate the risks, effectively hindering the downward migration of special mentioned loans. And asset quality was continuously improved and a good result was achieved by a number of measures, including the early urging of payment and reinforcing the accountability of NPLs, to accelerate the collection and mitigation of NPLs. As at the end of the reporting period, the balance of NPLs continued to drop in line with the NPL Ratio, as the balance of NPLs decreased to RMB 3.616 billion, down RMB 163 million from the beginning of the period; the ratio of NPL was 0.42%, down 0.12 ppt from the beginning of the period. The special mentioned loans also dropped in both balance and ratio, as the balance of special mentioned loans amounted to RMB 6.65 billion, down RMB 829 million from the beginning of the period; the proportion of special mentioned loans was 0.78%, down 0.29 ppt from the beginning of the period. The asset quality was at the best level in history.

2. Provision for loan impairment and write-off

In: RMB 1 million

Item	CAS	IAS
Opening balance	9,635	9,635
Provision during the reporting period (+)	2,221	2,221
Transfer-out of interest on impaired loans (-)	130	130
Write-back during the reporting period of write-off in previous years(+)	107	107
Write-back in the reporting period due to other reasons (+)	9	9
Write-off during the reporting period (-)	71	71
Ending balance	**11,771**	**11,771**

As at the end of the reporting period, the balance of the Company's provision for loan impairment stood at RMB 11.771 billion, with the provision coverage ratio at 325.51%. The provision of the Company for loan impairment was in compliance with regulatory requirements.

3. Classification of provision for loan impairment

In: RMB 1 million

Provision for loan impairment	2010-12-31	2009-12-31
Individually assessed provision for loan impairment	2,039	1,776
Collectively assessed provision for loan impairment	9,732	7,859
Total	**11,771**	**9,635**

4. Changes in overdue loans

In: RMB 1 million

Item	2010-12-31		2009-12-31	
	Amount	Percentage (%)	Amount	Percentage (%)
1-90 days (inclusive) overdue	1,572	33.19	1,445	29.37
91-360 days (inclusive) overdue	595	12.56	1,340	27.24
361 days – 3 years (inclusive) overdue	1,629	34.40	1,161	23.59
Over 3 years overdue	940	19.85	974	19.80
Total	**4,736**	**100**	**4,920**	**100**

As at the end of the reporting period, the balance of overdue loans of the Company was RMB 4.736 billion, decreasing by RMB 184 million from the beginning of the period, primarily due to decrease in overdue corporate loans. That improvement was partly because of the Company's enhanced capability in credit risk identification and control, and partly because the customers had stronger ability to pay the loans as the domestic economy grew stably after overcoming the impacts of financial crisis.

II. BUSINESS OVERVIEW *continued*

(III) Analysis of loan quality *continued*

5. Balance of restructured loans and the overdue amount thereof

In: RMB 1 million

Item	2010-12-31	Percentage in total loans (%)	2009-12-31
Restructured loans	2,096	0.25	1,599
Incl: Loans overdue more than 90 days	341	0.04	433

As at the end of the reporting period, the balance of restructured loan of the Company was RMB 2.096 billion, increasing by RMB 497 million from the beginning of the period. That was chiefly caused by a few firms having applied for loan extension due to temporary liquidity problem and the overall risk is controllable.

6. As at the end of the reporting period, the Company had no soft loans that accounted for more than 20% (inclusive) of the total loans.

(IV) Repossessed assets and impairment provision

In: RMB 1 million

Item	2010-12-31	2009-12-31
Repossessed assets	665	636
Incl: Buildings	618	577
Land use right	42	53
Others	5	6
Less: Impairment provision	(117)	(117)
Net value of repossessed assets	**548**	**519**

During the reporting period, the Company obtained repossessed assets with a total book value of RMB 82.38 million and recovered RMB 53.55 million from disposal of repossessed assets, thereby increasing the net book value of repossessed assets by RMB 28.83 million. New provision for impairment of repossessed assets was RMB 1.56 million, and an amount of provision for impairment of repossessed assets totaling RMB 1.72 million was transferred out due to disposal of repossessed assets, resulting in a decrease of the net balance of provision for impairment of repossessed assets by RMB 0.16 million.

(V) Major categories of deposits, average daily balance and average annual interest rate of deposits

In: RMB 1 million

Item	Average daily balance	Average annual interest rate (%)
Corporate demand deposits	417,681	0.65
Corporate time deposits	352,833	2.48
Savings demand deposits	57,152	0.35
Savings time deposits	96,149	1.86

(VI) Major categories of loans, average daily balance and average annual interest rate of loans

In: RMB 1 million

Item	Average daily balance	Average annual interest rate (%)
Loan	798,420	5.36
Incl: Short-term loans	269,269	5.48
Medium and long-term loans	510,012	5.33
Discounts	19,139	4.45

(VII) Category and par value of financial bonds held at the end of the reporting period

In: RMB 1 million

Item	Par value
Bonds of policy banks	64,245
Bank bonds	3,831
Bonds of non-bank financial institutions	7,323
Total	**75,399**

As at the end of the reporting period, the Company checked the financial bonds it held and found no impairment. Therefore, no bad debt provisions were made.

(VIII) Five largest positions of government bonds (including the central bank notes) held at the end of the reporting period

In: RMB 1 million

Item	Par value	Maturity date	Interest rate (%)
07 Government bond 01	3,670	2014-2-6	2.93
09 Interest-bearing government bond 15	2,970	2012-7-16	2.22
04 Government bond 07	2,598	2011-8-25	4.71
04 Government bond 04	2,374	2011-5-25	4.89
06 Government bond 18	2,277	2011-10-25	2.48

(IX) Five largest positions of financial bonds held at the end of the reporting period

In: RMB 1 million

Item	Par value	Maturity date	Interest rate (%)
07 CDB 08	5,390	2017-5-29	2.85
07 ADBC 06	3,220	2014-5-18	2.85
10 CDB 23	2,980	2013-8-24	2.68
09 CDB 12	2,960	2019-9-23	2.95
10 EXIMBC 08	2,960	2013-9-21	2.77
10 ADBC 15	2,960	2015-11-19	2.99

II. BUSINESS OVERVIEW *continued*

(X) Derivative financial instruments held at the end of the reporting period

In: RMB 1 million

Item	Nominal value	Fair value	
		Asset	Liability
Exchange rate derivatives	153,637	1,020	1,117
Interest rate derivatives	277,048	1,277	1,183
Credit derivatives	1,447	4	3
Precious metal derivatives	8,433	-	14
Total	**440,565**	**2,301**	**2,317**

(XI) Financial instruments denominated in foreign currencies held by the Company

In: RMB 1 million

Item	Opening	Gains and losses in the period from changes in fair value	Accumulated changes in fair value recognized in equity	Provision for impairment made in the period	Ending amount
Held-for-trading financial assets	-	-	-	-	-
Derivative financial assets	261	1,173	-	-	1,055
Derivative financial liabilities	504				125
Investment in accounts receivables	-	-	-	-	-
Available-for-sale financial assets	1,528	-	17	-	1,162
Held-to-maturity investments	1,439	-	-	-	1,376
Financial instruments in total	**3,732**	**1,173**	**17**	**-**	**3,718**

(XII) Internal control system related to measurement of fair value

1. Internal control system related to measurement of fair value

In accordance with the requirements of the Accounting Standards for Business Enterprises, the Company set up an internal management system to standardize the measurement of the fair value of financial instruments. The measurement of the fair value adopted by the Company in accounting was determined based on the active level of the products and the maturity of internal valuation model. For financial instruments that had active market quotation, the fair value would be measured on the basis of active market quotation. For financial instruments that had no active market quotation but had a mature internal model, the fair value would be measured on the basis of internal model pricing. For financial instruments that had neither active market quotation nor mature internal pricing model, the fair value would be measured on the basis of prices quoted by a trading counterparty, or determined with reference to the valuation result provided by an authoritative, independent, professional third party valuation agency. The measurement of fair value of financial instruments traded by the Company was primarily based on the active market quotation.

2. Items related to measurement of fair value:

In: RMB 1 million

Item	2009-12-31	Gains and losses in the period from changes in fair value	Accumulated changes in fair value recognized in equity	Provision for impairment made in the period	2010-12-31
Financial assets:					
Held-for-trading financial assets	3,363	(19)	-	-	5,537
Precious metal	126	7	-	-	685
Derivative financial assets	1,399	902	-	-	2,301
Available-for-sale financial assets	111,101	-	(2,174)	-	147,214
Financial assets in total	**115,989**	**890**	**(2,174)**	**-**	**155,737**
Financial liabilities:					
Held-for-trading financial liabilities	-	-	-	-	-
Derivative financial liabilities	1,602	(715)	-	-	2,317
Financial liabilities in total	**1,602**	**(715)**	**-**	**-**	**2,317**

(XIII) Changes in on/off-balance-sheet interest receivable

In: RMB 1 million

Item	2010-12-31	2009-12-31
On-balance-sheet interest receivable	6,655	4,354
Off-balance-sheet interest receivable	1,596	1,281

(XIV) Provision for other receivable impairment

In: RMB 1 million

Item	2010-12-31	2009-12-31	Impairment provision	Method
Other receivables	1,400	1,365	126	At the end of the accounting period, individual and collective tests were done to other accounts receivable to make provision for impairment in combination with age analysis

(XV) Overdue outstanding liabilities

The Company had no overdue outstanding liabilities.

(XVI) Off-balance-sheet items that may cause major impact on financial position and operating results

In: RMB 1 million

Item	2010-12-31	2009-12-31
Issued letters of credit	18,026	5,906
Issued bank guarantees	11,000	7,733
Bills of acceptance	186,366	131,401
Unused credit card commitments	31,976	19,522

(XVII) Analysis of risks the Company faces and countermeasures

During the reporting period, the Company actively adapted to the changes in economic conditions and the adjustment to the state's policies. By insisting on the principles of "practical development, rational management and compliant operation", it had been continuously improving the effectiveness and professionalism of risk management, seeking for the coordinated progress in speed and quality, scale and profitability, expansion and internal operation. It had actively adopted purposeful risk management measures to effectively control the risk in connection with credit, market, liquidity, operation, information technology, reputation and outsourcing, in order to pave a concrete ground for the sustainable, long-term development of business, enhancing the momentum and capability of the Company's organic growth.

1. Building of risk management system

During the reporting period, the Company further perfected its risk management system and enhanced overall risk management. Firstly, the five-year plan for risk management and internal control was developed. A concrete foundation was paved for the work related to risk management in the next five years, as the targets for risk management and internal control in the next five years, the definition of responsibilities and specific implementation measure were put forward in eleven aspects, including the overall framework, management system, organizational structure, credit risk, market risk, operational risk, compliance risk, emerging business risk, subsidiary risk management, implementation of the new capital accord, risk management team and culture building. Secondly, the contents of risk management strategy were enriched, which was presented in a way capable of being implemented. In order to continuously perfect the comprehensive risk management system, the Policy on IT Risk Management was developed, while the Rules on Reputation Risk Management and Measures on Outsourcing Risk were released, on top of the existing management policies on credit risk, market risk and operational risk. The 2010 Work Plan for Implementation of Risk Management Strategy was formulated to drive the effective implementation of risk management strategy by means of breaking down the work, specifying the tasks, and performing well the tracking and monitoring work. Thirdly, the comprehensive risk management reporting system was perfected to constantly improve the reporting quality. The Comprehensive Risk Management Reporting Rules were revised to standardize the contents of the reports prepared by the operational units and division at branches, thereby enabling the risk management reports to play its role at the branch level. The management effects were improved as the contents of reports were constantly enriched. Fourthly, the business authorization management was optimized. Some types of loans were supported while others were restricted. The approval authority for loans granted to industries with production capacity redundancy or government financing vehicles was handed to the head office, while the authority to approve loans to medium-sized leading bank customers and energy-efficient projects was extended at the branches. In such a manner, the centralized management of business authorization was enhanced while the general operation guide was provided to promote the sustained and healthy growth of business. Fifth, the risk tolerance indicators were modified. The selection of indicators was more comprehensive, and the alert values were added and improved to further enhance the reasonableness and completeness of tolerance indicator system. Sixth, self-inspection and inspection were performed on the risk management work at the branches and sub-branches; the comprehensive risk management operation was normalized at branches to promote the professionalism and refinement of risk management.

2. Credit risk management

During the reporting period, the Company adopted various measures to conduct the credit risk management work and a good result was achieved. Firstly, the management of the flow of credit was enhanced. The annual entry rules for credit business were formulated and issued; the credit loans granted to real economy were increased in line with the two major themes of domestic demand stimulus and urbanization. The projects related to energy conservation and emission reduction, industry upgrading and environmental conservation were supported, while the credit line to industries with excessive capacity or "high-energy-consumption and high-pollution" industries was tightly controlled.

Secondly, the Company reinforced its development of customers with a good match to the strength and business of the Company, thus expanding its customer base which was primarily composed of the medium-sized manufacturing firms. Thirdly, the control over credit grant process was enhanced, as the "three measures and one guidance" of CBRC was implemented to improve the monitor of credit fund disbursement. Fourthly, the industry quota management was improved. The beforehand control over the credit risk was reinforced by adding the levels of quota and reinforcing the concentration alert in key areas. The adjustment to industry structure was also reflected in the adjustment to the customer structure, which promoted the limited credit resources being allocated to the key industries and quality customers in order to effectively prevent the risk of loan concentration. Fifth, the risk management of the key industries and areas was enhanced. The examination and normalization of the loans to local government financing vehicles were performed, while the related works were also enhanced to identify the risk of loans granted to the "high-energy-consumption and high-pollution" industries, industries with production capacity redundancy, or the hot industries such as real estate sector, in an effort to control and mitigate the risks in a timely manner. Sixthly, the collection and disposal of distressed assets were improved. A number of disposal methods, including cash collection, restructuring, repossession, debt transfer, disposal of distressed asset packages and write-off, were employed in combination to reinforce the disposal of distressed assets and ensure the stable quality of assets. As of the end of the reporting period, the Company witnessed the continued decline in both the balance and ratio of NPLs, while the special mentioned loans also dropped in balance and ratio. The quality of credit assets continued to improve, being elevated to the best level in history following the achievement in the previous year.

3. Management of liquidity risk

During the reporting period, the Company made timely adjustments to its asset-liability management policy based on changes in external financial and economic situation and out of the need of internal business development, improved its liquidity management techniques and methods, thereby having effectively prevented liquidity risks. The specific measures included: further enhanced the credit line management and strictly control the ratio of medium to long-term loans; launched a number of different measures to guide the operation units expanding the general deposits and enhance the resource allocation of core liabilities; communicate to the operation units the indicators of loan-to-deposit and liquidity to reinforce the liquidity management at the branches, promoting the coordinated growth of asset and liability businesses; enhance the management of reverse repo business to guide the business being conducted in a rational and orderly manner; accelerated the upgrading and retrofit of asset-liability system to improve the liquidity management techniques; regularly conducted liquidity stress test and revised the liquidity contingency plan, in an effort to enhance the ability of risk identification, monitoring and control.

In: %

Indicator	Alert value	Tolerance value	Regulatory value	2010-12-31	2009-12-31
RMB excess reserve ratio	≥ 2	≥ 1	-	11.42	7.06
Liquidity ratio	≥30	≥25	≥25	38.45	32.07
Loan-to-deposit ratio	≤75	-	≤75	71.21	71.90

During the reporting period, the liquidity indicators of the Company had always been controlled below the regulatory values as well as the alert values and tolerance values set by the Company, therefore the overall risk is under control.

4. Market risk management

During the reporting period, the Company went on to enhance market risk management. The specific measures included: reinforced the participation of the risk middle office in the major decision making process at the Financial Markets Department, while the ex post monitor mechanism was improved to perform the duty of market risk reporting; the regular measurement of relativity between the different products of treasury business was conducted and included in the routine work for the gradual development of a mature proprietary investment decision-making system; the surveys on emerging businesses, such as interbank, investment banking, wealth management and financial lease, were

4. Market risk management *continued*

reinforced to create opinions on further improving the market risk management; the building of market risk management system was driven, and the building of phase II capital trading and analysis system (Murex) was sped up as the means to constantly enhance the measurement, monitor and control of market risk.

(1) Interest rate risk

During the reporting period, the Company made flexible adjustments to the interest rate risk management measures according to changes in market conditions to make sure that interest rate risk was always at a reasonable and controllable level. Against the background of continuous recovery of macro economy in the country, the increasing percentage of demand deposits in corporate deposits, and the stronger expectation about interest rate hikes, the Company made adjustments to its performance appraisal policies by guiding the branches to exert greater efforts in expanding the sources of medium and long-term funds, while cutting the utilization of medium and long-term funds, especially those with a fixed rate. The management of the match between fund sources and applications was strengthened, and the allocation of short-term, high-yield assets was increased to counteract the interest rate risk. With regard to the interest risk of the trading accounts, the Company continuously improved its quota indicator system and introduced the fund trading and analysis system to realize real-time monitor of the interest rate exposure of trading accounts.

(2) Exchange rate risk

During the reporting period, the exchange rate risk was under the unified control of the head office, and the exchange rate risk exposure which was created at the branches in their transactions was transferred to the head office through the core business system for unified management. The foreign exchange rate risk exposure the Company was subject to was primarily the overall position it had in its RMB market maker business and the risk exposure in its foreign exchange capital items, and the specific management measures included the dual-limit control of “proprietary exposure limit” and “closing-day exposure limit”. As an active RMB market maker member, the Company proactively controlled its exposure limit, while the overnight risk exposure was generally small; with regard to the risk exposure of RMB to foreign exchange rates existing in its foreign capital items, the Company controlled its exposure risk primarily through periodical application to SAFE for capital settlement or foreign exchange profits settlement. The exposure limit was relatively small in aggregate amount and the risk was controllable.

5. Operational risk management

The Company’s operational risk management had been on the track of normalization, regularity and rationalism. The business lines and operation units had incorporated the operational risk and case prevention into the routine operation management and business examination, while the monitoring of key areas, such as key businesses, key processes, key regions and key staff, continued. The risk awareness of front line managers and employees was constantly improved to achieve the objectives of ‘zero criminal case” and “zero major operational risk incident”. During the reporting period, the Company continued to perfect its operational risk management system and mechanism, as the management capacity of operational risk throughout the process had been markedly improved. The specific measures included: with regard to risk identification and evaluation, the related work were conducted on the basis of business process streamlining on the platform of internal control and compliance programs, while the risk identification and evaluation were also stressed for the operation of new products and new businesses, whereby a comprehensive risk evaluation mechanism for innovative programs was established; with regard to the indicator monitoring, some monitor indicators were set up at the corporate level for the major operational risk, which enhanced the monitoring and prevention of criminal cases and ensured timely provision of valid warning information; with regard to loss data management, management rules on operational risk loss and statistics of major incidents were established to improve the process of statistics work and meet the requirement of operational risk process management as well as the measurement work, so as to drive the ongoing optimization of the Company's business processes, the continuous improvement of related internal control rules and the constant upgrading of information system features.

During the reporting period, the Company did not experience any major operational risk accidents.

6. Compliance risk management

The Company proactively and steadily advanced the pilot building of the internal control management system, while fully exploiting the existing achievements in comprehensive compliance management system building as well as the methods and tools for self-appraisal in internal control. The resource integration was stressed to meet the requirements of the Basic Standard for Enterprise Internal Control, thereby establishing a sustainable implementation process and an internal control mechanism to improve the risk control level. The compliance supports to new businesses and new products were constantly provided in an effort to enhance the ex ante risk prevention. The building of basic information platform for compliance management was reinforced, and the upgrading and networking of the comprehensive compliance management system was successfully completed. The features of the internal control management system were improved to further elevate the informatization and professional level of compliance management. The anti-money laundering (AML) monitoring data and reporting system was constantly optimized in the effort to reinforce the daily AML management. The compliance monitoring pilot work were advanced in a multi-dimensional manner, while the scope of pilot branches was extended to create a demonstrative effect and promote the building of key indicator systems for compliance management. The compliance concept education and trainings were organized; the organizational structure for compliance management was improved, while the rules on setting of compliance functions at branches were developed to further clarify the responsibilities and work scope.

7. Management of environmental and social risk

The Company has integrated its social responsibilities with its sustainable development to gradually build an environmental and social risk management system with its own characteristics. During the reporting period, the Company sped up its building of the environmental and social risk management system and tools as well as an expert review mechanism; an electronic platform for environmental and social risk management was established whereby the environmental and social risk management approaches were incorporated into credit review process to improve its capability of standardized management.

8. IT risk management

During the reporting period, the Company completed a total of 135 disaster rehearsals concerning IT, network, premises, electric power, fire protection, etc. The information system ran stably and efficiently, and the capacity of risk prevention was effectively improved. The specific management measures included: development of Policies of Industrial Bank on Management of IT Risk, which included the IT risk in the scope of comprehensive risk management; the building of IT risk key indicator system, whereby a number of enterprise-level indicators were developed with regard to technology administration, staff management, information security, system development, operation and maintenance, outsourcing and business continuity, thus realizing the comprehensive tracking and monitoring of IT risk; the establishment of IT risk reporting mechanism, whereby the qualitative analysis was performed on the impacts and trends of the IT risk incidents by means of designing the quantitative risk levels and occurrence frequency, and the rectification measured can be tracked; the formulation of the Codes of Industrial Bank on Contingency Response to Unexpected Incidents with Critical Information Systems, thereby establishing a critical contingency management mechanism addressing issues of the important information systems. Consequently, the contingency management work of the Company become normalized and standardized, which underpinned the stable running of IT during the major events such as World Expo and Asian Games.

9. Management of reputation and outsourcing risks

During the reporting period, the Company formulated and implemented the Rules on Reputation Risk Management and Rules on Outsourcing Risk Management, thereby including the reputation and

(XVII) Analysis of risks the Company faces and countermeasures *continued*

9. Management of reputation and outsourcing risks *continued*

outsourcing risk in the corporate governance and comprehensive risk management system, which clarified the responsibilities at different levels and divisions, established corresponding management model and work mechanism, implemented a management system based on levels and categories, thus strengthening the effective prevention and control of the reputation and outsourcing risk.

10. Implementation of the New Capital Accord

During the reporting period, the Company accelerated the work related to implementation of the New Capital Accord in accordance with the Implementation Plan of New Capital Accord, and the phase one non-retail internal rating program was basically completed. More specifically, it included: development of the credit risk rating model for non-retail customers, wherein the main scales were defined and the uniform rating criteria were developed; development of the internal rating process; development of the complementary internal rating system; formation and development of the work team during the project implementation for model development, business management and system implementation.

11. Stress test

The Company continued to improve the stress test working mechanism, improving the quality and efficiency of stress test work; and the stress test work was carried out in an active, efficient and standard manner. During the reporting period, the Company paid close attention to the macro economic conditions and policy changes. In accordance with the regulatory requirements and business development needs, it conducted stress tests concerning the credit risk, market risk and liquidity risk on both regular and irregular basis, which included the sensitivity analysis and scenario analysis of, as well as countermeasures and management advices on major risk types including the overall credit risk, credit concentration risk, local government financing vehicles loans risk, real estate loans risk, loans risk in industries with production capacity redundancy, loans risk in export sector, credit business risk with manufacturing firms, interest rate risk with trading accounts, interest rate risk with bank accounts, exchange rate risk and liquidity risk.

III. ROUTINE WORK OF THE BOARD OF DIRECTORS DURING THE REPORTING PERIOD

(I) Meetings of the Board of Directors

The Board of Directors of the Company convened a total of 9 meetings during the reporting period. The specific details are given below:

The 20th meeting of the sixth Board of Directors was convened on January 8, 2010 in Shanghai. Besides forming a resolution, the meeting considered and approved proposals including: Proposal on Appointing Mr. Lin Zhangyi as the Vice President, Proposal on Nominating Mr. Tang Bin as the Director Candidate for the Sixth Board of Directors, Proposal on Formulating the Development Plan of Branches in 2010, Proposal on Launching the Preparation of 2011-2015 Development Plan and Opinions on Further Enhancing the Building of the Board of Directors. In addition, the meeting also listened to the Report on Operations in 2009 and Preliminary Arrangement of the Operating Plan for 2010, Report on the Implementation of Risk Management Strategy and Related Risk Management, Report on Enhancing the Internal Management and Criminal Case Prevention and Report for Continuously Improving the IT Support to Risk Management.

The 21st meeting of the sixth Board of Directors was convened on March 2, 2010 in Shanghai. Besides forming a resolution, the meeting considered and approved proposals including: 2009 Work Report of Board of Directors, 2009 Work Report of President, 2009 Annual Evaluation Report on Duty Performance of Directors, 2009 Work Report of the Executive Committee under the Board of Directors, 2009 Work Report of the Risk Management Committee under the Board of Directors, 2009 Work Report of the Audit and Related Party Transactions Control Committee under the Board of Directors, 2009 Work Report of the Nomination Committee under the Board of Directors, 2009 Work Report of the Remuneration and Evaluation Committee under the Board of Directors, 2009 Report on Final Financial Accounts & 2010 Financial Budget, 2009 Annual Profit Distribution Proposal, Proposal on Engagement of Public Accounting Firms for 2010, 2009 Annual Report and Abstract, 2009 Internal Control Self-assessment Report of Board of Directors, 2009 Sustainable Development Report, 2009 Implementation of Risk Tolerance Indicators and the 2010 Plan, Proposal on Formulation of the Rules on Reputation Risk Management, Proposal Regarding the Granting of an Internal Basic Credit Line to Hang Seng Bank (including Hang Seng Bank (China) Limited), Proposal Regarding the Granting of a Basic Credit Line to COFCO Limited and COFCO Finance Corporation Limited, Distribution Plan of 2009 Performance Remuneration to Senior management, Plan regarding the Disbursement of 2006 Annual Risk Fund to the Senior Management, Proposal on Participating in the Capital Expansion of the Bank of Jiujiang, 2010 Work Plan of the Board of Directors and Proposal on Convening the 2009 Annual General Shareholders' Meeting. In addition, the meeting also listened to the Introduction to the Work of the Board of Supervisors in 2009.

The 22nd meeting of the Company's sixth Board of Directors was convened on March 11-12, 2010 by means of correspondence, at which the Proposal regarding the Report on Application of Funds Raised in Last Round was considered and approved, and a meeting resolution was formed.

The 23rd meeting of the Company's sixth Board of Directors was convened from March 30 through April 2, 2010 by means of correspondence, at which the Proposal on the Ratio and Volume of Rights Issue was considered and approved, and a meeting resolution was formed.

The 24th meeting of the Company's sixth Board of Directors was convened from April 21 through 27, 2010 by means of correspondence, at which the 2010 Q1 Report was considered and approved, and a meeting resolution was formed.

The 25th meeting of the Company's sixth Board of Directors was convened on July 9, 2010 in Harbin, at which the Proposal on Formulation of Methods for Nomination and Election of Directors for the Seventh Board of Directors, Budget Plan for Write-off of 2010 Distressed Debts, Proposal on Purchase of Business and Office Premise by Nanjing Branch, and Proposal on Formulation of Policy on IT Risk Management were considered and approved, and a meeting resolution was formed. In addition, the meeting also listened to the reports of 2009 Regulatory Notification of CBRC on Industrial Bank, Report on Work of Rights Issue, 2010 H1 Operation Report and 2010 Q1 Risk Assessment Report.

The 26th meeting of the Company's sixth Board of Directors was convened from August 18 through 24, 2010 by means of correspondence, at which the 2010 Interim Report was considered and approved, and a meeting resolution was formed.

The 27th meeting of the Company's sixth Board of Directors was convened on October 11, 2010 in Fuzhou, at which the Proposal on Nomination of Director Candidates for the Seventh Board of Directors, Proposal on Revisions to the Articles of Association, Proposal on Revisions to the Regulations on Independent Directors' Allowance, Proposal on Changes to Registered Capital and Proposal on Convening the 2010 First Extraordinary General Shareholders' Meeting were considered and approved, and a meeting resolution was formed. In addition, the meeting also listened to the Report Concerning the Premature Execution of the Right by Guangzhou Branch to Purchase Certain Floors of Guangzhou CIB Building.

The 1st meeting of the Company's seventh Board of Directors was convened on October 28, 2010 in Fuzhou, at which the Proposal on Election of Directors for the Seventh Board of Directors, Proposal on Member Composition of the Committees under the Seventh Board of Directors, Proposal on the Renewed Appointment of Mr. Li Renjie as the President, Proposal on the Renewed Appointment of Mr. Kang Yukun, Mr. Chen Dekang and Mr. Lin Zhangyi as the Vice Presidents, Proposal on Appointment of Mr. Tang Bin as the Secretary to the Seventh Board of Directors and 2010 Q3 Report were considered and approved, and a meeting resolution was formed. In addition, the meeting also listened to the Report on Preliminary Thoughts on Preparation of the 2010-2015 Development Plan Overview and Report on the Operation during January to September 2010.

III. ROUTINE WORK OF THE BOARD OF DIRECTORS DURING THE REPORTING PERIOD *continued*

(II) Surveys and trainings of the Board of Directors, investor communication and other activities

On January 7, 2010, the Remuneration and Evaluation Committee of the Board of Directors carried out 2009 annual appraisal work for the senior management, as it listened to the presentations of the Company's senior management, and held meetings with the heads of select branches and the head office, determining the appraisal levels and putting forward the performance remuneration plan.

On March 2, 2010, Wang Guogang, the Company's director and the director of Financial Research Institute, Chinese Academy of Social Sciences, delivered a featured report – Analysis on the Movement of China's Macro Economy.

On March 3, 2010, some directors of the Company attended the 2009 Performance Report Meeting, and interacted and communicated with investors on the Company's operation and future economic trends.

On April 26, 2010, some directors of the Company held a meeting with the five-year plan preparation team, providing guidance on the new round preparation of the five-year plan.

On April 26, 2010, some directors of the Company attended the 2009 annual prudential regulation meeting held by CBRC, gaining a better understanding about the regulatory requirements to the Company by the regulator while exchanging opinions with the regulator.

On July 8, 2010, some directors of the Company conducted a survey at the Harbin branch to gather information about the featured services such as the shanty town reconstruction credit and cash management, in order to promote the innovations of the Company in sustainable financial business model.

On September 3, 2010, some directors of the Company participated in the training on corporate governance and related laws & regulations, which was organized by the Fujian branch of CSRC.

On November 1, 2010, some directors of the Company attended the results announcement meeting of 2010 Q3 report, and communicated with investors on the issues such as the Company's operation and the impact on the financial institutions at home and abroad by the implementation of the New Basel Accord.

On November 26, 2010, some new directors of the Company visited the bank in an opinion exchange and learning event, learning about the particulars of the Company such as corporate governance, financial management, risk management and the latest regulatory policies, in order to enhance their ability to fulfill their duties and make rational decisions.

On December 13, 2010, some directors of the Company conducted a survey in Fuzhou to learn about the development of the Company's institutional business and the major development strategy going forward, providing guidance on the preparation of development plan for the institutional business in the next five years.

On December 14, 2010, some directors of the Company conducted a survey in Shanghai to learn about the development of the Company's retail business, interbank business, financial market and asset management business, and the major development strategy going forward, providing guidance on the preparation of development plan for the concerned business segments in the next five years.

(III) Implementation of general shareholders' meeting resolutions by the Board of Directors

1. Implementation of 2009 profit distribution

The 2009 annual profit distribution plan was as follows: the statutory surplus reserve was not set aside in accordance with the provisions in the Company Law and the Company's Articles of Association, as the Company's balance of statutory surplus reserve had already exceeded 50% of its registered capital;

RMB 1,720,350,765.66 was set aside as general reserve; and a cash dividend of RMB 5 (including tax) was offered for every 10 stock shares, with the total cash dividends amounting to RMB 2.5 billion, while the remaining undistributed earnings were carried forward to the next year. That profit distribution plan was completed on April 15, 2010.

2. Implementation of general shareholders' meeting resolutions and authorized matters by the Board of Directors

The 2009 first extraordinary shareholders' meeting deliberated on and approved the Proposal on the Company's Rights Issue Plan. The Company's Board of Directors organized and successfully completed the rights issue in accordance with the resolution. As approved by the Document ZJ Permit [2010] No. 586 of CSRC, the Company offered two shares for every ten shares in its rights issue to all the shareholders of the Industrial Bank, as registered at the Shanghai branch of China Securities Depository and Clearing Corporation Limited as of May 24, 2010. By the closing day of subscription and payment, the valid subscription totaled 992,450,630 shares, representing 99.25% of the total of 1,000,000,000 shares offered in the rights issue, with the total amount of proceedings standing at RMB 17.864 billion.

The 2009 annual general shareholders' meeting deliberated on and approved the Proposal on Engagement of Public Accounting Firms for 2010. According to the resolution, the Board of Directors continued to engage Fujian Huaxing Certified Public Accountants Co., Ltd. and Ernst & Young to take charge of the audit work for 2010.

The 2010 first extraordinary shareholders' meeting deliberated on and approved the Proposal on Revisions to the Articles of Association. According to the resolution, the Board of Directors amended the Company's Articles of Association and submitted to CBRC for approval. The revised Articles of Association had been approved by CBRC (YJF [2010] No. 640) and thereby became effective.

(IV) Annual report work regulation for independent directors and its implementation

On February 5, 2010, all the five independent directors of the Company attended the annual report work meeting of independent directors held in Beijing, following formation of the preliminary opinions on the Company's 2009 annual audit of its financial statements. The independent directors conducted adequate communications with the CPAs of Ernst & Young and the Fujian Huaxing Certified Public Accountants Co., Ltd. on the findings in the audit, while they also put forward their opinions and suggestions, playing a positive role in enhancing the quality of annual report and information disclosure. The meeting also listened to the report of the Company's management on the 2009 operation and progress in the implementation of material resolutions of the Board of Directors, while the related issues were also discussed. On March 1 and 2, 2010, the Audit and Related Party Transaction Control Committee under the Board of Directors and the Board of Directors successively deliberated on the Proposal on Engagement of Public Accounting Firms for 2010, and the independent directors participated in the process and provided their input. On December 13, 2010, the first meeting of the Audit and Related Party Transaction Control Committee under the seventh Board of Directors was convened, and in a joint effort with the CPAs participating in the audit, the committee defined the scope and plan for the 2010 annual audit. Other independent directors outside the Audit and Related Party Transaction Control Committee also reviewed the relevant data submitted by the Company after the meeting.

(V) Summary report on the duty performance of the Audit and Related Party Transaction Control Committee under the Board of Directors

The Audit and Related Party Transaction Control Committee under the Board of Directors fulfilled its duties in strict compliance with the regulatory requirements, the Articles of Association and other applicable documents. During the reporting period, the committee convened altogether 4 field meetings and 1 correspondence meeting. It deliberated on and listened to 22 proposals, including work reports of the committee, annual financial accounting report, report on final financial accounts and financial budget, selection of accounting firms, interim financial accounting report, internal audit program plan, internal audit work reports, self-evaluation reports on internal control, 2009 annual rectification

III. ROUTINE WORK OF THE BOARD OF DIRECTORS DURING THE REPORTING PERIOD *continued*

(V) Summary report on the duty performance of the Audit and Related Party Transaction Control Committee under the Board of Directors *continued*

report on the regulatory notification, report on related party transactions and so on. It reviewed two material related party transactions and conducted three rounds of field communication with the CPAs participating in the annual audit, thus playing an important role in safeguarding the authenticity, accuracy and completeness of the financial information disclosure, as well as promoting the soundness of the Company's internal control system.

(VI) Summary report on the duty performance of the Remuneration and Evaluation Committee under the Board of Directors

During the reporting period, the Remuneration and Evaluation Committee under the Board of Directors convened 2 meetings. It deliberated on and approved the 2009 Work Report of the Remuneration and Evaluation Committee under the Board of Directors, 2009 Evaluation Report on the Duty Performance of Directors, 2009 Performance Remuneration Plan for Senior Management, and Proposal on Disbursement of 2006 Annual Risk Fund to the Senior Management. In January 2010, the committee reviewed the work reports submitted by six senior management members, based on which the appraisal interviews were conducted by three teams respectively with the six senior management members and chief heads at select branches and the head office. The committee discussed and determined the 2009 appraisal levels for the Company's senior management team and put forward the 2009 annual performance remuneration plan for senior management, following the work report review, interviews and indicator calculations.

IV. THE COMPANY'S PROFIT DISTRIBUTION PLAN

(I) 2010 annual profit distribution plan

The Company recorded a net profit of RMB 18,518,966,351.26 in 2010, plus the retained earnings at the end of 2009 of RMB 25,854,179,132.96 and deducting the 2009 cash dividends RMB 2.5 billion, the earnings available for distribution for the year is RMB 41,873,145,484.22. The 2010 annual profit distribution plan is as follows: the statutory surplus reserve is not to be set aside in accordance with the provisions in the Company Law and the Company's Articles of Association, as the Company's balance of statutory surplus reserve has already exceeded 50% of its registered capital; RMB 1,835,801,000 is to be set aside as general reserve; and based on the total shares of 5,992,450,630 as at the end of 2010, 8 bonus shares will be converted from capital reserve and offered for every 10 shares, while a cash dividend of RMB 4.6 (including tax) is to be offered for every 10 shares, and the remaining undistributed earnings will be carried forward to the next year.

The above profit distribution plan is to be implemented within two months after it is reviewed and approved at the Company's 2010 Annual General Shareholders' Meeting.

(II) Dividends payout in the previous three years

In: RMB 1 million

Year	Amount of cash dividends (including tax)	Net earnings of the year	Percentage (%)
2009	2,500	13,281	18.82
2008	2,250	11,385	19.76
2007	1,600	8,586	18.64

Report of the Board of Supervisors

I. MEETINGS OF THE BOARD OF SUPERVISORS DURING THE REPORTING PERIOD

The Board of Supervisors of the Company convened a total of 6 meetings during the reporting period. The specific details are given below:

On March 2, 2010, the 17th meeting of the fourth Board of Supervisors was convened in Fuzhou. At the meeting, the following reports were considered and approved: 2009 Work Report of the Board of Supervisors, 2009 Evaluation Report on the Performance of Supervisors, Assessment Report of the Board of Supervisors on the Performance of Directors and Senior Management in 2009, 2009 Work Report of the Supervision Committee under the Board of Supervisors, 2009 Work Report of the Nomination, Remuneration and Evaluation Committee under the Board of Supervisors, 2009 Report on Operating Results and Final Financial Accounts, 2009 Annual Report and Abstract, Investigation Report of Successive Audit of Wealth Management Business, Investigation Report of Successive Audit of Dual-line Expenditure Administration and 2010 Annual Work Plan of the Board of Supervisors. The meeting also listened to the Notes of Fujian Huaxing Certified Public Accountants Co., Ltd. on Audit of the 2009 Annual Report.

The 18th meeting of the Company's fourth Board of Supervisors was convened from April 21 through 27, 2010 by means of correspondence, at which the 2010 Q1 Report was considered and approved.

The 19th meeting of the Company's fourth Board of Supervisors was convened on June 30, 2010 in Zhengzhou, at which the Proposal on Developing the Methods for Nomination and Election of the Supervisors for the Fifth Board of Supervisor and the Report on the Questionnaire Survey concerning Duty Performance of Directors and Senior Management were considered and approved. The meeting also listened to the Report on Internal Audit and Report on Compliance Management.

The 20th meeting of the Company's fourth Board of Supervisors was convened from August 18 through 24, 2010 by means of correspondence, at which the 2010 Interim Report was considered and approved.

The 21st meeting of the Company's fourth Board of Supervisors was convened on October 11, 2010 in Fuzhou, at which the Proposal on Nominating the Candidates of Shareholding Supervisors and External Supervisor for the Fifth Board of Supervisors and Proposal on Revisions to the Regulations for External Supervisors' Allowance; and the meeting also listened to 2010 H1 Risk Report.

The 1st meeting of the Company's fifth Board of Supervisors was convened on October 28, 2010 in Fuzhou, at which the Proposal on Electing Ms. Bi Zhonghua as the Chairwoman of the Fifth Board of Supervisors, Proposal on Member Composition of the Special Committees under the Fifth Board of Supervisors and 2010 Q3 Report were considered and approved; and the meeting also listened to the Report on Financial Position During Jan.- Sep. 2010.

II. SPECIAL INSPECTIONS MADE BY THE BOARD OF SUPERVISORS

During the reporting period, the Board of Supervisors carried out special audit investigations around the key work areas, and visited the related branches for surveys and inspections, in order to promote the legal operation of the Company and strengthen the internal control. The details are given below:

In August 2010, the Board of Supervisors organized the audit investigation into the loans to the government financing vehicles, endeavoring to learn about the risk status of the loans to the government financing vehicles and its impact on the Company's business development. Meanwhile, it evaluated the management of the loans at the government financing vehicles and provided advices on corrective measures, in light of the recent policy changes and the findings in previous audits. It advised the management of risk control while deepening and consolidating the cooperation with governments at various levels, and suggested that proper control should be put in place to achieve a balanced structure and diversified risk.

II. SPECIAL INSPECTIONS MADE BY THE BOARD OF SUPERVISORS *continued*

In November 2010, the Board of Supervisors conducted an audit investigation into the risk management of emerging businesses, and gained in-depth knowledge about the rationalism and reasonableness of the Company's risk management policies for emerging businesses, and the practicality and effectiveness of the implementation of risk management control. The survey highlighted the major problems existing in the Company's risk management of emerging businesses, suggesting the management to enhance its study of the risk of emerging businesses, further improve the risk management system for emerging businesses, progressively explore and establish a risk management model with the orientation of risk capital, reinforce the systematic planning of the emerging business development, promote the system building, normalize the business operation and continuously improve the risk management of emerging businesses.

In 2010 the Board of Supervisors organized its members to conduct surveys at Shenyang, Qingdao and Dalian branches, thereby learning about the business development at the branches since their commencement of operation, the implementation of the head office's five-year plan and the spirit of the bank's work meeting at the branch level, and the problems they encountered in the process of operation. In addition, the Board of Supervisors also organized its members to conduct inspections at Zhengzhou and Xiamen branches, thereby listening to the reports on their operation, risk and internal control, learning about the operation and existing problems at the branches, and providing input to the senior management with regard to the findings in the survey and visits.

III. INDEPENDENT OPINIONS OF THE BOARD OF SUPERVISORS ON RELEVANT ISSUES

The Company's supervisors legally monitored the duty performance of directors and senior management by attending general shareholders' meetings, attending meetings of the Board of Directors and senior management as non-voting delegates, and by conducting independent special inspections and so on.

(I) Legal operation

During the reporting period, the Company demonstrated prudent operation and standardized management. The Company's operational results were both objective and authentic; its decision making procedures were legitimate. The Board of Directors and senior management conducted conscientious and diligent work. There was no violation of laws, regulations, Articles of Association or any other act detrimental to the interests of shareholders and the Company.

(II) Inspection on financial statements

During the reporting period, the Company's annual financial statements truly, fairly and completely reflected the Company's financial conditions and operational results. The annual financial statements have been audited by Fujian Huaxing Certified Public Accountants Co., Ltd. and Ernst & Young in accordance with domestic and international audit standards respectively, and both organizations have issued standard and unqualified auditors' reports.

(III) The Company's acquisition and sales of assets

During the reporting period, no inside transactions, or transactions detrimental to the interests of shareholders or causing the loss of assets of the Company was found in the acquisition or sales of assets.

(IV) Use of raised funds

During the reporting period, the use of raised proceeds was in conformity with the purpose disclosed in the rights issue prospectus; the deposit and use of raised funds was in compliance with the provisions of CSRC and Shanghai Stock Exchange concerning the administration of raised funds.

(V) Related party transactions

During the reporting period, the management of related party transactions strictly complied with applicable regulations and rules. Both the process of the transactions and their outcome were fair and justified. No inside transactions or transactions detrimental to the interests of shareholders and the Company were found.

(VI) Internal control system

During the reporting period, no substantial defects were detected in the mechanism or rules of the Company's internal control in terms of completeness and reasonableness. The Board of Supervisors reviewed the 2010 Internal Control Self-assessment Report of the Board of Directors and has no objections.

(VII) Implementation of general shareholders' meeting resolutions

During the reporting period, the members of the Board of Supervisors legally attended the general shareholders' meetings. The Board of Supervisors has no objection to any of the proposals submitted to the general shareholders' meeting for review. The Board of Supervisors monitored and inspected the implementation of the relevant resolutions made by the 2009 annual general shareholders' meeting and the 2010 first extraordinary general shareholders' meeting, and it is in the belief that the Board of Directors has seriously implemented the resolutions made by the general shareholders' meetings.

Corporate Social Responsibility and Sustainable Finance Practice

I. THE COMPANY'S PHILOSOPHY ON SUSTAINABLE DEVELOPMENT

A commercial bank, as the core of modern economy and the hub of resource allocation, its industrial feature requires it to take initiative to bring the harmony and unity with economy, society and environment into its own development goal, in order to boost the common development of all the stakeholders. In recent years, the Company put forward the sustainable development philosophy "to thoroughly apply the Scientific Outlook on Development, to deepen the awareness to relationship between the social responsibility fulfillment and its own sustainable development, to actively explore the multiple ways to promote the bank to fulfill social responsibility and create sound and harmonious co-existing relationship between human being and nature, environment and the society"; the Company also positively advocated the society duty fulfillment of "righteousness in making profits", that is to say, "to integrate the social responsibility with the banking business, to apply it to specific processes of bank operating management, and to seek business opportunity in the social responsibility fulfillment, as well as to pursue a sustainable, extensive win-win business model between bank and the society and a social responsibility fulfillment model".

On Oct. 31, 2008, the Company officially declared to adopt the Equator Principles, becoming the first Chinese Equator Principles Financial Institutions(EPFI).

II. MANAGEMENT MECHANISM ON THE COMPANY'S SUSTAINABLE DEVELOPMENT

(I) High strategic priority. The Board of Directors of the Company should bear the ultimate accountability to the sustainable development. The Articles of Association specifies the duties of the Board as: to study and draft the Company's social responsibility and sustainable development strategy and policy, to supervise, exam and evaluate the Company's fulfillment of the social responsibility; verifies the social responsibility and sustainable development as the core philosophy and value orientation; and define the long-term goal as "building a top-ranking bank, building the sustainable CIB".

(II) Guaranteeing organizational structure. The Company has established the leading team for social responsibility fulfillment work, with Chairman, Mr. Gao Jianping, as the team leader, in order to strengthen the organization, coordination and promotion to the sustainable development and systematically propel the social responsibility fulfillment. The Company also set up the Sustainable Finance Division of head office and the Sustainable Finance Center of head office. While the former was responsible for the implementation of the environmental and social risk management and the Equator Principles, the latter was responsible for product development and marketing of energy efficiency financing, environment finance and carbon finance, etc., creating a comprehensive service platform for different customers.

(III) Positive guide on operating management. The Company attached importance to integrating sustainable development philosophy into every business in daily management. In order to continuously promote the changes in operating philosophy and practice, and push forward the transformation from focusing on immediate objective to long-term goals, the Company had drawn up a series of institutional documents, including Environmental and Social Risk Management Policy, and Equator Principles for Project Finance Management Approaches and so on.

(IV) Incorporation into enterprise culture. Centering on the social responsibility, the Company had established a cultural system containing mission, vision, core value, operating value and entrepreneurship, to create a corporate culture which can effectively take up the social responsibility philosophy of the enterprise, and to cultivate and advocate the culture of sustainable development.

III. THE COMPANY'S SUSTAINABLE FINANCE PRACTICE

During the reporting period, the Company continued integrating sustainable development philosophy into the bank's business model, so as to support the sustainable development of the customers with financial tools and to promote the improvement of communities and environment. It was mainly reflected in:

(I) Guiding the flow of credit, optimizing allocation of social resources

1. Assisting national economic development. The Company positively provide support in the western provinces and regions with the government's key support (such as Sinkiang, Inner Mongolia, Guangxi), emerging economic circles and city groups, important industry clustering regions, industrial bases at national level and energy bases, in order to support the development of western economy; the Company implemented the strategy of the state to build an economic zone on the western coast of the Taiwan Strait, by launching the "RMB 100 Billion Program and Six Projects", including "Pingtan Expressway", "Leading Partner", "Gallery Bridge Project", "Sesame Flowering", "Benefiting Civilians", and "Rooting in the West Coast" and so on, so as to serve the building of the Western Coast in an all-round way.

2. Intensifying credit supply for farm, farming and farmers. On the basis of effective risk control, the Company proactively supported the agriculture-related enterprises by providing credit facilities. The Company proactively launched the business cooperation with local agricultural enterprises in key agricultural development regions including Jilin Province. Chengdu branch of the Company vigorously launched the "Agricultural Thriving Road" to lead the local farmers to get rid of poverty and achieve prosperity, with the innovative model of "Poverty Relief Donation + Micro-loans to Farmer + Production Support". The Company also responded positively to support rural financial system reform, and supported the rural banks' development by buying into their shares and providing support in the way of management export, technology export and bank-to-bank cooperation.

3. Intensifying financial and credit support to SMEs. The Company arranged special credit line to guarantee meeting the demands of the small enterprises. Dedicated units were formed to serve the small enterprises, as the Company provided a dedicated team of over one hundred persons for small enterprise business, which encouraged the downward stretch of dedicated outlets to the grassroots; the Company reformed the credit facility procedures to improve the credit examination and approval efficiency; the Company innovatively put forward the growth and listing plans for the SMEs of "CIB Sesame Flowering", and vigorously carried out the listed commodities trade financing business, including the standard contract pledge financing and precious metal pledge financing, to promote the development of SMEs.

4. Enhancing support to welfare programs. During the reporting period, the Company officially issued the social security card in Fujian Province, realizing the functionality integration of hospital card, medicare card and bank card, and laying foundations for the building of residents health information system in Fujian Province; the Kunming branch, Dalian branch and Harbin branch of the Company gained high social recognition by innovatively introducing the total service package to support the local relocation projects, indemnificatory housing projects and shanty town reconstruction projects respectively; Taiyuan branch of the Company launched "Red Rose Action Plan" to energetically support the entrepreneurship of women entrepreneurs; Sanming branch of the Company vigorously provided the poverty relief and hardship assistance loans and the college student loans, which created good economic benefit and social benefit.

(II) Continually advancing financial innovation; designing and promoting sustainable financial products

On January 28, 2010, the Company and CBEEX co-launched the first domestic identity credit car themed as low-carbon - Chinese Low-carbon Credit Card, taking the first essential step to low-carbon personal consumption in China, symbolizing that the Chinese credit card market gathering high-end groups officially opened the access to green consumption and low-carbon life; the Company put forward the first customized comprehensive financial service program - "Xing Ye Tong" - for "growth-

III. THE COMPANY'S SUSTAINABLE FINANCE PRACTICE *continued*

(II) Continually advancing financial innovation; designing and promoting sustainable financial products *continued*

oriented business owners", including self-employed persons, individual business, partners, private owners, and so on. As of the end of the reporting period, the personal business loan balance of "Xing Ye Tong" was RMB 26.271 billion; the Company kept on promoting "Golden Cube" cash management service program to help the enterprises improve the funds management efficiency, lower financial costs and strengthen operating management.

(III) Vigorously developing the bank-to-bank platform; promoting financial resources sharing

The Company took further steps to expand the networking customer base on the bank-to-bank platform, expanding the network sharing coverage, and improving the agency settlement capacity and customer service of the bank-to-bank platform. The Company was committed to the product innovation of the bank-to-bank platform, accelerating the development of the settlement platform and wealth management portal under the bank-to-bank platform, while releasing the client system for rural banks, and running precious metal agency trading, new third party custody and other products online, to keep its innovative advantages and market leadership concerning the bank-to-bank platform. In October 2010, the Company also sponsored the "Bank-to-Bank Cooperation Forum and Seminar for Sustainable Development Strategy of Chinese Commercial Banks 2010".

(IV) Creating new heights in energy conservation and emission reduction project loan

The Company made it clear to give priority to energy conservation and emission reduction business, and insisted on specialized team, concentration on research and professional service, in order to gradually realize the whole process and broad scope development. All these led to the two series of products - energy conservation and emission reduction financing service as well as emission rights financial service, and the Company accumulated rich experience in localized green financial service. Currently, all the branches of the Company have launched the green financial service, with the projects prevailing in all major economic zones in six areas: energy efficiency, development and utilization of new energy and renewable energy sources, carbon emission reduction, sewage treatment and watershed treatment, sulfur dioxide emission reduction, solid waste recycling, which covered the "Top 10 Energy Conservation Projects".

(V) Keeping perfecting management system of the Equator Principles

The Company continued to promote the management model and system of the Equator Principles, enhancing rational process and electronic management, and effectively managing and controlling environment and social risk in connection with the project financing, as well as gradually refining and expanding sustainable financing concept and practice on this basis. As of the end of the reporting period, the Company affirmed that there were 75 projects in total applicable to the Equator Principles, with the total investment involved amounting to RMB 99.365 billion. The Company completed the examination of the environment and social risk of 22 project financing deals in accordance with the Equator Principles, with the involved investment totaling RMB 29.202 billion and 20 loans already being granted, which gained deep understanding and full support from the clients.

(VI) Seriously fulfilling anti-money laundering (AML) obligations

During the reporting period, the Company enhanced the building of internal control system concerning AML, established and issued operation specifications, including the Clients Identification & Clients Identity Information and Transaction Record Retention and Management Regulations of Industrial Bank; accelerated the clean-up and verification of stock accounts, with the verified stock accounts reaching 7.6 million, control accounts totaling 930,000; speeded up the informatization process of AML, and anti-money laundering monitoring and reporting efficiency had been improved significantly. The Company also increased the anti-money laundering training and communication, with more than

33,000 employees being trained. Meanwhile, the Company launched AML communication activities in enterprises and communities, with the audiences exceeding 170,000.

(VII) Advocating sustainable finance

The Company advocated clients to save resources so as to improve the e-banking utilization ratio, in the way of e-banking lottery, award-winning questions and answers and rewarding e-bank trading; the Company, as the “First Chinese Equator Bank”, communicated the brand profile themed by “Green Finance, Better Tomorrow” through all media in the omnibearing, deep and comprehensive way, in order to vigorously communicate and advocate green finance concept; the Company promoted the financial knowledge through “Modern Finance into Community” and other activities to raise public awareness of financial security; the Company strengthened the supervision and incentives to energy saving and consumption reduction, through the drafting and implementation of the Office Energy Saving Management Approaches, advocating low-carbon travel and a variety of ways to improve work efficiency, such as electronic office.

IV. THE COMPANY’S OTHER PUBLIC WELFARE ACTIVITIES

The Company supported education by establishing university students’ studying bases and charitable grants, and releasing student loans; supported the charitable causes through compassionate actions, and provided intellectual, material and financial support in medical care, education, culture and other public services. During the reporting period, the Company's external charitable donations were up to RMB 64 million, of which RMB 15 million was the donation after the earthquake in Yushu, Qinghai, and RMB 5.356 million was the employee s’ contribution.

By virtue of the efforts and achievements in social responsibility fulfillment and sustainable financial innovation, the Company received “China Baosteel Environmental Excellence Award”, “Best Social Responsibility Report Award in Finance and Insurance Industry”, “Listed Company Most Favored by Investors for 20 Years in Chinese Security Markets”, “Award of Listed Bank with Best Investment Value 2009”, “2009 Award for Best Environmental Information Disclosure”, “2010 Low-carbon Pioneer Enterprise” and other awards during the reporting period. That means the Company has been unanimously recognized and highly trusted by different stakeholders.

The Company’s Sustainable Development Report 2010 has been published, with full text available on Shanghai Stock Exchange website and the Company’s website.

Significant Issues

I. MATERIAL LAWSUITS AND ARBITRATION

As at the end of the reporting period, there was no any material lawsuit or arbitration case against the Company or its branches involving a single claim amounting to over 1% of last year's audited net asset value.

II. MATERIAL ASSET TRANSACTION

Aiming at further advance the development strategy of conglomeration and integrated operation, while improving its comprehensive financial services and market competitiveness, the Company entered into agreements with the New Hope Group Co., Ltd., Sichuan South Hope Enterprises Co., Ltd. and Fujian Huatou Investment Co., Ltd. (formerly Fujian Huaqiao Investment (Controlling) Company) in September 2009, under which the Company agreed to purchase aggregately 51.18% stake of Union Trust Co., Ltd. owned by the above three companies with a total consideration of RMB 852,273,165. The Company received the reply from CBRC (Document YJF [2011] 35) which officially approved that transaction. The Union Trust Co., Ltd. will become a subsidiary of the Company and will be included in the scope of consolidated financial statements upon the completion of that transaction. For further details, please refer to the announcement of the Company dated February 10, 2011.

The Company did not have any other material acquisition, assets sales or takeover & merger issues during the reporting period.

III. MATERIAL RELATED PARTY TRANSACTION

The related parties of the Company mainly include: shareholders holding over 5% (inclusive) of the Company's shares and their controlling shareholders; directors, supervisors, senior management and their close relatives; legal persons or other organizations that are directly, indirectly or jointly controlled by or subjective to great influence of the directors, supervisors, senior management and their close relatives.

During the reporting period, the related party transactions with natural persons involving an amount over RMB 300,000, or related party transaction with legal persons involving an amount over RMB 3 million and accounting for more than 0.5% of the latest audited net asset value of the commercial bank were as follows:

On March 2, 2010, the 21st meeting of the Sixth Board of Directors considered and approved the Proposal Regarding the Granting of an Internal Basic Credit Line to Hang Seng Bank (including Hang Seng Bank (China) Limited), thereby granting a RMB 4 billion internal basic credit line to Hang Seng Bank (including Hang Seng Bank (China) Limited); the meeting also considered and approved the Proposal Regarding the Granting of a Basic Credit Line to COFCO Limited and COFCO Finance Corporation Limited, thereby granting a RMB 1.8 billion basic credit line to COFCO Limited and COFCO Finance Corporation Limited for an effective term of one year. The above related party transactions were conducted in the ordinary course of business of the Company with the terms and interest rates determined according to the general requirements of the Company's business management. For further details, please refer to the announcement of the Company dated March 4, 2010.

IV. MATERIAL CONTRACTS AND PERFORMANCE THEREOF

(I) Material custody, lease or contracting

The Company had no material events concerning custody, lease or contracting during the reporting period.

(II) Significant guarantee

During the reporting period, except the normal financial guarantee business as approved in the scope of business, the Company had no other significant guarantee that needed to be disclosed.

(III) Events of entrusting others with cash asset management

During the reporting period, the Company did not entrust its cash assets to others for management.

(IV) Other material contracts

During the reporting period, all contracts of the Company had been normally performed, and no significant contract dispute occurred.

V. SPECIAL STATEMENT AND INDEPENDENT OPINIONS OF INDEPENDENT DIRECTORS ON THE EXTERNAL GUARANTEE OF THE COMPANY

In accordance with the related regulations of CSRC, the Company carefully examined its conditions of external guarantee in 2010. The Company carried out its external guarantee business as one of its regular businesses with the approval of PBOC and CBRC. As at the end of the reporting period, the balance of the guarantee business of the Company stood at RMB 11 billion, increasing RMB 3.267 billion or 42.25% from the beginning of the period. No advance occurred under the guarantee business of the Company, and no non-compliant guarantee besides the normal guarantee business was discovered.

The Company always followed the principle of prudence when providing guarantee for external entities, and intensified the risk monitoring and management of off-balance-sheet business. The Company resorted to on-site and off-site inspections to discover hidden risks as early as possible, warned in time against risks and took precautions accordingly. During the reporting period, with the effective supervision and management by the Board of Directors, the Company's guarantee business ran normally, and its overall risks were controllable.

VI. SIGNIFICANT COMMITMENT AND FULFILLMENT OF THE COMPANY OR ITS SHAREHOLDERS HOLDING MORE THAN 5% OF THE COMPANY'S EQUITY

The Finance Bureau of Fujian Province, the Company's largest shareholder, committed that for a period of 36 months from the date of the listing of the Company's shares on Shanghai Stock Exchange, it would not transfer the 1.02 billion shares of the Company held by itself, or entrust others to manage those shares, or allow the Company to repurchase those shares. During the above lock-up period, the Finance Bureau of Fujian Province had strictly fulfilled its commitment. The above-mentioned three-year lock-up period expired on February 4, 2010, and the 1,02 billion shares held by the Finance Bureau of Fujian Province before A-share listing became tradable with effect from February 5, 2010.

The Finance Bureau of Fujian Province, the Company's largest shareholder, committed that it would fully subscribe its quota of shares offered in the rights issue plan as approved by the 19th meeting of the sixth Board of Directors. The implementation of the Company's rights issue plan was completed during the reporting period, and the Finance Bureau of Fujian Province honored its commitment by having fully subscribed its quota in the rights issue.

Both the Finance Bureau of Fujian Province and Hang Seng Bank Limited committed that they would not reduce their holdings of the Company's shares within 6 months of the listing of the new shares issued in that rights issue. The above shareholders honored their commitment during the reporting period by not transferring to others their shares acquired in that rights issue.

VII. ENGAGEMENT OR DISENGAGEMENT OF CERTIFIED PUBLIC ACCOUNTANTS FIRMS

During the reporting period, in accordance with the resolution of the 2009 annual general shareholders' meeting, the Company re-appointed Fujian Huaxing Certified Public Accountants Co., Ltd. and Ernst & Young as auditors for the Company's 2010 financial statements prepared under PRC GAAP and IFRS respectively. The auditors' fees were RMB 2.5 million and RMB 3.3 million respectively.

As at the end of the reporting period, Fujian Huaxing Certified Public Accountants Co., Ltd. had provided audit service to the Company for nine consecutive years, while Ernst & Young for ten consecutive years.

VIII. PENALTIES IMPOSED ON DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the reporting period, none of the directors, supervisors or senior management of the Company was imposed any penalty by the regulator of the state.

IX. EQUITY OWNED BY THE COMPANY IN OTHER LISTED COMPANIES OR FINANCIAL FIRMS

(I) Equity owned by the Company in other listed companies

In: RMB 1 million

Company	Initial investment cost	Owned equity (shares)	Percentage in total share capital (%)	Book value at period end
Visa Inc.	-	10,866	-	5
Shanghai Worldbest Co., Ltd.	18	3,744,630	0.79	18
Shandong Jiufa Edible Fungus Co., Ltd.	6	939,176	0.37	7
Total	**24**	**-**	**-**	**30**

(II) Equity owned by the Company in non-listed financial firms and would-be listed companies

In: RMB 1 million

Company	Initial investment cost	Owned equity (shares)	Percentage in total share capital (%)	Book value at period end
Bank of Jiujiang Co., Ltd.	561	223,200,000	20	690
Total	**561**	**-**	**-**	**690**

X. OTHER SIGNIFICANT ISSUES

(I) A-share rights issue: pursuant to the approval of the first extraordinary shareholders' meeting of the Company in 2009 and the Document ZJ Permit [2010] No. 586 of CSRC, the Company implemented a rights issue program during the reporting period, whereby all the shareholders were offered two shares at the price of RMB 18.00 per share for every 10 shares they held. Through that rights issue, RMB 17.864 billion was raised in a total issue of 992,450,630 shares. All the proceeds were used for capital supplement after deduction of the issue costs. The new shares became tradable since June 8, 2010, and the total share capital of the Company increased to 5,992,450,630 shares upon completion of the rights issue. For the detailed information about the rights issue prospectus, issue announcement, issue results and listing announcement, see the related announcements made by the Company dated from May 20 till June 4, 2010.

(II) Issue of subordinated bonds: pursuant to the approval of CBRC and the PBOC, the Company issued RMB 3 billion worth of subordinated bonds in the national interbank bond market on March 30, 2010. Those subordinated bonds were issued within the approved line to substitute the redeemed part of the subordinated bonds issued in 2004, and the proceeds were used to replenish the supplementary capital of the Company. For further details, please refer to the announcement of the Company dated March 31, 2010.

XI. REFERENCE OF INFORMATION DISCLOSURE DURING THE REPORTING PERIOD

Item	Date of publicity
2009 Annual Results Guide	2010-01-07
Announcement on Resolutions Adopted at the 20th Meeting of the Sixth Session of Board of Directors	2010-01-12
Announcement on Approval of Insurance Fund Custody Service	2010-01-13
Announcement on Approval of Opening of Huhhot Branch	2010-01-21
Announcement on Reminding of the Circulation of Restricted Shares	2010-01-29
Announcement on Convening of Investors' Online Meeting concerning the Annual Results	2010-03-01
Announcement on Resolutions Adopted at the 21st Meeting of the Sixth Session of Board of Directors & Convening of the 2009 Annual Shareholders' Meeting	2010-03-04
2009 Annual Report and Abstract	2010-03-04
Notes on Funds Occupied by Controlling Shareholders and other Related Parties	2010-03-04
Announcement on Resolutions Adopted at the 17th Meeting of the Fourth Session of Board of Supervisors	2010-03-04
Announcement on Related Party Transactions	2010-03-04
Announcement on Approval of Preparation of a Financial Leasing Company	2010-03-05
Announcement on Resolutions Adopted at the 22nd Meeting of the Sixth Session of Board of Directors & Supplementary Notice on Additional Ad hoc Proposals at the 2009 Annual Shareholders' Meeting	2010-03-16
Materials for the 2009 Annual General Shareholders' Meeting	2010-03-17
Announcement on Approval of Opening of Changchun Branch	2010-03-19
Announcement on Resolutions Adopted at the 2009 Annual General Shareholders' Meeting	2010-03-27
Letter of Legal Opinions for the 2009 Annual General Shareholders' Meeting	2010-03-27
Announcement on the Completion of Subordinated Bonds Issue	2010-03-31
Announcement on Resolutions Adopted at the 23rd Meeting of the Sixth Session of Board of Directors	2010-04-06
Announcement on Implementation of the 2009 Annual Profit Distribution Plan	2010-04-06
Announcement on Approval by the Issue Review Committee of CSRC concerning A-share Rights Issue Application	2010-04-16
2010 Q1 Report	2010-04-29
Announcement on Approval by the CSRC concerning 2010 A-share Rights Issue Application	2010-05-08
2010 Rights Issue Prospectus and Abstract	2010-05-20
Appendix to 2010 Rights Issue Prospectus	2010-05-20
Announcement on Online Road Show of 2010 Rights Issue	2010-05-20
Announcement on Share Issue in 2010 Rights Issue	2010-05-20
Announcement on Reminding of 2010 Rights Issue	2010-05-25
Announcement on Reminding of 2010 Rights Issue	2010-05-26
Announcement on Reminding of 2010 Rights Issue	2010-05-27
Announcement on Reminding of 2010 Rights Issue	2010-05-28
Announcement on Reminding of 2010 Rights Issue	2010-05-31
Announcement on Share Issue Results in 2010 Rights Issue	2010-06-02
Announcement on Changes in Rights Issue Shares and Listing of Issued Shares	2010-06-04

XI. REFERENCE OF INFORMATION DISCLOSURE DURING THE REPORTING PERIOD *continued*

Item	Date of publicity
Announcement on Execution of the Agreement on Proceedings Special Account Depository and Custody	2010-06-12
Announcement on Resolutions Adopted at the 19th Meeting of the Fourth Session of Board of Supervisors	2010-07-02
Announcement on the Changes in Sponsor Representatives	2010-07-09
Announcement on Resolutions Adopted at the 25th Meeting of the Sixth Session of Board of Directors	2010-07-13
Announcement on Convening of Investors' Online Meeting concerning the 2010 Interim Results	2010-08-23
2010 Interim Report and Abstract	2010-08-26
Announcement on Approval of Opening of Industrial Bank Financial Leasing Co., Ltd.	2010-08-30
Announcement on Resolutions Adopted at the 27th Meeting of the Sixth Session of Board of Directors & Convening of the 2010 First Extraordinary Shareholders' Meeting	2010-10-13
Announcement on Resolutions Adopted at the 21st Meeting of the Fourth Session of Board of Supervisors	2010-10-13
Announcement on Election of Staff Supervisors for the Fifth Session of Board of Supervisors	2010-10-20
Materials for the 2010 First Extraordinary General Shareholders' Meeting	2010-10-21
Announcement on Resolutions Adopted at the 2010 First Extraordinary Shareholders' Meeting	2010-10-29
Letter of Legal Opinions for the 2010 First Extraordinary General Shareholders' Meeting	2010-10-29
2010 Q3 Report	2010-10-30
Announcement on Resolutions Adopted at the 1st Meeting of the Seventh Session of Board of Directors	2010-10-30
Announcement on Resolutions Adopted at the 1st Meeting of the Fifth Session of Board of Supervisors	2010-10-30
Announcement on Execution of Strategic Cooperation Agreement with China United Network Communications Co., Ltd.	2010-12-02

The above announcements, reports and relevant materials were disclosed in newspapers selected by the Company for information disclosure *(China Securities Journal, Shanghai Securities News, Securities Times, and Securities Daily)*, Shanghai Stock Exchange website (www.sse.com.cn) and the Company's website (www. cib.com.cn).

Financial Statements

The Company's financial statements for 2010 have been audited by Fujian Huaxing Certified Public Accountants Co., Ltd. and signed off by Mr. Lin Baoming and Ms. Zhang Xiangyu, two certified public accountants from the above accounting firm, who have issued a standard and unqualified auditors' report "MHXS (2010) SZ G-008". Ernst & Young has audited the Company's financial statements for 2010 in accordance with International Financial Reporting Standards and has issued a standard and unqualified auditor's report. For full text of the financial statements, please refer to the appendix.

Documents Available for Reference

I. Financial statements bearing the signatures of the Company's Legal Representative, President and Financial Director.

II. Original auditors' reports bearing the seal of the accounting firms and personally signed and sealed by the certified public accountants.

III. Original annual report bearing the signature of the Company's Chairman.

IV. All the original documents and announcements publicized by the Company during the reporting period.

V. Articles of Association of Industrial Bank Co., Ltd.

Appendix

I: Domestic Auditors' Report

II: International Auditors' Report

Chairman: Gao Jianping

The Board of Directors of Industrial Bank Co., Ltd.

March 25, 2011

CONTENTS

福建华兴会计师事务所有限公司
Fujian Huaxing Certified Public Accountants Co., Ltd.
地址:福建省福州市湖东路152号中山大厦B座七－九楼 电话(Tel): 0591-87852574 传真(Fax): 0591-87840354
Add:7-9/F Block B,152 Hudong Road,Fuzhou,Fujian,China Http://www.fjhxcpa.com 邮政编码(Postcode):350003

INDEPENDENT AUDITORS' REPORT

FJHXCPA (2011) S NO. G-008

To the Shareholders of Industrial Bank Co., Ltd.

We have audited the accompanying financial statements of Industrial Bank Co., Ltd. (the "Company"), which comprise the consolidated and the Company's balance sheet as at December 31, 2010, and the income statements, the statements of changes in equity, cash flow statements for the year then ended, and notes to these financial statements.

I. Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements in accordance with the Accounting Standards for Enterprises. This responsibility includes: (1) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; (2) selecting and applying appropriate accounting policies; (3) making accounting estimates that are reasonable in the circumstances.

II. Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Independent Auditing Standards of China. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amount and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 financial statements 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 reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

III. Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Industrial Bank Co., Ltd. as of December 31, 2010, and of its financial performance and its cash flows for the year then ended in accordance with the Accounting Standards for Business Enterprises.

Fujian Huaxing Certified Public Accountants Co., Ltd. | Certified Public Accountant: Lin Baoming

Fuzhou, People's Republic of China | Certified Public Accountant: Zhang Xiangyu

March 25, 2011

Consolidated Balance Sheet

Industrial Bank Co., Ltd. (December 31, 2010)

Unit: RMB Yuan

Item	Notes	12/31/2010	12/31/2009
Assets			
Cash and due from the Central Bank	VII.1	288,641,167,616.20	171,904,287,270.24
Due from banks and other financial institutions	VII.2	39,867,259,259.44	42,364,548,942.56
Precious metals	VII.3	684,623,060.00	126,383,560.00
Placements with banks and other financial institutions	VII.4	21,099,362,200.00	13,684,317,600.00
Transactional financial assets	VII.5	5,536,954,408.13	3,363,484,447.86
Derivative financial assets	VII.6	2,301,372,821.31	1,399,034,892.74
Reverse repurchase agreements	VII.7	374,004,538,337.82	195,884,147,048.86
Interest receivables	VII.8	6,655,344,690.53	4,354,329,756.47
Loans and advances to customers	VII.9	842,567,642,722.76	691,962,535,414.93
Available-for-sale financial assets	VII.10	147,231,850,227.46	111,148,150,277.15
Receivables	VII.11	61,321,130,730.48	40,786,092,397.64
Finance lease receivables	VII.12	8,692,913,595.05	-
Held-to-maturity investment	VII.13	34,289,943,382.74	42,354,236,841.53
Long-term equity investments	VII.14	770,718,470.61	416,205,432.50
Investment property		-	-
Fixed assets	VII.15	3,847,109,941.44	3,623,778,994.63
Construction in progress	VII.16	3,080,094,023.35	1,924,748,081.21
Intangible assets	VII.17	319,009,343.56	359,606,425.57
Goodwill		-	-
Deferred tax assets	VII.18	2,389,547,850.96	1,838,180,395.08
Other assets	VII.19	6,372,796,621.80	4,667,484,431.53
Total assets		**1,849,673,379,303.64**	**1,332,161,552,210.50**
Liabilities			
Amounts due to the Central Bank		364,742,710.73	40,400,328.58
Due to banks and other financial institutions	VII.20	417,654,548,866.67	237,013,064,828.40
Placements from banks and other financial institutions	VII.21	26,137,078,700.00	1,762,581,600.00
Transactional financial liabilities		-	-
Derivative financial liabilities	VII.6	2,317,246,751.31	1,601,813,569.85
Repurchase agreements	VII.22	89,585,320,693.45	45,910,484,914.31
Customer deposits	VII.23	1,132,767,383,425.85	900,884,448,036.70
Salaries and staff welfare payables	VII.24	4,545,365,244.80	4,176,753,241.54
Tax payable	VII.25	3,486,231,921.75	2,263,908,901.91
Interest payable	VII.26	8,591,237,110.56	5,732,319,818.39
Accrued liability		-	-
Bonds payable	VII.27	64,934,969,380.18	68,927,863,631.54
Deferred taxes liabilities		-	-
Other liabilities	VII.28	7,293,967,224.06	4,250,451,776.38
Total liabilities		**1,757,678,092,029.36**	**1,272,564,090,647.60**
Shareholders' Equity			
Paid-in capital	VII.29	5,992,450,630.00	5,000,000,000.00
Capital reserves	VII.30	32,624,232,317.22	17,239,439,389.23
Less: Treasury stock		-	-
Surplus reserves	VII.31	3,403,213,907.15	3,403,213,907.15
General risk provisions	VII.32	9,936,446,291.58	8,100,629,133.56
Retained earnings	VII.33	40,038,944,128.33	25,854,179,132.96
Total equity attributable to shareholders of the Company		**91,995,287,274.28**	**59,597,461,562.90**
Minority interests		-	-
Total equity		**91,995,287,274.28**	**59,597,461,562.90**
Total equity and liabilities		**1,849,673,379,303.64**	**1,332,161,552,210.50**

Legal Representative: Gao Jianping   President: Li Renjie   Financial Director: Li Jian

The accompanying notes form an integral part of the financial statements

Balance Sheet

Industrial Bank Co., Ltd. (December 31, 2010)

Unit: RMB Yuan

Item	Notes	12/31/2010	12/31/2009
Assets			
Cash and due from the Central Bank	VII.1	288,641,167,616.20	171,904,287,270.24
Due from banks and other financial institutions	VII.2	39,867,102,813.11	42,364,548,942.56
Precious metals	VII.3	684,623,060.00	126,383,560.00
Placements with banks and other financial institutions	VII.4	21,099,362,200.00	13,684,317,600.00
Transactional financial assets	VII.5	5,536,954,408.13	3,363,484,447.86
Derivative financial assets	VII.6	2,301,372,821.31	1,399,034,892.74
Reverse repurchase agreements	VII.7	374,004,538,337.82	195,884,147,048.86
Interest receivables	VII.8	6,648,978,465.03	4,354,329,756.47
Loans and advances to customers	VII.9	842,567,642,722.76	691,962,535,414.93
Available-for-sale financial assets	VII.10	147,231,850,227.46	111,148,150,277.15
Receivables	VII.11	61,321,130,730.48	40,786,092,397.64
Held-to-maturity investment	VII.13	34,289,943,382.74	42,354,236,841.53
Long-term equity investments	VII.14	2,770,718,470.61	416,205,432.50
Investment property		-	-
Fixed assets	VII.15	3,844,687,056.50	3,623,778,994.63
Construction in progress	VII.16	3,080,094,023.35	1,924,748,081.21
Intangible assets	VII.17	319,009,343.56	359,606,425.57
Goodwill		-	-
Deferred tax assets	VII.18	2,389,151,056.05	1,838,180,395.08
Other assets	VII.19	5,224,321,821.80	4,667,484,431.53
Total assets		**1,841,822,648,556.91**	**1,332,161,552,210.50**
Liabilities			
Amounts due to the Central Bank		364,742,710.73	40,400,328.58
Due to banks and other financial institutions	VII.20	418,385,874,865.78	237,013,064,828.40
Placements from banks and other financial institutions	VII.21	18,598,078,700.00	1,762,581,600.00
Transactional financial liabilities		-	-
Derivative financial liabilities	VII.6	2,317,246,751.31	1,601,813,569.85
Repurchase agreements	VII.22	89,585,320,693.45	45,910,484,914.31
Customer deposits	VII.23	1,132,767,383,425.85	900,884,448,036.70
Salaries and staff welfare payables	VII.24	4,533,437,987.99	4,176,753,241.54
Tax payable	VII.25	3,479,149,730.71	2,263,908,901.91
Interest payable	VII.26	8,574,506,102.75	5,732,319,818.39
Accrued liability		-	-
Bonds payable	VII.27	64,934,969,380.18	68,927,863,631.54
Deferred taxes liabilities		-	-
Other liabilities	VII.28	6,288,266,736.01	4,250,451,776.38
Total liabilities		**1,749,828,977,084.76**	**1,272,564,090,647.60**
Shareholders' Equity			
Paid-in capital	VII.29	5,992,450,630.00	5,000,000,000.00
Capital reserves	VII.30	32,624,232,317.22	17,239,439,389.23
Less: Treasury stock		-	-
Surplus reserves	VII.31	3,403,213,907.15	3,403,213,907.15
General risk provisions	VII.32	9,936,430,133.56	8,100,629,133.56
Retained earnings	VII.33	40,037,344,484.22	25,854,179,132.96
Total equity		**91,993,671,472.15**	**59,597,461,562.90**
Total liabilities and equity		**1,841,822,648,556.91**	**1,332,161,552,210.50**

Legal Representative: Gao Jianping   President: Li Renjie   Financial Director: Li Jian

The accompanying notes form an integral part of the financial statements

Consolidated Income Statement

Industrial Bank Co., Ltd. (2010)

Unit: RMB Yuan

Item	Notes	2010	2009
1. Operating revenue		**43,455,912,751.83**	**31,679,045,403.17**
Net interest income	VII.34	38,031,783,254.81	27,201,737,211.91
Interest income		70,975,614,135.56	50,038,804,198.03
Interest expense		(32,943,830,880.75)	(22,837,066,986.12)
Net fee and commission income	VII.35	4,801,161,388.72	3,115,995,197.24
Fee and commission income		5,228,947,700.97	3,482,170,557.54
Fee and commission expense		(427,786,312.25)	(366,175,360.30)
Investment income	VII.36	354,388,015.11	1,007,511,995.77
Gains or losses from changes in fair value	VII.37	174,669,916.52	(13,257,264.21)
Foreign currency translation gains and losses		53,465,634.55	326,920,602.90
Other operating income		40,444,542.12	40,137,659.56
2. Operating expenses:		**(19,559,158,022.96)**	**(14,462,267,675.34)**
Business tax and surcharges	VII.38	(2,914,662,955.04)	(2,321,138,162.62)
General and administrative expenses	VII.39	(14,007,209,415.12)	(11,473,561,497.73)
Assets impairment loss	VII.40	(2,342,495,646.68)	(518,460,023.38)
Other operating expenses		(294,790,006.12)	(149,107,991.61)
3. Net operating income		**23,896,754,728.87**	**17,216,777,727.83**
Add: Non operating income	VII.41	192,970,367.52	139,116,544.44
Less: Non operating expense	VII.42	(84,363,015.44)	(126,409,246.41)
4. Total operating income		**24,005,362,080.95**	**17,229,485,025.86**
Less: Income tax	VII.43	(5,484,779,927.56)	(3,947,542,353.24)
5. Net profit		**18,520,582,153.39**	**13,281,942,672.62**
Profit attributable to equity shareholders of the Company		18,520,582,153.39	13,281,942,672.62
Minority interests		-	-
6. Earnings per share			
Basic	VII.44	3.28	2.50
Diluted	VII.44	3.28	2.50
7. Other comprehensive income	**VII.45**	**(1,313,927,023.53)**	**(456,527,233.28)**
8. Total comprehensive income		**17,206,655,129.86**	**12,825,415,439.34**
Total comprehensive income attributable to equity shareholders of the Company		**17,206,655,129.86**	**12,825,415,439.34**
Total comprehensive income attributable to minority interests of the Company		**-**	**-**

Legal Representative: Gao Jianping   President: Li Renjie   Financial Director: Li Jian

The accompanying notes form an integral part of the financial statements

Income Statement

Industrial Bank Co., Ltd. (2010)

Unit: RMB Yuan

Item	Notes	2010	2009
1. Operating revenue		**43,325,465,667.83**	**31,679,045,403.17**
Net interest income	VII.34	37,942,794,756.42	27,201,737,211.91
Interest income		70,863,128,886.59	50,038,804,198.03
Interest expense		(32,920,334,130.17)	(22,837,066,986.12)
Net fee and commission income	VII.35	4,759,702,803.11	3,115,995,197.24
Fee and commission income		5,184,488,618.18	3,482,170,557.54
Fee and commission expense		(424,785,815.07)	(366,175,360.30)
Investment income	VII.36	354,388,015.11	1,007,511,995.77
Gains or losses from changes in fair value	VII.37	174,669,916.52	(13,257,264.21)
Foreign currency translation gains and losses		53,465,634.55	326,920,602.90
Other operating income		40,444,542.12	40,137,659.56
2. Operating expenses:		**(19,411,129,886.92)**	**(14,462,267,675.34)**
Business tax and surcharges	VII.38	(2,907,904,637.85)	(2,321,138,162.62)
General and administrative expenses	VII.39	(13,965,345,777.05)	(11,473,561,497.73)
Assets impairment loss	VII.40	(2,243,089,465.90)	(518,460,023.38)
Other operating expenses		(294,790,006.12)	(149,107,991.61)
3. Net operating income		**23,914,335,780.91**	**17,216,777,727.83**
Add: Non operating income	VII.41	172,970,367.52	139,116,544.44
Less: Non operating expense	VII.42	(84,363,015.44)	(126,409,246.41)
4.Total operating income		**24,002,943,132.99**	**17,229,485,025.86**
Less: Income tax	VII.43	(5,483,976,781.73)	(3,947,542,353.24)
5. Net profit		**18,518,966,351.26**	**13,281,942,672.62**
6. Other comprehensive income	**VII.45**	**(1,313,927,023.53)**	**(456,527,233.28)**
7. Total comprehensive income		**17,205,039,327.73**	**12,825,415,439.34**

Legal Representative: Gao Jianping President: Li Renjie Financial Director: Li Jian

The accompanying notes form an integral part of the financial statements

Consolidated Statement of Changes in Equity

Industrial Bank Co., Ltd. (2010)

Unit: RMB Yuan

Item	Paid-in capital	Capital reserves	Less: Treasury stock	Special reserve	Surplus reserves	General risk provisions	Retained earnings	Minority interests	Total equity
1. Balance as at 31/12/2009	**5,000,000,000.00**	**17,239,439,389.23**	**-**	**-**	**3,403,213,907.15**	**8,100,629,133.56**	**25,854,179,132.96**	**-**	**59,597,461,562.90**
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	**-**
Corrections of prior period errors	-	-	-	-	-	-	-	-	**-**
2. Balance as at 01/01/2010	**5,000,000,000.00**	**17,239,439,389.23**	**-**	**-**	**3,403,213,907.15**	**8,100,629,133.56**	**25,854,179,132.96**	**-**	**59,597,461,562.90**
3. Changes of current year	**992,450,630.00**	**15,384,792,927.99**	**-**	**-**	**-**	**1,835,817,158.02**	**14,184,764,995.37**	**-**	**32,397,825,711.38**
1) Net profit	-	-	-	-	-	-	18,520,582,153.39	-	**18,520,582,153.39**
2) Other comprehensive income	-	(1,313,927,023.53)	-	-	-	-	-	-	**(1,313,927,023.53)**
Subtotal of 1) and 2)	**-**	**(1,313,927,023.53)**	**-**	**-**	**-**	**-**	**18,520,582,153.39**	**-**	**17,206,655,129.86**
3) Capital invested and capital decreased by the shareholders	992,450,630.00	16,698,719,951.52	-	-	-	-	-	-	**17,691,170,581.52**
1. Capital invested by the shareholders	992,450,630.00	16,698,719,951.52	-	-	-	-	-	-	**17,691,170,581.52**
2. Capital decrease by the shareholders	-	-	-	-	-	-	-	-	**-**
3. Other	-	-	-	-	-	-	-	-	**-**
4) Profit distribution	-	-	-	-	-	1,835,817,158.02	(4,335,817,158.02)	-	**(2,500,000,000.00)**
1. Appropriation of surplus reserves	-	-	-	-	-	-	-	-	**-**
2. Appropriation of general risk provisions	-	-	-	-	-	1,835,817,158.02	(1,835,817,158.02)	-	**-**
3. Distribution to shareholders	-	-	-	-	-	-	(2,500,000,000.00)	-	**(2,500,000,000.00)**
4. Other	-	-	-	-	-	-	-	-	**-**
5) Internal transfers within shareholders' equity	-	-	-	-	-	-	-	-	**-**
1. Capital reserves transferred to share capital	-	-	-	-	-	-	-	-	**-**
2. Surplus reserves transferred to share capital	-	-	-	-	-	-	-	-	**-**
3. Loss covered by surplus reserves	-	-	-	-	-	-	-	-	**-**
4. Loss covered by general risk provisions	-	-	-	-	-	-	-	-	**-**
5. Other	-	-	-	-	-	-	-	-	**-**
6) Special reserve	-	-	-	-	-	-	-	-	**-**
1. Prepared in the year	-	-	-	-	-	-	-	-	**-**
2. Make up in the year	-	-	-	-	-	-	-	-	**-**
7) Others	-	-	-	-	-	-	-	-	**-**
4. Balance as at 31/12/2010	**5,992,450,630.00**	**32,624,232,317.22**	**-**	**-**	**3,403,213,907.15**	**9,936,446,291.58**	**40,038,944,128.33**	**-**	**91,995,287,274.28**

Legal Representative: Gao Jianping   President: Li Renjie   Financial Director: Li Jian

The accompanying notes form an integral part of the financial statements

Consolidated Statement of Changes in Equity

Industrial Bank Co., Ltd. (2009)

Unit: RMB Yuan

Item	Paid-in capital	Capital reserves	Less: Treasury stock	Special reserve	Surplus reserves	General risk provisions	Retained earnings	Minority interests	Total equity
1. Balance as at 31/12/2008	**5,000,000,000.00**	**17,695,966,622.51**	**-**	**-**	**3,403,213,907.15**	**6,380,278,367.90**	**16,542,587,242.19**	**-**	**49,022,046,139.75**
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	**-**
Corrections of prior period errors	-	-	-	-	-	-	-	-	**-**
2. Balance as at 01/01/2009	**5,000,000,000.00**	**17,695,966,622.51**	**-**	**-**	**3,403,213,907.15**	**6,380,278,367.90**	**16,542,587,242.19**	**-**	**49,022,046,139.75**
3. Changes of current year	**-**	**(456,527,233.28)**	**-**	**-**	**-**	**1,720,350,765.66**	**9,311,591,890.77**	**-**	**10,575,415,423.15**
1) Net profit	-	-	-	-	-	-	13,281,942,672.62	-	**13,281,942,672.62**
2) Other comprehensive income	-	(456,527,233.28)	-	-	-	-	-	-	**(456,527,233.28)**
Subtotal of 1) and 2)	**-**	**(456,527,233.28)**	**-**	**-**	**-**	**-**	**13,281,942,672.62**	**-**	**12,825,415,439.34**
3) Capital invested and capital decreased by the shareholders	-	-	-	-	-	-	-	-	**-**
1. Capital invested by the shareholders		-	-	-	-	-	-	-	**-**
2. Capital decrease by the shareholders	-	-	-	-	-	-	-	-	**-**
3. Other	-	-	-	-	-	-	-	-	**-**
4) Profit distribution	-	-	-	-	-	1,720,350,765.66	(3,970,350,781.85)	-	**(2,250,000,016.19)**
1. Appropriation of surplus reserves	-	-	-	-	-	-	-	-	**-**
2. Appropriation of general risk provisions	-	-	-	-	-	1,720,350,765.66	(1,720,350,765.66)	-	**-**
3. Distribution to shareholders	-	-	-	-	-	-	(2,250,000,016.19)	-	**(2,250,000,016.19)**
4. Other	-	-	-	-	-	-	-	-	**-**
5) Internal transfers within shareholders' equity	-	-	-	-	-	-	-	-	**-**
1. Capital reserves transferred to share capital	-	-	-	-	-	-	-	-	**-**
2. Surplus reserves transferred to share capital	-	-	-	-	-	-	-	-	**-**
3. Loss covered by surplus reserves	-	-	-	-	-	-	-	-	**-**
4. Loss covered by general risk provisions	-	-	-	-	-	-	-	-	**-**
5. Other	-	-	-	-	-	-	-	-	**-**
6) Special reserve	-	-	-	-	-	-	-	-	**-**
1. Prepared in the year	-	-	-	-	-	-	-	-	**-**
2. Make up in the year	-	-	-	-	-	-	-	-	**-**
7) Others	-	-	-	-	-	-	-	-	**-**
4. Balance as at 31/12/2009	**5,000,000,000.00**	**17,239,439,389.23**	**-**	**-**	**3,403,213,907.15**	**8,100,629,133.56**	**25,854,179,132.96**	**-**	**59,597,461,562.90**

Legal Representative: Gao Jianping President: Li Renjie Financial Director: Li Jian

The accompanying notes form an integral part of the financial statements

Statement of Changes in Equity

Industrial Bank Co., Ltd. (2010)

Unit: RMB Yuan

Item	Paid-in capital	Capital reserves	Less: Treasury stock	Special reserve	Surplus reserves	General risk provisions	Retained earnings	Total equity
1. Balance as at 31/12/2009	**5,000,000,000.00**	**17,239,439,389.23**	**-**	**-**	**3,403,213,907.15**	**8,100,629,133.56**	**25,854,179,132.96**	**59,597,461,562.90**
Add: Changes in accounting policies	-	-	-	-	-	-	-	**-**
Corrections of prior period errors	-	-	-	-	-	-	-	**-**
2. Balance as at 01/01/2010	**5,000,000,000.00**	**17,239,439,389.23**	**-**	**-**	**3,403,213,907.15**	**8,100,629,133.56**	**25,854,179,132.96**	**59,597,461,562.90**
3. Changes of current year	**992,450,630.00**	**15,384,792,927.99**	**-**	**-**	**-**	**1,835,801,000.00**	**14,183,165,351.26**	**32,396,209,909.25**
1) Net profit	-	-	-	-	-	-	18,518,966,351.26	**18,518,966,351.26**
2) Other comprehensive income	-	(1,313,927,023.53)	-	-	-	-	-	**(1,313,927,023.53)**
Subtotal of 1) and 2)	**-**	**(1,313,927,023.53)**	**-**	**-**	**-**	**-**	**18,518,966,351.26**	**17,205,039,327.73**
3) Capital invested and capital decreased by the shareholders	992,450,630.00	16,698,719,951.52	-	-	-	-	-	**17,691,170,581.52**
1. Capital invested by the shareholders	992,450,630.00	16,698,719,951.52	-	-	-	-	-	**17,691,170,581.52**
2. Capital decrease by the shareholders	-	-	-	-	-	-	-	**-**
3. Other	-	-	-	-	-	-	-	**-**
4) Profit distribution	-	-	-	-	-	1,835,801,000.00	(4,335,801,000.00)	**(2,500,000,000.00)**
1. Appropriation of surplus reserves	-	-	-	-	-	-	-	**-**
2. Appropriation of general risk provisions	-	-	-	-	-	1,835,801,000.00	(1,835,801,000.00)	**-**
3. Distribution to shareholders	-	-	-	-	-	-	(2,500,000,000.00)	**(2,500,000,000.00)**
4. Other	-	-	-	-	-	-	-	**-**
5) Internal transfers within shareholders' equity	-	-	-	-	-	-	-	**-**
1. Capital reserves transferred to share capital	-	-	-	-	-	-	-	**-**
2. Surplus reserves transferred to share capital	-	-	-	-	-	-	-	**-**
3. Loss covered by surplus reserves	-	-	-	-	-	-	-	**-**
4. Loss covered by general risk provisions	-	-	-	-	-	-	-	**-**
5. Other	-	-	-	-	-	-	-	**-**
6) Special reserve	-	-	-	-	-	-	-	**-**
1.Prepared in the year	-	-	-	-	-	-	-	**-**
2.Make up in the year	-	-	-	-	-	-	-	**-**
7) Others	-	-	-	-	-	-	-	**-**
4. Balance as at 31/12/2010	**5,992,450,630.00**	**32,624,232,317.22**	**-**	**-**	**3,403,213,907.15**	**9,936,430,133.56**	**40,037,344,484.22**	**91,993,671,472.15**

Legal Representative: Gao Jianping President: Li Renjie Financial Director: Li Jian

The accompanying notes form an integral part of the financial statements

Statement of Changes in Equity

Industrial Bank Co., Ltd. (2009)

Unit: RMB Yuan

Item	Paid-in capital	Capital reserves	Less: Treasury stock	Special reserve	Surplus reserves	General risk provisions	Retained earnings	Total equity
1. Balance as at 31/12/2008	**5,000,000,000.00**	**17,695,966,622.51**	**-**	**-**	**3,403,213,907.15**	**6,380,278,367.90**	**16,542,587,242.19**	**49,022,046,139.75**
Add: Changes in accounting policies	-	-	-	-	-	-	-	**-**
Corrections of prior period errors	-	-	-	-	-	-	-	**-**
2. Balance as at 01/01/2009	**5,000,000,000.00**	**17,695,966,622.51**	**-**	**-**	**3,403,213,907.15**	**6,380,278,367.90**	**16,542,587,242.19**	**49,022,046,139.75**
3. Changes of current year	**-**	**(456,527,233.28)**	**-**	**-**	**-**	**1,720,350,765.66**	**9,311,591,890.77**	**10,575,415,423.15**
1) Net profit	-	-	-	-	-	-	13,281,942,672.62	**13,281,942,672.62**
2) Other comprehensive income	-	(456,527,233.28)	-	-	-	-	-	**(456,527,233.28)**
Subtotal of 1) and 2)	**-**	**(456,527,233.28)**	**-**	**-**	**-**	**-**	**13,281,942,672.62**	**12,825,415,439.34**
3) Capital invested and capital decreased by the shareholders	-	-	-	-	-	-	-	**-**
1. Capital invested by the shareholders		-	-	-	-	-	-	**-**
2. Capital decrease by the shareholders	-	-	-	-	-	-	-	**-**
3. Other	-	-	-	-	-	-	-	**-**
4) Profit distribution	-	-	-	-	-	1,720,350,765.66	(3,970,350,781.85)	**(2,250,000,016.19)**
1. Appropriation of surplus reserves	-	-	-	-	-	-	-	**-**
2. Appropriation of general risk provisions	-	-	-	-	-	1,720,350,765.66	(1,720,350,765.66)	**-**
3. Distribution to shareholders	-	-	-	-	-	-	(2,250,000,016.19)	**(2,250,000,016.19)**
4. Other	-	-	-	-	-	-	-	**-**
5) Internal transfers within shareholders' equity	-	-	-	-	-	-	-	**-**
1. Capital reserves transferred to share capital	-	-	-	-	-	-	-	**-**
2. Surplus reserves transferred to share capital	-	-	-	-	-	-	-	**-**
3. Loss covered by surplus reserves	-	-	-	-	-	-	-	**-**
4. Loss covered by general risk provisions	-	-	-	-	-	-	-	**-**
5. Other	-	-	-	-	-	-	-	**-**
6) Special reserve	-	-	-	-	-	-	-	**-**
1.Prepared in the year	-	-	-	-	-	-	-	**-**
2.Make up in the year	-	-	-	-	-	-	-	**-**
7) Others	-	-	-	-	-	-	-	**-**
4. Balance as at 31/12/2009	**5,000,000,000.00**	**17,239,439,389.23**	**-**	**-**	**3,403,213,907.15**	**8,100,629,133.56**	**25,854,179,132.96**	**59,597,461,562.90**

Legal Representative: Gao Jianping President: Li Renjie Financial Director: Li Jian

The accompanying notes form an integral part of the financial statements

Consolidated Cashflow Statement

Industrial Bank Co., Ltd. (2010)

Unit: RMB Yuan

Item	Notes	2010	2009
1.Cash flow from operating activities			
Increase in balance from customer deposits and due to banks and other financial institutions		412,682,217,538.50	322,609,072,995.57
Increase in balances with the Central Bank		325,976,471.45	40,597,502.55
Increase in balance of placement from banks and other financial institutions		68,049,332,879.14	-
Decrease in due from the Central Bank and due from banks and other financial institutions		-	18,217,570,294.81
Cash received from interest, service fee and commissions		67,571,572,251.88	46,884,810,915.30
Cash received from other operating income		3,076,592,028.91	417,006,972.60
Subtotal of cash inflow		**551,705,691,169.88**	**388,169,058,680.83**
Increaes in balance for loans and advances to customers		(152,615,089,834.92)	(202,072,891,740.71)
Increase in balance for statutory deposit with the Central Bank and due to banks		(64,013,227,074.06)	-
Increase in balance for placement with other financial institutions		(157,194,060,508.64)	(52,320,721,496.48)
Decrease in balance of placement from banks and other financial institutions		-	(23,340,848,551.77)
Cash paid for interest, service fee and commission		(29,526,199,702.36)	(20,972,789,757.14)
Cash paid to and for staff		(5,946,712,508.33)	(4,480,516,155.55)
Cash paid for income tax and other tax associate charges		(7,376,636,486.85)	(7,009,900,533.24)
Cash paid for other operating income		(17,382,007,599.27)	(6,123,233,641.34)
Subtotal of cash outflow		**(434,053,933,714.43)**	**(316,320,901,876.23)**
Net cash flow from operating activities	**VII.46**	**117,651,757,455.45**	**71,848,156,804.60**
2. Cash flow from investing activities			
Cash received from recovery of investments		592,283,065,772.79	603,392,556,549.16
Cash received from investment income		7,830,864,609.97	6,129,421,679.74
Cash received from other investing activities		107,799,315.51	54,208,752.97
Subtotal of cash inflow		**600,221,729,698.27**	**609,576,186,981.87**
Cash paid for investments		(645,056,000,407.54)	(644,321,051,815.85)
Acquisition of new subsidiaries and other business units		(264,396,000.00)	-
Cash paid for acquiring fixed assets, intangible assets and other long term assets		(2,319,479,012.48)	(1,518,045,006.38)
Cash paid for other investing activities		-	-
Subtotal of cash outflow		**(647,639,875,420.02)**	**(645,839,096,822.23)**
Net cash flow from investing activities		**(47,418,145,721.75)**	**(36,262,909,840.36)**
3. Cash flow from financing activities			
Cash received from equity investments		17,864,111,340.00	-
Cash received from issuing of bonds		3,000,000,000.00	10,000,000,000.00
Cash received from other financing activities		-	-
Subtotal of cash inflow		**20,864,111,340.00**	**10,000,000,000.00**
Cash paid for repayment of debts		(7,000,000,000.00)	(6,000,000,000.00)
Cash paid for distribution of dividends, profits, or interest expense		(5,190,476,804.00)	(4,892,109,870.96)
Cash paid for other financial activities		(181,385,758.48)	(33,865,000.00)
Subtotal of cash outflow		**(12,371,862,562.48)**	**(10,925,974,870.96)**
Net cash flow from financing activities		**8,492,248,777.52**	**(925,974,870.96)**
4. Effect of changes on exchange rate		**(158,122,730.76)**	**52,718,712.18**
5. Net increase in cash and cash equivalents	**VII.46**	**78,567,737,780.46**	**34,711,990,805.46**
Add: Opening balance of cash and cash equivalents	VII.46	182,823,870,607.49	148,111,879,802.03
6. Closing balance of cash and cash equivalents	**VII.46**	**261,391,608,387.95**	**182,823,870,607.49**

Legal Representative: Gao Jianping President: Li Renjie Financial Director: Li Jian

The accompanying notes form an integral part of the financial statements

Cashflow Statement

Industrial Bank Co., Ltd. (2010)

Unit: RMB Yuan

Item	Notes	2010	2009
1.Cash flow from operating activities			
Increase in balance from customer deposits and due to banks and other financial institutions		413,413,543,537.61	322,609,072,995.57
Increase in balances with the Central Bank		325,976,471.45	40,597,502.55
Increase in balance of placement from banks and other financial institutions		60,510,332,879.14	-
Decrease in due from the Central Bank and due from banks and other financial institutions		-	18,217,570,294.81
Cash received from interest, service fee and commissions		67,322,857,577.04	46,884,810,915.30
Cash received from other operating income		2,121,561,938.06	417,006,972.60
Subtotal of cash inflow		**543,694,272,403.30**	**388,169,058,680.83**
Increaes in balance for loans and advances to customers		(152,615,089,834.92)	(202,072,891,740.71)
Increase in balance for statutory deposit with the Central Bank and due to banks		(64,013,227,074.06)	-
Increase in balance for placement with other inancial institutions		(157,194,060,508.64)	(52,320,721,496.48)
Decrease in balance of placement from banks and other financial institutions		-	(23,340,848,551.77)
Cash paid for interest, service fee and commission		(29,517,933,462.41)	(20,972,789,757.14)
Cash paid to and for staff		(5,939,871,757.53)	(4,480,516,155.55)
Cash paid for income tax and other tax associate charges		(7,369,990,486.72)	(7,009,900,533.24)
Cash paid for other operating income		(7,395,165,330.16)	(6,123,233,641.34)
Subtotal of cash outflow		**(424,045,338,454.44)**	**(316,320,901,876.23)**
Net cash flow from operating activities	**VII.46**	**119,648,933,948.86**	**71,848,156,804.60**
2. Cash flow from investing activities			
Cash received from recovery of investments		592,283,065,772.79	603,392,556,549.16
Cash received from investment income		7,830,864,609.97	6,129,421,679.74
Cash received from other investing activities		107,799,315.51	54,208,752.97
Subtotal of cash inflow		**600,221,729,698.27**	**609,576,186,981.87**
Cash paid for investments		(645,056,000,407.54)	(644,321,051,815.85)
Acquisition of new subsidiaries and other business units		(2,264,396,000.00)	-
Cash paid for acquiring fixed assets, intangible assets and other long term assets		(2,316,811,952.22)	(1,518,045,006.38)
Cash paid for other investing activities		-	-
Subtotal of cash outflow		**(649,637,208,359.76)**	**(645,839,096,822.23)**
Net cash flow from investing activities		**(49,415,478,661.49)**	**(36,262,909,840.36)**
3. Cash flow from financing activities			
Cash received from equity investments		17,864,111,340.00	-
Cash received from issuing of bonds		3,000,000,000.00	10,000,000,000.00
Cash received from other financing activities		-	-
Subtotal of cash inflow		**20,864,111,340.00**	**10,000,000,000.00**
Cash paid for repayment of debts		(7,000,000,000.00)	(6,000,000,000.00)
Cash paid for distribution of dividends, profits, or interest expense		(5,190,476,804.00)	(4,892,109,870.96)
Cash paid for other financial activities		(181,385,758.48)	(33,865,000.00)
Subtotal of cash outflow		**(12,371,862,562.48)**	**(10,925,974,870.96)**
Net cash flow from financing activities		**8,492,248,777.52**	**(925,974,870.96)**
4. Effect of changes on exchange rate		**(158,122,730.76)**	**52,718,712.18**
5. Net increase in cash and cash equivalents	**VII.46**	**78,567,581,334.13**	**34,711,990,805.46**
Add: Opening balance of cash and cash equivalents	VII.46	182,823,870,607.49	148,111,879,802.03
6.Closing balance of cash and cash equivalents	**VII.46**	**261,391,451,941.62**	**182,823,870,607.49**

Legal Representative: Gao Jianping　　President: Li Renjie　　Financial Director: Li Jian

The accompanying notes form an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Renminbi unless otherwise stated)

I. BRIEF INTRODUCTION

1. Background

Industrial Bank Co., Ltd. (hereinafter referred to as "the Company") which was referred to as Fujian Industrial Bank Co., Ltd. previously, is a joint-stock commercial bank approved by the People's Bank of China (PBOC), with the document YF [1988] No. 347 issued on July 20, 1988, in accordance with the Application by Fujian Province for Deepening Reform and Opening and Accelerating the Development of Export-oriented Economy (GH [1988] No.58) approved by the State Council.

The Company issued 1,001,000,000 "A" shares with par value of RMB1.00 for each share in January 2007 with the approval of China Securities Regulatory Commission (CSRC). The issue price for each share was RMB 15.98, which increased the Company's registered capital and share capital by RMB 1,001,000,000. After the issuance, the Company's registered capital has increased to RMB5,000,000,000, which has been verified by Fujian Huaxing Certified Public Accountants Ltd. with a capital verification report referenced "MHXS (2007) YZ NO.G-002". Approved by the Shanghai Stock Exchange with the approval document SZSZ [2007] No. 26, shares issued by the Company started trading on Shanghai Stock Exchange on February 5, 2007 with the stock code 601166.

Upon approval of CSRC, the Company allotted 992 million shares on June 2010 with allotment price of RMB 18.00 yuan per share. The Company increased its registered capital and share capital to RMB 5.992 billion, which have been audited by Fujian Huaxing Certified Public Accountants Co., Ltd. and issued a capital verification report (MHXS [2010] Yanzi G-003). The allotted shares start trading on June 8, 2010 at the Shanghai Stock Exchange.

The Company has obtained its license for carrying out financial activities from China Banking Regulatory Commission (CBRC) with the license number of No. B0013H135010001. The Company's business license was approved by Fujian Provincial Administration of Industry and Commerce with the registration number of 350000100009440, the registered address is 154 Hudong Road, Fuzhou, Fujian Province. The legal representative of the Company is Mr. Gao Jianping.

2. Principal activities

The principal activities of the Bank and its subsidiaries ("the Group" hereafter) are the provision of corporate and personal banking services, conducting treasury business, the provision of financial lease, asset custody service and other financial services.

3. Corporate structure

As at December 31, 2010, apart from its head office, the Company has 37 level-1 branches in Fuzhou, Xiamen, Ningde, Putian, Quanzhou, Zhangzhou, Longyan, Sanming, Nanping, Shanghai, Shenzhen, Changsha, Beijing, Hangzhou, Guangzhou, Nanjing, Ningbo, Chongqing, Jinan, Wuhan, Shenyang, Chengdu, Tianjin, Xi'an, Zhengzhou, Taiyuan, Kunming, Nanchang, Hefei, Urumqi, Dalian, Qingdao, Nanning, Harbin, Shijiazhuang, Changchun and Hohhot; 27 level-2 branches in Wuxi, Yiwu, Taizhou, Wenzhou, Foshan, Yichang, Luoyang, Dongguan, Nantong, Anqing, Beihai, Changde, Dali, Deyang, Guilin, Jining, Jiaxing, Jiangmen, Pingdingshan, Pingtan, Shiyan, Suzhou, Wuhu, Xuzhou, Yantai, Yulin, and Zhongshan. The Company also has other operating departments of the head office in Beijing and Shanghai such as Financial Markets, Credit Card Centre, Retail Banking Management Centre, Asset Custody Department, Bank Service Centre, VIC Department, Investment Banking Department, Fund Finance Department, Futures Finance Department, Sustainable Finance Center and Beijing Representative Office etc.

In addition, the Company has one subsidiary: Industrial Bank Financial Leasing Co., Ltd. (refer to Notes VI for details).

II. BASIS OF PRESENTATION

The financial statements are prepared on the basis that the Company is a going concern, according to the actual transactions and matters which are recognized and measured in terms of the Accounting Standard for Business Enterprises - Basic Guidelines and other specific accounting standards, guidelines and explanation.

III. THE DECLARATION ON COMPLIANCE WITH THE ACCOUNTING STANDARDS FOR ENTERPRISES

The financial statement is in accordance with the requirements of the Accounting Standards for Business Enterprises, fairly presents the financial position of the Group and the Company as of December 31, 2010, and of its financial performance and its cash flows for the year then ended.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

1. The financial year of the Company

The financial year of the Company runs from January 1 to December 31 of each calendar year.

2. Reporting currency

Renminbi (RMB) is adopted by the Company as reporting currency.

3. Reporting basis and accounting principle

The Company's books and ledgers are kept on accrual basis.

When financial assets and liabilities are recognized initially, they are measured at fair value. After initial recognition, financial assets and liabilities at fair value through profit or loss, available-for-sale financial assets are measured at fair value; other financial and non financial assets and liabilities are measured at their historical cost.

4. Basis of consolidation

The scope of consolidation includes the financial statements of the Company and its subsidiaries. Subsidiaries are enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operational policies of an enterprise so as to obtain benefits from its activities. When ascertaining whether or not it is able to control or have significant influences on an invested entity, an enterprise shall take into consideration the invested enterprises' current convertible corporate bonds and current executable warrants held by the investing enterprise and other parties, as well as other potential factors concerning the voting rights. The dates on which the Group obtains or loses control of its subsidiaries are considered as the acquisition date and the date of disposal.

The results of the subsidiaries acquired or disposed during the current year are included from the date that control commences until the date that control ceases.

All significant inter company transactions and balances, and any unrealised gains or losses arising from inter company transactions, have been eliminated on consolidation. The portion of a subsidiary's owner's equity that is not attributable to the parent is treated as minority interests and presented in the consolidated balance sheet as owner's equity, and in the consolidated income statement below the "net profit" line item.

If the accounting policies or accounting periods of the subsidiaries are different from those of the Company, when preparing the consolidated financial statements, the Company makes necessary adjustments to the financial statements of the subsidiaries based on its own accounting policies and accounting periods.

5. Cash and cash equivalent

The cash and cash equivalents of the Company include cash, due from the central bank (excluding statutory deposit reserves), due from banks and other financial institutions (excluding overdue and fixed deposits with longer than three months placement term), placements with banks and other financial institutions (excluding overdue and fixed placement with longer than three months placement term), less than three months reverse repurchase agreements and short term and highly liquid investments with less than three months maturity term that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

6. Foreign currency transactions

The separate books and records are kept for foreign currency transactions in original currencies.

At the time of initial recognition of a foreign currency transaction, the amount in the foreign currency shall be translated into the amount in the functional currency at the spot exchange rate of the transaction date. On the balance sheet date, the foreign currency monetary items shall be translated at the spot exchange rate. The balance of exchange arising from the difference between the spot exchange rate on the balance sheet date and the spot exchange rate at the time of initial recognition or prior to the balance sheet date shall be recorded into the profits and losses at the current period. The foreign currency non-monetary items measured at the historical cost shall still be translated at the spot exchange rate on the transaction date. The foreign currency non-monetary items measured at fair value shall be translated at the spot exchange rate on the date when the fair value has been determined, and the difference is treated as change in fair value and is included in the owner's equity or the profits and losses at the current period.

7. Precious metals

Precious metals held by the Group mainly include gold and silver trading in the domestic market. Precious metals are recorded at actual price of acquition, and adjusted the valuation according to the market prices at the balance sheet date, any gain or loss due to the frustration of market price is recorded in the income statement of the current year.

8. Financial assets

The Group classifies its financial assets into four categories: financial assets at fair value through profit or loss; held-to-maturity investments; loans and receivables; and available-for-sale financial assets. When financial assets are recognized initially, they are measured at fair value. For financial assets at fair value through profit or loss, any transaction costs are recognized in P/L accounts; for other financial assets which are not measured at fair value through profit or loss, any transaction costs that are directly attributable to the acquisition of the financial assets can be recognized.

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

Financial assets at fair value through profit or loss include transactional financial assets and the financial assets which are measured at their fair values and of which the variation is included in the current profits and losses.

Financial assets at fair value through profit or loss include financial asset held for the purpose of selling it at fair value in the near term; or it is part of a portfolio of identified financial instruments that are managed for short term profit-taking. Derivative financial instruments are also classified as held for trading unless: they are designated as effective hedging instruments; they belong to financial guarantee contracts or they are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured.

Besides the transactional financial assets, only the financial assets meeting any of the following requirements can be designated, when they are initially recognized, as financial asset as measured at its fair value and of which the variation is included in the current profits and losses:

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *continued*

8. Financial assets *continued*

(1) Financial assets at fair value through profit or loss *continued*

(i) The designation is able to eliminate or obviously reduce the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial assets or financial liabilities;

(ii) The official written documents on risk management or investment strategies of the Company concerned have recorded that the combination of said financial assets, the combination of said financial liabilities, or the combination of said financial assets and financial liabilities will be managed and evaluated on the basis of their fair value and be reported to the key management personnel;

(iii) Related to financial instruments that combine a single or many embedded derivatives, which cause the cash flow of the financial instruments to be modified and shall be separated from the host contract.

After initial recognition, these financial assets are measured at fair value. All related realized and unrealized gains or losses are included in the income statement.

(2) Held-to-maturity investment

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity. These investments are carried at amortized cost using the effective interest method, less provision for impairment in value. Gains and losses are recognized in the income statement when the held-to-maturity investments are derecognized or impaired as well as through the amortization process.

The Group shall reclassify any remaining held-to-maturity investments as available-for-sale within the current accounting year and the following two successive accounting years if it has, during the current period, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity. Unless:

(i) The date of sale or re-classification is quite close to the maturity date or the successive date of the said investment (e.g., within 3 months prior to maturity) that any change of the market interest rate will produce little impact upon the fair value of the said investment;

(ii) After almost all the initial principal of the investment has been drawn back by way of repayment at fixed intervals or repayment ahead of schedule according to the provisions of the contract, the remaining part of the investment will be sold or re-classified;

(iii) The sale or re-classification is caused by any independent event that the Group cannot control, is predicted not to occur again and is hard to be reasonably predicted.

(3) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method, less provision for impairment in value. The cumulative gains or losses are recognized in the income statement when the financial asset is derecognized or impaired as well as through the amortization process.

(4) 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 in any of the three previous categories. After initial recognition, available-for-sale financial assets are measured at fair value. Fair value changes of available-for-sale financial assets are reported as a separate component of equity until the financial asset is derecognized or the financial asset is determined to be impaired at which time the cumulative gains or losses previously reported in equity are included in the income statement.

When the following situations occur, available-for-sale financial assets which measured at fair value become inadequate, these financial assets will be carried at amortized cost using the effective interest method: factors such as intention and ability to hold has changed; the fair value of these financial assets cannot be measured reliably or the time of holding has exceeded prohibit period as stated on IV 8 (2) of the notes to the financial statement (two complete successive accounting periods). On the reclassification date, the carrying amount of the financial asset is reported as its amortized cost.

Premiums and discounts on available-for-sale financial assets which are previously recognized in equity will be treated under different situations:

(i) If the available-for-sale financial asset has fixed terms, gains or losses are amortized using the effective interest method and included in the income statement. The difference between its maturity value and the amortized cost is amortized using the effective interest method during the remaining term of the financial asset and included in the income statement. If the financial asset is determined to be impaired after the reclassification, gains or losses which are previously reported in equity are included in the income statement.

(ii) If the available-for-sale financial asset does not have fixed terms, gains or losses are remained as equity, until it is derecognized or impaired during the following accounting periods, at which time the cumulative gains or losses previously recognized in equity are recognized in the income statement.

9. Impairment of financial assets

The Group carries out an inspection, on the balance sheet day, on the carrying amount of the financial assets other than those measured at their fair values and of which the variation is recorded into the profits and losses of the current period to determine whether there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”). The loss event (or events) refers to actually incurred events which, after the financial asset is initially recognized, have an impact on the predicted future cash flow of the said financial asset that can be reliably measured by the Company.

(1) Financial assets carried at amortized cost

If there is objective evidence that an impairment loss on investments carried at amortized cost has been incurred, 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 financial asset’s original effective interest rate. The carrying amount of the asset is reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The reduced amount is recognized through the use of an impairment provision account and is recognized in the income statement. The present value of estimated future cash flows is discounted at the financial asset’s original effective interest rate, considering the value of related collaterals (minus any cost incurred in the acquisition and sale).

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

Contractual cash flows and historical loss experience provide the basis for estimating expected cash flows. Historical loss rates are adjusted on the basis of relevant observable data that reflect current economic conditions. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *continued*

9. Impairment of financial assets *continued*

(1) Financial assets carried at amortized cost *continued*

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed and be recorded into the profits and losses of the current period. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

(2) Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred, the amount of the 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. Such impairment losses shall not be reversed.

(3) Available-for-sale financial assets

Where an available-for-sale financial asset is impaired, any accumulative losses arising from the decrease of the fair value of the owner's equity which was directly included shall be transferred out and recorded into the profits and losses of the current period. The accumulative losses that are transferred out shall be the balance obtained from the initial costs of the sold financial asset after deducting the principals as taken back, the current fair value and the impairment-related losses as was recorded into the profits and losses of the current period.

As for the available-for-sale debt instruments whose impairment-related losses have been recognized, if, within the accounting period thereafter, the fair value have risen and are objectively related to the subsequent events that occur after the originally impairment-related losses were recognized, the originally recognized impairment-related losses shall be reversed and be recorded into the profits and losses of the current period. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale shall not be reversed through profit or loss.

10. Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss, or other financial liabilities.

(1) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include transactional financial liabilities and the designated financial liabilities which are measured at their fair values.

Transactional financial liabilities include financial liabilities that the purpose to acquire is mainly for selling or repurchase of them in the near future and derivatives other than those designated as effective hedged items.

Besides the transactional financial liabilities, other financial liabilities can be designated, when they are initially recognized, as financial liability as measured at its fair value and of which the variation is included in the current profits and losses if financial liabilities meet the requirements (1), (2) or (3) mentioned at Notes to the financial statement IV 8.

After initial recognition, these financial liabilities are measured at fair value. All related realized and unrealized gains or losses are included in the income statement.

(2) Other financial liabilities

The Group makes subsequent measurement on its financial liabilities on the basis of the post-amortization costs by adopting the effective interest method, with the exception of financial liabilities at fair value through profit or loss.

11. Fair value determination of financial assets and liabilities

As for the financial assets or financial liabilities for which there is an active market, the quoted prices in the active market shall be used to determine the fair values thereof. The quoted prices in the active market refer to the prices, which are easily available from the stock exchanges, brokers, industry associations, pricing service institutions and etc. at a fixed term, and which represent the prices at which actually occurred market transactions are made under fair conditions; Where there is no active market for a financial instrument, the enterprise concerned shall adopt value appraisal techniques to determine its fair value. The value appraisal techniques mainly include the prices adopted by the parties, who are familiar with the condition, in the latest market transaction upon their own free will, the current fair value obtained by referring to other financial instruments of the same essential nature, the cash flow capitalization method and the option pricing model, etc.

12. Recognition and measurement of transfer of financial asset

(1) The recognition basis of transfer of financial asset

The transfer of financial asset includes two circumstances as follows:

(i) The contractual right for receiving the cash flow of the financial asset is terminated;

(ii) The financial asset has been transferred (the term "transfer of a financial asset" refers to the Group's transferring or delivering a financial asset to a party other than the issuer of the financial asset) and meet the following derecognition criteria:

The Group has transferred nearly all of the risks and rewards related to the ownership of the financial asset to the transferee, it shall stop recognizing the financial asset. If it retained nearly all of the risks and rewards related to the ownership of the financial asset, it shall not stop recognizing the financial asset.

The Group does not transfer or retain nearly all of the risks and rewards related to the ownership of a financial asset, it shall deal with it according to the circumstances as follows, respectively:

(a) If it gives up its control over the financial asset, it shall stop recognizing the financial asset;

(b) If it does not give up its control over the financial asset, it shall, according to the extent of its continuous involvement in the transferred financial asset, recognize the related financial asset and recognize the relevant liability accordingly.

(2) Measurement of transfer of financial asset

The Group differentiates the transfer of a financial asset into the entire transfer and the partial transfer of financial assets.

(i) If the transfer of an entire financial asset meets the conditions of derecognition, the difference between the amounts of the following 2 items should be recorded in the profits and losses of the current period:

(a) The book value of the transferred financial asset;

(b) The sum of consideration received from the transfer, and the accumulative amount of the changes of the fair value originally recorded in the owner's equity.

(ii) If the transfer of the partial financial asset meets the conditions of derecognition, the overall book value of the financial asset should be allotted according to the fair value of derecognition and recognition respectively. The difference between the amounts of the following 2 items should be recorded in the profits and losses of the current period:

(a) The book value of the derecognition financial asset;

(b) The sum of consideration received from derecognition and the corresponding derecognition amount received from the accumulative changes of the fair value originally recorded in the owner’s equity.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *continued*

13. Derecognition of a financial liabilities

An entity shall remove a financial liability from its balance sheet when, and only when the obligation specified in the contract is discharged or cancelled or expires. An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid shall be recognized in profit or loss.

14. Asset securitization

As one of the Group's operation, the Group securitizes some financial assets and sells them to special purpose entities. Asset-backed securities are then issued by these entities and sold to investors. Some or all financial assets that the Group has transferred to transferee for the purpose of asset securitization may meet the criteria of derecognization of financial assets (refer to the above accounting policies for the details of criteria of derecognization). The main reward that the Group retains is secondary asset-backed security, any gain or loss is recorded in the profit and loss account of the current year. Gains and losses are recognized as the difference between (i) book value of derecognized asset and its fair value on the date of transfer; (ii) book value of retained asset and its fair value on the date of transfer.

15. Derivative financial instruments

Financial derivative instruments are recognized initially based on the fair value on the very day when the derivative transaction contract is executed and afterwards are measured based on their fair value. In case the current fair value is positive, the derivative financial products are used as assets; in case the fair value is negative, the derivative financial products are used as liabilities.

Derivatives which embedded in other financial instruments are separated from the host contract and accounted for as derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not a derivative contract. Embedded derivatives are measured at fair value with changes in fair value recognized in the income statement.

16. Reverse repurchase agreements and repurchase agreements

The assets involved in the Group's reverse repurchase agreement and repurchase agreement include securities, bills and credit assets, etc. Reverse repurchase agreement is a purchase of assets with an agreement to resell them at a specific future date. Repurchase agreement is a sale of assets with an agreement to repurchase them at a specific future date. For purchased assets for future reverse repurchase, the purchase cost will be used as collateral to offer amounts and purchased assets will be used as collateral for offered amounts. For sold assets for future repurchase, such assets will continue to be reflected on the Company's balance sheet and accounted in accordance with related accounting policies. Amounts received from selling such assets will be recognized as liabilities.

Interest revenue from reverse repurchase agreements and interest expenditure for repurchase agreements are recognized on a time proportion basis.

17. Long term equity investment

Long term equity investments include investments on the subsidiary, investments in which an investor has joint control or significant influence on investee enterprise, as well as investments that do not have joint control or significant influences on the invested entity, and for which there is no quoted price in the active market and whose fair value cannot be reliably measured.

(1) Recognition of initial cost

The long term equity investment is recognized using its initial cost. The initial cost includes the expenses directly relevant to the obtainment of the long term equity investment, taxes and other necessary expenses.

(2) Subsequent measurement and profit and loss recognition

(i) Cost method:

When the Group does not have joint control or significant influences on the invested entity, and for which there is no quoted price in the active market and whose fair value cannot be reliably measured, the cost method is applied. For long term equity investments on the subsidiary company, the cost method shall be accounted for in the individual financial statement of the Company, and adjustment shall be made by employing the equity method when consolidating financial statements. When the cost method is adopted, the cost of the long-term equity investment shall be adjusted for any additional investments or disinvestments. The investment income is recognized according to its share of the profit or cash dividend declared to be distributed by the investee enterprise excluding amount actually paid to acquire the investment or cash dividend or profit included in the purchase cost which has been declared but not yet paid. The distinguishing of profits that arises before and after the invested entity has accepted the investment are no longer applicable.

(ii) Equity method:

The equity method is adopted when the Group holds jointly control, or exercises significant influence on the investee company.

When the equity method is adopted, the Group recognizes its share of post-acquisition result in the investee enterprise for the current period as a gain or loss on investment, and increases or decreases the carrying amount of the investment simultaneously. The book value of the investment is reduced to the extent that the Company's share of the profit or cash dividend declared to be distributed by the investee enterprise. However, the share of net loss is only recognized to the extent that the book value of the long-term equity investment and other long-term rights and interests which substantially form the net investment made to the invested entity are reduced to zero, unless the investing enterprise has the obligation to undertake additional losses. If the invested entity realizes any net profits later, the Group shall, after the amount of its attributable share of profits offsets against its attributable share of the unrecognized losses, resume to recognize its attributable share of profits. The Group shall, on the ground of the fair value of all identifiable assets of the invested entity at the time it obtains the investment, recognize the attributable share of the net profits and losses of the invested entity after it adjusts the net profits of the invested entity. If the accounting policies and accounting periods adopted by the invested entity are different from those adopted by the investing enterprise, an adjustment shall be made to the financial statements of the invested entity in accordance with the accounting policies and accounting periods of the investing enterprise and recognize the investment profits or losses.

(3) The determine basis for joint control and significant influence

If the following criteria are met, the Company is deemed to have joint control:

(i) None of the participating parties has unilateral control over the economic activity;

(ii) Decisions relating to the operating activities of joint enterprise need to be unanimous agreed by both joint parties;

(iii) The joint enterprise may nominate one of its joint parties in the form of contract or agreement to manage its day-to-day operating activities, however, the party been nominated should exercise its management power within the scope of the financial and operating policies that have been unanimous agreed by the both joint parties.

If the following criteria are met, the Company is deemed to have significant influence:

(i) Representation on the board of directors or equivalent governing body;

(ii) Participation in the policy making process, including dividend payout policy;

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *continued*

17. Long term equity investment *continued*

(3)The determine basis for joint control and significant influence *continued*

(iii) Carrying out transactions with other joint investors;

(iv) Sending of managerial personnel;

(v) Providing vital technical information.

A holding of 20% to 50% of the voting power, either directly or indirectly through subsidiaries, is presumed to give significant influence.

(4) Test of impairment and recognition of provision

If the recoverable amount of the long term equity investment is lower than its book value, the difference shall be recognized as impairment loss.

Where a long term equity investment for which there is no quoted price in the active market and whose fair value cannot be reliably measured suffers from any impairment, the difference between the carrying amount of the long term equity investment and the present value of the future cash flow of similar financial assets capitalized according to the returns ratio of the market at the same time shall be recognized as impairment losses and be recorded into the profits and losses of the current period.

For other long term equity investments, the judgement of making impairment provision shall be made on the ground of whether there is any objective evidence proving that such long term equity investment has been impaired. If the recoverable amount of the long term equity investment is lower than its book value, the difference shall be recognized as impairment loss. Once the impairment loss has been recognized it shall not be reversed in the future accounting periods.

(5) Disposal of long term equity investment

When disposing of a long-term equity investment, the difference between its book value and the actual purchase price shall be included in the current profits and losses. If any change other than the net profits and losses of the invested entity occurs and is included in the owner's equity, the portion previously included in the owner's equity shall, when disposing of a long term equity investment measured by employing the equity method, be transferred to the current profits and losses according to a certain proportion. Disposal of a long term equity investment without losing control of the subsidiary, the difference between disposal price and the portion of the net asset of the subsidiary shall be included in the owner’s equity.

18. Lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An operating lease is a lease other than a finance lease.

(1) Operating lease

Rental payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term.

(2) Financial lease

The group involves in financial lease business only as a lessor.

(i) On the beginning date of the lease term, a lessor shall recognize the sum of the minimum lease receipts on the lease beginning date and the initial direct costs as the entering value in an account of the financing lease values receivable, and record the unguaranteed residual value at the same time. The balance between the sums of the minimum lease receipts, the initial direct costs and the unguaranteed residual value, and the sum of their present values shall be recognized as unrealized financing income.

(ii) The unrealized financing income shall be allocated to each period during the lease term. The financing income shall be calculated at the current period by adopting the effective interest rate method.

(iii) Contingent rents shall be recorded into the profits and losses of the period in which they actually arise.

(iv) The Group reexamines the unguaranteed residual values regularly. If the unguaranteed residual value increases, no adjustment shall be made. Where there is evidence showing a reduction in the unguaranteed residual value, the interest rate implicit in the lease shall be re-calculated and the associated reduction of the net investment in the lease shall be recognized as a loss for the current period. The financing incomes for subsequent periods shall be recognized on the basis of the revised net investment in the lease and the recalculated implicit interest rate.

19. Fixed assets and construction in progress

(1) Fixed assets

(i) Recognition criteria of fixed assets

Fixed assets are defined as tangible assets that:

(a) Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes;

(b) Have useful life of more than one year.

(ii) Accounting for fixed assets and provisions for impairment thereof

(a) The initial measurement of fixed assets upon acquisition is made at their actual cost or amount determined otherwise. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use.

(b) Expenditure incurred after the asset has been put into operation is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalized as an additional cost of the asset. However, the carrying amounts of property and equipment should not be recorded in excess of their recoverable amounts.

(c) At the end of each year, recoverable amount of fixed assets is examined on an individual item basis. If the recoverable amount is lower than book value due to such reasons as continuous drop of market price, or obsolete technology, damage and prolonged idling, the difference by which the recoverable amount is lower than the carrying amount of the fixed assets should be provided for. The impairment loss should be recognized in the income statement for the current period. The provision for impairment of fixed assets is made on an individual item basis. Once any loss of asset impairment is recognized, it shall not be reversed in the future accounting periods.

(iii) Depreciation method of fixed assets

Depreciation is calculated, using the straight-line method over the estimated useful life and zero residual value of the property and equipment at the following rates:

	Estimated useful life (years)	Depreciation rate (%)
Properties and buildings	20-30	3.33 - 5.00
Fixed assets improvements	5	20.00
Office equipments and computers	5-10	10.00 - 20.00
Motor vehicles	6-8	12.50 - 16.67

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *continued*

19. Fixed assets and construction in progress *continued*

(2) Construction in progress

(i) The actual construction expenditures incurred are charged to the construction in progress account. When the constructed has reached its expected usable condition, the total construction cost in that account is capitalized as fixed assets.

(ii) At the end of each fiscal year, the Company makes a judgment on whether impairment provision should be made based on any sign of possible assets impairment. When the recoverable amount of the construction in progress is lower than its carrying amount, provision should be made as the difference by which the recoverable amount is lower than the carrying amount of individual construction. Once any impairment loss is recognized, it shall not be reversed in the future accounting periods.

20. Intangible assets

(1) Pricing method for intangible assets

Intangible assets should be recorded at the actual purchase price paid.

(2) Intangible assets is amortised using the straight line method, periods of amortization are as follows:

(i) Land use right is amortized on a straight-line basis over its grant life starting from the month in which they were acquired.

(ii) The seat charge of the stock exchange is amortized on a straight-line basis over 10 years starting from the month when the seat is obtained.

(iii) Computer software is amortized on a straight-line basis over 5 years starting in the month in which they were acquired.

(iv) Other intangible assets are amortized on a straight-line basis over 10 years from the month when they are obtained.

(3) Impairment of assets

The Company reviews the carrying amount of its intangible assets at the end of each year for the future economic benefits associated therewith that will flow to the Company. The difference by which the recoverable amount is lower than the carrying amount of the intangible assets should be provided for and recognized in the income statement for the current period. The provision for impairment of intangible assets is made on an individual item basis. Once any impairment loss is recognized, it shall not be reversed in the future accounting periods.

21. Long-term deferred expenses

Long-term deferred expenses are expenses paid by the Group, for which the amortization period is more than one year, including improvement costs of fixed assets under operating lease.

The long-term deferred expenses are evenly amortized over the beneficial period of the related items.

22. Debt asset

Debt asset is initially measured at its fair value. The difference by which the recoverable amount is lower than the carrying amount of the assets shall be provided for and recognized in the income statement for the current period.

23. Revenue and expenditure recognition

(1) Interest income and expense

Interest income and expense are recognized in the income statement using the effective interest method. 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 asset. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. When a single or a group of similar financial assets has impaired, interest will be recognized using the rate of interest used to discount future cash flows.

(2) Fee and commission income

Fee and commission income is recognized in the income statement when the corresponding service is provided and the amount can be reasonably estimated.

24. Income tax

The income tax of the Group comprises current income tax and deferred income tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

(1) Tax assets and liabilities that result from current period and previous years are recognized as the amount expected tax payable to, or refundable from Tax Bureau.

(2) The balance sheet liability method is adopted by the Group. Income tax is recognized by temporary differences which are differences between the tax base of an asset or liability and its carrying amount in the balance sheet at rates applicable during the period of recovering the assets or repaying the liabilities.

(i) Except for the deferred income tax liabilities arising from the following transactions, the Company recognizes the deferred income tax liabilities arising from all taxable temporary differences:

(a) The initial recognition of goodwill; or the initial recognition of assets or liabilities arising from the following transactions which are simultaneously featured by the following: the transaction is not business combination; and at the time of transaction, the accounting profits will not be affected, nor will the taxable amount be affected.

(b) In case that the deferred income tax liabilities arising from the taxable temporary differences related to the investments of subsidiary companies, associated enterprises and contractual enterprises, the investing enterprise can control the time of the reverse of temporary differences; and the temporary differences are unlikely to be reversed in the expected future.

(ii) The Group shall recognize the deferred income tax liabilities arising from a deductible temporary difference to the extent of the amount of the taxable income which it is most likely to obtain and which can be deducted from the deductible temporary difference. However, the deferred income tax assets, which are arising from the initial recognition of assets or liabilities during a transaction which is simultaneously featured by the following, shall not be recognized:

(a) This transaction is not business combination; and

(b) At the time of transaction, the accounting profits will not be affected, nor will the taxable amount (or the deductible loss) be affected.

(iii) Where the deductible temporary difference related to the investments of the subsidiary companies, associated enterprises and joint enterprises can meet the following requirements simultaneously, the Group recognizes the corresponding deferred income tax assets:

(a) The temporary differences are likely to be reversed in the expected future; and

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *continued*

24. Income tax *continued*

(b) It is likely to acquire any amount of taxable income tax that may be used for making up the deductible temporary differences.

(3) The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. In the case that it is probable that sufficient taxable profit will be available, the reduced amount will be recovered.

25. Employee benefit

Employee benefit refers to all kinds of payments and other relevant expenditures given by the Group in exchange of the services offered by the employees. During the accounting period of an employee providing services to the Group, the Group shall recognize the employee benefit payable as liabilities. If the effect of deferred payment is significant, the liability shall be shown as the present value of future cash flows.

(1) Statutory employee benefit plan

According to the requirements of statutory laws, regulations and policies in the PRC, the Group has entered into social insurance plan including staff retirement benefits, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance required to provide certain staff retirement benefits and housing fund plan. The Group is obliged to contribute a fixed percentage of staff salaries to the related government department governing employee benefits and retirement welfare scheme. All contributions are recognized as expense when incurred.

(2) Supplemental retirement benefit scheme

Except for statutory retirement benefit, the Group has set up a pension plan for employees to supplement the retirement benefit. The Group and its employee are required to contribute a certain percentage of last year's salary of employees to the pension plan. The expenditure of the Group is recognized in the profit and loss account of the current period.

26. Acceptance

Acceptance is made up of 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. Acceptances are accounted for as off-balance sheet transactions.

27. Fiduciary Activities

The Group acts in a fiduciary capacity as a custodian, trustee or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are excluded from the financial statements.

Entrusted lending is the business where the Group enters into entrusted loan agreements with customers. In this regard, the Group grants loans to borrowers, as an intermediary, at the direction of third-party lenders who fund these loans. The Group has been contracted by these third-party lenders to manage the administration and collection of these loans on their behalf. The third-party lenders determine both the underwriting criteria for and all terms of the entrusted loans, including their purpose, amounts, interest rates, and repayment schedule. The Group charges a commission related to its activities in connection with the entrusted loans, but the risk of loss is borne by the third party lenders. Entrusted loans are not recognized in the financial statements of the Group, and no impairment assessments are made for these entrusted loans.

28. Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized as a provision but is disclosed in the notes to the financial statements. The obligation pertinent to a contingency shall be recognized as an estimated debt when the following conditions are satisfied simultaneously:

(1) That obligation is a current obligation of the Group;

(2) It is likely to cause any economic benefit out flow of the Group as a result of performance of the obligation; and

(3) The amount of the obligation can be measured reliably.

29. Related parties

Parties are considered to be related if one party has the ability, directly, indirectly or jointly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subject to common control, joint control or common significant influence.

30. Critical accounting estimates and judgments

(1) Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have significant effect on the financial statements:

(i) Classification of financial assets

The management of the Group needs to make significant judgment as to the classification of the financial assets. Different classifications of investments result in different accounting treatments and hence different financial positions of the Group.

(ii) Derecognition of financial instrument

The management of the Group needs to make significant judgment as to the reward and risk related to the ownership of the financial asset being transferred, and making accounting treatments accordingly.

(2) Estimation of uncertainties

The key assumptions and uncertainties on significant estimations made by the Group's management at the year end may have significant risks resulting in a material adjustment to the assets and liabilities in the next accounting year as are stated below:

(i) Impairment losses of financial assets

The Group determines periodically whether there is any objective evidence that an impairment loss on a financial asset has been incurred. If any such evidence exists, the Group assesses the amount of the impairment loss. The amount of impairment losses are measured as the difference between the carrying amount and the present value of estimated future cash flows. In assessing the amount of impairment losses, significant judgments are required as to whether objective evidence for impairment exists and also significant estimates on the present value of expected future cash flows.

(ii) Impairment loss of non current assets other than financial assets

The Group reviews internal and external sources of information at balance sheet date to identify indications that assets may be impaired. If any indication exists, a test for impairment will be conducted. In expecting the current value of the future cash flow, the management shall estimate the expected future cash flow of the asset or the asset group, and discounting cash flow with an appropriate discount rate.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *continued*

30. Critical accounting estimates and judgments *continued*

(2) Estimation of uncertainties *continued*

(iii) Deferred tax assets

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Therefore, significant judgment needs to be made for the tax treatment by taking into account all relevant tax legislations as well as the probability of future taxable profits will allow the deferred tax assets to be recovered.

(iv) Fair value of financial instruments

With respect to the financial assets or financial liabilities with an active market, the quoted prices in the active market shall be used to determine the fair values thereof. The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. The valuation techniques mainly include the prices adopted by the parties, who are familiar with the condition, in the latest market transaction upon their own free will, the current fair value obtained by referring to other financial instruments of the same essential nature, the cash flow capitalization method and the option pricing model, etc. whenever it is feasible, the market parameters should be used in pricing financial instruments. In case of lacking market parameters, areas such as credit risk (both own and counterparty's), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

31. Taxation

The major taxes and surcharges applicable are as follows:

Category	Tax rate (%)	Calculation basis
Business tax	5	Taxable operating revenue
Income tax	22	Taxable income (Shenzhen city)
	25	Taxable income (excluding Shenzhen city)
City maintenance and construction tax	1	Business tax (Shenzhen city)
	7	Business tax (excluding Shenzhen city)
Educational surcharge	3	Business tax

From January 1, 2008, the income tax of the Company is in compliance with the Corporate Income Tax Law of the People's Republic of China, the Implementation Regulations of the Corporate Income Tax Law of the People's Republic of China and the Notice of the Ministry of Finance and State Administration of Taxation about Implementation of Preferential Policies of the State Council on Transition of Enterprise Income Tax (GF [2007] No. 39). The income tax is calculated and settled in compliance with the requirements of the Notice of the State Administration of Taxation on Printing and Distributing the Interim Measures for the Administration of Collection of Enterprise Income Tax on the Basis of Consolidation of Trans-regional Business Operations (GSF [2008] No. 28), namely "centralized calculation, level-by-level administration, pre-payment at the locality, consolidated settlement and payment, and transfer to treasury". The income tax of the Company shall be prepaid with head office accounting for 50% and all the branches for the other half.

V. CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

There is no significant change in accounting policies and accounting estimates during the year.

VI. SCOPE OF THE CONSOLIDATION

The subsidiary "Industrial Bank Financial Leasing Co., Ltd." which is newly included in the scope of consolidation is wholly owned and opened in year 2010 by the Company in accordance with (YJF [2010] No. 98) and (YJF [2010] No. 401) approved by the China Banking Regulatory Commission.

The subsidiary of the Company is acquired through investment, the details are as follows:

Company name	Industrial Bank Financial Leasing Co., Ltd
Registered capital(a hundred million in RMB)	20
The actual amount of investment (a hundred million in RMB)	20
Domicile	Tianjin
Nature	Limited liability company
Legal representative	Lin Zhangyi
Business scope	Financial lease; acceptance of premium for lease; transfer rent receivables to commercial banks; issue financial bonds upon approval; inter-bank borrowing; borrowing from financial institutions; foreign currency borrowing from oversea; sale and handling of residual value of leasing items; economic consulting; self-management and agent cargo import and export; technical import and export.
Shareholding ratio	100%
Attributable voting rights	100%
Whether consolidated	Yes

VII. NOTES TO THE FINANCIAL STATEMENTS

1. Cash and due from the Central Bank

	The Group and the Company	
	2010-12-31	2009-12-31
Cash	3,568	2,904
Due from the Central Bank:		
Statutory deposit reserves	159,637	99,269
Surplus deposit reserve	125,221	69,619
Fiscal deposit	215	112
Subtotal of due from the Central Bank	**285,073**	**169,000**
Total	**288,641**	**171,904**

The Company is required to place a RMB statutory deposit reserve, a foreign currency statutory deposit reserve and a fiscal deposit with the PBOC. On December 31, 2010, the required reserve ratio for customer deposits denominated in RMB is 16.5% (2009: 13.5%); the required reserve ratio for customer deposits denominated in foreign currencies is 5% (2008: 5%). The fiscal deposits are transferred to the PBOC in full. The foreign currency deposit reserve and fiscal deposits placed with the PBOC are non-interest bearing.

2.Due from banks and other financial institutions

	The Group and the Company	
	2010-12-31	2009-12-31
Analyzed by geographical location:		
Banks an other financial institutions in mainland China	38,149	40,509
Banks and other financial institutions outside mainland China	1,739	1,877
Subtotal	**39,888**	**42,386**
Less: Provisions for impairment	(21)	(21)
Net	**39,867**	**42,365**
Analyzed by counterparty:		
Banks	38,532	39,184
Non-bank financial institutions	1,356	3,202
Subtotal	**39,888**	**42,386**
Less: Provisions for impairment	(21)	(21)
Net	**39,867**	**42,365**

(1) As at December 31, 2010, the overdue balance of due from domestic banks and financial institutions amounted to RMB 21.075 million (2009: RMB 21.075 million).

(2) Movements of provisions for impairment

	The Group and the Company	
	2010-12-31	2009-12-31
Opening balance	21	21
Charge for the year	-	-
Transfer in/(out) for the year	-	-
Write-offs	-	-
Closing balance	**21**	**21**

3. Precious metals

	The Group and the Company	
	2010-12-31	2009-12-31
Gold	685	126
Cost	679	127
Changes in fair value	6	(1)

4. Due from and placements with banks and other financial institutions

	The Group and the Company	
	2010-12-31	2009-12-31
Analyzed by geographical location:		
Banks and other financial institutions in mainland China	20,951	13,801
Banks and other financial institutions outside mainland China	265	-
Subtotal	**21,216**	**13,801**
Less: Provisions for impairment	(117)	(117)
Net	**21,099**	**13,684**
Analyzed by counterparty:		
Banks	3,486	10,044
Non-bank financial institutions	17,730	3,757
Subtotal	**21,216**	**13,801**
Less: Provisions for impairment	(117)	(117)
Net	**21,099**	**13,684**

(1) As at December 31, 2010, the overdue amount of due from and placements with banks and other financial institutions is RMB 116.701 milion (2009: RMB 116.701 million).

4. Due from and placements with banks and other financial institutions *continued*

(2) Movements of provisions for impairment

	The Group and the Company	
	2010-12-31	2009-12-31
Opening balance	117	117
Charge for the year	-	-
Transfer in/(out) for the year	-	-
Write-offs	-	-
Closing balance	**117**	**117**

5. Transactional financial assets

	The Group and the Company	
	2010-12-31	2009-12-31
Treasury bond	443	682
Instruments of the Central Bank and financial bond	1,851	1,874
Bonds issued by banks and other financial institutions	-	100
Enterprise bonds	3,243	707
Total	**5,537**	**3,363**

As of December 31, 2010, there is no restricted trading financial asset.

6. Derivative financial instruments

The Group entered into derivative financial instruments transaction for sales business.

Sales activities of the Group include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. In order to reduce the market risk associates with the transactions, the Group has signed a back to back contract to a third party to effectively transfer the contract risk.

Meanwhile, the Group entered into derivative financial instrument transactions for asset-liability management.

When the interest rate of asset does not match with the interest rate of liability (For example, the Group has purchased an asset with fixed rate of interest, however, the fund utilized to purchase the asset is subjected to a floating rate), in order to minimize the effect caused by the change of interest rate, the Group will enter into a interest rate swap contract to change the fixed rate to a floating rate.

The notional amount of a derivative represents the value of the underlying asset or the reference rate. It provides an indication of the volume of business transacted by the Company, but does not provide any measures of risk.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

There is no derivative financial instrument designated as hedging instrument for hedging purposes held by the Group.

The notional amount and fair value of the Company's derivative financial instruments are shown below:

The Group and the Company	2010-12-31		
	Notional amount	Fair value	
		Assets	Liabilities
Foreign exchange derivative contracts	153,637	1,020	1,117
Interest rate derivative contracts	277,048	1,277	1,183
Credit derivative contracts	1,447	4	3
Precious metal derivative contracts	8,433	-	14
Total	**440,565**	**2,301**	**2,317**

The Group and the Company	2009-12-31		
	Notional amount	Fair value	
		Assets	Liabilities
Foreign exchange derivative contracts	115,029	233	474
Interest rate derivative contracts	180,047	1,163	1,105
Credit derivative contracts	751	3	2
Precious metal derivative contracts	6,733	-	21
Total	**302,560**	**1,399**	**1,602**

7. Reverse repurchase financial asset

	The Group and the Company	
	2010-12-31	2009-12-31
Security	11,206	6,170
Bill	287,174	122,163
Beneficial right of trust	1,450	-
Credit asset	74,175	67,551
Total	**374,005**	**195,884**

The Company is entitled to sell part of pledged assets without the default of the counterparty, or the Company can transfer the pledge right in other transactions. As at December 31, 2010, fair value of the saleable or transferable pledged assets is RMB 218.939 billion (2009: RMB 109.777 billion). Also, as at December 31, 2010, RMB 68.24 billion reverse repurchase financial assets have been used in repurchase agreement (2009: RMB12.39 billion).

8. Interest receivable

	The Group		The Company	
	2010-12-31	2009-12-31	2010-12-31	2009-12-31
Bond	2,254	2,440	2,254	2,440
Financial products and beneficial right of trust	110	58	110	58
Loans and advances to customers	1,627	1,156	1,627	1,156
Due from the Central Bank and financial institutions	186	145	186	145
Inter-bank placement	40	22	40	22
Reverse repurchase financial assets	2,415	531	2,415	531
Others	23	2	17	2
Total	**6,655**	**4,354**	**6,649**	**4,354**

9. Loans and advances to customers

(1) Product types of corporate and personal loans

	The Group and the Company	
	2010-12-31	2009-12-31
Loans and advances to individuals	225,007	169,014
Credit card	11,330	6,396
Residential and business mortgage loans	178,267	149,091
Others	35,410	13,527
Loans and advances to enterprises	629,332	532,584
Loans	619,604	505,882
Discounted bills	9,728	26,702
Others	-	-
Total	**854,339**	**701,598**
Less: Provision for loan losses	(11,771)	(9,635)
-Individually assessed	(2,039)	(1,776)
-Collectively assessed	(9,732)	(7,859)
The book value of loans and advances to customers	**842,568**	**691,963**

① As at December 31, 2010, RMB 155.61 billion discount and transfer in rediscount bills is included in the discounted bills of the Company (2009: RMB 165.19 billion). The transfer out rediscount amounted to RMB 145.88 billion (2009: RMB138.49 billion).

② As at December 31, 2010, no discounted bills is included in repurchase agreement (2009: RMB 1.283 billion).

③ As at December 31, 2010, discounted bills pledged under repurchase agreements amounted to RMB 0.423 billion (2009: RMB 2.616 billion).

④ As at December 31, 2010, top ten loans to corporate entities amounted to RMB 33.814 billion (2009: RMB 29.811 billion).

⑤ As at December 31, 2010, no loan is owed by shareholders holding 5% or more shares of the Company.

(2) Analysis by industry sector

The Group and the Company	2010-12-31		2009-12-31	
	Amount	%	Amount	%
Agriculture, forestry, animals farming and fishing	2,518	0.29	1,163	0.17
Mining	22,913	2.68	15,577	2.22
Manufacturing	132,235	15.48	107,481	15.32
Electricity, gas and water supply	29,044	3.40	26,604	3.79
Construction	32,289	3.78	21,985	3.13
Transport, storage, post and courier activities	51,994	6.09	48,950	6.98
Telecommunication, computer and software related activities	3,542	0.41	2,755	0.39
Wholesale and retail trade	59,281	6.94	42,306	6.03
Hotels and restaurants	3,570	0.42	1,576	0.22
Financial concerns	5,048	0.60	3,327	0.48
Real estate	84,835	9.93	65,867	9.39
Renting and commercial activities	74,098	8.67	57,264	8.16
Scientific research, technical services and geologic perambulation	1,011	0.12	684	0.10
Water conservancy, environment and public facilities administration	93,274	10.92	84,053	11.98
Residential services and other related activities	2,769	0.32	1,842	0.26
Education	771	0.09	1,496	0.21
Sanitation, social security and other community services activities	2,329	0.27	3,194	0.46
Cultural, sporting and entertainment	2,331	0.27	2,693	0.38
Public administration and social organization activities	15,752	1.84	17,065	2.43
Personal loans	225,007	26.34	169,014	24.09
Bill discounted	9,728	1.14	26,702	3.81
Gross amount	**854,339**	**100.00**	**701,598**	**100.00**
Less: Loan loss provisions	(11,771)		(9,635)	
-Individually assessed	(2,039)		(1,776)	
-Collectively assessed	(9,732)		(7,859)	
Total	**842,568**		**691,963**	

VII. NOTES TO THE FINANCIAL STATEMENTS *continued*

9. Loans and advances to customers *continued*

(3) Analysis of advances to customers by geographical area

The Group and the Company	2010-12-31		2009-12-31	
	Amount	%	Amount	%
Head office	11,547	1.35	15,272	2.18
Fujian	132,336	15.49	106,333	15.16
Beijing	56,101	6.57	49,204	7.01
Shanghai	62,948	7.37	54,977	7.84
Guangdong	90,264	10.57	77,321	11.02
Zhejiang	77,180	9.03	69,253	9.87
Jiangsu	47,731	5.59	39,111	5.57
Others	376,232	44.03	290,127	41.35
Gross amount	**854,339**	**100.00**	**701,598**	**100.00**
Less: Loan loss provisions	(11,771)		(9,635)	
-Individually assessed	(2,039)		(1,776)	
-Collectively assessed	(9,732)		(7,859)	
Total	**842,568**		**691,963**	

(4) Analysis by forms of security

	The Group and the Company	
	2010-12-31	2009-12-31
Credit loans	199,121	167,228
Guarantee loans	193,113	164,828
Secured by guaranties	452,377	342,840
- Secured by mortgage	411,276	307,047
- Secured by collaterals	41,101	35,793
Discounted bills	9,728	26,702
Gross amount	**854,339**	**701,598**
Less: Loan loss provisions	(11,771)	(9,635)
-Individually assessed	(2,039)	(1,776)
-Collectively assessed	(9,732)	(7,859)
Total	**842,568**	**691,963**

(5) Analysis by overdue terms for overdue loans

The Group and the Company	2010-12-31				
	1-90 days (inclusive)	91-360 days (inclusive)	361 days to 3 years (inclusive)	Over 3 years	**Total**
Credit loans	149	40	106	57	**352**
Guarantee loans	203	255	635	424	**1,517**
Secured by guaranties	1,220	300	888	459	**2,867**
-Secured by mortgage	1,209	298	706	388	**2,601**
-Secured by collaterals	11	2	182	71	**266**
Total	**1,572**	**595**	**1,629**	**940**	**4,736**

The Group and the Company	2009-12-31				
	1-90 days (inclusive)	91-360 days (inclusive)	361 days to 3 years (inclusive)	Over 3 years	**Total**
Credit loans	74	78	108	46	**306**
Guarantee loans	95	526	374	418	**1,413**
Secured by guaranties	1,276	736	679	511	**3,202**
-Secured by mortgage	1,184	631	446	419	**2,680**
-Secured by collaterals	92	105	233	92	**522**
Total	**1,445**	**1,340**	**1,161**	**975**	**4,921**

(6) Movement of allowances for impairment losses of loan

The Group and the Company	2010		
	Individually	Collectively	**Total**
Opening balance	1,776	7,859	**9,635**
Charge for the year	348	1,873	**2,221**
Write-offs	(71)	-	**(71)**
Recoveries	(14)	-	**(14)**
-Recoveries of loans and advances written off in previous years	107	-	**107**
-Recoveries due to other reasons	9	-	**9**
-Recovery of interest of impaired loans	(130)	-	**(130)**
Closing balance	**2,039**	**9,732**	**11,771**

VII. NOTES TO THE FINANCIAL STATEMENTS *continued*

9. Loans and advances to customers *continued*

(6) Movement of allowances for impairment losses of loan *continued*

The Group and the Company	2009		
	Individually	Collectively	Total
Opening balance	1,817	7,584	9,401
Charge for the year	284	275	559
Write-offs	(298)	-	(298)
Recoveries	(27)	-	(27)
-Recoveries of loans and advances written off in previous years	102	-	102
-Recoveries due to other reasons	5	-	5
-Recovery of interest of impaired loans	(134)	-	(134)
Closing balance	**1,776**	**7,859**	**9,635**

10. Available-for-sale investments

	The Group and the Company	
	2010-12-31	2009-12-31
Available-for-sale investments, measured at fair value:		
Treasury bonds	37,809	34,487
Bonds issued by the PBOC and statutory financial bonds	63,448	44,605
Bonds issued by banks and other financial institutions	5,074	6,142
Enterprise bonds	33,861	25,833
Subtotal	**140,192**	**111,067**
Financial products measured at fair value	7,010	-
Available-for-sale equity investments:		
Unlisted shares – measured at cost	18	47
Listed shares – measured at fair value	12	34
Subtotal	**30**	**81**
Total	**147,232**	**111,148**

(1) Pledge information of the available-for-sale bond investments refers to Note VII. 13 (2).

(2) Details of equity investments measured at cost

The Group and the Company Name of investee	2010-12-31		2009-12-31	
	Amount	Percentage of shares(%)	Amount	Percentage of shares(%)
Chongqing National Energy Investment Co., Ltd.	-	-	29	10.17
Shanghai Worldbest Co., Ltd.	18	0.79	18	0.79
Total	**18**		**47**	

Since the equity investments mentioned above do not exist in an active market and their fair value cannot be reasonably measured, they are therefore measured at cost.

(3) Details of equity investments measured at fair value

The Group and the Company Name of investee	2010-12-31		2009-12-31	
	Amount	Percentage of shares(%)	Amount	Percentage of shares(%)
VISA INC	5	0.00	7	0.00
Zhangjiajie Tourism Development Co., Ltd.	-	-	21	1.34
Shandong Jiufa Edible Fungus Co., Ltd.	7	0.37	6	0.37
Total	**12**		**34**	

11. Receivables

	The Group and the Company	
	2010-12-31	2009-12-31
Bonds issued by the PBOC and statutory financial bonds	-	13,950
Bonds issued by banks and other financial institutions	5,947	3,643
Enterprise bonds	1,728	1,237
Financial products	18,741	6,168
Trust fund plans	34,928	15,794
Subtotal	**61,344**	**40,792**
Less: Provisions for impairment	(23)	(6)
Total	**61,321**	**40,786**

(1) Allowance for impairment loss of receivables

	The Group and the Company	
	2010	2009
Opening balance	6	-
Charge for the year	17	6
Recoveries/transfer out	-	-
Closing balance	**23**	**6**

As at December 31, 2010, provision for impairment made for the other receivable portfolio is RMB 23 million.

(2) Pledge information of the bonds receivable refers to Note VII. 13 (2).

(3) Fund trust plans are beneficial right of trust purchased by the Company from other financial institutions. The main investment direction of these products is trust loans.

VII. NOTES TO THE FINANCIAL STATEMENTS *continued*

12. Financial lease receivables

(1) Analysis by composition

	The Group	
	2010-12-31	2009-12-31
Financial lease receivables	10,763	-
Less: unrealized financing income	(1,971)	-
Total	**8,792**	**-**
Less: impairment provision for financial lease	(99)	-
-Individually assessed	-	-
-Collectively assessed	(99)	-
Book value	**8,693**	**-**

(2) Movement of allowances for impairment losses of financial lease

The Group	2010			2009		
	Individual	Collective	Total	Individual	Collective	Total
Opening balance	-	-	-	-	-	-
Charge for the year	-	99	99	-	-	-
Write-offs	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Closing balance	**-**	**99**	**99**	**-**	**-**	**-**

(3) Analysis of the minimum lease receipt for each of the next 3 accounting years subsequent to the balance sheet date

The Group	2010-12-31		2009-12-31	
	Amount	Percetage(%)	Amount	Percetage(%)
Within 1 year (inclusive)	1,675	15.56	-	-
1 to 2 years (include 2 years)	2,359	21.92	-	-
2 to 3 years (include 3 years)	2,375	22.07	-	-
Over 3 years	4,354	40.45	-	-
Total	**10,763**	**100.00**	**-**	**-**

13. Held-to-maturity investment

	The Group and the Company	
	2010-12-31	2009-12-31
Treasury bonds	27,741	36,711
Bonds issued by the PBOC and statutory financial bonds	3,038	4,539
Bonds issued by banks and other financial institutions	86	89
Enterprise bonds	3,557	1,152
Subtotal	**34,422**	**42,491**
Less: Provision for impairment	(132)	(137)
Total	**34,290**	**42,354**

(1) Provision for impairment

	The Group and the Company	
	2010	2009
Opening	137	137
Changes in interest rate	(5)	-
Charge for the year	-	-
Recovery/transfer out	-	-
Closing	**132**	**137**

Detail of provision made for held-to-maturity investment

Bond name	The Group and the Coompany			
	Bond code	Currency	Book value	Provision for impairment
CENTAURI 10//07-4/11	XS0000000010	USD	20	20

“CENTAURI 10//07-4/11” is a capital note structured investment vehicle issued by Centauri Corporation which is formed by Citi group. The net asset of the SIV is less than zero at the end of the year, provision has been made in full by the Group.

(2) As at December 31, 2010, bonds amounted to RMB 0.00 (2009: RMB 6.502 billion) have been pledged for the treasury cash term deposit in a commercial bank operation; bonds amounted to RMB 21.089 billion (2009: RMB 30.428 billion) have been pledged for the repurchase agreements and bonds amounted to RMB 0.002 billion (2009: RMB 0.006 billion) have been pledged for the derivative transactions.

VII. NOTES TO THE FINANCIAL STATEMENTS *continued*

14. Long term equity investment

(1) Details of the long term equity investment of the Group

Investee	Initial investment	2010-12-31	2009-12-31	Percentage of shares(%)
Equity method				
-Jiujiang City Commercial Bank	561	690	335	20.00
Cost method				
-China Unionpay Co., Ltd.	81	81	81	2.13
Total	**642**	**771**	**416**	

① In accordance with the approval document CBRC [2008] No.449 issued on November 4, 2008, the Company has acquired 102.2 million shares of Jiujiang City Commercial Bank Co., Ltd. (refers to as Bank of Jiujiang hereafter) for the price of RMB 2.9 yuan per share. As the result, the Company holds 20% of the total shares of the Bank of Jiujiang after it expanded its share capital.

In 2009, Bank of Jiujiang increases 4 shares for every 10 shares to all recorded shareholders based on the share capital by the end of August 2009 by utilizing capital reserve. The Company currently holds 143.08 million shares of Bank of Jiujiang.

In 2010, Bank of Jiujiang increases its registered capital 400.656 million, offered privately and subscribed in cash for the price of RMB 3.3 yuan per share. The Company has acquired 80.12 million shares. After the acquisition, the Company holds 223.20 million shares and the shareholding ratio remains 20% of the total shares of the Bank of Jiujiang after it expanded its share capital.

② As at December 31, 2010, the Company has acquired 62.5 million shares of China Unionpay Co., Ltd. in which 50 million shares has been acquired at the cost of RMB 1 yuan per share according to the approval document of PBOC (YF [2001] No. 234); further 12.5 million shares has been acquired at the cost of RMB 2.5 per share according to the approval of CBRC with the approving document (YJF [2008] No. 202) issued on May 23, 2008.

③ Details of organization measured by equity method and the movement in equity

Investee	Registered office	Registered capital	Nature of the business	Percentage of share holding(%)	Percentage of voting rights(%)
Bank of Jiujiang	Jiujiang, Jiangxi province	1.116 billion	Commercial bank	20	20

Investee	2009-12-31	Increase in investment	Adjustment to profit and loss	Adjustment to equity	2010-12-31
Bank of Jiujiang	335	265	90	-	690

Investee	Total asset as at 2010-12-31	Total liability as at 2010-12-31	Total net asset as at 2010-12-31	Operating income of the year	Net profit of the year
Bank of Jiujiang	41,450	38,050	3,400	1,081	449

(2) Details of the long term equity investment of the Group

Investee	Initial investment	2010-12-31	2009-12-31	Percentage of shares(%)
Equity method				
-Bank of Jiujiang	561	690	335	20.00
Cost method				
-Industrial Bank Financial Leasing Co., Ltd.	2,000	2,000	-	100
-China Unionpay Co., Ltd.	81	81	81	2.13
Subtotal	2,081	2,081	81	
Total	**2,642**	**2,771**	**416**	

Information about the Industrial Bank Financial Leasing Co., Ltd. refers to notes VI.

VII. NOTES TO THE FINANCIAL STATEMENTS *continued*

15. Fixed assets

	The Group				
	2009-12-31		Increase	Decrease	2010-12-31
Cost:					
Properties and buildings	3,217		158	8	3,367
Operating premises improvement	223		48	-	271
Office equipment	2,138		488	58	2,568
Transportation equipment	188		76	19	245
Total	**5,766**		**770**	**85**	**6,451**
Accumulated depreciation:		Additions	Depreciation		
Properties and buildings	905	-	111	3	**1,013**
Operating premises improvement	107	-	29	-	**136**
Office equipment	1,034	-	374	55	**1,353**
Transportation equipment	93	-	23	17	**99**
Total	**2,139**	**-**	**537**	**75**	**2,601**
Carrying amount:					
Properties and buildings	2,312				**2,354**
Operating premises improvement	116				**135**
Office equipment	1,104				**1,215**
Transportation equipment	95				**146**
Total	**3,627**				**3,850**
Provision for impairment:					
Properties and buildings	3	-	-	-	**3**
Operating premises improvement	-	-	-	-	**-**
Office equipment	-	-	-	-	**-**
Transportation equipment	-	-	-	-	**-**
Total	**3**	**-**	**-**	**-**	**3**
Book value:					
Properties and buildings	2,309				**2,351**
Operating premises improvement	116				**135**
Office equipment	1,104				**1,215**
Transportation equipment	95				**146**
Total	**3,624**				**3,847**

	The Company				
	2009-12-31		Increase	Decrease	2010-12-31
Cost:					
Properties and buildings	3,217		158	8	3,367
Operating premises improvement	223		48	-	271
Office equipment	2,138		487	58	2,567
Transportation equipment	188		74	19	243
Total	**5,766**		**767**	85	**6,448**
Accumulated depreciation:		Additions	Depreciation		
Properties and buildings	905	-	111	3	1,013
Operating premises improvement	107	-	29	-	136
Office equipment	1,034	-	373	55	1,352
Transportation equipment	93	-	23	17	99
Total	**2,139**	**-**	**536**	75	**2,600**
Carrying amount:					
Properties and buildings	2,312				2,354
Operating premises improvement	116				135
Office equipment	1,104				1,215
Transportation equipment	95				144
Total	**3,627**				**3,848**
Provision for impairment:					-
Properties and buildings	3		-	-	3
Operating premises improvement	-		-	-	-
Office equipment	-		-	-	-
Transportation equipment	-		-	-	-
Total	**3**		**-**	-	**3**
Book value:					-
Properties and buildings	2,309				2,351
Operating premises improvement	116				135
Office equipment	1,104				1,215
Transportation equipment	95				144
Total	**3,624**				**3,845**

All the properties and buildings of the Group and the Company are located in the PRC. Properties and buildings cost RMB 103 million are in use but the legal ownership registration procedures were still in process as at December 31, 2010.

VII. NOTES TO THE FINANCIAL STATEMENTS *continued*

16. Construction in progress

	The Group and the Company					
				Decrease		
	Budget	2009-12-31	Additions	Transfer to fixed assets assets	Transfer to long term deferred	2010-12-31
CIB building, Beijing	854	828	-	-	-	828
Zhangjiang operation centre, Shanghai	589	229	240	-	-	469
Branch building, Nanjing	463	-	463	-	-	463
CIB building, Guangzhou	349	206	126	-	-	332
CIB building, Chengdu	294	294	-	-	-	294
Office building of Zhengzhou branch	165	-	131	-	-	131
Office building of Xi'an branch	142	55	57	-	-	112
Office building of Jinan branch	132	105	20	-	-	125
Office building of Taizhou branch	99	-	89	-	-	89
CIB building, Jiaxing	50	50	-	50	-	-
Office building of Hangzhou branch	24	22	1	23	-	-
Others	721	136	450	110	239	237
Total	**3,882**	**1,925**	**1,577**	**183**	**239**	**3,080**

As at December 31, 2010, construction-in progress is financing by equity fund, there is no capitalization of interest.

17. Intangible asset

	The Group and the Company			
	2009-12-31	Increase	Decrease	2010-12-31
Cost:				
Franchise	447	-	-	447
Land use right	59	-	-	59
Others	193	42	-	235
Total	**699**	**42**	**-**	**741**
Accumulated amortisation:				
Franchise	222	45	-	267
Land use right	22	4	-	26
Others	95	34	-	129
Total	**339**	**83**	**-**	**422**
Provisions for impaired losses:				
Franchise	-	-	-	-
Land use right	-	-	-	-
Others	-	-	-	-
Total	**-**	**-**	**-**	**-**
Net book value:				
Franchise	225			180
Land use right	37			33
Others	98			106
Total	**360**			**319**

VII. NOTES TO THE FINANCIAL STATEMENTS *continued*

18. Deferred tax

(1) Deferred tax assets after offsetting and the corresponding deductible temporary differences after offsetting.

	2010-12-31		2009-12-31	
	Deferred tax assets after offsetting	Deductible temporary differences after offsetting	Deferred tax assets after offsetting	Deductible temporary differences after offsetting
The Group	2,390	9,558	1,838	7,353
The Company	2,389	9,557	1,838	7,353

(2) Detail of offsetting of deferred tax assets and liabilities

	The Group		The Company	
	2010-12-31	2009-12-31	2010-12-31	2009-12-31
Deferred tax asset:				
Impairment losses on loans	851	799	851	799
Impairment losses on assets	135	136	135	136
Evaluation of derivative financial instruments	4	50	4	50
Evaluation of transactional financial instruments	7	2	7	2
Changes in fair value of available for sale financial assets	544	105	544	105
Salary expenses	775	686	774	686
Others	76	60	76	60
Subtotal	**2,392**	**1,838**	**2,391**	**1,838**
Deferred tax liabilities:				
Evaluation of precious metals	2	-	2	-
Subtotal	**2**	**-**	**2**	**-**
Deferred tax assets after offsetting	**2,390**	**1,838**	**2,389**	**1,838**

19. Other assets

	The Group		The Company	
	2010-12-31	2009-12-31	2010-12-31	2009-12-31
Other receivables	1,400	1,365	1,399	1,365
Prepaid purchase cost of lease asset	1,148	-	-	-
Wait-deal debt repayment assets	548	519	548	519
Items in the process of clearance and settlement	1,512	695	1,512	695
Long term deferred assets	884	742	884	742
Continuous involved assets	881	1,346	881	1,346
Total	**6,373**	**4,667**	**5,224**	**4,667**

(1) Other receivables

	The Group		The Company	
	2010-12-31	2009-12-31	2010-12-31	2009-12-31
Analyzed by nature:				
Prepayment	361	215	360	215
Legal fare	63	80	63	80
Foregift	82	74	82	74
Petty cash	61	44	61	44
Others	959	1,075	959	1,075
Subtotal	**1,526**	**1,488**	**1,525**	**1,488**
Less: provision for bad debts	(126)	(123)	(126)	(123)
Net book value	**1,400**	**1,365**	**1,399**	**1,365**
Analyzed by account age:				
Less than 1 year	595	1,204	594	1,204
1-2 years	842	81	842	81
2-3 years	44	20	44	20
Over 3 years	45	183	45	183
Subtotal	**1,526**	**1,488**	**1,525**	**1,488**
Less: Provision for bad debts	(126)	(123)	(126)	(123)
Net book value	**1,400**	**1,365**	**1,399**	**1,365**

① As at December 31, 2010, other receivables include prepaid acquisition cost of Union Trust Limited amounting to RMB 0.221 billion.

19. Other assets *continued*

② As at December 31, 2010, other receivables owe by shareholders holding 5% or more shares of the Company is listed below:

Shareholder	Amount	Nature
The Finance Bureau of Fujian Province	563	Equity transfer of Industrial Securities Co., Ltd.

③ Movement of provision for bad debts

	The Group and the Company	
	2010	2009
Opening balance	123	181
Charge for the year	4	(49)
Recoveries	-	-
Write-offs for the year	(1)	(9)
Closing balance	**126**	**123**

(2) Wait-deal debt repayment assets

① Analyzed by nature of the assets

	The Group and the Company	
	2010-12-31	2009-12-31
Properties and buildings	618	577
Land use rights	42	53
Others	5	6
Subtotal	**665**	**636**
Less: Provision for losses	(117)	(117)
Net book value	**548**	**519**

② Movement of provision for impairment

	The Group and the Company	
	2010	2009
Opening balance	117	122
Charge for the year	2	2
Transfer out	(2)	(7)
Closing balance	**117**	**117**

(3) Long term deferred assets

	The Group and the Company						
	Original amount	2009-12-31	Increase	Decrease	Amortisation	Accumulated amortisation	2010-12-31
Leasehold improvements	1,510	698	384	11	240	679	831
Others	108	44	27	3	15	55	53
Total	**1,618**	**742**	**411**	**14**	**255**	**734**	**884**

(4) Continuous involved assets

	The Group and the Company	
	2010-12-31	2009-12-31
Continuous involved assets of asset securitization transaction	-	373
Continuous involved assets of financial product transaction	881	973
Total	**881**	**1,346**

① Continuous involved assets of financial product transactions

The Company provides liquidity supporting commitment to some non-capital preservation financial products which are medium or long term credit assets of the Company. When the fund-raising from the next relevant financial plan is not equivalent to the transferred fund of relevant financing underling assets, the Company will provide a certain portion of liquidity support to the margin before the maturity of current financial products. Management believes that the Company neither retains nor shifts the whole risks and rewards of the ownership of "credit assets". Therefore, the Company recognizes the continuous involved assets in the light of the extent of the transfer of financial assets, and accordingly recognizes the continuous involved liabilities.

VII. NOTES TO THE FINANCIAL STATEMENTS *continued*

20. Due to banks and other financial institutions

	The Group		The Company	
	2010-12-31	2009-12-31	2010-12-31	2009-12-31
Analyzed by region:				
Domestic banks and other institutions	417,655	237,013	418,386	237,013
Oversea banks and other institutions	-	-	-	-
Total	**417,655**	**237,013**	**418,386**	**237,013**
Analyzed by counterparty:				
Banks	214,709	89,733	215,440	89,733
Other financial institutions	202,946	147,280	202,946	147,280
Total	**417,655**	**237,013**	**418,386**	**237,013**

21. Inter-bank borrowing

	The Group		The Company	
	2010-12-31	2009-12-31	2010-12-31	2009-12-31
Analyzed by region:				
Domestic banks and other institutions	25,877	1,763	18,338	1,763
Oversea banks and other institutions	260	-	260	-
Total	**26,137**	**1,763**	**18,598**	**1,763**
Analyzed by counterparty:				
Banks	26,137	1,763	18,598	1,763
Other financial institutions	-	-	-	-
Total	**26,137**	**1,763**	**18,598**	**1,763**

22. Repurchase agreements

	The Group and the Company	
	2010-12-31	2009-12-31
Securities	20,927	30,269
Bills	68,658	15,001
Credit assets	-	640
Total	**89,585**	**45,910**

23. Customer deposits

	The Group and the Company	
	2010-12-31	2009-12-31
Demand deposits	552,772	455,931
-Corporate	471,562	398,129
-Personal	81,210	57,802
Term deposits	495,167	373,398
-Corporate	390,551	284,292
-Personal	104,616	89,106
Other deposits	84,828	71,555
-Remittance payable and outward remittance	1,020	876
- Guarantee deposit	83,516	70,304
- Trust funds	267	366
Fiscal deposits	25	9
Total	**1,132,767**	**900,884**

24. Salaries and staff welfare payable

	The Group			
	2009-12-31	Increase	Decrease	2010-12-31
Salaries and welfare payable	3,852	4,832	4,505	4,179
Labour union expenditure and staff educational funds	256	211	166	301
Social securities payable	69	1,273	1,277	65
Total	**4,177**	**6,316**	**5,948**	**4,545**

	The Company			
	2009-12-31	Increase	Decrease	2010-12-31
Salaries and welfare payable	3,852	4,817	4,500	4,169
Labour union expenditure and staff educational funds	256	211	166	301
Social securities payable	69	1,269	1,275	63
Total	**4,177**	**6,297**	**5,941**	**4,533**

There is no default salaries and staff welfare among the closing balance.

25. Tax payable

	The Group		The Company	
	2010-12-31	2009-12-31	2010-12-31	2009-12-31
Income tax	2,447	1,525	2,446	1,525
Business tax	844	614	839	614
City maintenance and construction tax	57	41	56	41
Personal income tax	79	37	79	37
Real estate tax	1	1	1	1
Educational Surtax	31	22	31	22
Others	27	24	27	24
Total	**3,486**	**2,264**	**3,479**	**2,264**

26. Interest payable

	The Group		The Company	
	2010-12-31	2009-12-31	2010-12-31	2009-12-31
Interest due to customer deposits	5,680	4,227	5,680	4,227
Interest of bonds	1,002	1,086	1,002	1,086
Placement interest due to other banks	1,414	349	1,414	349
Interest of repurchase agreements	449	63	449	63
Interest of inter-bank borrowings	43	4	26	4
Others	3	3	3	3
Total	**8,591**	**5,732**	**8,574**	**5,732**

27. Bonds payable

	The Group and the Company	
	2010-12-31	2009-12-31
Long term subordinated bonds	12,960	9,967
-Par value	13,000	10,000
-Unamortized issuance cost	(40)	(33)
Financial bonds	47,975	54,961
-Par value	48,000	55,000
-Unamortized issuance cost	(25)	(39)
Hybrid capital bonds	4,000	4,000
Total	**64,935**	**68,928**

(1) Long term subordinated bonds

	Issuing period	Term (year)	2010-12-31	2009-12-31
09 CIB 01	2009-09-09 to 2009-09-11	10	2,005	2,005
09 CIB 02	2009-09-09 to 2009-09-11	15	7,995	7,995
10 CIB 01	2010-03-29 to 2010-03-30	15	3,000	-
Unamortizedissuing costs			(40)	(33)
Total			**12,960**	**9,967**

① In accordance with document YSCXZYZ [2009] No. 54 by PBOC and document YJF [2009] No. 260 approved by China Banking Regulatory Commission, the Company is able to issue subordinated bonds in the national inter-bank bond market for no more than RMB 10 billion. The issuance as follows:

In September 2009, the Company issued 10 billion subordinated bonds named "the first tranche subordinated bonds in 2009 of Industrial Bank Co., Ltd", of which RMB 2.005 billion bonds (09 IB 01) with 10-year fixed rate and redemption right can be claimed in the end of the fifth year, the interest-bearing coupon rate is 4.30% for the former 5 years, if the issuer does not claim the right of redemption, the interest-bearing coupon rate will be 7.30% for the rest 5 years; RMB 7.995 billion bonds (09 IB 02) with 15-year fixed rate and redemption right can be claimed in the end of the tenth year, the interest-bearing coupon rate is 5.17% for the former 10 years, if the issuer does not claim the right of redemption, the interest-bearing coupon rate will be 8.17% for the rest 5 years.

② In accordance with document YSCXZYZ [2010] No. 15 by PBOC and document YJF [2004] No. 209 approved by China Banking Regulatory Commission, the Company is able to issue subordinated bonds in the national inter-bank bond market for no more than RMB 3 billion. The issuance as follows:

The Company issued 3 billion RMB subordinated bonds named the "first tranche subordinated bonds in 2010 of Industrial Bank Co., Ltd" (10 CIB 01), with 10-year fixed rate and redemption right in the end of the tenth year. The interest-bearing coupon rate is 4.80% for the former 10 years, if the issuer does not claim the right of redemption, the interest-bearing coupon rate will be 7.80% for the rest 5 years.

(2) Financial bonds

	Issuing period	Term (year)	2010-12-31	2009-12-31
06 CIB 01	2006-03-31 to 2006-04-06	5	5,000	5,000
06 CIB 03 (5 years)	2006-12-15 to 2006-12-19	5	8,000	8,000
06 CIB 03 (10 years)	2006-12-15 to 2006-12-19	10	8,000	8,000
07 CIB 01	2007-03-27 to 2007-03-29	3	-	7,000
07 CIB 02	2007-03-27 to 2007-03-29	5	7,000	7,000
07 CIB 03	2007-03-27 to 2007-03-29	5	5,000	5,000
08 CIB 01	2008-08-07 to 2008-08-11	3	5,655	5,655
08 CIB 02	2008-08-07 to 2008-08-11	3	5,265	5,265
08 CIB 03	2008-08-07 to 2008-08-11	5	4,080	4,080
Unamortized issuing costs			(25)	(39)
Total			**47,975**	**54,961**

VII. NOTES TO THE FINANCIAL STATEMENTS *continued*

27. Bonds payable *continued*

(2) Financial bonds *continued*

① In accordance with the approval document of YF [2005] No. 77 by the PBOC and YJF [2005] No. 253 by the CBRC, the Company has issued financial bonds totaling RMB 15 billion as follows:

(i) In November 2005, the Company has issued a financial bond totaling RMB 10 billion with a maturity of 3 years at annual interest rate of 2.15%. The bond is named as "Bond of Industrial Bank Co., Ltd., 2005 (first tranche)". The bond is also referred to as "05 IB 01". This financial bond has expired on November 2008.

(ii) In April 2006, the Company has issued a financial bond totaling RMB 5 billion with a maturity of 5 years at yearly interest rate of 2.98%. The bond is named as "Bond of Industrial Bank Co., Ltd., 2006 (first tranche)". The bond is also referred to as "06 IB 01".

② In accordance with the approval document (YSCXZYZ [2006] No. 22) issued by the PBOC and document (YJF [2006] No. 345) issued by the CBRC, the Company was allowed to issue financial bonds up to RMB 35 billion.

(i) In December 2006, the Company has issued a financial bond totaling RMB 16 billion. The bond is named as “Financial Bond of the Industrial Bank Co., Ltd., 2006 (second tranche)”. The financial bond comprised a financial bond totaling RMB 8 billion with a maturity of 5 years at yearly interest rate of 3.45% which refers to as “06 IB 03 (5 years)” and a financial bond totaling RMB 8 billion with a maturity of 10 years at yearly interest rate of 3.75% which refers to as “06 IB 03 (10 years)”.

(ii) In March 2007, the Company has issued a financial bond totaling RMB 19 billion. The bond is named as “Financial Bond of the Industrial Bank Co., Ltd., 2007 (the first tranche)”. The financial bond consisted of a financial bond totaling RMB 7 billion with a maturity of 3 years at yearly interest rate of 3.58% which refers to as “07 IB 01(The bond has matured in March 2010); a financial bond totaling RMB 7 billion with a maturity of 5 years at yearly interest rate of 3.78% which refers to as “07 IB 02” and a financial bond totaling RMB 5 billion with a maturity of 5 years at floating interest rate, which refers to as “07 IB 03. The benchmark rate is the PBOC one-year fixed deposit rate at the issuance date and the repricing date with the basic interest margin is 0.65%.

③ In accordance with the approval document (YSCXZYZ [2008] No. 24) issued by the PBOC and document (YJF [2008] No. 187) issued by the CBRC, the Company was allowed to issue financial bonds up to RMB 15 billion within China inter-bank bond market.

(i) In August 2008, the Company has issued a financial bond totaling RMB 15 billion. The bond is named as “Financial Bond of the Industrial Bank Co., Ltd., 2008 (first tranche)”. The financial bond comprised the following bonds: a financial bond totaling RMB 5.655 billion with a maturity of 3 years at yearly interest rate of 5.32% which refers to as “08 IB 01”; a financial bond totaling RMB 5.265 billion with a maturity of 3 years at floating interest rate, which refers to as “08 IB 02. The benchmark rate is the PBOC one-year fixed deposit rate at the issuance date and the repricing date with the basic interest margin is 1.05%; and a financial bond totaling RMB 4.08 billion with a maturity of 5 years at floating interest rate, which refers to as “08 IB 03. The benchmark rate is the PBOC one-year fixed deposit rate at the issuance date and the repricing date with the basic interest margin is 1.25%;

The financial bonds circulate within inter-bank bond market in accordance with the relevant regulations of the PBOC after the issuance.

(3) Hybrid capital bond

	Issuing period	Term (year)	2010-12-31	2009-12-31
06 CIB 02 fixed	2006-09-28 to 2006-09-29	15	3,000	3,000
06 CIB 02 floating	2006-09-28 to 2006-09-29	15	1,000	1,000
Total			**4,000**	**4,000**

In accordance with the approval document of YSCXZY [2006] No. 16 issued by the PBOC and YJF [2006] No. 324 issued by the CBRC, the Company was allowed to issue hybrid capital bonds up to RMB 4 billion. In September 2006, the Company has issued a financial bond totaling RMB 4 billion with a maturity of 15 years. The bond is named as “Hybrid Capital Bond of the Industrial Bank Co., Ltd., 2006”. Approved by the CBRC, the Company has the option to redeem all the bonds at face value from the 10th year to the maturity of the bond. It does not need any permission of the bond holders to exercise this option.

① The annual interest rate of current fixed interest rate bond (also refers to as 06 IB 02 fixed) from the 1st year to the 10th year is 4.94% (namely “original coupon rate”). If the Company does not exercise this option, the annual coupon rate of the bonds for the third 5 year period shall be the original coupon rate plus 2.8%.

② The annual interest rate of current floating interest rate bond (06 CIB 02 floating) is the summation of the benchmark interest rate and the basic margin. The benchmark interest rate refers to the interest rate for fixed amount and period deposit with a term of one year stipulated by the People’s Bank of China, which is applicable on the inaugural date and the value date of other interest years; the basic interest spread in the first 10 interest years is 1.82%. If the Company does not exercise the option to redeem, the basic margin of the rest five interest years shall be the original basic margin plus 1% during the period from the 11th year to the maturity of the bond.

28. Other liabilities

	The Group		The Company	
	2010-12-31	2009-12-31	2010-12-31	2009-12-31
Bank promissory notes	152	481	152	481
Items in the process of clearance and settlement	1,823	1,018	1,823	1,018
Dividend payables	4	3	4	3
Continuous involved liabilities	881	1,346	881	1,346
Rental deposit	785	-	-	-
Other payables	3,649	1,402	3,428	1,402
Total	**7,294**	**4,250**	**6,288**	**4,250**

(1) Dividend payable

As at 31 December, 2010, no dividends payable was owed to shareholders holding 5% or more shares of the Company.

(2) Other payables

As at 31 December, 2010, no other payable was owed to shareholders holding 5% or more shares of the Company.

(3) As at 31 December, 2010, RMB 1.751 billion trust fund payables included in the other payables.

29. Share capital

The Group and the Company	2009-12-31		Changes for the year	2010-12-31	
	Number	%		Number	%
Shares with limit sales restrictions	1,020	20.40	(1,020)	-	-
State-owned shares	1,020	20.40	(1,020)	-	-
Shares without limit sales restrictions	3,980	79.60	2,012	5,992	100
RMB ordinary shares	3,980	79.60	2,012	5,992	100
Total shares	**5,000**	**100.00**	**992**	**5,992**	**100**

(1) The decrease in shares with limit sales restrictions is due to restricted trade period of shares hold by the Finance Bureau of Fujian Province has expired and started trading since February 5, 2010.

(2) The increase of shares for the year generates from share allotment. Pursuant to the approval of CSRC document (ZJXK [2010] No.586), the Company implemented a share allotment program during the reporting period, whereby the Company took May 24, 2010 as the shareholding registration date, after the stock market close on that day, the total amount of the Company's share capital, 5 billion shares would be treated as the calculation base, all the shareholders were offered two shares for every ten shares they held. The actual number of allotted shares was 992,450,630 shares.

30. Capital reserve

The Group and the Company	Equity premium over par value	Changes in fair value of available-for-sale financial assets, after tax	Others	**Total**
2008-12-31	17,526	131	39	**17,696**
Increase	-	-	-	**-**
Decrease	-	(447)	(10)	**(457)**
2009-12-31	17,526	(316)	29	**17,239**
Increase	16,699	-	-	**16,699**
Decrease	-	(1,314)	-	**(1,314)**
2010-12-31	**34,225**	**(1,630)**	**29**	**32,624**

The increase amount of RMB 16.699 billion in equity premium over par value is due to the increase in share capital by the allotment approved by China Securities Regulatory Commission with the approval document ZJXK [2010] No. 586.

31. Surplus reserve

The Group and the Company	Statutory surplus reserve	Discretionary surplus reserve	**Total**
2008-12-31	3,106	297	**3,403**
Increase	-	-	**-**
Decrease	-	-	**-**
2009-12-31	3,106	297	**3,403**
Increase	-	-	**-**
Decrease	-	-	**-**
2010-12-31	**3,106**	**297**	**3,403**

(1) Pursuant to the Company Law, the Company is required to transfer 10% of its net profit to the statutory surplus reserve. The statutory surplus is no longer appropriated when the accumulated amount exceeds 50% of the company's registered capital.

(2) Pursuant to the resolution of “2010 Profit Distribution Proposal of Industrial Bank” approved at the third Meeting of the Seventh Session of the Board of Directors held on March 25, 2011, the Company does not appropriate statutory surplus of this year.

32. General risk reserve

	The Group and the Company	
	2010	2009
Opening balance	8,101	6,381
Appropriation	1,836	1,720
Closing balance	**9,937**	**8,101**

(1) Pursuant to CJ [2005] No. 49 “Measures on General Provision for Bad and Doubtful Debts for Financial Institutions” MOF, the Company is required to transfer certain percentage of its net profit to establish and maintain a general reserve within shareholders’ equity, through the appropriation of income to address unidentified potential impairment losses. In principle, the general reserve balance should not be lower than 1% of the ending balance of gross risk-bearing assets. The general reserve forms part of the equity of the Company, and transfers to it are made through appropriations of profit after tax.

① Pursuant to the resolution of “2009 Profit Distribution Proposal of Industrial Bank” approved at 21st Meeting of the Sixth Session of the Board of Directors held on March 2, 2010, general reserve of RMB 1.72 billion was appropriated.

② Pursuant to the resolution of “2010 Profit Distribution Proposal of Industrial Bank” approved at the Third Meeting of the Seventh Session of the Board of Directors held on March 25, 2011, general reserve of RMB 1.836 billion was appropriated.

(2) In accordance with the “Financial Enterprises Financial Rules - Implementation Guide" (CJ [2007] No. 23) issued by the Ministry of Finance, the general reserve amounting to RMB 0.0162 million of the subsidiary Industrial Bank Financial Leasing Co., Ltd. appropriated in accordance with 1% of annual net profit has fully vested in the Group.

33. Retained earnings

	The Group		The Company	
	2010	2009	2010	2009
Net profit for the year	18,521	13,282	18,518	13,282
Opening balance	25,854	16,542	25,854	16,542
Appropriations to statutory surplus reserve	-	-	-	-
Appropriations to general reserve	(1,836)	(1,720)	(1,836)	(1,720)
Dividends declared for ordinary shares	(2,500)	(2,250)	(2,500)	(2,250)
Closing balance	**40,039**	**25,854**	**40,036**	**25,854**

(1) Appropriations to general reserve please refer to Note VII. 32

(2) Dividends declared for ordinary shares

① Pursuant to the resolution of "2008 Profit Distribution Proposal of Industrial Bank" approved at the Annual General Meeting of Shareholders held on 18 May 2008, a cash dividend of RMB 0.45 per ordinary share (before tax) was distributed on the basis of 5 billion ordinary shares after the issuance of "A" shares in 2007. The total cash dividend distributed was RMB 2.25 billion.

② Pursuant to the resolution of "2009 Profit Distribution Proposal of Industrial Bank" passed in the 21st Session of 6th Board of Directors on March 26, 2010, a cash dividend of RMB 0.5 per ordinary share (tax inclusive) was proposed. The total amount of cash dividend was RMB 2.5 billion.

③ Pursuant to the resolution of "2010 Profit Distribution Proposal of Industrial Bank" passed in the Third Session of Seventh Board of Directors on March 25, 2011, the capitalization of capital reserves with a ratio of 8 shares for every 10 shares based on the total share capital at the end of 2010, as well as a cash dividend of RMB 4.6 for every 10 ordinary share (tax inclusive) were proposed. The dividends are not recognized as a liability as at December 31, 2010. This proposal is subject to submission to shareholders' meeting for approval.

(3) As at 31 December, 2010, RMB 0.1616 million general reserve of the subsidiary is included in the retained earnings of the Group attributable to the Company.

34. Net interest income

	The Group		The Company	
	2010	2009	2010	2009
Interest income:				
Due from the Central Bank	2,533	1,652	2,533	1,652
Due from other financial institutions	531	1,958	529	1,958
Inter-bank placement	501	322	501	322
Reverse repo	12,258	2,992	12,258	2,992
Loans and advances to customers	47,315	37,088	47,315	37,088
-Corporate	32,221	25,285	32,221	25,285
-Personal	9,714	6,972	9,714	6,972
-Bills discount	5,380	4,831	5,380	4,831
Interest from investment	7,723	6,026	7,723	6,026
Interest from lease business	111	-	-	-
Others	4	1	4	1
Subtotal	**70,976**	**50,039**	**70,863**	**50,039**
-Interest income from impaired financial assets	130	134	130	134
Interest expense:				
Due to banks and other financial institutions	7,912	3,820	7,922	3,820
Placement from banks and other financial institutions	315	159	281	159
Repurchase agreement	2,916	607	2,916	607
Deposits from customers	14,595	12,420	14,595	12,420
Interests of rediscount and inter-bank discount	4,529	3,154	4,529	3,154
Bond interest	2,622	2,665	2,622	2,665
Others	55	12	55	12
Subtotal	**32,944**	**22,837**	**32,920**	**22,837**
Net interest income	**38,032**	**27,202**	**37,943**	**27,202**

VII. NOTES TO THE FINANCIAL STATEMENTS *continued*

35. Net income from fee and commission

	The Group		The Company	
	2010	2009	2010	2009
Fee and commission income				
Settlement and clearing fees	159	85	159	85
Bank card fees	792	534	792	534
Agency commissions	1,018	509	1,018	509
Guarantee and commitment commissions	309	261	309	261
Transactional fees	47	69	47	69
Custodian fees	230	153	230	153
Consulting fees	2,520	1,767	2,492	1,767
Lease fees	13	-	-	-
Others	141	104	138	104
Subtotal	**5,229**	**3,482**	**5,185**	**3,482**
Fee and commission expenditure	428	366	425	366
Net income from fee and commission	**4,801**	**3,116**	**4,760**	**3,116**

36. Investment income

	The Group and the Company	
	2010	2009
Dividend declared by investee (cost method)	2	2
Income from long term equity investment (equity method)	90	44
Gains from available-for-sale equity investment	33	766
Gains from bond	213	223
Gains from precious metals business	32	70
Gains from transactional financial liabilities	(78)	-
Gains or losses of derivative instruments	62	(97)
Total	**354**	**1,008**

37. Gains on variation of fair value

	The Group and the Company	
	2010	2009
Net change in fair value of derivative instruments	187	(26)
Net change in fair value of transactional financial assets	(19)	(31)
Net change in fair value of transactional financial liabilities	-	45
Net change in fair value of precious metals	7	(1)
Total	**175**	**(13)**

38. Business tax and surcharges

	The Group		The Company	
	2010	2009	2010	2009
Business tax	2,632	2,095	2,626	2,095
City maintenance and construction tax	176	141	175	141
Education surcharge	95	76	95	76
Others	12	9	12	9
Total	**2,915**	**2,321**	**2,908**	**2,321**

39. General and administrative expenses

	The Group		The Company	
	2010	2009	2010	2009
Staff expenses	6,314	5,185	6,297	5,185
Depreciation and amortization	875	713	875	713
Office expenses	2,591	2,066	2,587	2,066
Lease expenses	971	767	970	767
Promotion	1,166	825	1,164	825
Entertainment	551	358	550	358
Traveling	181	183	180	183
Fuel	232	267	231	267
Supervision fee	90	127	90	127
Professional service fee	222	300	221	300
Telecommunications and postage	201	186	201	186
Taxes	85	98	80	98
Utilities	124	99	124	99
Repairs and maintenance	57	49	57	49
Others	347	251	338	251
Total	**14,007**	**11,474**	**13,965**	**11,474**

40. Loss from asset devaluation

	The Group		The Company	
	2010	2009	2010	2009
Loss from devaluation of receivables	17	6	17	6
Loss from devaluation of financial lease	99	-	-	-
Provision for loan losses	2,221	559	2,221	559
Bad debt loss of other receivables	4	(49)	4	(49)
Loss from devaluation of debt assets	1	2	1	2
Total	**2,342**	**518**	**2,243**	**518**

VII. NOTES TO THE FINANCIAL STATEMENTS *continued*

41. Non-operating income

	The Group		The Company	
	2010	2009	2010	2009
Gains from disposal of non-current asset	49	27	49	27
- Gains from disposal of fixed assets	13	16	13	16
- Gains from disposal of debt assets	36	11	36	11
Penalties and fines received	1	1	1	1
Gains from aged payable pending for collection	2	1	2	1
Government grant	20	-	-	-
Others	121	110	121	110
Total	**193**	**139**	**173**	**139**

(1) All the non-operating income of the Group is included in the non-recurring items of the current period.

(2) The government grant of the Group in the current year amounting to RMB 20 million, it is a one-time grant funds received by the subsidiary of the Company Industrial Bank Financial Leasing Co., Ltd. in accordance with the document JCJ [2006] No. 22 Notice on the issuance of "Tianjin tax incentives to promote the development of modern service industry".

42. Non-operating expense

	The Group and the Company	
	2010	2009
Losses on disposal of non-current asset	3	7
- Losses on disposal of fixed assets	2	1
- Losses on disposal of debt assets	1	6
Repayment of aged payable pending for collection	-	1
Donation expenses	64	16
Penalties and fines paid	3	33
Others	14	69
Total	**84**	**126**

All the non-operating expenditure of the Group is included in the non-recurring items of the current period.

43. Income tax

(1) Items

	The Group		The Company	
	2010-12-31	2009-12-31	2010-12-31	2009-12-31
Current tax	5,728	3,543	5,727	3,543
Deferred tax	(113)	255	(113)	255
Income tax for previous years	(130)	150	(130)	150
Total	**5,485**	**3,948**	**5,484**	**3,948**

(2) Differences between the amount of income tax shown in the financial statements and the amount as calculated by the statutory tax rate of 25% are as follows:

	The Group		The Company	
	2010-12-31	2009-12-31	2010-12-31	2009-12-31
Profit before tax	24,005	17,229	24,003	17,229
Tax calculated using statutory tax rate	6,001	4,307	6,001	4,307
Adjustments on income tax:				
Income not subject to tax	(478)	(618)	(478)	(618)
Expenses not deductible for tax purposes	104	122	103	122
Repayment of tax	(130)	150	(130)	150
Lower applicable tax rates in certain geographical area	(12)	(13)	(12)	(13)
Total	**5,485**	**3,948**	**5,484**	**3,948**

44. Basic earnings per share and diluted earnings per share calculation process

	The Group	
	2010	2009
Net profit attributable to ordinary shareholders of the Company	18,521	13,282
Weighted average ordinary shares issued by the Company (shares in million)	5,654	5,316
Basic and diluted earnings per share (Yuan)	3.28	2.50
Net profit attributable to ordinary shareholders after deducting non-recurring gains and losses	18,336	12,596
Basic and diluted earnings per share after deducting non-recurring gains and losses (Yuan)	3.24	2.37

Note 1: An allotment is made in June 2010, the earnings per share of each reporting period is recalculated based on the adjusted number of shares.

Note 2: As at December 31, 2010 and December 31, 2009, there is no dilutive potential ordinary share of the Group.

45. Other comprehensive income

	The Group and the Company	
	2010	2009
Profit(loss) generated from available-for-sale financial assets	(1,815)	(539)
Less: amounts was charged to other comprehensive income but currently transferred to profit and loss	62	(57)
Tax impact from available-for-sale financial assets	439	149
Subtotal	**(1,314)**	**(447)**
Equities retained from the invested enterprises on the basis of equity method	-	(12)
Less: amounts was charged to other comprehensive income but currently transferred to profit and loss	-	(1)
Tax impact from considering the equities retained from the invested enterprises on the basis of equity method	-	3
Subtotal	**-**	**(10)**
Total	**(1,314)**	**(457)**

46. Notes to the cash flow statement

(1) Reconciliation of net profit to cash flows from operating activities

	The Group		The Company	
	2010	2009	2010	2009
Net profit	18,521	13,282	18,519	13,282
Add: Provision for asset impairment	2,342	518	2,243	518
Depreciation of fixed assets	537	447	537	447
Amortisation of intangible assets	83	74	83	74
Amortisation of long-term deferred assets and other long term assets	240	173	240	173
Losses on disposal of fixed assets, intangible assets and other long term assets	(46)	(21)	(46)	(21)
Losses on disposal of fixed assets	-	-	-	-
Losses on change in fair value	(175)	13	(175)	13
Investment losses	(8,078)	(7,034)	(8,078)	(7,034)
Decrease of deferred tax assets	(113)	261	(113)	261
Increase of deferred tax liabilities	-	(6)	-	(6)
Decrease in operating receivables	(386,915)	(238,202)	(376,968)	(238,202)
Increase in operating payables	488,475	299,731	480,626	299,731
Interest expense on bond issued	2,623	2,665	2,623	2,665
Others	158	(53)	158	(53)
Net cash flows from operating activities	**117,652**	**71,848**	**119,649**	**71,848**
Investing and financing activities that do not involve cash receipts and payment				
Conversion of debt into capital	-	-	-	-
Convertible corporate bond expired within one year	-	-	-	-
Fixed assets acquired under finance leases	-	-	-	-
Net increase/(decrease) in cash and cash equivalents				
Cash at end of year	261,392	182,824	261,392	182,824
Less: Cash at beginning of year	(182,824)	(148,112)	(182,824)	(148,112)
Plus: Cash equivalents at end of year	-	-	-	-
Less: Cash equivalents at beginning of year	-	-	-	-
Net increase in cash and cash equivalents	**78,568**	**34,712**	**78,568**	**34,712**

(2) Cash and cash equivalents

	The Group		The Company	
	2010-12-31	2009-12-31	2010-12-31	2009-12-31
Cash:				
Cash in hand	3,568	2,904	3,568	2,904
General deposits with the Central Bank	125,221	69,619	125,221	69,619
Due from banks and other financial institutions with original maturity less than three months	29,305	35,344	29,305	35,344
Placements with banks and other financial institutions with original maturity less than three months	4,226	7,460	4,226	7,460
Reverse repurchase agreements with original maturity less than three months	99,072	67,497	99,072	67,497
Subtotal	**261,392**	**182,824**	**261,392**	**182,824**
Cash equivalent:				
Security investments with original maturity less than three months	-	-	-	-
Subtotal	-	-	-	-
Total	**261,392**	**182,824**	**261,392**	**182,824**

VIII. SEGMENT INFORMATION

A geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

The Group analyses revenues, expenditures, segment assets, segment liabilities and capital expenditures by geographical segments.

The major geographical segments of the Group include the following major business regions:

The headquarters of the Group (including head office and its operating departments); Fujian, Beijing, Shanghai, Guangdong, Zhejiang, Jiangsu and others (not included in above segments).

VIII. SEGMENT INFORMATION *continued*

(1) Geographical segments of the Group for the year 2010

	Head office	Fujian	Beijing	Shanghai	Guangdong	Zhejiang	Jiangsu	Others	Offset	**Total**
①Operating income	3,590	6,107	3,672	4,177	4,547	2,994	2,420	15,949	-	**43,456**
Net interest income	1,846	5,728	3,418	3,382	4,020	2,804	2,129	14,705	-	**38,032**
Including:										
Inter-segment income	(5,069)	927	1,361	1,012	1,205	(63)	254	373	-	**-**
Net fee and commission income	1,265	331	354	679	562	178	278	1,154	-	**4,801**
Other income	479	48	(100)	116	(35)	12	13	90	-	**623**
② Operating expense	(2,533)	(2,501)	(1,287)	(1,232)	(2,344)	(1,410)	(1,147)	(7,105)	-	**(19,559)**
③ Operating profit	1,057	3,606	2,385	2,945	2,203	1,584	1,273	8,844	-	**23,897**
④ Total asset	672,018	209,723	145,816	169,556	213,545	114,428	103,462	675,987	(454,862)	**1,849,673**
⑤ Total liability	602,575	206,134	143,497	166,686	211,432	112,861	102,194	665,161	(452,862)	**1,757,678**
⑥ Supplemented issue										
A. Loan to customer	11,547	132,336	56,101	62,948	90,264	77,180	47,731	376,232	-	**854,339**
B. Capital expenditure	2,594	172	42	47	297	145	543	772	(2,000)	**2,612**
C. Depreciation and amortisation	171	135	27	45	121	77	33	266	-	**875**
D. Credit commitment	31,976	21,829	4,284	6,519	21,742	27,865	22,018	111,135	-	**247,368**
E. Asset impairment loss	59	214	124	66	419	133	217	1,110	-	**2,342**

(2) Geographical segments of the Company for the year 2010

	Head office	Fujian	Beijing	Shanghai	Guangdong	Zhejiang	Jiangsu	Others	Offset	**Total**
① Operating income	3,590	6,107	3,672	4,177	4,547	2,994	2,420	15,819	-	**43,326**
Net interest income	1,846	5,728	3,418	3,382	4,020	2,804	2,129	14,616	-	**37,943**
Including:										
Inter-segment income	(5,069)	927	1,361	1,011	1,205	(63)	254	374	-	
Net fee and commission income	1,265	331	354	679	562	178	278	1,113	-	**4,760**
Other income	479	48	(100)	116	(35)	12	13	90	-	**623**
② Operating expense	(2,533)	(2,501)	(1,287)	(1,232)	(2,344)	(1,410)	(1,147)	(6,958)	-	**(19,412)**
③ Operating profit	1,057	3,606	2,385	2,945	2,203	1,584	1,273	8,861	-	**23,914**
④ Total asset	672,018	209,723	145,816	169,556	213,545	114,428	103,462	665,405	(452,130)	**1,841,823**
⑤ Total liability	602,575	206,134	143,497	166,686	211,432	112,861	102,194	656,580	(452,130)	**1,749,829**
⑥ Supplemented issue										
A. Loan to customer	11,547	132,336	56,101	62,948	90,264	77,180	47,731	376,232	-	**854,339**
B. Capital expenditure	2,594	172	42	47	297	145	543	769	-	**4,609**
C. Depreciation and amortisation	171	135	27	45	121	77	33	266	-	**875**
D. Credit commitment	31,976	21,829	4,284	6,519	21,742	27,865	22,018	111,135	-	**247,368**
E. Asset impairment loss	59	214	124	66	419	133	217	1,011	-	**2,243**

VIII. SEGMENT INFORMATION *continued*

(3) Geographical segments of the Group and the Company for the year 2009

	Head office	Fujian	Beijing	Shanghai	Guangdong	Zhejiang	Jiangsu	Others	Offset	**Total**
① Operating income	2,594	5,722	2,859	3,292	3,115	2,528	1,502	10,067	-	**31,679**
Net interest income	1,273	4,689	2,483	2,710	2,710	2,407	1,438	9,492	-	**27,202**
Including:										
Inter-segment income	(4,817)	976	1,517	1,501	993	168	(183)	(155)	-	**-**
Net fee and commission income	889	232	375	522	393	110	57	538	-	**3,116**
Other income	432	801	1	60	12	11	7	37	-	**1,361**
② Operating expense	(2,600)	(1,854)	(977)	(1,073)	(1,337)	(1,136)	(799)	(4,686)	-	**(14,462)**
③ Operating profit	(6)	3,868	1,882	2,219	1,778	1,392	703	5,381	-	**17,217**
④ Total asset	464,776	158,391	130,557	148,677	157,567	81,573	66,644	418,223	(294,246)	**1,332,162**
⑤ Total liability	421,088	154,771	128,760	146,476	155,976	80,440	65,994	413,305	(294,246)	**1,272,564**
⑥ Supplemented issue										
A. Loan to customer	15,272	106,333	49,204	54,977	77,321	69,253	39,111	290,127	-	**701,598**
B. Capital expenditure	517	144	144	22	207	101	53	539	-	**1,727**
C. Depreciation and amortisation	156	113	24	40	99	68	24	189	-	**713**
D. Credit commitment	19,522	13,258	2,033	4,007	13,630	21,417	14,369	76,326	-	**164,562**
E. Asset impairment loss	4	(130)	75	(23)	(198)	7	165	618	-	**518**

IX. RELATED PARTY RELATIONSHIP AND TRANSACTIONS

1. Related parties

Related parties included: shareholders holding more than 5% (including 5%) of the Company's shares as well as their controlling shareholders; legal persons or any other entity which were subject to direct, indirect, joint control or significant influence by the Company's shareholders holding more than 5% (including 5%) of the Company's shares; the Company's directors, senior management and their close relatives (hereinafter referred to as "Key management personnel and their close relatives"); legal persons or any other entity which were subject to direct, indirect, joint control or significant influence by directors and senior management (hereinafter referred to as "Key management-related enterprises").

(1) Shareholders holding more than 5% (inclusive) of the Company's shares.

(i) General information

	Economic nature	Domicile	Business scope	Legal representative
The Finance Bureau of Fujian Province	Legal person of government units	Fuzhou	Administration of Fujian provincial fiscal and tax policy	Chen Xiaoping
Hang Seng Bank Limited	Limited company	Hong Kong	Financial services	Margaret Leung Ko May Yee

(ii) Registered capital and changes

	2010-12-31	2009-12-31
The Finance Bureau of Fujian Province	-	-
Hang Seng Bank Limited	HKD11,000,000,000	HKD11,000,000,000

(iii) Number of shares or equity held and changes therein

Unit: shares in million

	2009-12-31		Increase		Decrease		2010-12-31	
	No. of shares	%	No. of shares	%	No. of shares	%	No. of shares	%
The Finance Bureau of Fujian Province	1,040	20.80	208	0.03	-	-	1,248	20.83
Hang Seng Bank Limited	639	12.78	128	0.02	-	-	767	12.80

(2) General information of the Company's shareholders related enterprises holding more than 5% (including 5%) of the Company's shares

Unit: RMB in hundred million

	Economic nature	Domicile	Registered capital	Business scope	Legal representative
Hang Seng Bank (China) Limited	Limited company	Shanghai	45	Financial services	Margaret Leung Ko May Yee

IX. RELATED PARTY RELATIONSHIP AND TRANSACTIONS *continued*

1. Related parties *continued*

(3) General information of key management-related enterprises

Unit: RMB in hundred million

	Economic nature	Registered office	Registered capital	Business scope	Legal representative	Remark
China Electronics Corporation	State-owned	Beijing	79.30	Producing, trading and providing services for IT and related products	Xiong Qunli	A,B
China National Cereals, Oils and Foodstuffs Corp (COFCO)	State-owned	Beijing	3.12	Commerce, food processing, real estate, hotel operation, financial services	Ning Gaoning	A,B
Shanghai Guo Xin Investment & Development Co., Ltd.	State-owned	Shanghai	20	Investment and investment management; investment consulting; financial consulting; domestic trading.	Deng Weili	A
Xiamen University	Public-sector organization	Xiamen	-	Education	Zhu Chongshi	A,B
COFCO Finance Co., Ltd.	State-owned	Beijing	10	Providing fund management and other financial service to enterprises	Wu Xiaohui	A,B
COFCO Trust Co., Ltd.	State-owned	Beijing	12	Fund trust; chattel trust; real estate trust; securities trust	Wu Xiaohui	A
Aviva-Cofco Life Insurance Co., Ltd	Foreign capital enterprise	Shanghai	25.46	Life insurance	Wu Xiaohui	A,B
China Merchants Industry Development (Shenzhen) Co., Ltd.	Foreign capital enterprise	Shenzhen	USD 10 million	Industry and other commerce	Hong Xiaoyuan	A,B

Related parties with remark "A" were key management-related enterprises on December 31, 2010.

Related parties with remark "B" were key management-related enterprises on December 31, 2009.

2. Related party transactions

Related party transactions mainly cover: loans, bank acceptance, letters of credit, letters of guarantee and deposit, etc. Both transaction condition and the interest rate charged are in accordance with the Group's normal business terms.

(1) Due from banks and other financial institutions

	2010-12-31	2009-12-31
Hang Seng Bank Limited	110	109

(2) Derivative financial instruments

	Type of transaction	2010-12-31		2009-12-31	
		Notional amount	Fair value	Notional amount	Fair value
Hang Seng Bank (China) Limited	Interest rate derivative	1,375	(4)	-	-
Hang Seng Bank (China) Limited	Foreign exchange rate derivative	1,463	(4)	205	-

(3) Loans and advances to customers

	2010-12-31	2009-12-31
A. Shareholders holding more than 5%(including 5%) of the Company's shares	-	-
B. Shareholders related enterprises holding more than 5%(including 5%) of the Company's shares	-	-
C. Key management personnel and their close relatives	9	3
D. Key management-related enterprises	-	-
Total	**9**	**3**

(4) Other Receivables

	2010-12-31	2009-12-31
The Finance Bureau of Fujian Province	563	563

(5) Placements from banks and other financial institutions

	2010-12-31	2009-12-31
Hang Seng Bank (China) Limited	497	-

(6) Due to banks

	2010-12-31	2009-12-31
Hang Seng Bank (China) Limited	8	11
Hang Seng Bank Limited	1	-
COFCO Finance Co., Ltd.	4	4
Total	**13**	**15**

(7) Customer deposit

	2010-12-31	2009-12-31
A. Shareholders holding more than 5%(including 5%) of the Company's shares	10,562	7,615
B. Shareholders related enterprises holding more than 5%(including 5%) of the Company's shares	-	-
C. Key management personnel and their close relatives	24	27
D. Key management-related enterprises	1,012	65
Total	**11,598**	**7,707**

IX. RELATED PARTY RELATIONSHIP AND TRANSACTIONS *continued*

2. Related party transactions *continued*

(8). Interest income

	2010	2009
A. Shareholders holding more than 5%(including 5%) of the Company's shares	2	-
B. Shareholders related enterprises holding more than 5% (including 5%) of the Company's shares	-	2
C. Key management personnel and their close relatives	-	-
D. Key management-related enterprises	3	28
Total	**5**	**30**

(9). Interest expense

	2010	2009
A. Shareholders holding more than 5%(including 5%) of the Company's shares	88	50
B. Shareholders related enterprises holding more than 5%(including 5%) of the Company's shares	-	-
C. Key management personnel and their close relatives	-	-
D. Key management-related enterprises	-	3
Total	**88**	**53**

(10) Credit line

	2010	2009
Hang Seng Bank Limited and Hang Seng Bank (China) Limited	4,000	4,000
China Oil & Foodstuffs Corporation(COFCO) and COFCO Finance Co., Ltd.	1,800	1,800
Total	**5,800**	**5,800**

X. RISK MANAGEMENT

1. Introduction of risk management

The Group accepts deposits of various terms at fixed or floating rates. It uses the funds obtained for investments or granting loans to earn profit. In these processes, the Group encounters different types of risk. A description and analysis of the major risks faced by the Group is as follows:

Credit risk: credit risk is the risk of loss from default by an obligor or counterparty when payments fall due.

Market risk: market risk is the risk that foreign exchange rates, interest rates, equity and commodity prices and indices will move and result in uncertainty of profits or incur losses for the Group.

Liquidity risk: liquidity risk refers to an inability of the Group to raise funds in order to increase its assets or decrease its liabilities. When a bank is lack of liquidity it may not be able to raise sufficient funds through either increasing liabilities or realizing assets, which may causes a liquidity payment crisis and in turn results in a bank run situation.

Operational risk: operational risk refers to the potential of loss that result from an imperfect or problematic internal control, employee and information system or cause from external events.

Risk management is the basic safeguard of survival and development of commercial banks. The Group has taken risk management as one of its core competitiveness, formulated development strategy focus on business operation as well as risk management, established risk control system with a core of risk asset management, set up risk management rules and operation regulations for each business sector, improved risk accountability and punishment mechanism. The Group has integrated credit risk, market risk, liquidity risk, operational risk and other risk into the overall risk management, clarified specific responsibility of Board of Directors, Board of Supervisors, senior management and operation executives, formed a defined, clear and effective overall risk management system. In daily risk management work, the Group's business sector, risk management department and internal audit department build up the "three defenses", they perform their respective functions and work together to the objective of risk management. Among them, operation institutions and business sector form the first line of defense to conduct risk management according to the risk management rules and policies, realize organic combination or business operation and risk management. The risk management department is the second line of defense, which is responsible for the constitution of the Group's risk management strategy, policy, regulations and process, and supervision of the execution. Meanwhile, the risk management department is responsible for the identification, evaluation and supervision of the risk that the Group faces, assessing the Group's risk condition periodically, taking measures for continuously improvement, pushing forward the outspread of overall risk management work. The internal audit department is the third line of defense. It provides independent, objective supervision, evaluation and consultation to the Group's risk management, provides post-event risk management assessment and feedback adjustment.

2. Credit risk

The main credit risk of the Company arises from loan to customers, inter-bank placement, bill acceptance, letter of credit, letter of guarantee, etc. The Company recognizes and manages above risk through due diligence, approval process, post disbursement monitoring and recovery process.

Several departments of the Company are responsible for the management of credit risk, including Risk Management Department, Credit Control Department and others. Those departments are engaged to the following obligations: draft credit risk management related policies and operating plan; develop risk management technology and the application of risk management tools; monitor the risk, etc.

The approval department has four local approving centers, including Beijing, Shanghai, Guangzhou and Fujian. The approval center reviews and makes approval of loans developed by the branched. In addition, the Company also sets up several specialized committees such as Credit Approval Committee and Credit Accountability Committee. The first one is responsible for the examination and approval of the loans within the authority. The other one is responsible for determining the responsibility of related loans.

The Group has formulated a whole set of credit policies on approval process and management procedure, and implemented throughout the Group. The credit management procedure for corporate and personal loans can be classified as credit investigation, credit examination, credit approval, credit disbursement, and post disbursement monitoring and recovery process. In addition, the company issued "Due diligence of credit approval" to clarify the duties of different positions, to effectively control the credit risk, and to strengthen compliance of credit business.

The Group draws up managerial systems of industry investment, such as "credit services access rules", moderately increases investment to those industries which supported by national policies and begin to entered the stage of stable growth; on the basis of scientific judgments, decides to increase or decrease capital input to those industries which have already matured and the market tends to be saturated; cuts down input and withdraws steadily from those industries whose prospect tends to be infirm.

The Group has established a customer credit rating system, comprehensively and systematically investigates various factors and variation trends which influence customer solvency in the future, discloses, evaluates customers' credit risks and capabilities based on qualitative and quantitative analysis. Credit rating results become the important foundation to draw up credit service polices, adjust and optimize client structure, as well as identify credit service of individual customer. The Group has

X. RISK MANAGEMENT *continued*

2. Credit risk *continued*

developed and gradually established an internal rating system according to the Basel New Capital Accord and the relevant guidelines of CBRC, the accomplishment would be put into practice in 2011 so as to enhance the ability of credit risk identification, estimation and control.

When applying the credit service, measurement is required by the Group to calculate the degree of risk according to the extent of probable losses in the transaction. Calculation involves translating major relevant factors into the correlation coefficient, and calculating the extent of probable losses comprehensively, the calculation results become the important references of credit investigation, review, as well as decision-making between benefits and risks.

The Group strengthens the monitoring and warning of credit operations by drawing up "Credit Risk Warning and Processing Regulations", a variety of credit risk information can be accessed through internal and external sources, and warnings will be notified among the Group who carries out relevant procedures to prevent and overcome the risks; the Group develops the credit management information system to provide management information and advices at all time to detect and prevent the credit risk through conducting dynamic monitoring, real-time warning and pre-control of customer operation status and credit assets status of the Group.

The Group introduces the industry quota management, establishes quota management implementation plan to set up relevant quota for those emphasized credit industries, the monitoring of credit ratio for every industry will be carried out monthly, the Group will analyze the quota management situation of the whole industry comprehensively by collecting the quarterly report from branches, and then readjusts and optimizes the quota among industries, which advices the branches to optimize structure and control credit concentration risk.

In order to accurately identify the risk profile of credit assets and reasonably reflect the risk-adjusted earnings position, the Group establishes “Implementation Rules of Credit Assets Risk Classification”, “Implementation Standards of Credit Assets Risk Classification”, etc. to guide the operating units to optimize the allocation of capital and credit resources and strengthen the awareness of risk management. Based on the five grades classification method established by CBRC, the Company further classifies its credit assets into nine grades: Pass 1, 2 and 3; special mentioned 1, 2 and 3; sub-standard; doubtful and loss. Different management policies are addressed to the credit assets according to their grades. Provision is also made for these credit assets according to their grades.

Risk arises from financial guarantee and credit commitment is similar with risk associate with loans and advances to customer. Therefore, the requirements for application, post disbursement management and collateral and other enhancements for these transactions are the same with the requirements for loans and advances to customer.

(1) Concentration of credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio of financial instrument is diversified along geographic, industry and product sectors.

The Group operates the lending business in the PRC only. Since there are different economic development characteristics in the different regions in China, credit risks are also different.

For the geographical and industrial concentration of the loans and advances please refer to Note VII 9.

(2) Maximum exposure to credit risk before collateral held or other credit enhancements

	The Group		The Company	
	2010-12-31	2009-12-31	2010-12-31	2009-12-31
Due from the Central Bank	285,073	169,000	285,073	169,000
Due from banks and other financial institutions	39,867	42,365	39,867	42,365
Placement with other banks	21,099	13,684	21,099	13,684
Transactional financial assets	5,537	3,363	5,537	3,363
Derivative financial assets	2,301	1,399	2,301	1,399
Reverse repurchase financial assets	374,005	195,884	374,005	195,884
Loan and advance to customers	842,568	691,963	842,568	691,963
Available-for-sale bond investment	147,203	111,068	147,203	111,068
Receivable	61,321	40,786	61,321	40,786
Financial lease receivable	8,693	-	-	-
Held-to-maturity investment	34,290	42,354	34,290	42,354
Other financial assets	11,345	7,576	10,191	7,576
Total of on balance sheet credit risk exposure	**1,833,302**	**1,319,442**	**1,823,455**	**1,319,442**
Credit risk exposure of credit commitment	247,368	164,562	247,368	164,562
Maximum exposure to credit risk	**2,080,670**	**1,484,004**	**2,070,823**	**1,484,004**

Other financial assets mainly include interest receivable, other receivables and items in the process of clearance and settlement.

(3) Analysis of exposure to credit risk of the Group and the Company

	2010-12-31			
	Loans and advances	Inter-bank placement	Investment	**Total**
Impaired:				
Individual assessment				
Total assets	3,238	138	132	**3,508**
Provision for impairment	(2,039)	(138)	(132)	**(2,309)**
Net value of assets	**1,199**	**-**	**-**	**1,199**
Collective assessment				
Total assets	378	-	-	**378**
Provision for impairment	(257)	-	-	**(257)**
Net value of assets	**121**	**-**	**-**	**121**
Overdue but not individually impaired				
Total assets	1,295	-	-	**1,295**
Including:				
-Over 90 days	1,295	-	-	**1,295**
-90 to 360 days	-	-	-	**-**
-360 days to 3 years	-	-	-	**-**
-Over 3 years	-	-	-	**-**
Provision for impairment	(45)	-	-	**(45)**
Net value of assets	**1,250**	**-**	**-**	**1,250**
Neither past due nor individually impaired				
Total assets	849,427	434,971	248,375	**1,532,773**
Provision for impairment	(9,429)	-	(24)	**(9,453)**
Net value of assets	**839,998**	**434,971**	**248,351**	**1,523,320**
Total of net value of assets	**842,568**	**434,971**	**248,351**	**1,525,890**

X. RISK MANAGEMENT *continued*

2. Credit risk *continued*

(3) Analysis of exposure to credit risk of the Group and the Company *continued*

	2009-12-31			
	Loans and advances	Inter-bank placement	Investment	**Total**
Impaired:				
Individual assessment				
Total assets	3,579	138	137	**3,854**
Provision for impairment	(1,776)	(138)	(137)	**(2,051)**
Net value of assets	**1,803**	**-**	**-**	**1,803**
Collective assessment				
Total assets	390	-	-	**390**
Provision for impairment	(257)	-	-	**(257)**
Net value of assets	**133**	**-**	**-**	**133**
Overdue but not individually impaired				
Total assets	1,267	-	-	**1,267**
Including:				
-Over 90 days	1,267	-	-	**1,267**
-90 to 360 days	-	-	-	**-**
-360 days to 3 years	-	-	-	**-**
-Over 3 years	-	-	-	**-**
Provision for impairment	(54)	-	-	**(54)**
Net value of assets	**1,213**	**-**	**-**	**1,213**
Neither past due nor individually impaired				
Total assets	696,362	251,933	197,577	**1,145,872**
Provision for impairment	(7,548)	-	(6)	**(7,554)**
Net value of assets	**688,814**	**251,933**	**197,571**	**1,138,318**
Total of net value of assets	**691,963**	**251,933**	**197,571**	**1,141,467**

Inter-banks placement includes due from banks and other financial institutions, placement with other banks and reverse repurchase of financial assets.

(4) Collaterals and other credit enhancements of the Group

The amount and types of the collaterals the Group needs to acquire depends on the credit risk evaluation of the counter parties. The Group bases on information on credit and business operation and economic benefits of the counter parties, wear and tear of the collaterals, mortgage term and the level of difficulty to realize the collaterals to determine the collateral ratios comprehensively. In the mean time, the guideline for collateral ratio issued by the Group stipulates the upper limit of related collateral ratios. Furthermore, the Group implements classified management to manage collaterals based on factors including level of difficulty to obtain the assessment value, the value stability and the level of difficulty to manage the collaterals.

Following are the main types of warrants:

For repurchase agreement, collaterals mainly include notes, loans and negotiable securities;

For commercial loans, collaterals mainly include land, properties, equipments and shares; for personal loans, collaterals mainly include properties.

The management will monitor the market value of the collaterals periodically and ask the borrowers to add collaterals if necessary according to the agreements.

(5) Value analysis of collaterals

① the Group will periodically reassess the fair value of the collaterals.

A. As at 31 December, 2010, overdue but not individually impaired loans of the Group which can be covered by the fair value of collaterals amounted to RMB 2.067 billion (2009: RMB 1.649 billion). The collaterals include lands, properties, machinery and equipments as well as investment funds.

B. As at 31 December, 2010, impaired loans determined by individual impairment test of the Group which can be covered by the fair value of collaterals amounted to RMB 0.938 billion (2009: RMB 1.12 billion). The collaterals include lands, properties, machinery and equipments as well as investment funds.

② During the year 2010, the book value of settled assets that the Group obtained to offset against outstanding loans amounted to RMB 82 million (2009: RMB 71 million), which mainly include land, buildings and equipments.

(6) Restructured loans

As at 31 December 2010, the book value of restructured loans (including renewed loans and rearranged loans) amounted to RMB 2.096 billion (2009: RMB 1.599 billion), in which loans overdue more than 90 days amounted to RMB 0.341billion (2008: RMB 0.433 billion).

3. Market risk

Market risk refers to the unfavorable variances of market prices (interest rates, exchange rates, commodity prices) which result in losses of the bank’s balance-sheet and off balance-sheet business. It arises from both the Group’s trading and non-trading business. The Group’s management target is to limit the market risk into tolerable and reasonable scope, in order to achieve the optimized earnings through risk restructure.

According to the Group’s market risk management structure, market risk is critical for the Group’s assets and liabilities management. Material events should be proposed to the assets management committee for discussion and authorized by the president.

The Planning and Finance Department is responsible for organizing and implementing asset-liability ratio management of the whole bank, analyzing, monitoring the indicators of implementation, managing asset-liability configuration and liquidity of the bank, being charged with the asset-liability management committee, as well as formulating and enforcing the market risk management quota from the viewpoint of assets and liabilities of the bank.

X. RISK MANAGEMENT *continued*

3. Market risk *continued*

For the routine control and management of capital market, considering of improving the market sensitivity and reflecting rate, the risk management department of the Group built up mid-stage risk control system in the treasure center to carry out an implanting risk management. The system controls the market operation of the treasure center simultaneously, and represents written risk evaluation reports of the treasure center.

(1) Interest rate risk

The interest rate risk of the Group includes repricing risk, yield curve risk, standard risk and optional risk, during which the re-setting price risk is the main risk. It is the risk caused by the mismatch between the agreed maturity date and the re-settled maturity date of interest bearing assets and interest payment liabilities. Up till now, the Group has fully carried out the internal capital transfer of foreign currency. Both the mid-term and long-term capital sources and utilization of RMB are also applying the same method. The Group transferred and pricing internal capital according to different products and terms, and centralized the interest rate risk to the Head Office to be universally settled and managed, so as to improve the efficiency of management and controlling the risk.

As for the interest risk management of bank account, the Group mainly evaluates the interest risk of balance sheet through gap analysis. The Group monitors and controls the interest rate sensitive gap of balance sheet through information systems like assets-liabilities management system, and simply calculates the interest rate sensitivity affected by revenue and economic value on the basis of gap analysis. The revenue analysis emphasizes on the effect of the interest rate fluctuation to the short term bank income while the economic value analysis lays stress on the effect of the interest rate fluctuation to the book value of net bank cash flow.

The management of interest rate risk of the trading accounts is primarily through the quota system of exposure authorization and the introduction of financial transactions and analysis system has achieved the real-time monitoring of the interest rate risk of the trading accounts. For the measurement of interest rate risk exposure, the Group has strengthened the management of econometric models; standardize the developing, testing and commissioning process, building on regular evaluation mechanisms to ensure the accuracy of the measurement model. The Group applies the on-line trading and analysis system to measure timely the interest rate risk exposure of transaction accounts, which provide effective technical support to the interest rate risk of transaction accounts.

① An analysis of expected next repricing dates or maturity dates (whichever is earlier) for the financial assets and liabilities of the Group as at 31 December, 2010 are as follow:

	Less than 3 months	3 month to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Overdue/Non -interest bearing	**Total**
Assets:								
Cash and due from the Central Bank	248,063	26,417	3,246	2,431	4,906	10	3,568	**288,641**
Due from banks and other financial institutions	36,084	3,316	99	200	168	-	-	**39,867**
Placements with banks and other financial institutions	15,149	5,750	-	200	-	-	-	**21,099**
Transactional financial assets	430	2,222	439	1,132	1,139	175	-	**5,537**
Derivative financial assets	-	-	-	-	-	-	2,301	**2,301**
Reverse repurchase agreements	256,982	93,618	21,245	1,460	700	-	-	**374,005**
Loans and advances	593,623	224,996	3,757	2,447	1,894	3,575	12,276	**842,568**
Available-for-sale financial assets	18,745	39,348	35,028	20,381	17,888	15,812	30	**147,232**
Receivables	25,696	26,959	2,708	545	2,545	2,868	-	**61,321**
Financial lease receivables	8,693	-	-	-	-	-	-	**8,693**
Held-to-maturity investments	771	11,098	6,758	2,065	6,298	7,300	-	**34,290**
Long term equity investments	-	-	-	-	-	-	81	**81**
Other assets	1,149	-	-	-	-	-	10,197	**11,346**
Total assets	**1,205,385**	**433,724**	**73,280**	**30,861**	**35,538**	**29,740**	**28,453**	**1,836,981**
Liabilities:								
Due to the Central Bank	207	158	-	-	-	-	-	**365**
Due to banks and other financial institutions	371,025	42,630	-	-	4,000	-	-	**417,655**
Placements from banks and other financial institutions	18,432	7,705	-	-	-	-	-	**26,137**
Transactional financial liabilities	-	-	-	-	-	-	-	**-**
Derivative financial liabilities	-	-	-	-	-	-	2,317	**2,317**
Repurchase agreements	71,925	17,660	-	-	-	-	-	**89,585**
Customer deposits	870,152	187,452	23,032	17,251	34,808	72	-	**1,132,767**
Bonds payable	4,996	28,984	6,995	-	1,999	21,961	-	**64,935**
Other liabilities	120	-	-	-	-	-	23,718	**23,838**
Total liabilities	**1,336,857**	**284,589**	**30,027**	**17,251**	**40,807**	**22,033**	**26,035**	**1,757,599**
Net assets or liabilities	(131,472)	149,135	43,253	13,610	(5,269)	7,707	2,418	**79,382**

X. RISK MANAGEMENT *continued*

3. Market risk *continued*

② An analysis of expected next repricing dates or maturity dates (whichever is earlier) for the financial assets and liabilities of the Company as at 31 December, 2010 are as follow:

	Less than 3 months	3 month to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Overdue/Non -interest bearing	Total
Assets:								
Cash and due from the Central Bank	248,063	26,417	3,246	2,431	4,906	10	3,568	**288,641**
Due from banks and other financial institutions	36,084	3,316	99	200	168	-	-	**39,867**
Placements with banks and other financial institutions	15,149	5,750	-	200	-	-	-	**21,099**
Transactional financial assets	430	2,222	439	1,132	1,139	175	-	**5,537**
Derivative financial assets	-	-	-	-	-	-	2,301	**2,301**
Reverse repurchase agreements	256,982	93,618	21,245	1,460	700	-	-	**374,005**
Loans and advances	593,623	224,996	3,757	2,447	1,894	3,575	12,276	**842,568**
Available-for-sale financial assets	18,745	39,348	35,028	20,381	17,888	15,812	30	**147,232**
Receivables	25,696	26,959	2,708	545	2,545	2,868	-	**61,321**
Held-to-maturity investments	771	11,098	6,758	2,065	6,298	7,300	-	**34,290**
Long term equity investments	-	-	-	-	-	-	81	**81**
Other assets	-	-	-	-	-	-	10,191	**10,191**
Total assets	**1,195,543**	**433,724**	**73,280**	**30,861**	**35,538**	**29,740**	**28,447**	**1,827,133**
Liabilities:								
Due to the Central Bank	207	158	-	-	-	-	-	**365**
Due to banks and other financial institutions	371,756	42,630	-	-	4,000	-	-	**418,386**
Placements from banks and other financial institutions	18,432	166	-	-	-	-	-	**18,598**
Transactional financial liabilities	-	-	-	-	-	-	-	**-**
Derivative financial liabilities	-	-	-	-	-	-	2,317	**2,317**
Repurchase agreements	71,925	17,660	-	-	-	-	-	**89,585**
Customer deposits	870,152	187,452	23,032	17,251	34,808	72	-	**1,132,767**
Bonds payable	4,996	28,984	6,995	-	1,999	21,961	-	**64,935**
Other liabilities	-	-	-	-	-	-	22,797	**22,797**
Total liabilities	**1,337,468**	**277,050**	**30,027**	**17,251**	**40,807**	**22,033**	**25,114**	**1,749,750**
Net assets or liabilities	**(141,925)**	**156,674**	**43,253**	**13,610**	**(5,269)**	**7,707**	**3,333**	**77,383**

③ An analysis of expected next repricing dates or maturity dates (whichever is earlier) for the financial assets and liabilities of the Group and the Company as at 31 December, 2009 are as follow:

The Group and the Company	Less than 3 months	3 month to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Overdue/Non-interest bearing	**Total**
Assets:								
Cash and due from the Central Bank	150,819	16,094	1,168	699	219	-	2,905	**171,904**
Due from banks and other financial institutions	40,104	1,924	34	302	-	-	1	**42,365**
Placements with banks and other financial institutions	9,130	4,254	300	-	-	-	-	**13,684**
Transactional financial assets	205	859	963	591	513	232	-	**3,363**
Derivative financial assets	-	-	-	-	-	-	1,399	**1,399**
Reverse repurchase agreements	156,633	26,451	4,900	7,200	400	300	-	**195,884**
Loans and advances	402,774	267,645	4,620	4,215	1,708	2,643	8,358	**691,963**
Available-for-sale financial assets	11,942	31,571	10,489	33,243	13,443	10,373	87	**111,148**
Receivables	9,065	19,211	3,191	2,224	5,189	1,906	-	**40,786**
Held-to-maturity investments	3,915	12,790	8,577	6,728	5,948	4,267	129	**42,354**
Long term equity investments	-	-	-	-	-	-	81	**81**
Other assets	-	135	-	-	-	-	7,441	**7,576**
Total assets	**784,587**	**380,934**	**34,242**	**55,202**	**27,420**	**19,721**	**20,401**	**1,322,507**
Liabilities:								
Due to the Central Bank	16	24	-	-	-	-	-	**40**
Due to banks and other financial institutions	217,553	18,460	-	1,000	-	-	-	**237,013**
Placements from banks and other financial institutions	1,626	137	-	-	-	-	-	**1,763**
Transactional financial liabilities	-	-	-	-	-	-	-	**-**
Derivative financial liabilities	-	-	-	-	-	-	1,602	**1,602**
Repurchase agreements	45,270	640	-	-	-	-	-	**45,910**
Customer deposits	736,212	145,683	10,577	6,427	1,984	1	-	**900,884**
Bonds payable	11,994	10,330	18,647	6,991	1,998	18,968	-	**68,928**
Other liabilities	-	-	-	-	-	-	16,412	**16,412**
Total liabilities	**1,012,671**	**175,274**	**29,224**	**14,418**	**3,982**	**18,969**	**18,014**	**1,272,552**
Net assets or liabilities	**(228,084)**	**205,660**	**5,018**	**40,784**	**23,438**	**752**	**2,387**	**49,955**

X. RISK MANAGEMENT *continued*

3. Market risk *continued*

The Group uses sensitive analysis to measure the possible effect of interest fluctuation to the net interest income. The following chart shows the result of the interest rate sensitive analysis of 2010-12-31 and 2009-12-31 on the basis of the assets and liabilities on balance sheet date.

	The Group				The Company			
	2010-12-31		2009-12-31		2010-12-31		2009-12-31	
	Interest rate	flu (basic point)	Interest rate	flu (basic point)	Interest rate	flu (basic point)	Interest rate	flu (basic point)
	(100)	100	(100)	100	(100)	100	(100)	100
Flu of net interest income caused by interest rate risk	591	(591)	1,224	(1,224)	654	(654)	1,224	(1,224)
Flu of equity caused by interest rate risk	2,810	(2,810)	1,931	(1,931)	2,810	(2,810)	1,931	(1,931)

The above sensitive analysis is based on a static interest rate construction. The related analysis only measures the fluctuation in one year and reflects the gain/ (loss) of the Group due to the effect of repricing of the assets and liabilities. It is based on the following assumptions: (1) all the prices of assets and liabilities within three months or over three months but still within one year are re-settled or be maturity during the term. (2) The yield curve moves parallel with the fluctuation of rate. (3) The portfolio of assets and liabilities has no other change. Thus, the result of the analysis would have a certain difference from the actual fluctuation of the Group's gain/ (loss) caused by the change of interest rate.

The sensitivity of equity change is based on the ending balance of available-for-sale financial assets, regarding to the assumption of parallel movement of profit rate curve, and is calculated through revaluation by setting interest rate change.

(2) Exchange rate risk

The exchange rate risk of the Group is mainly caused by structural exposure such as the mismatching of assets and liabilities, foreign currency transactions and foreign capital.

The Financial Markets Department of the Group centrally controls the currency risk. The currency risk exposure due to all types of foreign exchange transactions at branch level should be centralized to the head office which will manage the unwinding and the risk exposure together.

Risk exposure between foreign currency and foreign currency. The management methods are discriminated into “overnight exposure limit” and “daily self-operation exposure”. All the exposure are centralized to the treasure center simultaneously and managed together. The exposure is relatively small compared to the Group's asset scale, thus controllable.

Risk exposure between RMB and foreign currency. The Group mainly bears exchange risk exposure arising from RMB versus foreign currency, which mainly includes RMB transaction and foreign currency transactions. As an active RMB market maker, the Group controls the exposure limit positively. To avoid the risk of RMB appreciation, the combined cash position is tended to be zero, and the overnight exposure remains little.

The biggest exchange rate exposure of the Company is the exposure between RMB and foreign currency bearing from the foreign capital business. Since the foreign capital is necessary for the foreign currency business, the Company adopts the risk retention tactic. The main methods of controlling the risk are to apply for capital settlement to the State Administration of Foreign Exchange Management Bureau or to settle foreign exchange through profit transformations.

① A breakdown of relevant financial assets and liabilities by currency of the Group as at 31 December, 2010 is as follows:

	RMB	USD	Others	**Total**
Assets:				
Cash and due from the Central Bank	287,723	690	228	**288,641**
Due from banks and other financial institutions	36,791	1,918	1,158	**39,867**
Placements with banks and other financial institutions	18,543	2,556	-	**21,099**
Transactional financial assets	5,537	-	-	**5,537**
Derivative financial assets	1,246	1,011	44	**2,301**
Reverse repurchase agreements	374,005	-	-	**374,005**
Loans and advances	837,512	4,613	443	**842,568**
Available-for-sale financial assets	146,070	1,092	70	**147,232**
Receivables	61,321	-	-	**61,321**
Financial lease receivables	8,693	-	-	**8,693**
Held-to-maturity investments	32,914	1,200	176	**34,290**
Long term equity investments	81	-	-	**81**
Other assets	11,274	66	6	**11,346**
Total assets	**1,821,710**	**13,146**	**2,125**	**1,836,981**
Liabilities:				
Due to the Central Bank	365	-	-	**365**
Due to banks and other financial institutions	412,117	4,814	724	**417,655**
Placements from banks and other financial institutions	23,709	2,152	276	**26,137**
Transactional financial liabilities	-	-	-	**-**
Derivative financial liabilities	2,192	107	18	**2,317**
Repurchase agreements	88,265	1,092	228	**89,585**
Customer deposits	1,123,283	6,939	2,545	**1,132,767**
Bonds payable	64,935	-	-	**64,935**
Other liabilities	23,649	165	24	**23,838**
Total liabilities	**1,738,515**	**15,269**	**3,815**	**1,757,599**
Net position	83,195	(2,123)	(1,690)	**79,382**
Exchange rate types of derivative	203,057	10,397	1,938	**215,392**

X. RISK MANAGEMENT *continued*

3. Market risk *continued*

② A breakdown of relevant financial assets and liabilities by currency of the Company as at 31 December, 2010 is as follows:

	RMB	USD	Others	**Total**
Assets:				
Cash and due from the Central Bank	287,723	690	228	**288,641**
Due from banks and other financial institutions	36,791	1,918	1,158	**39,867**
Placements with banks and other financial institutions	18,543	2,556	-	**21,099**
Transactional financial assets	5,537	-	-	**5,537**
Derivative financial assets	1,246	1,011	44	**2,301**
Reverse repurchase agreements	374,005	-	-	**374,005**
Loans and advances	837,512	4,613	443	**842,568**
Available-for-sale financial assets	146,070	1,092	70	**147,232**
Receivables	61,321	-	-	**61,321**
Held-to-maturity investments	32,914	1,200	176	**34,290**
Long term equity investments	81	-	-	**81**
Other assets	10,119	66	6	**10,191**
Total assets	**1,811,862**	**13,146**	**2,125**	**1,827,133**
Liabilities:				
Due to the Central Bank	365	-	-	**365**
Due to banks and other financial institutions	412,848	4,814	724	**418,386**
Placements from banks and other financial institutions	16,170	2,152	276	**18,598**
Transactional financial liabilities	-	-	-	**-**
Derivative financial liabilities	2,192	107	18	**2,317**
Repurchase agreements	88,265	1,092	228	**89,585**
Customer deposits	1,123,283	6,939	2,545	**1,132,767**
Bonds payable	64,935	-	-	**64,935**
Other liabilities	22,608	165	24	**22,797**
Total liabilities	**1,730,666**	**15,269**	**3,815**	**1,749,750**
Net position	81,196	(2,123)	(1,690)	**77,383**
Exchange rate types of derivative	203,057	10,397	1,938	**215,392**

③ A breakdown of relevant financial assets and liabilities by currency of the Group and the Company as at 31 December, 2009 is as follows:

The Group and the Company	RMB	USD	Others	**Total**
Assets:				
Cash and due from the Central Bank	171,176	521	207	**171,904**
Due from banks and other financial institutions	36,923	3,206	2,236	**42,365**
Placements with banks and other financial institutions	13,220	464	-	**13,684**
Transactional financial assets	3,363	-	-	**3,363**
Derivative financial assets	1,138	250	11	**1,399**
Reverse repurchase agreements	195,884	-	-	**195,884**
Loans and advances	687,176	4,525	262	**691,963**
Available-for-sale financial assets	109,620	1,451	77	**111,148**
Receivables	40,786	-	-	**40,786**
Held-to-maturity investments	40,916	1,243	195	**42,354**
Long term equity investments	81	-	-	**81**
Other assets	7,481	75	20	**7,576**
Total assets	**1,307,764**	**11,735**	**3,008**	**1,322,507**
Liabilities:				
Due to the Central Bank	40	-	-	**40**
Due to banks and other financial institutions	235,470	1,245	298	**237,013**
Placements from banks and other financial institutions	-	1,454	309	**1,763**
Transactional financial liabilities	-	-	-	**-**
Derivative financial liabilities	1,098	218	286	**1,602**
Repurchase agreements	45,146	764	-	**45,910**
Customer deposits	893,056	5,529	2,299	**900,884**
Bonds payable	68,928	-	-	**68,928**
Other liabilities	16,265	130	17	**16,412**
Total liabilities	**1,260,003**	**9,340**	**3,209**	**1,272,552**
Net position	47,761	2,395	(201)	**49,955**
Exchange rate types of derivative	138,493	5,228	1,319	**145,040**

X. RISK MANAGEMENT *continued*

3. Market risk *continued*

The Group measured possible gain/ (loss) due to exchange rate changes by sensitivity analysis. Following table shows the results of exchange rate sensitivity analysis of assets and liabilities on December 31, 2010 and December 31, 2009.

The Group and the Company	2010-12-31		2009-12-31	
	Exchange rate flu	(%)	Exchange rate flu	(%)
Profit fluctuation caused by currency risk	(1)	1	(1)	1
	(25)	25	(30)	30

The above sensitivity analysis is based on a static exchange frame of assets and liabilities. And the related assumptions are as follows: (1) the exchange rate sensitivity stands for the gain/ (loss) caused by a 1% fluctuation of the closing quotation exchange rate (middle price) of foreign currency versus RMB on the balance sheet date; (2) the undulation among different currencies means the changing exchange between different foreign currencies and RMB in the same direction simultaneously; (3) it includes current and forward foreign exchange exposure when calculating the foreign exposure. As the results are based on the above assumptions, the actual fluctuation of the Group's net gain/ (loss) due to the fluctuation of exchange rate may be different from the result of the sensitive analysis.

4. Liquidity risk

The Assets and Liabilities Management Committee supervises the liquidity risk on behalf of the Group to ensure that liquidity is under control. The committee normally carries out the following work: (1) authorizing and deciding : (a) policies on liquidity risk management; (b) monitoring indexes and alarming limits of liquidity risk; (c) methods of liquidity risk management; (2) listening and discussing reports of liquidity risk periodically.

The Group monitors liquidity indicators, including excess reserves ratio, liquidity ratio, and loan-deposit ratio, defines threshold values and tolerable values, and generates a comprehensive report based on the match case of the above indicators and maturity of cashflow of the Group's assets and liabilities, as well as liquidity condition of macro economic and inter-bank market. The report forms an integral part of the asset liability report which is submitted to Asset and Liability Management Committee for consideration. The report is also submitted to the Risk Management Committee, with credit risk, liquidity risk and operational risk analysis, as the comprehensive risk analysis report, for consideration.

(1) A maturity analysis of financial assets and liabilities of the Group as at 31 December, 2010 is as follows:

	Overdue	On demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Unlimited	**Total**
Assets:								
Cash and due from the Central Bank	-	219,833	22,327	25,856	17,065	80	3,568	**288,729**
Due from banks and other financial institutions	21	8,192	27,563	3,555	808	-	-	**40,139**
Placements with banks and other financial institutions	117	-	7,225	14,209	212	-	-	**21,763**
Transactional financial assets	-	-	100	2,029	3,819	208	-	**6,156**
Reverse repurchase agreements	-	-	259,157	96,620	25,602	-	-	**381,379**
Loans and advances	4,820	-	99,986	300,501	365,035	269,220	-	**1,039,562**
Available-for-sale financial assets	-	-	7,531	17,206	104,109	40,251	30	**169,127**
Receivables	-	-	3,329	38,147	16,592	8,804	-	**66,872**
Financial lease receivables	-	-	420	1,255	8,004	1,085	-	**10,764**
Held-to-maturity investments	-	-	907	10,922	18,539	8,959	-	**39,327**
Long term equity investments	-	-	-	-	-	-	81	**81**
Other assets (excluding interest receivable)	10	1,536	818	1,018	1,604	26	-	**5,012**
Total assets	**4,968**	**229,561**	**429,363**	**511,318**	**561,389**	**328,633**	**3,679**	**2,068,911**
Liabilities:								**-**
Due to the Central Bank	-	-	207	159	-	-	-	**366**
Due to banks and other financial institutions	-	193,739	179,234	43,559	4,380	-	-	**420,912**
Placements from banks and other financial institutions	-	-	18,549	7,872	-	-	-	**26,421**
Transactional financial liabilities	-	-	-	-	-	-	-	**-**
Repurchase agreements	-	-	72,456	17,900	-	-	-	**90,356**
Customer deposits	-	680,974	161,132	186,603	123,157	574	-	**1,152,440**
Bonds payable	-	-	554	25,951	23,224	25,857	-	**75,586**
Other liabilities (excluding interest receivable)	-	2,690	9,600	1,254	1,316	187	218	**15,265**
Total liabilities	**-**	**877,403**	**441,732**	**283,298**	**152,077**	**26,618**	**218**	**1,781,346**
Net position of assets and liabilities	**4,968**	**(647,842)**	**(12,369)**	**228,020**	**409,312**	**302,015**	**3,461**	**287,565**
Cashflow of derivative instruments:								
Net amount settlement	-	-	(21)	22	79	(1)	-	**79**
Total amount settlement	**-**	**-**	**1,592**	**(39)**	**1**	**-**	**-**	**1,554**
Include: Cash inflow	-	-	87,468	67,424	2,244	-	-	**157,136**
Cash outflow	-	-	(85,876)	(67,463)	(2,243)	-	-	**(155,582)**

X. RISK MANAGEMENT *continued*

4. Liquidity risk *continued*

(2) A maturity analysis of financial assets and liabilities of the Company as at 31 December, 2010 is as follows:

	Overdue	On demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Unlimited	**Total**
Assets:								
Cash and due from the Central Bank	-	219,833	22,327	25,856	17,065	80	3,568	**288,729**
Due from banks and other financial institutions	21	8,192	27,563	3,555	808	-	-	**40,139**
Placements with banks and other financial institutions	117	-	7,225	14,209	212	-	-	**21,763**
Transactional financial assets	-	-	100	2,029	3,819	208	-	**6,156**
Reverse repurchase agreements	-	-	259,157	96,620	25,602	-	-	**381,379**
Loans and advances	4,820	-	99,986	300,501	365,035	269,220	-	**1,039,562**
Available-for-sale financial assets	-	-	7,531	17,206	104,109	40,251	30	**169,127**
Receivables	-	-	3,329	38,147	16,592	8,804	-	**66,872**
Held-to-maturity investments	-	-	907	10,922	18,539	8,959	-	**39,327**
Long term equity investments	-	-	-	-	-	-	81	**81**
Other assets (excluding interest receivable)	10	1,536	796	545	755	26	-	**3,668**
Total assets	**4,968**	**229,561**	**428,921**	**509,590**	**552,536**	**327,548**	**3,679**	**2,056,803**
Liabilities:								**-**
Due to the Central Bank	-	-	207	159	-	-	-	**366**
Due to banks and other financial institutions	-	193,971	179,735	43,559	4,380	-	-	**421,645**
Placements from banks and other financial institutions	-	-	18,501	169	-	-	-	**18,670**
Transactional financial liabilities	-	-	-	-	-	-	-	**-**
Repurchase agreements	-	-	72,456	17,900	-	-	-	**90,356**
Customer deposits	-	680,974	161,132	186,603	123,157	574	-	**1,152,440**
Bonds payable	-	-	554	25,951	23,224	25,857	-	**75,586**
Other liabilities (excluding interest receivable)	-	2,690	9,559	1,134	781	58	-	**14,222**
Total liabilities	**-**	**877,635**	**442,144**	**275,475**	**151,542**	**26,489**	**-**	**1,773,285**
Net position of assets and liabilities	**4,968**	**(648,074)**	**(13,223)**	**234,115**	**400,994**	**301,059**	**3,679**	**283,518**
Cashflow of derivative instruments:								
Net amount settlement	-	-	(21)	22	79	(1)	-	**79**
Total amount settlement	**-**	**-**	**1,592**	**(39)**	**1**	**-**	**-**	**1,554**
Include: Cash inflow	-	-	87,468	67,424	2,244	-	-	**157,136**
Cash outflow	-	-	(85,876)	(67,463)	(2,243)	-	-	**(155,582)**

(3) A maturity analysis of financial assets and liabilities of the Group and the Company as at 31 December, 2009 is as follows:

	Overdue	On demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Unlimited	**Total**
Assets:								
Cash and due from the Central Bank	-	129,928	14,732	16,484	7,911	-	2,904	**171,959**
Due from banks and other financial institutions	21	16,869	23,356	1,964	383	-	-	**42,593**
Placements with banks and other financial institutions	117	-	9,200	4,293	307	-	-	**13,917**
Transactional financial assets	-	-	90	292	2,973	444	-	**3,799**
Reverse repurchase agreements	-	-	157,748	27,170	13,148	304	-	**198,370**
Loans and advances	4,944	-	92,570	242,873	301,537	207,432	-	**849,356**
Available-for-sale financial assets	-	-	981	8,600	85,438	33,045	80	**128,144**
Receivables	-	-	8,960	19,673	12,759	3,018	-	**44,410**
Held-to-maturity investments	-	-	3,599	12,292	25,717	5,464	-	**47,072**
Long term equity investments	-	-	-	-	-	-	81	**81**
Other assets(excluding interest receivable)	6	1697	101	1,026	1,488	34	-	**3,352**
Total assets	**5,088**	**147,494**	**311,337**	**334,667**	**451,661**	**249,741**	**3,065**	**1,503,053**
Liabilities:								
Due to the Central Bank	-	-	16	24	-	-	-	**40**
Due to banks and other financial institutions	-	159,469	58,497	18,718	1,009	-	-	**237,693**
Placements from banks and other financial institutions	-	-	1,629	138	-	-	-	**1,767**
Transactional financial liabilities	-	-	-	-	-	-	-	**-**
Repurchase agreements	-	-	45,372	669	-	-	-	**46,041**
Customer deposits	-	553,939	135,783	151,345	72,743	1	-	**913,811**
Bonds payable	-	-	7,660	2,031	48,106	23,040	-	**80,837**
Other liabilities (excluding interest receivable)	-	1,847	6,888	519	1,376	49	-	**10,679**
Total liabilities	**-**	**715,255**	**255,845**	**173,444**	**123,234**	**23,090**	**-**	**1,290,868**
Net position of assets and liabilities	**5,088**	**(567,761)**	**55,492**	**161,223**	**328,427**	**226,651**	**3,065**	**212,185**
Cashflow of derivative instruments:								
Net amount settlement	-	-	(11)	(3)	66	(3)	-	**49**
Total amount settlement	**-**	**-**	**812**	**(45)**	**1**	**-**	**-**	**768**
Include: Cash inflow	-	-	60,314	56,466	1,197	-	-	**117,977**
Cash outflow	-	-	(59,502)	(56,511)	(1,196)	-	-	**(117,209)**

X. RISK MANAGEMENT *continued*

5. Operational risk

Operational risk is the risk of a direct or indirect loss resulting from incorrectly or insufficiently set up internal processes, or from errors caused by systems, persons or external factors.

The Group has already defined, assessed, controlled, managed and reported its operational risks by establishing rules and procedures in order to assess the testing of internal controls. The system includes all business sections involving finance, loan, accounting, settlement, deposit, funds, agency, information system application and management, asset maintenance and law affairs. It helps the Group comprehensively identify and recognize the whole major products, activities, processes, and internal operational risk of the system.

The Group tight binding the operating risk prevention, case management and prevention and daily operating check, formulating prevention and control policies scientifically, increasing focus on the operating risk prevention and case management and prevention of key business, key personnel, key area and key point, increase the awareness of compliance and the execution of the rules of managers and frontline personnel, ensuring the realization of the objective of "Zero case incidence" of the Group.

The Group continuously promotes the operational risk management system, mechanism construction in accordance with the idea of "initiative, overall planning and progressive", gradually strengthens the study and research of the operational risk management methods and management tools, promotes the realization of research findings, and enhances the level of management and the effectiveness of operational risk management gradually.

For risk identification and assessment, using internal control and compliance projects of the Group as a platform, conducting risk identification assessment bases on the reclassification of business process. In the mean time, focusing on the operational risk identification assessment of new products and new business, establishing a comprehensive risk assessment mechanism of innovative projects, promoting the standardization, systematic and comprehensiveness of the risk assessment of the of innovative projects.

For monitoring of key risk indicators, starting from the typical characteristics of the operational risk, establishing key risk indicators for the operating risk of enterprises, strengthening the the monitoring and early warning of case and major events.

For loss of data management, establishing the management system for operational risk losses and the collecting and statistics management system for significant events, improving the mechanism of statistics in order to objectively reflect the operational risk profile and to provide references for decision making by the management, as well as continuously optimization of business processes, improving related internal control system, and upgrading functions of the information system.

XI. FAIR VALUE OF FINANCIAL INSTRUMENTS

In accordance with the Accounting Standards for Business Enterprises, the Group develops an internal control management system to regulate the measurement of fair value of financial instruments. Fair value of financial instruments of the Group is determined according to the level of activity of the product and the maturity of the internal valuation models. If there is a quoted price in an active market, the quoted price is used; if a quoted market price is not available but a matured internal pricing model, the price is determined subject to the internal pricing model; if both the quoted market price and the internal pricing model are not available, the price offered by counterparties may be used or refers to valuation result provided by qualified third parties.

1. Financial instruments measured at fair value

(1) The Group measures fair values using the following method and assumption:

Financial assets and liabilities at fair value through profit or loss (including transactional financial assets and liabilities, derivative financial assets and liabilities) and available-for-sale financial assets are stated at fair value by reference to the quoted market prices when available. If quoted market prices are not available then fair values are estimated on the basis of pricing models or discounted cash flows. The carrying amount of the asset is its fair value.

(2) The Group determines and reports fair values using the following fair value hierarchy:

Level 1 – Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2 – Valuation techniques based on observable inputs, either directly or indirectly.

Level 3 – Valuation techniques using significant unobservable inputs.

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 treatment is categorized:

	The Group and the Company			
2010-12-31	Level 1	Level 2	Level 3	**Total**
Financial assets:				
Derivative financial assets	-	2,301	-	**2,301**
Trading assets	-	5,537	-	**5,537**
Available for sale financial assets	298	146,916	-	**147,214**
Total of financial assets	**298**	**154,754**	**-**	**155,052**
Financial liabilities				
Trading liabilities	-	-	-	**-**
Derivative financial liabilities	-	2,317	-	**2,317**
Total of financial liabilities	**-**	**2,317**	**-**	**2,317**
2009-12-31	Level 1	Level 2	Level 3	**Total**
Financial assets:				
Derivative financial assets	-	1,399	-	**1,399**
Trading assets	-	3,363	-	**3,363**
Available for sale financial assets	767	110,334	-	**111,101**
Total of financial assets	**767**	**115,096**	**-**	**115,863**
Financial liabilities				
Trading liabilities	-	-	-	**-**
Derivative financial liabilities	-	1,602	-	**1,602**
Total of financial liabilities	**-**	**1,602**	**-**	**1,602**

Note: for a RMB bond, if the valuation result derivates from the valuation of an independent third party (China bond) more than 1%, the Group will make a valuation adjustment based on comprehensive consideration to ensure the valuation fairly reflects the market situation. Therefore, fair value of the RMB bond is classified into Lever 2.

In 2010 and 2009, no transfer of the fair value of financial instrument is made by the Group from level 1 and level 2 to level 3, nor between level 1 and level 2.

2. Financial instruments measured at cost

(1) The fair value of due from the Central Bank , due from other banks and financial institutions are determined with reference to the market interest rate and which are normally less than one year, therefore the fair value of them approximate their carrying value.

(2) Loans and advances to customers are priced base on floating interest rate provided by the Central Bank, therefore their fair values approximate the carrying value.

XI. FAIR VALUE OF FINANCIAL INSTRUMENTS *continued*

2. Financial instruments measured at cost *continued*

(3) The fair value of available-for-sale equity investment for which the quoted market prices are not available and their fair value cannot be measured reasonably, therefore they are measured at cost.

(4) The fair values of held-to-maturity investments, receivables and bond payables are determined with reference to the available market values. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows.

The following table shows the carrying amount and the fair value of above items:

	The Group and the Company			
	2010-12-31		2009-12-31	
	Carrying amount	Fair value	Carrying amount	Fair value
Held-to-maturity investment	34,290	34,031	42,354	42,614
Receivable	7,675	7,653	18,830	18,828
Bond payable	64,935	63,770	68,928	68,138

(5) Due to other banks and financial institutions are priced base on the market interest rate and which are normally less than one year, therefore the fair value of them approximate their carrying value.

(6) Customer deposits are mainly deposits maturing within one year from re-pricing date or maturity date, therefore the fair value of them approximate their carrying value.

All of the above-mentioned assumptions and methods provide a consistent basis for the calculation of the fair values of the Group's assets and liabilities. However, other institutions may use different assumptions and methods. Therefore, the fair values disclosed by different financial institutions may not be entirely comparable.

XII. CAPITAL MANAGEMENT

The Group formulated the "2009-2012 Capital Management Plan" in 2009, starting from business strategy, risk conditions and regulatory requirements, based on the analysis of the situation inside and outside the Group, making a reasonable forecast of the business development for the next three years, clearly demonstrating growth rate of assets, capital requirements and supplementary channel for capital, fully demonstrating the necessity and feasibility of additional capital, making clear that the level of capital adequacy ratio and core capital adequacy ratio which the Group should maintain to achieve healthy, sustainable and rapid development.

In specific operation, maximizing shareholders value will be the ultimate goal of the Group, which will be achieved by the following:

(i) Ensuring that the total amount of available capital match the Group's current and future business development plans as well as the expected capital adequacy ratio;

(ii) Selecting the appropriate capital instrument portfolio to raise capital and manage the balance;

(iii) Ensuring that the funds raised are invested in a suitable manner, in order to maximize shareholders return.

	The Group	
	2010-12-31	2009-12-31
Core capital	88,595	56,663
Capital base	113,785	77,027

Note 1: Net core capital = Core capital- Deductions

Core capital includes capital shares, capital reverses, surplus reverses and retained earnings;

Note 2: Capital base = Core capital+ Supplementary capital- Deductions

Supplementary capital includes revaluation reserve, general provision, long term substandard bonds and hybrid bonds.

XIII. CONTINGENT LIABILITIES

1. Legal proceedings

As at 31 December 2010, there was only one case of the pending legal proceedings against the Group or its branches involved claims amounting to RMB 13.14 million. In the opinion of management of the Group, these legal proceedings do not have significant adverse impact on the Group's financial position and its operating result.

XIV. COMMITMENT

1. Credit commitment

	The Group and the Company	
	2010-12-31	2009-12-31
Undrawn credit limit of credit card facilities	31,976	19,522
Letter of credit	18,026	5,906
Letter of guarantee	11,000	7,733
Bank acceptance	186,366	131,401
Total	**247,368**	**164,562**

In addition, the Group also provides credit facilities for certain customers. According to opinion of the management, such credit facilities are revocable, therefore the Group does not bear the unused credit facilities.

2. Capital expenditure commitment

	The Group and the Company	
	2010-12-31	2009-12-31
Ratified but not signed	304	118
Signed but not appropriated	469	529
Total	**773**	**647**

XIV. COMMITMENT *continued*

3. Operating lease commitment

At the end of each accounting period, the lowest rental payables of the Group according to the irrevocable house lease agreements in the following terms are:

	The Group and the Company	
	2010-12-31	2009-12-31
Within one year	853	728
One to five years	2,496	2,131
Over five years	1,152	1,137
Total	4,501	**3,996**

4. Bearer treasury bonds and electronic treasury bonds redemption commitments

The Group is entrusted by the MOF to issue certain Bearer treasury bonds and Electronic treasury bonds. The investors of Bearer treasury bonds and Electronic treasury bonds have a right to redeem the bonds at par any time prior to maturity and the Group is committed to redeem those bonds. The redemption price is the principal value of the Bearer treasury bonds and Electronic treasury bonds plus unpaid interest. The principal value of the bonds underwritten and sold by the Group which have not matured and have not been redeemed are listed as follows:

	The Group and the Company	
	2010-12-31	2009-12-31
Bearer treasury bonds and Electronic treasury bonds	5,329	5,011

Management expects the amount of redemption before the maturity dates through the Group will not be material.

XV. FIDUCIARY TRANSACTIONS

	The Group and the Company	
	2010-12-31	2009-12-31
Entrusted loans	44,510	36,286
Entrusted deposits	44,510	36,286
Fiduciary wealth management assets	163,310	113,658
Fiduciary wealth management funds	163,310	113,658

Entrusted deposits represent funds which depositors have instructed the Group to use to make loans to third parties designated by them. The credit risk remains with the depositors.

Fiduciary wealth management business means that the Group acts in a fiduciary capacity as a custodian or an agent for customers and is responsible for running and managing customers' assets. Fiduciary wealth management funds represent the funds that the Group obtained from customers while fiduciary wealth management assets represent the investment sum that the Group invests using entrusted funding from customers.

XVI. POST BALANCE SHEET EVENT

1. Profit distribution after balance sheet date

Pursuant to the resolution of "2010 Profit Distribution Proposal of Industrial Bank" passed in the third session of 7th Board of Directors on March 25, 2011, the capitalization of capital reserves with a ratio of 8 shares for every 10 shares based on the total share capital at the end of 2010, as well as a cash dividend of RMB 4.6 for every 10 ordinary share (tax inclusive) were proposed. The dividends are not recognized as a liability as at December 31, 2010. This proposal is subject to submission to shareholders' meeting for approval.

2. Formal approval is granted regarding acquisition of Union Trust Limited

The Company has acquired 51.18% shares of the Union Trust Limited from the New Hope Group, the Sichuan South Hope Enterprises Co., and the Fujian Huatou Investment Co., Ltd. with the price of 0.852 billion. The registered share capital of the Union Trust Limited is 0.51 billion as of February 9, 2011.

The acquisition is formally approved by the CBRC with the approval document "Reply on the Changes in Equity and Equity Structure of the Union Trust Limited" (YJF [2011] No. 35).

XVII. OTHER MATERIAL EVENTS

1. Allotment of shares and start trading of allotted shares

Approved by the CSRC with the approval document (ZJXK [2010] No. 586), the Company allotted shares with a ratio of 2 shares for every 10 shares for all the registered shareholders of the Industrial Bank Co., Ltd. (total share capital 5 billion) as of May 24, 2010. Agreed by the Shanghai Stock Exchange, the total allotted shares amounting to 992,450,630 started trading from June 8, 2010.

2. Issuance of subordinated bond

Approved by the CBRC and the People's Bank of China, the Company issued RMB 3 billion subordinated bonds in the inter-bank bond market at March 30, 2010. The issuance of the subordinated bonds is a revolving issuance within approved facilities to replace the subordinated bonds issued in 2004.

The issuance is 15 years fixed interest rate subordinated bonds amounting to RMB 3 billion. The annual interest rate of the bonds is 4.80% in the period from the first to the tenth year. The Company has an option to redeem the bonds in the end of the tenth interest year. If the Company does not exercise the redemption right, the interest rate of the rest five interest years will increase by 3% over the original interest rate.

3. The establishment of a wholly owned subsidiary

Pursuant to the document "Approval of preparation of financial leasing company of the Industrial Bank Co., Ltd." (YJF [2010] No. 98) issued by the CBRC and the document "Approval of opening of Industrial Bank Financial Leasing Co., Ltd" (YJF [2010] No. 401), the Company invested RMB 2 billon to establish the Industrial Bank Financial Leasing Co., Ltd and start operating in the year.

4. Allowed to open branch

Pursuant to the document "Approval on opening branch in Hohhot" (YJF [2010] No. 10) issued by Inner Mongolia office of the CBRC, the Hohhot branch of the Company is allowed to open.

Pursuant to the document "Approval on opening branch in Changchun" (JYJF [2010] No. 85) issued by Jilin office of the CBRC, the Changchun branch of the Company is allowed to open.

XVII. OTHER MATERIAL EVENTS *continued*

5. Assets and liabilities measured at fair value

	The Group and the Company				
	2009-12-31	Profits and losses on the changes in fair value of the period	Changes in fair value that directly recognized in equity	Impairment loss provision of the period	2010-12-31
Asset:					
Transactional financial asset	3,363	(19)	-	-	5,537
Precious metal	126	7	-	-	685
Derivative financial asset	1,399	902	-	-	2,301
Available-for-sale financial asset	111,101	-	(2,174)	-	147,214
Total	**115,989**	**890**	**(2,174)**	**-**	**155,737**
Liability:					
Transactional financial liability	-	-	-	-	-
Derivative financial liability	1,602	(715)	-	-	2,317
Total	**1,602**	**(715)**	**-**	**-**	**2,317**

XVIII. SUPPLEMENTAL DOCUMENTS

1. Non-recurring gains and losses

In accordance with the requirement of “Public Offering of Securities Companies to Disclose Information Explanatory Notice No. 1- Non-recurring Gains and Losses" (2008) (ZJHGG [2008] No. 43) issued in 31 October 2008, the calculation of non-recurring gains and loss is listed as follow:

	The Group	
	2010	2009
Net profit	18,521	13,282
Non-recurring gains and losses:		
Gains and losses from disposal of non-current asset	80	775
Government grant includes in profit and loss of the current year	20	
Recovery of impairment provision for receivables which individually tested for impairment	-	76
Recovery of assets previously written off	107	101
Non-operating income and expense other than above items	42	(8)
Subtotal of non-recurring gains and losses	**249**	**944**
Less: effects on income tax	(64)	(258)
Non-recurring gains and losses, net	**185**	**686**
Net profit excluding extraordinary items	**18,336**	**12,596**

The Company defines following items as recurring gains and losses which are specified in the "Public Offering of Securities Companies to Disclose Information Explanatory Notice No. 1- Non-recurring Gains and Losses" as non recurring gains and losses:

	The Group		
	2010	2009	Reason
Except for the effective hedging related to the day to day operation, profits and losses on the changes in fair value of the period resulting from holding of transactional financial assets and liabilities, and investment income resulting from disposal of transactional financial assets and liabilities and available for sale financial assets.	168	116	The transaction related to the Company's day to day business

2. Return on equity and earnings per share

2010	The Group		
	Weighted average ROE (%)	EPS (Yuan)	
		Basic EPS	Diluted EPS
Net profit attributable to ordinary shareholders	24.64	3.28	3.28
Net profit attributable to ordinary shareholders subtracting non-recurring gains and losses	24.39	3.24	3.24

2009	The Group		
	Weighted average ROE (%)	EPS (Yuan)	
		Basic EPS	Diluted EPS
Net profit attributable to ordinary shareholders	24.54	2.50	2.50
Net profit attributable to ordinary shareholders subtracting non-recurring gains and losses	23.27	2.37	2.37

3. Difference between financial statements based on Chinese Accounting Standard (CAS) and International Financial Reporting Standard (IFRS)

	Net profit		Net asset	
	2010-12-31	2009-12-31	2010-12-31	2009-12-31
Stated according to PRC GAAP	18,521	13,282	91,995	59,597
Adjustments	-	-	-	-
Stated according to IFRS	18,521	13,282	91,995	59,597

The international auditor of the Group is Ernst & Young.

XIX. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Board of Directors on March 25, 2011.

According to the Articles of Association of the Company, the financial statements will be submitted for discussion on the general meeting of shareholders.

Industrial Bank Co., Ltd.	Legal representative: Gao Jianping
March 25, 2011	President: Li Renjie
	Financial Director: Li Jian

CONTENTS

ERNST & YOUNG
安 永

INDEPENDENT AUDITORS' REPORT

To the shareholders of Industrial Bank Co., Ltd.

We have audited the accompanying consolidated financial statements of Industrial Bank Co., Ltd. (the "Company") and its subsidiary (together, "the Group"), which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to 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 auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 management, 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 present fairly, in all material aspects, the financial position of the Company and of the Group as at 31 December 2010, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

Hong Kong Certified Public Accountants

25 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

(In RMB million)

	Notes	2010	2009
Interest income	3	70,976	50,039
Interest expense	3	(32,944)	(22,837)
Net interest income	3	38,032	27,202
Net fee and commission income	4	4,801	3,116
Other income, net	5	347	1,181
OPERATING INCOME		43,180	31,499
Staff costs	6	(6,314)	(5,185)
General and administrative expenses	7	(6,923)	(5,665)
Depreciation		(769)	(624)
Business tax and surcharges		(2,915)	(2,321)
Provision for loans	16(d)	(2,221)	(559)
Provision for impairment of other assets	8	(122)	41
OPERATING PROFIT		23,916	17,186
Share of profit of an associate		89	43
PROFIT BEFORE TAX		24,005	17,229
Income tax	9	(5,484)	(3,947)
PROFIT FOR THE YEAR		18,521	13,282
- Attributable to the owners of the parent		18,521	13,282
- Attributable to the non-controlling interests		-	-
Earnings per share			
- Basic (in RMB)	10	3.28	2.50
OTHER COMPREHENSIVE INCOME			
Share of other comprehensive income of associates, net of tax		-	(10)
Unrealised gain or loss of available-for-sale financial assets			
- Unrealised loss resulted from changes in fair value		(1,815)	(539)
- Reclassification adjustments of prior years other comprehensive income transferred to profit and loss		62	(57)
- Deferred tax effect on changes in fair value	9	439	149
Other comprehensive income, net of tax		(1,314)	(457)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**17,207**	**12,825**
Attributable			
- Owners of parent		17,207	12,825
- Non-controlling interests		-	-

The accompanying notes form an integral part of the financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

(In RMB million)

	Notes	31-12-2010	31-12-2009
ASSETS			
Cash and balances with the Central Bank	11	288,641	171,904
Due from and placements with banks and other financial institutions	12	60,967	56,049
Financial assets at fair value through profit or loss	13	5,537	3,363
Derivative financial assets	14	2,301	1,399
Reverse repurchase agreements	15	374,005	195,884
Loans	16	842,568	691,963
Finance lease receivables	17	8,693	-
Available-for-sale financial assets	18	147,313	111,224
Held-to-maturity investments	19	34,290	42,225
Loan and receivable investments	20	61,321	40,786
Investment in an associate	21	689	335
Fixed assets	23	7,758	6,283
Intangible assets	24	319	323
Deferred tax assets	9	2,390	1,838
Other assets	25	12,881	8,586
TOTAL ASSETS		**1,849,673**	**1,332,162**
LIABILITIES			
Due to the Central Bank		365	40
Due to and placements from banks and other financial institutions	26	443,792	238,776
Derivative financial liabilities	14	2,317	1,602
Repurchase agreements	27	89,585	45,910
Customer deposits	28	1,132,767	900,884
Bonds issued	29	64,935	68,928
Other liabilities	30	23,917	16,425
TOTAL LIABILITIES		**1,757,678**	**1,272,565**
EQUITY			
Share capital	31	5,992	5,000
Capital surplus	32	34,259	17,560
Surplus reserves	33	3,403	3,403
General reserve	34	9,937	8,101
Retained earnings	35	40,039	25,854
Other reserves, net of tax		(1,635)	(321)
Equity attributable to owners of the parent		**91,995**	**59,597**
TOTAL EQUITY		**91,995**	**59,597**
TOTAL LIABILITIES AND EQUITY		**1,849,673**	**1,332,162**

These financial statements have been approved by the Board of Directors.

Director: Gao Jianping

Director: Li Renjie

The accompanying notes form an integral part of the financial statements

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

(In RMB million)

	Notes	31-12-2010	31-12-2009
ASSETS			
Cash and balances with the Central Bank	11	288,641	171,904
Due from and placements with banks and other financial institutions	12	60,966	56,049
Financial assets at fair value through profit or loss	13	5,537	3,363
Derivative financial assets	14	2,301	1,399
Reverse repurchase agreements	15	374,005	195,884
Loans	16	842,568	691,963
Available-for-sale financial assets	18	147,313	111,224
Held-to-maturity investments	19	34,290	42,225
Loan and receivable investments	20	61,321	40,786
Investment in an associate	21	561	296
Investments in subsidiary	22	2,000	-
Fixed assets	23	7,756	6,283
Intangible assets	24	319	323
Deferred tax assets	9	2,389	1,838
Other assets	25	11,727	8,585
TOTAL ASSETS		**1,841,694**	**1,332,122**
LIABILITIES			
Due to the Central Bank		365	40
Due to and placements from banks and other financial institutions	26	436,984	238,776
Derivative financial liabilities	14	2,317	1,602
Repurchase agreements	27	89,585	45,910
Customer deposits	28	1,132,767	900,884
Bonds issued	29	64,935	68,928
Other liabilities	30	22,876	16,424
TOTAL LIABILITIES		**1,749,829**	**1,272,564**
EQUITY			
Share capital	31	5,992	5,000
Capital surplus	32	34,259	17,560
Surplus reserves	33	3,403	3,403
General reserve	34	9,936	8,101
Retained earnings	35	39,905	25,810
Other reserves, net of tax		(1,630)	(316)
TOTAL EQUITY		**91,865**	**59,558**
TOTAL LIABILITIES AND EQUITY		**1,841,694**	**1,332,122**

The accompanying notes form an integral part of the financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

(In RMB million)

	Attributable to owners of parent								
	Share capital (note 31)	Capital surplus (note 32)	Surplus reserves (note 33)	General reserve (note 34)	Retained earnings (note 35)	Other reserves, net of Tax	Subtotal	Non-controlling interests	Total equity
As at 1 January 2010	5,000	17,560	3,403	8,101	25,854	(321)	59,597	-	**59,597**
Profit for the year	-	-	-	-	18,521	-	18,521	-	**18,521**
Other comprehensive income	-	-	-	-	-	(1,314)	(1,314)	-	**(1,314)**
Total comprehensive income	**-**	**-**	**-**	**-**	**18,521**	**(1,314)**	**17,207**	**-**	**17,207**
Right issue	992	16,699	-	-	-	-	17,691	-	**17,691**
General reserve	-	-	-	1,836	(1,836)	-	-	-	**-**
Dividend (note 36)	-	-	-	-	(2,500)	-	(2,500)	-	**(2,500)**
As at 31 December 2010	**5,992**	**34,259**	**3,403**	**9,937**	**40,039**	**(1,635)**	**91,995**	**-**	**91,995**
As at 1 January 2009	5,000	17,560	3,403	6,380	16,543	136	49,022	-	**49,022**
Profit for the year	-	-	-	-	13,282	-	13,282	-	**13,282**
Other comprehensive income	-	-	-	-	-	(457)	(457)	-	**(457)**
Total comprehensive income	**-**	**-**	**-**	**-**	**13,282**	**(457)**	**12,825**	**-**	**12,825**
General reserve	-	-	-	1,721	(1,721)	-	-	-	**-**
Dividend (note 36)	-	-	-	-	(2,250)	-	(2,250)	-	**(2,250)**
As at 31 December 2009	**5,000**	**17,560**	**3,403**	**8,101**	**25,854**	**(321)**	**59,597**	**-**	**59,597**

The accompanying notes form an integral part of the financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

(In RMB million)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	24,005	17,229
Include interest income and expense in profit before tax, non cash items and other adjustment:		
Interest income	(70,976)	(50,039)
Interest expense	32,944	22,837
Foreign exchange differences	158	(53)
Depreciation	769	624
Amortisation of intangible assets	83	69
Provisions for loan losses and provisions for impairment of assets	2,343	518
Unrealised gain on financial instruments at fair value through profit or loss	(175)	13
Net gain from trading precious metals	(32)	(70)
Net gain on disposal of fixed assets	(11)	(16)
Net gain on disposal of investments	(272)	(887)
Dividend income	(2)	(20)
Share of profits and losses of an associate	(89)	(43)
Net (increase)/decrease in operating assets:		
Deposits with the Central Bank and fiscal deposits	(60,471)	(33,239)
Due from and placements with banks and other financial institutions	(14,191)	51,223
Reverse repurchase agreements	(146,546)	(52,086)
Loans	(152,615)	(202,019)
Operating receivables	(10,742)	(1,581)
Net increase/(decrease) in operating liabilities:		
Borrowing from the Central Bank	325	41
Due to and placements from banks and other financial institutions	205,016	43,144
Repurchase agreements	43,675	(12,386)
Customer deposits	231,883	268,458
Operating payables	4,158	2,071
Net cash inflow from operating activities before interest and income tax	89,237	53,788
Interest received	62,251	43,403
Interest paid	(29,117)	(20,607)
Income tax paid	(4,634)	(4,719)
NET CASH INFLOW FROM OPERATING ACTIVITIES	**117,737**	**71,865**

The accompanying notes form an integral part of the financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS *Continued*

FOR THE YEAR ENDED 31 DECEMBER 2010

(In RMB million)

	2010	2009
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received from investments disposed	573,908	576,864
Dividends received from equity investments	2	20
Interest received from bond investments	7,838	6,610
Cash received from disposal of fixed assets	20	25
Cash paid for purchase of fixed assets	(2,275)	(1,465)
Cash paid for purchase of intangible assets	(42)	(41)
Cash paid for purchase of investments	(626,170)	(618,237)
Cash paid for purchase of associates	(265)	-
Cash (paid for)/received from precious metals	(520)	(57)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	**(47,504)**	**(36,281)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash received from issuance of rights	17,691	-
Cash received from issuance of long-term bonds	3,000	10,000
Cash paid for redemption of long-term bonds	(7,000)	(6,000)
Interest paid for bonds issued	(2,700)	(2,676)
Cash paid for dividends	(2,499)	(2,249)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	**8,492**	**(925)**
Effect of changes in exchange rates on cash and cash equivalents	(158)	53
Net increase in cash and cash equivalents	78,567	34,712
Cash and cash equivalents at beginning of year	182,824	148,112
CASH AND CASH EQUIVALENTS AT END OF YEAR	**261,391**	**182,824**
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash on hand and general deposits with the Central Bank	128,789	72,523
Due from/placements with banks and other financial institutions with original maturity of less than three months	33,530	42,804
Reverse repurchase agreements with original maturity of less than three months	99,072	67,497
	261,391	**182,824**

The accompanying notes form an integral part of the financial statements

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010
(In RMB million)

1. CORPORATE INFORMATION

Industrial Bank Co., Ltd. (the "Company", formerly known as Fujian Industrial Bank Co., Ltd.) was established on 22 August 1988 with the approval of the State Council and the People's Bank of China (the "PBOC") as a joint stock commercial bank, and was listed on the Shanghai Stock Exchange on 5 February 2007. The Company's registered address is No. 154 Hudong Road, Fuzhou, Fujian Province, the People's Republic of China (the "PRC"). The legal representative of the Company is Mr. Gao Jianping.

The original registered and paid in capital of the Company is Rmb5,000 million.

As approved by the CSRC (Zheng Jian Xu Ke [2010] No. 586) on 6 May 2010, the Company has offered right issue to all the shareholders by the allotment of 2 shares for every 10 shares. On 2 June 2010, 992 million shares were issued at the issuance price of RMB18.00 per share through this right issuance exercise. The funds raised were amounted to RMB17.86 billion and were verified by Fujian Huaxing CPA Co., Ltd. on 2 June 2010 (Min Hua Xing Suo [2010] Yan Zi G-003). The registered share capital of the Company was RMB5,992 million after the allotment.

The Company is principally engaged in the banking business approved by the PBOC. The scope of the banking business as stated in the business license includes accepting deposits from the public; granting short-term, medium-term and long-term loans; settlement services; issuance of discounted bills and notes; issuing financial bonds; issue and encashment, underwriting and trading of government bonds; trading of government and financial bonds and debentures; underwriting and trading of securities except stock; asset management; inter-bank lending and borrowings; foreign exchange; bank card business; letters of credit and letters of guarantee; remittance and insurance agent services; safety deposit box services; financial advisory services; credit investigation, advisory and attestation services; financial leasing, operating leasing and other banking activities approved by the China Banking Regulatory Commission (the "CBRC") of the PRC

2.1 BASIS OF PRESENTATION

The financial statements have been prepared in accordance with the judgements and estimates set out in note 2.2 and the accounting policies set out in note 2.3, which comply with International Financial Reporting Standards ("IFRSs"). IFRSs comprise standards and interpretations approved by the International Accounting Standards Board (the "IASB"), and International Accounting Standards and Standing Interpretations Committee's interpretations approved by the International Accounting Standards Committee (the "IASC") that remain in effect. Disclosures have been made, in all material respects, in accordance with IFRSs and in a format appropriate to the business environment of the Company and the PRC.

The financial statements have been prepared based on going concern consideration.

The financial statements have been prepared on the historical cost basis, except for financial assets and liabilities at fair value through profit or loss and available-for-sale financial assets that have been measured at fair value.

The Group prepares its statutory financial statements in accordance with Chinese Accounting Standards as established by the Ministry of Finance (the "MOF") of the PRC in February 2006. There are no material differences in major items between the accounting policies and basis of preparation used in preparing statutory financial statements and IFRSs, other than the presentation and disclosure in the financial statements.

The Group has adopted the following relevant new and revised IFRSs and International Financial Reporting Interpretation Committee's ("IFRIC") interpretation during the year.

2.1 BASIS OF PRESENTATION *continued*

IFRS 2 Amendments	Group Cash-settled Share-based Payment Transactions
IFRS 3 (Revised)	Business Combinations*
IAS 27 Amendments	Consolidated and Separate Financial Statements*
IFRS 5 Amendments included in Improvement to IFRSs issued in October 2008	Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary
IAS 39 Amendments	Eligible Hedged Items
IFRIC 17 Amendments	Distributions of Non-cash Assets to Owners

* IFRS 3 (Revised) and IAS 27 Amendments are effective for annual periods beginning on or after 1 July 2009, consequential amendments were made to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39.

The management does not expect the adoption of these new and revised IFRSs to have significant impact on the Group's financial statements and the accounting policies that have been adopted.

Apart from the above mentioned, the IASB issued Improvements to IFRSs in April 2009, an omnibus of amendments to its IFRS standards.

The amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009 and the amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 34, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010. There are separate transitional provisions for each standard.

The adoption of some of the improvements may cause changes to the accounting policies, however, these amendments has no significant financial impact on the Group.

The Group has not applied the following new and revised IFRSs and IFRIC interpretations, which have been issued but are not yet effective.

IFRS 1 Amendments	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters(2)
IFRS 1 Amendments	Hyperinflation and Deletion of Specified Date for First-time Adopters (2)
IFRS 7 Amendments	Transfer of Financial Assets(4)
IFRS 9	Financial Instruments (6)
IAS 12 Amendments	Deferred Tax – Reversal of Specified Items (5)
IAS 24 (Revised)	Related Party Disclosures (3)
IAS 32 Amendments	Financial Instruments: Presentation - Classification of Rights Issues(1)
IFRIC 14 Amendments	Amendment to IFRIC 14 Prepayments for Minimum Funding Requirement (3)
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments (2)

(1) Effective for annual periods beginning on or after 1 February 2010

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

(3) Effective for annual periods beginning on or after 1 January 2011

(4) Effective for annual periods beginning on or after 1 July 2011

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

(6) Effective for annual periods beginning on or after 1 January 2013

Apart from the above, the IASB has issued Improvements to IFRSs 2010 which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 3 and IFRS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to IFRS 1, IFRS 7, IAS 1, IAS 34 and IFRIC 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

The Group is currently assessing the impact of initial adoption of these new and revised IFRSs and IFRIC interpretations. The standard which is expected to have significant impact on the Group is shown below:

IAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The revised standard is unlikely to have any impact on the financial position and operating result of the Group.

The IAS 32 Amendments will be effective for the annual periods on or after 1 February 2010. The amendments revise the definition of financial liabilities such that rights, options or warrants issued to acquire a fixed amount of any currency are equity instruments, provided that the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendments are unlikely to have significant impact on the financial statement of the Group.

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

In October 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the "Additions"), while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January 2013. The Group is currently assessing the impact of IFRS 9.

The IFRIC14 amendments will be effective for the annual periods on or after 1 January 2011 and requires retrospective adjustments. The amendments require an entity to treat the benefit of an early payment as a pension asset. The amendments are unlikely to have significant impact on the financial statements of the Group.

The IFRIC 19 will be effective for the annual periods on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are a consideration paid and it shall be recognised in profit and loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. The interpretation is unlikely to have significant impact on the financial statements of the Group.

2.1 BASIS OF PRESENTATION *continued*

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, income and expenses are eliminated in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Company. Non-controlling interests are presented separately in the profit or loss and within equity in the consolidated statement of financial position, separately from the equity of owner's of the parent.

2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have significant effect on the financial statements:

Classification of investments

In evaluating the classification of investments, significant management judgments are required. Different classifications of investments result in different accounting treatments and hence different financial positions of the Group. If the Group fails to correctly classify its investments, the Group may need to reclassify the whole investment portfolio.

Derecognition of financial instruments

The management of the Group assesses and makes judgments to the extent which it retains the risks and rewards of ownership of the financial instruments for the transferred transactions entered into, and made relevant accounting treatments accordingly.

Estimation uncertainty

The key assumptions and uncertainty on significant estimations made by the Group's management at the year end, that may have significant risks resulting in a material adjustment to the assets and liabilities in the next accounting year, are stated below:

Impairment loss of financial assets

The Group determines periodically whether there is any objective evidence that an impairment loss on financial assets has been incurred. If any such evidence exists, the Group assesses the amount of the impairment loss. The amount of the impairment loss is measured as the difference between the carrying amount and the present value of estimated future cash flows. In assessing the amount of impairment loss, significant judgments are required as to whether objective evidence for impairment exists and also significant estimates are required on assessing the present value of expected future cash flows.

Income tax

Determining income tax provisions requires the Group to make judgments on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilised. This requires significant judgments on the tax treatments of certain transactions and also significant assessment on the probability that adequate future taxable profits will be also available for the recovery of deferred tax assets.

Fair value of financial instruments

If the market for a financial instrument is not active, the Group establishes fair value by using valuation techniques. These techniques include using recent arm's length market transactions between knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same if available; a discounted cash flow analysis and option pricing models. To the extent practicable, valuation techniques make maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on areas such as credit risk (both its own and any counterparty's), volatility and correlation. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidated financial statements

The consolidation scope is based on the control over entities and the consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Subsidiaries are entities that are controlled by the Company.

The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. All significant intra-group balances and transactions are eliminated in full.

Non-controlling interests are presented separately in the profit or loss and within equity in the consolidated statement of financial position, separately from the equity of owner’s of the parent.

The operating results and cash flows of the subsidiaries which are obtained through merger are fully consolidated from the date on which control is transferred to the Group until the day when Company loses the control. When preparing the consolidation financial statements, adjustments are made to the financial statements of the subsidiaries based on the fair value of the identifiable assets, liabilities and contingent liabilities on the purchase date.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group’s investments in associates are accounted for under the equity method. Under the equity method, an investment in an associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group’s share of the net assets of the associate, less any impairment losses. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group’s net investment in the associate. The profit or loss reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Associates *continued*

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for similar transactions and events in similar circumstances.

Foreign currency transactions

The functional and presentation currency of the Group is Renminbi ("RMB").

Foreign currency transactions are translated into the functional currency using the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the applicable exchange rates ruling at the end of the reporting period. Exchange differences are recognised in the profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates ruling at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates ruling at the date when the fair value was determined.

Precious Metal

The precious metal in possession of the Group is gold and silver that is traded on the international market. The precious metal is recorded at initial purchase price and is adjusted on the balance sheet according to the market price. Meanwhile, the gain or loss due to the fluctuation in market price is recognised in profit and loss account of the current period.

Financial instrument

A financial instrument will be recognised as a financial asset or a financial liability when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

The Group classifies its financial assets into four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loan and receivable and available-for-sale financial assets. When financial assets are recognised initially, they are measured at fair value. For financial assets which are not classified as at fair value through profit or loss, any transaction costs that are directly attributable to the acquisition of the financial assets can be recognised.

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

Financial assets at fair value through profit or loss are financial assets which are either classified as held for trading or designated by the Group at fair value through profit or loss upon initial recognition.

Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

A financial asset, other than being held for trading, may be designated as a financial asset at fair value through profit or loss if it meets the criteria set out below, and is so designated by management:

(i) it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on them on different bases;

(ii) it applies to a group of financial assets, financial liabilities or both that is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and where information about that group of financial instruments is provided internally on that basis to key management personnel; or

(iii) it relates to financial instruments containing one or more embedded derivatives that significantly modify the cash flow resulting from those financial instruments; or it is clear, with little analysis, that the embedded derivatives would not be separately recorded.

The interest of financial assets at fair value through profit or loss is recognised at the nominal rate and is included in interest income.

(2) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. These investments are carried at amortised cost using the effective interest rate method, less provision for impairment in value. Gains and losses are recognised in the profit or loss when the held-to-maturity investments are derecognised or impaired, or are recognised through the amortisation process.

The Group shall not classify any financial assets as held to maturity if the Group has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity, other than sales or reclassifications that:

(i) are close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;

(ii) occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or

(iii) are attributable to an isolated event that is beyond the entity's control and is non-recurring and could not have been reasonably anticipated by the entity.

(3) Loan and receivable investments

Loan and receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group has no intention of trading the assets immediately or in the near term. Such assets are carried at amortised cost using the effective interest rate method, less provision for impairment in value.

Gains and losses are recognised in the profit or loss when the loan and receivable are derecognised or impaired, as well as through the amortisation process.

(4) 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 in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value. Available-for-sale financial assets, that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, shall be measured at cost. The interest income derived from available-for-sale financial assets are amortised using the effective interest rate method and recognised in the profit or loss.

Fair value changes of available-for-sale financial assets are reported as a separate component of equity until the financial asset is derecognised or the financial asset is determined to be impaired, at which time the cumulative gains or losses previously reported in equity are included in the profit or loss.

If, as the result of a change in intention or ability or in a rare circumstance that a reliable measure of fair value is no longer available or because the “two preceding financial years” referred to in note 2.3 (2) have passed, it becomes appropriate to recognise a financial asset or financial liability at amortised cost rather than at fair value, the fair value of the financial asset or the financial liability on that date becomes its new amortised cost, as applicable.

In the case of a financial asset with a fixed maturity, the gain or loss shall be amortised to profit or loss over the remaining life of the financial asset using the effective interest rate method. Any difference between the new amortised cost and maturity amount shall also be amortised to profit and loss over the remaining life of the financial asset using the effective interest rate method.

In the case of a financial asset that does not have a fixed maturity, the gain or loss shall remain in equity until the financial asset is sold or otherwise disposed of, when it shall be recognised in the profit or loss.

Impairment of financial assets

An assessment is made at the end of each reporting period to determine whether there is objective evidence of any impairment of financial assets as a result of one or more events that occur after the initial recognition of those assets ("loss event") and whether the loss event has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicating that there is a measurable decrease in the estimated future cash flows.

(1) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss has been incurred on loan and receivable or held-to-maturity investments carried at amortised cost, 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 (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an impairment provision account and the amount of the loss is recognised in the profit or loss.

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

Future cash flows of a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the historical loss experience of the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect the period on which the historical loss experience is based and to eliminate the impact of historical conditions that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be attributed objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Subsequent recoveries of the amounts previously written off reduce the amount of provision for loan impairment in the profit or loss.

(2) Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on a financial asset, the amount of impairment loss is measured as the difference between the carrying amount of that financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not allowed to be reversed.

(3) Available-for-sale financial assets

If an available-for-sale asset is impaired, any cumulative gain/loss that had been recognised directly in equity is removed from equity and recognised in the profit or loss even though the financial asset has not been derecognised. The amount of cumulative loss that is removed from equity and recognised in the profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in the profit or loss.

Reversals of impairment losses in respect of equity instruments classified as available for sale are not recognised in the profit or loss. Reversals of impairment losses on debt instruments classified as available for sale are made through the profit or loss, if the increase in the fair value of the debt instruments can be objectively related to an event occurring after the impairment losses have been recognised in the profit or loss.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss, or deposits, debt securities issued and other liabilities.

(1) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are financial liabilities which are either classified as held for trading or designated by the Group as at fair value through profit or loss upon initial recognition.

Financial liabilities at fair value through profit or loss are financial liabilities which are either classified as held for trading or, based on the criteria (i), (ii) and (iii) of financial assets in note 2.3, designated by the Group as at fair value through profit or loss upon initial recognition.

Gains and losses from changes in fair value are recognised in the profit or loss.

(2) Deposits, debt securities issued and other liabilities

Deposits, debt securities issued other than those designated as trading liabilities or at fair value through profit or loss, and other financial liabilities are carried at amortised cost.

Derecognition of financial assets and liabilities

(1) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

* the rights to receive cash flows from the assets have expired; or

* the Group retains the right to receive cash flows from the assets, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; and the Group has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of ownership of the financial asset; or (ii) has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement of the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Derecognition of financial assets and liabilities *continued*

(2) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference between the respective carrying amounts is recognised in the profit or loss.

(3) Asset-backed securities

As part of the Company's business, certain financial assets are securitised by selling them to a special purpose entity, which then issues asset-backed securities to investors. Some or all of these financial assets transferred may meet the derecognition criteria, as separately stated in the respective accounting policies of derecognition of financial assets and liabilities. The asset-backed securities retained by the Company mainly related to a subordinated class, with gain/loss arising therefore being dealt with in the profit or loss. The gain/loss arising from the asset-backed securities is the difference between the carrying value of the asset derecognised and the asset retained and the fair value at the date of derecognition.

Special purpose entity

Special purpose entity ("SPE") is consolidated if it is in substance controlled by the Company. When assessing whether the Company has a control over the SPE, the Company evaluates a range of factors, including whether:

(a) the activities of the SPE are being conducted on behalf of the Company and according to the specific business needs so that the Company obtains benefits from the SPE's operations;

(b) the Company has the decision-making power to obtain the majority of the benefits of the activities of the SPE;

(c) the Company has the right 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

(d) the Company retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

Derivative financial instruments

Derivatives are initially measured at fair value on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when fair value is positive and as liabilities when the fair value is negative. Fair values are obtained from quoted market prices in an active market, including recent market transactions, and valuation techniques, including a discounting cash flow analysis and option pricing models, as appropriate.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the hybrid instrument is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognised in the profit or loss.

Any gains or losses arising from changes in fair value of derivatives that do not qualify for hedge accounting are taken directly to the profit or loss.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments, or otherwise an internal pricing model such as the discounted cash flow analysis.

Offsetting

Assets and liabilities are offset only when the Group has the legal right to offset amounts with the same counterparty and transactions are expected to be settled on a net basis.

Repurchase and reverse repurchase transactions

The Group purchases securities, bills and loans under agreements to resell and engages in the sale of securities, bills and loans under agreements to repurchase. The considerations paid to purchase assets under agreements to resell are treated as collateralised loans and the purchased assets are treated as the collateral. Assets sold under agreements to repurchase continue to be recognised in the statement of financial position. The proceeds from the sale of these assets are treated as liabilities.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognised as interest income and interest expense, respectively, on a time proportion basis.

Fixed assets

Fixed assets, other than construction in progress, are initially stated at cost. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance, is normally charged to the profit or loss in the period in which it is incurred. In situations that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset. The carrying amounts of fixed assets are reviewed and if their carrying values exceed the recoverable amounts, the assets are written down and the impairment losses are charged to the current year's profit or loss.

Depreciation is calculated using the straight-line method over the estimated useful lives of the fixed assets without residual value at the following rates per annum:

	Estimated useful life	Depreciation rate(%)
Properties and buildings	20 - 30 years	3.33 - 5.00
Leasehold improvements	5 years or the lease terms, whichever is shorter	
Office equipment and computers	5 - 10 years	10.00 - 20.00
Motor vehicles	6 - 8 years	12.50 - 16.67

Construction in progress comprises the direct costs of construction less any impairment during the period of construction and is not depreciated. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for use.

Intangible assets

Intangible assets acquired separately are capitalised at cost and those obtained from a business acquisition are capitalised at fair value as at the date of acquisition. Following initial recognition, intangible assets are stated at cost less accumulated amortisation. Amortisation is charged on intangible assets with finite lives using the straight-line method over their estimated economic useful lives. Intangible assets are assessed for impairment at the end of each reporting period. A write-down is made if the carrying value exceeds the recoverable amount and the impairment losses are charged to the current year's profit or loss.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Impairment of assets

The Group assesses at the end of each reporting period whether there is any objective evidence that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the profit or loss under those expense categories consistent with the function of the impaired assets.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of any depreciation/amortisation, had no impairment loss been recognised for the asset in prior years. Such a reversal is recognised in the profit or loss unless the asset is carried at the revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation/amortisation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Cash and cash equivalents

Cash and cash equivalents comprise cash, amounts due from the Central Bank with original maturity of three months or less, amounts due from banks and other financial institutions with original maturity of three months or less, placements with banks and other financial institutions with original maturity of three months or less, reverse repurchase agreements with other banks with original maturity of three months or less, and short-term highly liquid investments which are readily convertible into known amounts of cash, subject to an insignificant risk of conversion in value and which are within three months of maturity when acquired.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases.

Finance lease

For finance leases where the Group acts as the lessor, initial direct costs are included in the initial measurement of the finance lease receivable and recorded as part of finance lease receivables. Meanwhile, the unguaranteed residual values are also recorded.

The difference between lease payment receivables, initial direct costs, unguaranteed residual value and their present value is recognised as unrealised lease income and is amortised over the lease term by effective interest rate.

Operating leases

Expenses relating to operating leasing are recognised on a straight-line basis.

Related parties

A party is considered to be related to the Group if:

(i) the party, directly or indirectly through one or more intermediaries, (a) controls, is controlled by, or is under common control with, the Group; (b) has an interest in the Group that gives it significant influence over the Group; or (c) has joint control over the Group;

(ii) the party is an associate of the Group;

(iii) the party is a joint venture in which the Group is a venturer;

(iv) the party is a member of the key management personnel of the Group or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, on the following bases:

(a) interest income is recognised by using the effective interest rate method. The effective interest rate method involves applying the rate that discounts the estimated future cash inflows through the expected life of the financial instrument to the net carrying amount of the financial asset. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter recognised using the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss;

(b) fee and commission income is recognised when the service has been rendered and proceeds can be reasonably estimated; and

(c) dividend income is recognised when the shareholders' right to receive payment has been established.

Income tax

Income tax is inclusive of current tax and deferred tax. Income tax is recognised in the profit or loss or in equity if it relates to items that recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred income tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

(a) where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) in respect of taxable temporary differences associated with investments in subsidiaries and associates where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

(a) where the deferred tax asset relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Income tax *continued*

(b) in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be recovered.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be utilised.

Deferred tax assets and 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, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Employee retirement benefits

(1) Defined retirement contribution plan

According to the statutory requirements of the PRC, the Group is required to provide certain staff retirement and pension benefits. The Group is obligated to contribute a fixed percentage of staff salaries to a fixed contribution employee retirement benefit scheme, governed by the relevant government authorities. The contributions are charged to the profit or loss.

(2) Supplementary retirement benefit plan

The Group has set up a pension plan for employees to supplement the retirement benefit. The defined benefit is calculated by the amount of benefit that an employee is entitled to receive from the Group upon retirement and the plan is considered as a defined benefit plan. The amount recognised as the defined benefit liability at the end of the reporting period shall be the net total of the present value of the defined benefit obligation at the end of the reporting period, plus any actuarial gains (less any actuarial losses) not recognised, minus any past service cost not yet recognised and minus the fair value at the end of the reporting period of the plan assets. The Group adopts the projected unit credit method to determine the present value of its defined benefit obligations and the related current service cost and past service cost, and the relevant defined benefit liability is recognised as other liabilities on statement of financial position. As at end of the reporting period, the Group recognises a portion of its actuarial gains and losses as income or expense if the net cumulative unrecognised gains and losses at the end of the previous end of the reporting period exceeded the greater of (a) and (b) and the portion of actuarial gains and losses to be recognised is the excess portion divided by the expected average remaining working lives of the employees participating in the plan, otherwise, the amount is not recognised:

(a) 10% of the present value of the defined benefit obligation at the end of the reporting period; and

(b) 10% of the fair value of the plan assets at the end of the reporting period.

Past service cost is recognised in the profit or loss as an expense immediately except for the vesting condition applied. The Group recognises past service cost as an expense on the straight-line basis over the average period until the benefits become vested.

Fiduciary activities

Where the Group acts in a fiduciary capacity such as nominee, trustee or agent, the risk is taken by the client. The Group only charges fee income, thus assets and liabilities arising thereon are excluded from the financial statements.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset. Only when the reimbursement is virtually certain are the expenses relating to any provision presented in the profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as interest expense.

Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised but are disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that an outflow is probable, it will then be recognised as a provision.

Financial guarantee contracts

The Group issues letters of credit, acceptance and letters of guarantee. These financial guarantee contracts provide for specified payments to be made to reimburse the holder for a loss it incurs when a guaranteed party defaults under the original or modified terms of a debt instrument, loan or other obligation.

Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issue of the guarantee. This amount is amortised over the period of the contract and recorded as fee and commission income. Subsequently, the liabilities are measured as the higher of the initial fair value less cumulative amortisation and the fair value of the provision related to the Group’s obligation under the contract.

Any increase in the liability relating to a financial guarantee is taken to the profit or loss. The premium received is recognised in the profit or loss as fee and commission income and on the straight-line basis over the life of the guarantee.

Dividends

Dividends are recognised as a liability and deducted from equity when they are approved by the Company’s shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Company. Dividends for the year that are approved after the end of the reporting period are disclosed as an event after the end of the reporting period.

3. NET INTEREST INCOME

	2010	2009
Interest income:		
Interest income on loans	43,721	34,207
Interest income on amounts due from the Central Bank	2,534	1,652
Interest income on amounts due from and placements with banks and other financial institutions	16,887	8,334
Interest income on finance leases	111	-
Interest income on investments	7,723	6,026
	70,976	**50,039**
Interest expense:		
Interest expense on deposits	14,595	12,420
Interest expense on amounts due to and placements from banks and other financial institutions	15,726	7,752
Interest expense on bonds issued	2,623	2,665
	32,944	**22,837**
	38,032	**27,202**

Included in interest income for 2010 is RMB130 million (note 16(d)) (2009: RMB134 million) with respect to the notional interest of the impaired loans.

Included in interest income for 2010 is RMB257 million (2009: RMB161 million) with respect to financial instruments at fair value through profit or loss.

4. NET FEE AND COMMISSION INCOME

	2010	2009
Settlement	159	84
Bank card business	792	534
Agency services	1,018	509
Guarantee and commitment business	309	262
Trading	47	68
Assets fiduciary activities	230	154
Consulting services	2,520	1,767
Leasing services	13	-
Others	141	104
Fee and commission income	5,229	3,482
Fee and commission expense	(428)	(366)
	4,801	**3,116**

5. OTHER INCOME, NET

	2010	2009
Net trading gain/(loss) on financial assets at fair value through profit or loss	67	(131)
Net trading gain on available-for-sale financial assets	205	1,018
Unrealised gain/(loss) on financial assets at fair value through profit or loss, net	175	(13)
Foreign exchange gain, net	53	327
Net gain from trading precious metals	32	70
Others	(185)	(90)
	347	**1,181**

6. STAFF COSTS

	2010	2009
Salaries and bonuses	4,830	3,964
Contributions to defined contribution schemes	256	188
Supplementary retirement benefits and others	1,228	1,033
	6,314	**5,185**

7. GENERAL AND ADMINISTRATIVE EXPENSES

	2010	2009
Office expenses	2,591	2,067
Rental	971	767
Entertainment	551	358
Promotion	1,166	825
Telecommunications and postage	201	186
Travelling	180	183
Repairs and maintenance	57	49
Utilities	124	99
Taxes	85	98
Consulting and professional fees	222	300
Supervision fees	90	127
Fuel	232	267
Amortisation of intangible assets (note 24)	83	69
Others	370	270
	6,923	**5,665**

8. PROVISION FOR IMPAIRMENT OF OTHER ASSETS

	2010	2009
Leasing (note 17)	99	-
Loan and receivable investments (note 20 (c))	17	6
Other assets (note 25(b))	6	(47)
	122	**(41)**

9. INCOME TAX

	2010	2009
Current income tax	5,727	3,543
Deferred tax	(113)	255
(Overprovision)/underprovisionin prior years	(130)	150
	5,484	**3,948**

A reconciliation of income tax expense, disclosed in the statement of comprehensive income, to the amount calculated at the statutory rate of 25% is as follows:

	2010	2009
Profit before income tax	24,005	17,229
Income tax at the statutory rate of 25%	6,001	4,307
Additions/(deductions):		
Tax exempted income	(478)	(618)
Non-deductible expenses	103	122
(Overprovision)/underprovision in respect of prior years	(130)	150
Effect of lower tax rates in certain regions	(12)	(14)
Income tax	**5,484**	**3,947**

Deferred tax assets:

	31-12-2010		31-12-2009
	The Group	The Company	The Group and the Company
Provisions for loan losses	852	852	799
Salaries and bonuses	775	774	685
Provisions for impairment of other assets	135	135	136
Net unrealised loss on derivatives	4	4	51
Net unrealised loss on financial assets at fair value through profit or loss	7	7	2
Net unrealised loss on available-for-sale financial assets	544	544	105
Others	75	75	60
Subtotal of deferred tax assets	**2,392**	**2,391**	**1,838**

Deferred tax liabilities

	31-12-2010		31-12-2009
	The Group	The Company	The Group and the Company
Net unrealised gain on precious metals	(2)	(2)	-
Subtotal of deferred tax liabilities	(2)	(2)	**-**
Net deferred tax assets	**2,390**	**2,389**	**1,838**

9. INCOME TAX *continued*

Deferred tax is recorded in equity as follows:

	31-12-2010		31-12-2009
	The Group	The Company	The Group and The Company
Unrealised loss on available-for-sale financial assets	(439)	(439)	(149)

10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year attributable to owners of parent by the weighted average number of ordinary shares outstanding during the year.

	The Company 2010	The Company 2009 (Restated)
Calculation of earnings per share:		
Profit for the year attributable to owners of parent (in RMB million)	18,521	13,282
Number of ordinary shares outstanding (in million shares)	5,654	5,316
Earnings per share, basic (in RMB)	3.28	2.50

The Company had rights issued in June 2010 and the earnings per share were recalculated based on adjusted ordinary shares.

As at 31 December 2009 and 2010, the Company had no dilutive potential ordinary shares.

11. CASH AND BALANCES WITH THE CENTRAL BANK

	The Group and the Company	
	31-12-2010	31-12-2009
Cash on hand	3,568	2,904
Due from the Central Bank:		
- General deposits	125,221	69,619
- Statutory deposits	159,852	99,381
Total	**288,641**	**171,904**

Statutory deposits represent a statutory reserve placed with the Central Bank calculated at 16.5% (31 December 2009: 13.5%) on customer deposits denominated in RMB and at 5% (31 December 2009: 5%) on customer deposits denominated in foreign currencies.

12. DUE FROM AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31-12-2010		31-12-2009
	The Group	The Company	The Group and the Company
Deposits:			
Domestic banks and financial institutions	38,150	38,149	40,510
Foreign banks and financial institutions	1,739	1,739	1,876
	39,889	**39,888**	**42,386**
Less: Provisions for impairment (a)	(21)	(21)	(21)
	39,868	**39,867**	**42,365**
Placements:			
Domestic banks and financial institutions	20,951	20,951	13,801
Foreign banks and financial institutions	265	265	-
	21,216	**21,216**	**13,801**
Less: Provisions for impairment (a)	(117)	(117)	(117)
	21,099	**21,099**	**13,684**
Total	**60,967**	**60,966**	**56,049**

(a) Movements of provisions for impairment

	The Group and the Company		
	Deposits	Placements	Total
At 1 January 2010	21	117	138
Transfer out	-	-	-
Write-off	-	-	-
At 31 December 2010	21	117	138
At 1 January 2009	21	117	138
Transfer out	-	-	-
Write-off	-	-	-
At 31 December 2009	21	117	138

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group and the Company	
	31-12-2010	31-12-2009
Government bonds	443	681
Financial bonds issued by policy banks and the PBOC	1,851	1,875
Bonds issued by financial institutions	-	100
Corporate bonds	3,243	707
Total	**5,537**	**3,363**

14. DERIVATIVE FINANCIAL INSTRUMENTS

A derivative is a financial instrument, the value of which changes in response to the change in a specified interest rate, index of prices or rates, exchange rate or other similar variable. The Company uses derivative financial instruments including forwards and swaps.

The nominal amount of a derivative instrument represents the underlying assets, reference interest/exchange rate or index, upon which the fair value of the derivative is based. The nominal amount indicates the unsettled credit risk exposure as at the period end but does not reflect the market risk and credit risk.

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

The Group does not have derivative financial instruments designated for hedging instruments.

The Group and the Company

	31-12-2010						
	Notional amount with remaining life of					Fair value	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Exchange rate derivatives							
Forwards	8,205	13,474	1,618	-	**23,297**	72	(138)
Swaps	76,101	53,805	434	-	**130,340**	948	(979)
	84,306	**67,279**	**2,052**	**-**	**153,637**	**1,020**	**(1,117)**
Interest rate derivatives							
Cross currency swaps	-	130	171	-	**301**	2	-
Interest rate swaps	32,021	94,089	148,387	1,150	**275,647**	1,274	(1,182)
Forwards	200	900	-	-	**1,100**	1	(1)
	32,221	**95,119**	**148,558**	**1,150**	**277,048**	**1,277**	**(1,183)**
Credit derivatives							
Credit default swaps	116	500	663	-	**1,279**	4	(2)
Structured deposits	-	-	168	-	**168**	-	(1)
	116	**500**	**831**	**-**	**1,447**	**4**	**(3)**
Precious metal derivatives							
Forwards	8,433	-	-	-	**8,433**	-	(14)
	125,076	**162,898**	**151,441**	**1,150**	**440,565**	**2,301**	**(2,317)**

The Group and the Company

	31-12-2009						
	Notional amount with remaining life of					Fair value	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Exchange rate derivatives							
Swaps	7,111	5,816	54	-	12,981	24	(45)
Forwards	50,620	50,636	792	-	102,048	209	(429)
	57,731	**56,452**	**846**	**-**	**115,029**	**233**	**(474)**
Interest rate derivatives							
Cross currency swaps	141	-	311	-	452	-	(12)
Interest rate swaps	16,619	69,946	89,930	2,000	178,495	1,163	(1,093)
Forwards	500	600	-	-	1,100	-	-
	17,260	**70,546**	**90,241**	**2,000**	**180,047**	**1,163**	**(1,105)**
Credit derivatives							
Credit default swaps	-	-	751	-	751	3	(2)
Precious metal derivatives							
Forwards	6,733	-	-	-	6,733	-	(21)
	81,724	**126,998**	**91,838**	**2,000**	**302,560**	**1,399**	**(1,602)**

15. REVERSE REPURCHASE AGREEMENTS

	The Group and the Company	
	31-12-2010	31-12-2009
Analysed by collateral:		
Bills	287,174	122,163
Loans	74,175	67,551
Bonds	11,206	6,170
Trust benefit certificate	1,450	-
	374,005	**195,884**

Regarding certain agreements included in the above reverse repurchase agreements, the Group is permitted to sell or re-pledge the collateral in the absence of default by the owner of the collateral. As at 31 December 2010, the fair value of the aforesaid collateral amounted to RMB218,939 million (31 December 2009: RMB109,777 million).

16. LOANS

	The Group and the Company	
	31-12-2010	31-12-2009
Corporate loans	619,604	505,882
Personal loans	225,007	169,014
Discounted bills (c)	9,728	26,702
	854,339	**701,598**
Less: Provisions for loan losses (d)	(11,771)	(9,635)
	842,568	**691,963**

Loan derecognition

The Group had neither held nor transferred substantially all risks and rewards of the underlying assets of the wealth management products. The Group recognised the associated assets and liabilities based on the degree of continuing involvement. As at 31 December 2010, the total amount of the above-mentioned wealth management products was RMB5,873 million. The Group has recognised the continuing involved assets and liabilities of RMB881 million respectively (note 25(a) and note 30).

(a) The composition of corporate loans to customers by industry is as follows:

	The Group and the Company			
	31-12-2010	%	31-12-2009	%
Agriculture, forestry and fishing	2,518	0	1,163	0
Mining	22,913	4	15,577	3
Manufacturing	132,235	21	107,481	21
Electricity, gas and water supply	29,044	5	26,604	5
Construction	32,289	5	21,985	4
Transport, storage, post and courier activities	51,994	8	48,590	10
Telecommunications, computer and software related activities	3,542	1	2,755	1
Wholesale and retail trade	59,281	10	42,306	8
Hotels and restaurants	3,570	1	1,576	0
Finance	5,048	1	3,327	1
Real estate	84,835	14	65,867	13
Rental and business activities	74,098	12	57,264	11
Scientific research, technical services and geologic reconnaissance	1,011	0	684	0
Water conservancy, environment and public facilities administration	93,274	15	84,053	17
Residential services and other related activities	2,769	0	1,842	1
Education	771	0	1,496	0
Sanitation, social security and other community services	2,329	0	3,194	1
Cultural activities, sports and entertainment	2,331	0	2,693	1
Public administration and social organization activities	15,752	3	17,065	3
Total	**619,604**	**100**	**505,882**	**100**

(b) For the compositions of corporate loans to customers by geographical region of the Group and of the Company, see note 43 to the financial statements.

(c) As at 31 December 2010, re-discounted but unexpired bills of the Group and the Company were amounted to RMB145,882 million (31 December 2009: RMB138,488 million).

(d) Movements of provisions for loan losses

The Group and the Company	Individual assessment	Collective assessment	Total
At 1 January 2010	**1,776**	**7,859**	**9,635**
Charge for the year	348	1,873	2,221
Notional interest on impaired loans (notes 3)	(130)	-	(130)
Recovery	107	-	107
Other reversal	9	-	9
Write-off	(71)	-	(71)
At 31 December 2010	**2,039**	**9,732**	**11,771**
At 1 January 2009	**1,817**	**7,584**	**9,401**
Charge for the year	284	275	559
Notional interest on impaired loans	(134)	-	(134)
Recovery	102	-	102
Other reversal	5	-	5
Write-off	(298)	-	(298)
At 31 December 2009	**1,776**	**7,859**	**9,635**

(e) Movements of loan

	The Group and the Company	
	31-12-2010	31-12-2009
Loans for which provisions for impairment losses are:		
Individually assessed	3,237	3,579
Collectively assessed	851,102	698,019
	854,339	**701,598**
Provision for loan losses:		
Individually assessed	2,039	1,776
Collectively assessed	9,732	7,859
	11,771	**9,635**
Carrying amount of loans:		
Individually assessed	1,198	1,803
Collectively assessed	841,370	690,160
	842,568	**691,963**

17. FINANCE LEASE RECEIVABLES

The Group	31-12-2010
Finance lease receivables	10,763
Less: Unrealised finance lease income	(1,971)
Total	**8,792**
Less: Provision – Collective assessment	(99)
Net	**8,693**

Movement of the provision for finance lease receivables:

The Group	31-12-2010
At 1 January 2010	-
Provided for the year (note 8)	99
At 31 December 2010	**99**

Finance lease receivables classified by term:

Within 1 year	1,675
1 to 5 years	8,004
Above 5 years	1,084
Sub-total	**10,763**
Unrealised finance lease income	(1,971)
Present value of minimum finance lease receivables	8,792

Present value of minimum finance lease receivables classified by term:

Within 1 year	1,107
1 to 5 years	6,706
Over 5 years	979
Total	**8,792**

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group and the Company	
	31-12-2010	31-12-2009
Bond investments measured at fair value:		
Government bonds	37,809	34,487
Financial bonds issued by policy banks and the PBOC	63,448	44,600
Bonds issued by banks and other financial institutions	5,074	6,142
Corporate bonds	33,861	25,833
Available-for-sale bond investments	**140,192**	**111,062**
Wealth management product measured at fair value	7,010	-
Equity investments measured at cost (a):	99	128
Equity investments measured at fair value (b):	12	34
Total	**147,313**	**111,224**

(a) Equity investments measured at cost

Invested companies	31-12-2010	31-12-2009	Percentage of shares in invested companies at 31-12-2010
China UnionPay Co., Ltd.	81	81	2.13%
Shanghai Worldbest Co., Ltd.	18	18	0.79%
Chongqing China Energy Conservation Co., Ltd.	-	29	
	99	**128**	

The above-mentioned unlisted equity investments which do not have any quoted market prices and whose fair values cannot be measured reliably are stated at cost less any impairment losses.

(b) Equity investments measured at fair value

Invested Companies	31-12-2010	31-12-2009	Percentage of shares in invested companies at 31-12-2010
VISA INC.	5	7	0.00%
Shandong Jiufa Edible Fungus Co. Ltd.	7	6	0.37%
Zhangjiajie Tourism Development Co., Ltd	-	21	
	12	**34**	

19. HELD-TO-MATURITY INVESTMENTS

	The Group and the Company	
	31-12-2010	31-12-2009
Government bonds	27,741	36,582
Financial bonds issued by policy banks and the PBOC	3,038	4,539
Bonds issued by banks and other financial institutions	86	88
Corporate bonds	3,557	1,152
	34,422	**42,361**
Provision for held-to-maturity bond investments (a)	(132)	(136)
Total	**34,290**	**42,225**

(a) Provision for held-to-maturity bond investments

	The Group and the Company	
	2010	2009
Balance at beginning of year	136	136
Foreign exchange differences	(4)	-
Balance at end of year	**132**	**136**

20. LOAN AND RECEIVABLE INVESTMENTS

	The Group and the Company	
	31-12-2010	31-12-2009
Financial bonds issued by policy banks and the PBOC	-	13,950
Bonds issued by banks and other financial institutions	5,947	3,643
Corporate bonds	1,728	1,237
Trust products (a)	34,928	15,794
Wealth management products (b)	18,741	6,168
	61,344	**40,792**
Provisions (c)	(23)	(6)
Total	**61,321**	**40,786**

(a) Trust products

These trusts are purchased from other financial institutions which the main underlying investment are trusted loans.

(b) Wealth management products

These products are purchased from other banks, of which RMB16,926 million are principal guaranteed (31 December 2009: RMB5,168 million).

(c) Provisions

The Group and the Company	2010	2009
Balance at beginning of year	6	-
Charge for the year (note 8)	17	6
Balance at end of year	**23**	**6**

21. INVESTMENT IN AN ASSOCIATE

At the end of the reporting period, the Company held an investment in an associate as follows:

Name	Percentage of equity interest attributable to the Company (%)		Place of registration	Principal activities	Registered capital (Rmb million)
	2010	2009			
Bank of Jiujiang Co., Ltd. (“Jiujiang Bank”)	20	20	Jiujiang City, China	Commercial bank	1,116

	The Group		The Company	
	31-12-2010	31-12-2009	31-12-2010	31-12-2009
Unlisted shares, cost	-	-	561	296
Share of net assets	638	284	-	-
Goodwill	51	51	-	-
Total	**689**	**335**	**561**	**296**

The following table illustrates the summarised financial information of the Company's associate extracted from its financial statements:

	31-12-2010	31-12-2009
Total assets	41,450	23,231
Total liabilities	38,050	21,552
Total net assets	3,400	1,679
Interest income	1,307	652
Net profit for the year	**449**	**230**

As approved by the shareholders' meeting of Jiujiang Bank, Jiujiang Bank completed the fifth share capital increase in March 2010 totalling 400,650,000 shares, of which the Company purchased 80,120,000 shares amounting to RMB265 million.

22. INVESTMENT IN SUBSIDIARY

The Company

	31-12-2010
Investment cost of unlisted subsidiary	2,000

At balance date, the Company held an investment in a subsidiary as follows:

Name	Percentage of equity interest attributable to the Company (%)	Place of registration	Principal activities	Registered capital (Rmb million)
	2010			
Industrial Bank Financial Leasing Co., Ltd.	100	Tianjin, China	Leasing	2,000

23. FIXED ASSETS

The Group	Properties and buildings	Leasehold improvements	Office equipment	Motor vehicles	Construction in progress	Total
Cost:						
At 1 January 2009	3,290	888	1,755	179	1,534	7,646
Additions	108	177	422	27	834	1,568
Transfer in/(out)	202	223	18	-	(443)	-
Disposals	(105)	(121)	(57)	(18)	-	(301)
At 31 December 2009 and 1 January 2010	3,495	1,167	2,138	188	1,925	8,913
Additions	36	132	471	75	1,577	2,291
Transfer in/(out)	170	234	17	-	(421)	-
Transfer to intangible assets	(59)	-	-	-	-	(59)
Disposals	(8)	(22)	(58)	(19)	-	(107)
At 31 December 2010	**3,634**	**1,511**	**2,568**	**244**	**3,081**	**11,038**
Accumulated depreciation:						
At 1 January 2009	928	404	782	89	-	2,203
Additions	126	173	305	20	-	624
Disposals	(19)	(109)	(53)	(16)	-	(197)
At 31 December 2009 and 1 January 2010	1,035	468	1,034	93	-	2,630
Additions	141	232	373	23	-	769
Transfer to intangible assets	(22)	-	-	-	-	22
Disposals	(3)	(22)	(55)	(17)	-	(97)
At 31 December 2010	**1,151**	**678**	**1,352**	**99**	**-**	**3,280**
Net book value:						
At 31 December 2009	2,460	699	1,104	95	1,925	6,283
At 31 December 2010	**2,483**	**833**	**1,216**	**145**	**3,081**	**7,758**

The Company	Properties and buildings	Leasehold improvements	Office equipment	Motor vehicles	Construction in progress	Total
Cost:						
At 1 January 2009	3,290	888	1,755	179	1,534	7,646
Additions	108	177	422	27	834	1,568
Transfer in/(out)	202	223	18	-	(443)	-
Disposals	(105)	(121)	(57)	(18)	-	(301)
At 31 December 2009 and 1 January 2010	3,495	1,167	2,138	188	1,925	8,913
Additions	36	132	471	73	1,577	2,289
Transfer in/(out)	170	234	17	-	(421)	-
Transfer to intangible assets	(59)	-	-	-	-	(59)
Disposals	(8)	(22)	(58)	(19)	-	(107)
At 31 December 2010	**3,634**	**1,511**	**2,568**	**242**	**3,081**	**11,036**
Accumulated depreciation:						
At 1 January 2009	928	404	782	89	-	2,203
Additions	126	173	305	20	-	624
Disposals	(19)	(109)	(53)	(16)	-	(197)
At 31 December 2009 and 1 January 2010	1,035	468	1,034	93	-	2,630
Additions	141	232	373	23	-	769
Transfer to intangible assets	(22)	-	-	-	-	(22)
Disposals	(3)	(22)	(55)	(17)	-	(97)
At 31 December 2010	**1,151**	**678**	**1,352**	**99**	**-**	**3,280**
Net book value:						
At 31 December 2009	2,460	699	1,104	95	1,925	6,283
At 31 December 2010	**2,483**	**833**	**1,216**	**143**	**3,081**	**7,756**

Fixed assets were stated at cost less provision for impairment losses as at 31 December 2010. After comparing with the recoverable amount of properties in the same location, management considers that the provision for impairment losses on properties and buildings as at 31 December 2010 is RMB3 million (31 December 2009: RMB3 million).

All the properties and buildings of the Group are located in Mainland China. Included in properties and buildings are costs amounting to RMB103 million, which legal ownership registration procedures were not yet completed as at 31 December 2010 (31 December 2009: RMB124 million).

24. INTANGIBLE ASSETS

The Group and the Company	Operation rights and customer relationships	Other individually purchased intangible assets	Total
Cost:			
At 1 January 2009	447	151	598
Additions	-	41	41
At 31 December 2009 and 1 January 2010	447	192	639
Additions	-	42	42
Transferred from fixed assets	-	59	59
At 31 December 2010	**447**	**293**	**740**
Accumulated amortisation:			
At 1 January 2009	177	70	247
Amortisation (Note 7)	45	24	69
At 31 December 2009 and 1 January 2010	222	94	316
Amortisation (Note 7)	45	38	83
Transferred from fixed assets	-	22	22
At 31 December 2010	**267**	**154**	**421**
Net book value:			
At 31 December 2009	225	98	323
At 31 December 2010	**180**	**139**	**319**

25. OTHER ASSETS

	31-12-2010		31-12-2009
	The Group	The Company	The Group and the Company
Interest receivables	6,655	6,649	4,490
Settled assets	665	665	636
Clearing accounts	1,512	1,512	696
Precious metals	685	685	126
Continuing involvement of credit assets (a)	881	881	1,346
Receivables on selling Industrial Securities	563	563	563
Deferred expenses	235	235	169
Prepayment of purchasing Union Trust	221	221	221
Prepayment of purchasing assets for leasing	1,148	-	-
Others	559	559	579
	13,124	**11,970**	**8,826**
Less: Provisions for other assets (b)	(243)	(243)	(240)
	12,881	**11,727**	**8,586**

(a) This represented part of the wealth management products issued by the Group, which the Group had neither retained nor transferred all risks and rewards of the ownership of the transferred assets, but retains control of the transferred assets. The Group recognised the related assets and associated liabilities based on the degree of continuing involvement (Note 16).

(b) Provision for other assets

The Group and the Company	Settled assets	Others	Total
At 1 January 2010	117	123	240
Charge for the year	2	4	6
Transfer out	(2)	(1)	(3)
At 31 December 2010	**117**	**126**	**243**
At 1 January 2009	122	181	303
Charge for the year	2	(49)	(47)
Transfer out	(7)	(9)	(16)
At 31 December 2009	**117**	**123**	**240**

26. DUE TO AND PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31-12-2010		31-12-2009
	The Group	The Company	The Group and the Company
Deposits:			
Domestic banks and financial institutions	417,655	418,386	237,013
Placements:			
Domestic banks and financial institutions	25,877	18,338	1,763
Foreign banks and financial institutions	260	260	-
	26,137	18,598	1,763
	443,792	**436,984**	**238,776**

27. REPURCHASE AGREEMENTS

	The Group and the Company	
	31-12-2010	31-12-2009
Analysed by collateral:		
Bills	68,658	15,001
Bonds	20,927	30,269
Loans	-	640
	89,585	**45,910**

28. CUSTOMER DEPOSITS

	The Group and the Company	
	31-12-2010	31-12-2009
Corporate and personal demand deposits	553,039	456,298
Corporate and personal time deposits	495,167	373,398
Deposits pledged as collateral	83,516	70,304
Fiscal deposits	25	8
Remittances	1,020	876
	1,132,767	**900,884**

29. BONDS ISSUED

The Group and the Company	Issuing period	Interest commence-ment date	Term (year)	Interest rate (%)	31-12-2010	31-12-2009
Financial bonds						
06Xingye01(i)	31/03/2006-06/04/2006	06/04/2006	5	2.98	5,000	5,000
06Xingye03(ii)	15/12/2006-19/12/2006	19/12/2006	5	3.45	8,000	8,000
06Xingye03(ii)	15/12/2006-19/12/2006	19/12/2006	10	3.75	8,000	8,000
07Xingye01(iii)	27/03/2007-29/03/2007	29/03/2007	3	3.58	-	6,999
07Xingye02(iii)	27/03/2007-29/03/2007	29/03/2007	5	3.78	6,994	6,991
07Xingye03(iii)	27/03/2007-29/03/2007	29/03/2007	5	(iv)	4,997	4,995
08Xingye01(v)	07/08/2008-11/08/2008	11/08/2008	3	5.32	5,650	5,648
08Xingye02(v)	07/08/2008-11/08/2008	11/08/2008	3	(vi)	5,260	5,257
08Xingye03(v)	07/08/2008-11/08/2008	11/08/2008	5	(vii)	4,074	4,072
					47,975	**54,962**
Subordinated bonds						
Callable fixed rate(viii)	09/09/2009-11/09/2009	11/09/2009	10	(ix)	1,999	1,998
Callable fixed rate(viii)	09/09/2009-11/09/2009	11/09/2009	15	(x)	7,969	7,968
Callable fixed rate(xi)	29/03/2010-30/03/2010	30/03/2010	15	(xii)	2,992	-
					12,960	**9,966**
Hybrid Bonds						
06Xingye02 (fixed)(xiii)	28/09/2006-29/09/2006	29/09/2006	15	(xiv)	3,000	3,000
06Xingye02 (floating)(xiii)	28/09/2006-29/09/2006	29/09/2006	15	(xv)	1,000	1,000
					4,000	**4,000**
					64,935	**68,928**

(i) The issuance of financial bonds amounting to RMB5 billion was approved by the PBOC and the China Banking Regulatory Commission (the "CBRC") according to PBOC approval of the issuance of financial bonds for Industrial Bank Co., Ltd. (Yin Fu [2005] No. 77) and CBRC approval of the issuance of financial bonds for Industrial Bank Co., Ltd. (Yin Jian Fu [2005] No. 253).

(ii) The issuance of the financial bonds totalling RMB16 billion was approved by the PBOC (Yin Shi Chang Xu Zhun Yu Zi [2006] No. 22) and the CBRC (Yin Jian Fu [2006] No. 345).

(iii) The issuance of the financial bonds totalling RMB19 billion was approved by the PBOC (Yin Shi Chang Xu Zhun Yu Zi [2006] No. 22) and the CBRC (Yin Jian Fu [2006] No. 345).

(iv) The floating rate of the bond is the benchmark interest rate, plus an interest margin of 0.65%. The benchmark rate is the PBOC one-year fixed deposit rate at the issuance date or repricing date.

(v) The issuance of the financial bonds totalling RMB15 billion was approved by the PBOC (Yin Shi Chang Xu Zhun Yu Zi [2008] No. 24) and the CBRC (Yin Jian Fu [2008] No. 187).

(vi) The floating rate of the bond is the benchmark interest rate, plus an interest margin of 1.05%. The benchmark rate is the PBOC one-year fixed deposit rate at the issuance date or repricing date.

(vii) The floating rate of the bond is the benchmark interest rate, plus an interest margin of 1.25%. The benchmark rate is the PBOC one-year fixed deposit rate at the issuance date or repricing date.

(viii) The issuance of the subordinated bonds totalling RMB10 billion was approved by the PBOC (Yin Shi Chang Xu Zhun Yu Zi [2009] No. 54) and the CBRC (Yin Jian Fu [2009] No. 260). The Company has the right to redeem the callable bonds at the end of 5 years and 10 years for the 10-year and 15-year category respectively without the consent of the bond holders.

(ix) The interest rate of the fixed rate bond is 4.30% per annum (the initial rate) for the first 5 years. If the Company does not exercise its redemption right by the end of the fifth year, the interest rate will be increased by 3% compared with the initial rate from the sixth year onward.

(x) The interest rate of the fixed rate bond is 5.17% per annum (the initial rate) for the first 10 years. If the Company does not exercise its redemption right by the end of the tenth year, the coupon rate will be increased by 3% compared with the initial rate from the eleventh year onward.

(xi) The issuance of the subordinated bonds totalling RMB3 billion was approved by the PBOC (Yin Shi Chang Xu Zhun Yu Zi [2010] No. 15) and the CBRC (Yin Jian Fu [2004] No. 209).

(xii) The interest rate for the first year to the tenth year is 4.80% per annum. If the Company does not exercise the option, the interest rate will be increased by 3% for the eleventh year onward.

(xiii) The term of the hybrid bond contract is 15 years. The Company has an option to fully redeem the bonds at par value from the tenth year to the maturity date, subject to CBRC approval. The Company does not require consent from the holders of the bonds before exercising the redemption option.

(xiv) The interest rate for the first year to the tenth year is 4.94% per annum. If the Company does not exercise the option, the interest rate will be increased by 2.8% for the eleventh year onward.

(xv) The floating rate of the bond is the benchmark interest rate, plus an interest margin of 1.82%. The benchmark rate is the PBOC one-year fixed deposit rate at the issuance date or the repricing date. If the Company does not exercise this option to redeem the bonds by the tenth year, the interest margin will be increased by 1% for the eleventh year onward.

30. OTHER LIABILITIES

	31-12-2010		31-12-2009
	The Group	The Company	The Group and the Company
Interest payable	8,591	8,576	5,732
Tax payable	3,486	3,479	2,264
Salaries and welfare payables (a)	4,545	4,533	4,177
Bank promissory notes	152	152	481
Dividends payable	4	4	3
Clearing accounts	1,823	1,823	1,018
Continuing involved liabilities	881	881	1,346
Wealth management payable	1,751	1,751	-
Leasing secured deposit	785	-	-
Others	1,899	1,677	1,404
	23,917	**22,876**	**16,425**

(a) Supplementary retirement benefits

The Company has established "Corporate Pension Plan" (the "Pension") to provide supplementary retirement benefits to employees. The Pension includes public account as a replenishment to the individual account balance where the accumulative balance is less than the standard retirement amount, the difference will be supplemented through public account at the year of retirement.

The Company's obligations in respect of the supplementary retirement benefits at the end of the reporting period were reviewed by an independent actuary, Towers Watson Consulting Co., Ltd., Shanghai, whose actuaries are members of the Society of Actuaries of the United States of America, using the projected unit credit method.

According to the actuarial report, the actuarial present value of the defined benefit obligations as at the end of the reporting period is RMB902 million (31 December 2009: RMB568 million), and the plan assets at fair value are RMB1,221 million (31 December 2009: RMB985 million).

(i) Movements of the actuarial present value of the defined benefit obligations are as follows:

	2010	2009
Present value at beginning of year	568	756
Current service cost without interest	70	89
Current interest cost	28	24
Actual payment	(27)	(28)
Actuarial loss/(gain)	263	(273)
Present value at end of year	**902**	**568**

(ii) Movements of the plan assets at fair value are as follows:

	2010	2009
Fair value at beginning of year	985	726
Actual contributions to the plan	195	223
Expected return on plan assets	54	25
Actual payment	(27)	(29)
Actuarial loss	14	40
Fair value at end of year	**1,221**	**985**

(iii) Principal actuarial assumptions are as follows:

	31-12-2010	31-12-2009
Discount rate	4.00%	4.00%
Employee salary increase rate	4.00%	4.00%
Employee turnover rate		
Employee retired within 5 years	6.50%	8.00%
Employee retired above 5 years	-	8.00%

31. SHARE CAPITAL

	31-12-2010	31-12-2009
Registered (par value: RMB1)	5,992	5,000
Issued and fully paid (par value: RMB1)	5,992	5,000

As approved by the CSRC (Zheng Jian Xu Ke [2010] No. 586) on 6 May 2010, the Company has offered right issue to all the shareholders by the allotment of 2 shares for every 10 shares. On 2 June 2010, 992 million shares were issued at the issuance price of RMB18.00 per share through this right issuance exercise. The funds raised were amounted to RMB17.86 billion and were verified by Fujian Huaxing CPA Co., Ltd. on 2 June 2010 (Min Hua Xing Suo [2010] Yan Zi G-003). The registered share capital of the Company was RMB5,992 million after the allotment.

32. CAPITAL RESERVES

Capital reserves mainly include the premium price from initial offerings and right issue. As approved by the CSRC (Zheng Jian Xu Ke [2010] No. 586) on 6 May 2010, the Company has offered right issue to all the shareholders by the allotment of 2 shares for every 10 shares. On 2 June 2010, 992 million shares were issued at the issuance price of RMB18.00 per share through this right issuance exercise. The funds raised were amounted to RMB17.86 billion and were verified by Fujian Huaxing CPA Co., Ltd. on 2 June 2010 (Min Hua Xing Suo [2010] Yan Zi G-003). The total premium of this rights issue exercise were amounted to RMB16,699 million.

33. SURPLUS RESERVES

Pursuant to the Company's articles of association and the relevant accounting standards and regulations of the PRC, the Company shall make appropriations to the surplus reserves, including the statutory surplus reserve and the discretionary surplus reserve, at a certain percentage of the Company's net profit. A minimum of 10% of the net profit arrived at under the PRC accounting standards and relevant regulations should be appropriated to the statutory surplus reserves should be appropriated at. The statutory surplus reserve can be used to compensate the accumulated losses or transfer to paid-in capital, upon approval of the shareholders. Appropriations to the discretionary surplus reserve are to be determined by the shareholders.

33. SURPLUS RESERVES *continued*

Pursuant to the Corporate Law, the Company may appropriate up to 50% of the registered or paid-in capital to the statutory surplus reserves. Pursuant to the resolution passed in the 3rd Session of the 7th Board of Directors' meeting held on 25 March 2011, on the 2010 profit appropriation plan of the Company, no appropriations of the statutory surplus reserve were made by the Company for the year.

34. GENERAL RESERVE

According to the relevant regulations of the MOF, the Company should set aside a certain percentage of its general reserve through profit appropriation. Pursuant to the resolution passed in the 21st Session of the 6th Board of Directors' meeting held on 2 March 2010, the directors appropriated RMB1,720 million to the general reserve as at 31 December 2009. The resolution was approved at the 2009 annual general meeting of shareholders held on 26 March 2010.

Pursuant to the resolution passed in the 3rd Session of the 7th Board of Directors' meeting held on 25 March 2011, the directors appropriated RMB1,836 million to the general reserve as at 31 December 2010.

35. RETAINED EARNINGS

According to the PRC Company Law and the Company's articles of association, the profit can be distributed to the shareholders after (1) fulfilling all tax liabilities, (2) compensating any accumulated losses, (3) making appropriation to the statutory surplus reserve and the general reserve and (4) making appropriation to the discretionary surplus reserve. The percentages of the general reserve and surplus reserves that are used in appropriation are decided by the Company's Board of Directors with reference to the relevant regulations.

As stated in note 2.1, these financial statements are prepared under IFRSs. These financial statements are not the statutory financial statements of the Company and are prepared for supplementary purposes only. According to the relevant regulations, the profits distributable to shareholders are based on the statutory financial statements prepared under the PRC accounting standards and regulations, but not on these financial statements prepared under IFRSs.

Profit distribution is decided at the annual general meeting of shareholders of the Company, with reference to the operating results, financial status and other relevant factors.

36. DIVIDENDS

Pursuant to the resolution passed in the 21st Session of the 6th Board of Directors meeting held on 2 March 2010, a final dividend of RMB5 per 10 shares was proposed. The total dividends of RMB2,500 million were approved at the 2009 annual general meeting of shareholders on 26 March 2010.

Pursuant to the resolution passed in the 3rd Session of the 7th Board of Directors' meeting held on 25 March 2011, increase share capital by surplus converting surplus reserve in the proportion of 8 bonus shares for every 10 shares held and a final dividend of RMB4.6 per 10 shares was proposed. The total dividends of RMB2,757 million are subject to approval of shareholders in the 2010 annual general meeting and have not yet been recognised as liability as at 31 December 2010.

37. COMMITMENTS

The Group and the Company

(a) Capital commitments

	31-12-2010	31-12-2009
Approved, but not contracted for	304	118
Contracted, but not provided for	469	529
	773	**647**

(b) Operating lease commitments

At the end of the reporting period, the Group had total future minimum lease payments in respect of non-cancellable operating leases falling due as follows:

	31-12-2010	31-12-2009
Within one year	853	728
In the second to fifth years, inclusive	2,496	2,131
After five years	1,152	1,137
	4,501	**3,996**

38. LOAN COMMITMENTS AND CONTINGENT LIABILITIES

The Group and the Company

	31-12-2010	31-12-2009
Bank acceptances	186,366	131,401
Irrevocable letters of credit issued	18,026	5,906
Guarantees issued	11,000	7,733

The Group grants credit facilities to certain customers. However, in the opinion of the management, the Group is not committed to the undrawn credit facilities and they are all revocable at the discretion of the Group.

39. FIDUCIARY TRANSACTIONS

The Group and the Company

	31-12-2010	31-12-2009
Entrusted loans	44,510	36,286
Entrusted deposits	44,510	36,286
Fiduciary wealth management assets	163,310	113,658
Fiduciary wealth management funds	163,310	113,658

Entrusted deposits represent funds which depositors have instructed the Group to use to grant loans to third parties designated by them. The credit risk remains with the depositors.

In the fiduciary wealth management business, the Group acts in a fiduciary capacity as a custodian or as an agent for customers and is responsible for running and managing customers' assets. Fiduciary wealth management funds represent the funds that the Group obtained from customers while fiduciary wealth management assets represent the investment sum that the Group invests using entrusted funding from its customers.

40. CONTINGENT LIABILITIES

The Group and the Company

(a) Legal proceedings

As at 31 December 2010, the pending legal proceedings against the Company or its branches involved claims amounting to RMB13 million (2009: RMB75 million). In the opinion of the management, the Group has made adequate allowance for any probable losses based on the current facts and circumstances.

(b) Redemption commitments of government voucher type bonds and electronic government bonds

As an underwriting agent of the PRC government, the Group underwrites the PRC government voucher type bonds and electronic government bonds, and sells the bonds to the general public. The Group is obliged to redeem these bonds at the discretion of the holders. As at 31 December 2010, the Group has sold bonds with an accumulated amount of RMB5,329 million (31 December 2009: RMB5,011 million) to the general public that have not yet matured and have not been redeemed. Management expects that the early redemption amount of government bonds through the Group before maturity will not be material.

41. ASSETS PLEDGED AS SECURITY

As at 31 December 2010, the assets of the Group which have been pledged for the repurchase agreements were as follows:

The Group and the Company

	31-12-2010	31-12-2009
Bonds	21,089	30,428
Reverse repurchase bills	68,235	12,385
Loans	-	1,283
Bills	423	2,616
	89,747	**46,712**

As at 31 December 2010, bonds amounting to RMB2 million (31 December 2009: RMB6 million) have been pledged for derivative transactions.

As at 31 December 2010, no bonds (31 December 2009: RMB6,502 million) have been pledged for time deposits from commercial banks at the state treasury for cash management.

As at 31 December 2010, bills amounting to RMB365 million (31 December 2009: RMB40 million) have been pledged for borrowings from the Central Bank.

42. RELATED PARTY TRANSACTIONS

(a) Shareholders and related company

The Company does not have a controlling shareholder. Shareholders and related company mentioned below refer to those holding more than 5% of the Company's shares.

Name	Relationship
Fujian Finance Bureau	Shareholders with shareholdings greater than 5%
Hang Seng Bank Co., Ltd.	Shareholders with shareholdings greater than 5%
Hang Seng Bank (China) Co., Ltd.	Related company of shareholders with shareholdings greater than 5%

Related party transactions with shareholders more than 5% of the Company's shares and their related companies holding are as follows:

	2010 (RMB'000)	2009 (RMB'000)
Interest income	1,608	2,181
Interest expense	87,748	49,563

	31-12-2010 (RMB'000)	31-12-2009 (RMB'000)
Due from and placements with banks and other financial institutions	109,648	108,532
Due to and placements from banks and other financial institutions	505,015	11,168
Customer deposits	10,562,348	7,614,910
Other receivables	563,268	563,268
Interest rate derivative contracts	1,375,000	-
Foreign exchange derivative contracts	1,463,058	205,090

(b) Related party transactions with other companies upon which key executives have controlling or significant influence are as follows:

	2010 (RMB'000)	2009 (RMB'000)
Interest income	2,714	27,739
Interest expense	367	2,767

	31-12-2010 (RMB'000)	31-12-2009 (RMB'000)
Due from banks	3,751	3,662
Customer deposits	1,011,644	65,435

42. RELATED PARTY TRANSACTIONS *continued*

(c) Related party transactions between the Company and its key executives and their family members are as follows:

	2010 (RMB'000)	2009 (RMB'000)
Interest income	343	291
Interest expense	51	75

	31-12-2010 (RMB'000)	31-12-2009 (RMB'000)
Loans	9,256	2,620
Deposits	24,076	27,138

Related party borrowings are negotiated on commercial terms. Borrowers are requested to provide guarantees and collateral according to their financial conditions. Loan interest is calculated based on the market interest rate set by the PBOC.

(d) Key management personnel remuneration

The key management personnel are those persons who have the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including members of the supervisory board, directors and other senior officers.

	2010 (RMB'000)	2009 (RMB'000)
Salaries and other short-term employee benefits	28,579	19,726
Post-employment benefits	1,435	1,727

43. SEGMENT INFORMATION

The Group manages its operation primarily based on geographical areas. The Group mainly operates in Mainland China with branches located in major provinces, autonomous regions and municipalities. The principal business activities of each segment include accepting deposits, loans granting and interbank lending and borrowing. The majority of the transactions between different segments are interbranch lending and borrowing, which are priced according to the average cost of capital and recorded in each segment's operating results accordingly.

The Group manages its operation by geographical area as follow:

2010	Head office	Fujian	Beijing	Shanghai	Guangdong	Zhejiang	Jiangsu	Others	Eliminations	**Total**
Total interest income	1,847	5,728	3,418	3,383	4,020	2,804	2,129	14,703	-	**38,032**
Net intersegments interest income/(expenses)	(5,069)	927	1,361	1,011	1,205	(63)	254	374	-	**-**
Net fee and commission income	1,266	331	354	679	562	178	278	1,153	-	**4,801**
Other income/(expenses), net	409	54	(103)	94	(235)	7	11	110	-	**347**
Operating income	3,522	6,113	3,669	4,156	4,347	2,989	2,418	15,966	-	**43,180**
Staff costs	(960)	(1,062)	(489)	(503)	(566)	(390)	(313)	(2,031)	-	**(6,314)**
General and administrative expenses	(1,089)	(698)	(433)	(388)	(768)	(540)	(421)	(2,586)	-	**(6,923)**
Depreciation	(140)	(130)	(26)	(45)	(75)	(67)	(32)	(254)	-	**(769)**
Business tax and surcharges	(236)	(395)	(212)	(210)	(314)	(276)	(159)	(1,113)	-	**(2,915)**
Provision for loan losses	(60)	(215)	(114)	(59)	(417)	(131)	(216)	(1,009)	-	**(2,221)**
Provision for impairment of other assets	2	-	(10)	(7)	(2)	(2)	(1)	(102)	-	**(122)**
Share of profits and losses of associate	89	-	-	-	-	-	-	-	-	**89**
Profit before income tax	1,128	3,613	2,385	2,944	2,205	1,583	1,276	8,871	-	**24,005**
Loans	11,548	132,336	56,101	62,948	90,264	77,180	47,730	376,232	-	**854,339**
Total assets	671,889	209,723	145,816	169,556	213,545	114,428	103,462	675,987	(454,733)	**1,849,673**
Total liabilities	(602,575)	(206,134)	(143,497)	(166,686)	(211,432)	(112,861)	(102,194)	(665,161)	452,862	**(1,757,678)**
Capital expenditure	2,593	172	42	47	297	145	543	509	(2,000)	**2,348**
Credit commitments	-	21,829	4,284	6,519	21,742	27,865	22,018	111,135	-	**215,392**

43. SEGMENT INFORMATION *continued*

Geographical information mainly shows the eight largest geographical areas of the Company:

2009	Head office	Fujian	Beijing	Shanghai	Guangdong	Zhejiang	Jiangsu	Others	Eliminations	**Total**
Total interest income	1,274	4,689	2,483	2,710	2,710	2,407	1,438	9,491	-	**27,202**
Net intersegments interest income/(expenses)	(4,817)	976	1,517	1,501	993	168	(183)	(155)	-	**-**
Net fee and commission income	887	232	375	522	393	110	57	540	-	**3,116**
Other income/(expenses), net	459	778	(3)	40	(103)	(10)	4	16	-	**1,181**
Operating income	2,620	5,699	2,855	3,272	3,000	2,507	1,499	10,047	-	**31,499**
Staff costs	(1,312)	(903)	(357)	(437)	(450)	(341)	(185)	(1,200)	-	**(5,185)**
General and administrative expenses	(963)	(615)	(353)	(410)	(683)	(466)	(299)	(1,876)	-	**(5,665)**
Depreciation	(136)	(110)	(22)	(40)	(54)	(57)	(23)	(182)	-	**(624)**
Business tax and surcharges	(171)	(347)	(168)	(197)	(247)	(263)	(128)	(800)	-	**(2,321)**
Provision for loan losses	(75)	137	(75)	22	218	(5)	(164)	(617)	-	**(559)**
Provision for impairment of other assets	71	(7)	-	1	(20)	(2)	-	(2)	-	**41**
Share of profits and losses of associate	43	-	-	-	-	-	-	-	-	**43**
Profit before income tax	77	3,854	1,880	2,211	1,764	1,373	700	5,370	-	**17,229**
Loans	15,273	106,333	49,203	54,977	77,321	69,253	39,111	290,127	-	**701,598**
Total assets	464,776	158,391	130,557	148,677	157,567	81,573	66,644	418,223	(294,246)	**1,332,162**
Total liabilities	(421,090)	(154,771)	(128,760)	(146,476)	(155,976)	(80,440)	(65,994)	(413,304)	294,246	**(1,272,565)**
Capital expenditure	517	144	144	22	207	101	53	540	-	**1,728**
Credit commitments	-	13,258	2,033	4,007	13,630	21,417	14,369	76,326	-	**145,040**

44. FINANCIAL INSTRUMENT RISK POSITION

The Group principally accepts deposits with fixed or floating rates at various terms, and uses the funds obtained for investments or granting loans to make profit. The Group will encounter different types of risks during this process. The Risk Management Committee of the Board of Directors is responsible for the overall risk management of the Group. In year 2009, the Board of Directors of the Group promulgated risk management strategy and a series of risk management policies, which clearly stated the Group's risk preference and its short-term risk management target before 2014, as well as the implementation approaches, management procedures, risk culture and etc. The Group has set up the overall risk management system. The Board of Directors of the Group will review risk assessment report periodically on the major risks the Company exposes to, and suggest and plan according to macroeconomic trend, policies, regional economy and etc. Description and analysis of the major risks faced by the Group are as follows:

(1) Credit risk

Credit risk is the risk of loss from default by an obligor or counterparty when payments fall due.

Credit risk is often greater when counterparties are concentrated in a single industry or geographical location or have common economic characteristics.

The Group operates its lending business in Mainland China only. Major items not included in the statement of financial position such as bank acceptance are due from domestic enterprises. However, there are different economic development characteristics in different regions of China, and credit risks are therefore different. For the geographical concentration of the loan portfolio and major items not included in the statement of financial position, please refer to note 43. For the analysis of the concentration of loans by industry, please refer to note 16(a).

The credit risk of the Group mainly comes from loans, placements, bond investments, bank acceptances, letters of credit, letters of guarantee, etc. The Group manages and controls credit risk according to the following processes: customer investigation before granting of credit limits, loan review and approval and post-disbursement loan monitoring and collection.

The management of credit risk is mainly the responsibility of Risk Management Department and Credit Approval Department. These departments are responsible for the following duties: drafting credit risk management policies and operating manuals; developing risk management technology and the application of risk management tools; monitoring credit risk and inspection and supervision, etc.

The Credit Control Department has four regional credit control sub-centres, including Beijing, Shanghai, Guangzhou and Fujian. The regional credit control sub-centres centrally review and approve loan applications submitted by the relevant branches. In addition, the Company also sets up several specialised committees such as the Credit Approval Committee and Credit Accountability Committee. The former is responsible for the review and approval of the credit related business within its authority. The latter is responsible for determining the responsibility of the credit related business.

The Company has established a set of standard processes on the approval and management of the credit related business. The management process of corporate and retail loans can be separated into the following segments: investigation, review, approval, loan disbursement, post-disbursement loan monitoring and collection. In addition, the Company has the credit policy to distinguish the responsibility of every segment of the credit management process so as to control the credit risk effectively and strengthen the monitoring of credit compliance works.

The Company has established guidance to manage the investing industries of the credit business. According to the principles of "serve the right clients", "support and limit credit in different areas", "optimize the structure of clients and credit assets" and "smooth development", the Company has appropriately increased its share in industries supported by government strategy and well-developed industries. The Company will also analyse and decide for the increase or decrease of investment in mature or weakening capacity industries.

44. FINANCIAL INSTRUMENT RISK POSITION *continued*

(1) Credit risk *continued*

The Company carries out investigation of the borrowers' background by "two-person" principle so as to obtain and verify the operating information of clients in different business environments of different industries, and from different geographic areas.

The Company has established the Obligor Credit Management rules, according to the principles of "centralized assessment", "distinguishing method", "adequate distribution" and "periodic adjustment" for the credit limits grant to obligor. The Company also established Rules for Group Clients' Credit Business, which require unified management of the Group's clients and related parties in terms of credit granting and demand selection of projects with solid assets and stable cash flows, so as to determine the general credit limit based on client's risk rating and risk bearing ability of the Company.

The Company has set up the Obligor Credit Rating System to make comprehensive and systematic investigation for factors that affect the solvency ability of the borrowers. The system identifies and assesses the credit risk and repayment ability based on qualitative and quantitative analyses. The credit rating assessment result is an important basis for setting up the credit business policies and adjusting and improving the structures and individual customer's risk related business policies. The Company is in the process of developing and establishing internal assessment system according to the BASEL III and instructions from the CBRC. The system is estimated to be introduced in 2011 to enhance the risk identification, measurement and control capability of the Company.

The Company assesses risk rating according to potential loss for risk related business. The assessment would regard related major factors as relevant parameters, so that the potential loss can be measured comprehensively. Reference is made to the assessment result for credit investigation and approval, and reward and risk balancing decisions.

The Company has established draw-down rules and draw-down centers with adequate staffing to enhance the independent control over draw-down process by strictly reviewing the legal terms of the contracts and standardizing the draw-down process.

The Company has established the credit risk alert management policy to strengthen the post-disbursement loan monitoring procedure. The Company will obtain various information through internal and external sources, and report, prevent and minimize the risks on a bank wide basis. The Company also developed the Credit Management Information System to perform dynamic monitoring, real time precaution and pre-events control on the business operation of borrowers and credit assets of the Company to ensure that credit risks are detected and prevented timely.

By increasing different quantum level, the Company improves the quantum control over loans of different industries by reinforcing risk alert system of critical areas such as government financing platforms. The Company strengthens the alert control over credit risks by performing periodic reviews of the industrial KPIs in order to optimizing the loan structure of the Company, to allocate credit quantum to high quality clients and to prevent from over-centralization of credit quantum in specified industries.

The Company has established the credit assets risk classification standard and related Implementation Policies to adequately identify the risk status of credit assets, to appropriately reflect the reward of adjusted risk, to optimize the capital and resources allocation, and to strengthen risk consciousness of business units. The Company also performed credit asset classification deviation check to enhance the accuracy of the classification of credit assets. Based on the five-tier classification policy established by CBRC, the Company classified credit assets into nine tiers, which are Pass 1, Pass 2, Pass 3, Special Mention 1, Special Mention 2, Special Mention 3, Substandard, Doubtful and Loss. For the different tiers, the Company adopted different management policies and made provisions correspondingly.

The Company has centralized the management of the non-performing loans. For risk-exposed items, immediate action will be taken with various settling methods for different cases to improve the efficiency and effectiveness of settling non-performing loans.

Collateral

The amount and type of collateral required depend on the assessment of the credit risk of the counterparty. The pledge rate depends on the credit information, operation and management, and financial position of pledgors, the condition of collateral, the market price, the pledged periods, and the convertibility of collateral. In addition, the Collateral Guideline of the Company set an upper limit of the pledged rate. Furthermore, the Company classifies and manages collateral by the difficulty of appraisal and management, the stability of market price and the convertibility of collateral.

Following are the main types of collateral:

* For reverse repurchase agreements, collateral mainly includes bills, loans and securities

* For commercial loans, collateral mainly includes land, properties, equipment and shares, etc.

* For retail loans, collateral mainly includes properties

The management will monitor the market value of the collateral periodically and ask the borrowers to increase collateral if necessary according to the agreements.

The Company disposed of repossessed assets in an orderly way. Proceeds from disposal are used to offset against the outstanding loans. Normally, the Company does not use repossessed assets for commercial purposes.

The book value of the repossessed assets the Group obtained during 2010 amounted to RMB82 million (2009: RMB71 million), which mainly included land, properties and equipment.

The maximum credit risk exposure without consideration of any collateral and other credit enhancements.

As at the end of the reporting period, the maximum credit risk exposure of the Group without taking account of any collateral and other credit enhancements was set out below:

44. FINANCIAL INSTRUMENT RISK POSITION *continued*

(1) Credit risk *continued*

	31-12-2010		31-12-2009
	The Group	The Company	The Group and the Company
Balances with the Central Bank	285,073	285,073	169,000
Due from banks and other financial institutions	60,967	60,967	56,049
Financial assets at fair value through profit or loss	5,537	5,537	3,363
Derivative assets	2,301	2,301	1,399
Reverse repurchase agreements	374,005	374,005	195,884
Loans	842,568	842,568	691,963
Finance leasing receivables	8,693	-	-
Available-for-sale financial assets	147,202	147,202	111,062
Held-to-maturity investments	34,290	34,290	42,225
Loan and receivable investments	61,321	61,321	40,786
Other financial assets	11,345	10,191	7,711
	1,833,302	**1,832,455**	**1,319,442**
Bank acceptances	186,366	186,366	131,401
Irrevocable letters of credit issued	18,026	18,026	5,906
Guarantees issued	11,000	11,000	7,733
	215,392	**215,392**	**145,040**
Maximum credit risk exposure	**2,048,694**	**2,038,847**	**1,464,482**

The credit quality by class of financial assets of the Group is analyzed as follows:

	31-12-2010				**Total**
	Neither past due nor impaired		Past due but not impaired	Impaired	
	High quality	Standard quality			
Balances with the Central Bank	285,073	-	-	-	**285,073**
Due from banks and other financial institutions	60,967	-	-	138	**61,105**
Financial assets at fair value through profit or loss	5,537	-	-	-	**5,537**
Derivative financial assets	2,301	-	-	-	**2,301**
Reverse repurchase agreements	374,005	-	-	-	**374,005**
Loans	844,073	5,355	1,295	3,616	**854,339**
Finance leasing receivables	8,792	-	-	-	**8,792**
Available-for-sale financial assets	147,202	-	-	-	**147,202**
Held-to-maturity investments	34,290	-	-	132	**34,422**
Loan and receivable investments	61,344	-	-	-	**61,344**
Other assets	11,398	-	-	73	**11,471**
Total	**1,834,982**	**5,355**	**1,295**	**3,959**	**1,845,591**

	31-12-2009				
	Neither past due nor impaired		Past due but	Impaired	Total
	High quality	Standard quality	not impaired		
Balances with the Central Bank	169,000	-	-	-	**169,000**
Due from banks and other financial institutions	56,049	-	-	138	**56,187**
Financial assets at fair value through profit or loss	3,363	-	-	-	**3,363**
Derivative financial assets	1,399	-	-	-	**1,399**
Reverse repurchase agreements	195,884	-	-	-	**195,884**
Loans	689,704	6,657	1,267	3,969	**701,597**
Available-for-sale financial assets	111,062	-	-	-	**111,062**
Held-to-maturity investments	42,225	-	-	137	**42,362**
Loan and receivable investments	40,792	-	-	-	**40,792**
Other assets	7,742	-	-	93	**7,835**
Total	**1,317,220**	**6,657**	**1,267**	**4,337**	**1,329,481**

The credit quality by class of financial assets of the Company is analyzed as follows:

	31-12-2010				
	Neither past due nor impaired		Past due but	Impaired	**Total**
	High quality	Standard quality	not impaired		
Balances with the Central Bank	285,073	-	-	-	**285,073**
Due from banks and other financial institutions	60,967	-	-	138	**61,105**
Financial assets at fair value through profit or loss	5,537	-	-	-	**5,537**
Derivative financial assets	2,301	-	-	-	**2,301**
Reverse repurchase agreements	374,005	-	-	-	**374,005**
Loans	844,073	5,355	1,295	3,616	**854,339**
Available-for-sale financial assets	147,202	-	-	-	**147,202**
Held-to-maturity investments	34,290	-	-	132	**34,422**
Loan and receivable investments	61,344	-	-	-	**61,344**
Other assets	10,244	-	-	73	**10,317**
Total	**1,825,036**	**5,355**	**1,295**	**3,959**	**1,835,645**

44. FINANCIAL INSTRUMENT RISK POSITION *continued*

(1) Credit risk *continued*

The credit quality by class of financial assets of the Company is analyzed as follows *continued*:

	31-12-2009				
	Neither past due nor impaired		Past due but	Impaired	**Total**
	High quality	Standard quality	not impaired		
Balances with the Central Bank	169,000	-	-	-	**169,000**
Due from banks and other financial institutions	56,049	-	-	138	**56,187**
Financial assets at fair value through profit or loss	3,363	-	-	-	**3,363**
Derivative financial assets	1,399	-	-	-	**1,399**
Reverse repurchase agreements	195,884	-	-	-	**195,884**
Loans	689,704	6,657	1,267	3,969	**701,597**
Available-for-sale financial assets	111,062	-	-	-	**111,062**
Held-to-maturity investments	42,225	-	-	137	**42,362**
Loan and receivable investments	40,792	-	-	-	**40,792**
Other assets	7,742	-	-	93	**7,835**
Total	**1,317,220**	**6,657**	**1,267**	**4,337**	**1,329,481**

Loans

Impaired loans are the loans with objective evidence of impairment. Impaired loans are defined as those loans having objective evidence of impairment as a result of one or more events that occur after initial recognition and that event has an impact on the estimated future cash flows of loans that can be reliably estimated. These loans include corporate loans and personal loans which are mainly graded as "Substandard", "Doubtful" or "Loss".

The fair value of collateral that related to loans individually determined to be impaired at 31 December 2010 amounted to RMB938 million (31 December 2009: RMB1,120 million). The collateral includes land, properties, equipment and shares.

As at 31 December 2010, loans neither past due nor impaired included Pass and Special Mention loans of RMB849 billion (31 December 2009: RMB696 billion). The management considered that these loans have only normal business risk without objective evidence of impairment.

The ageing analysis of loans past due but not impaired is shown below:

The Group and the Company

	31-12-2010					
	Less than 90 days	Over 90 days to 360 days	Over 360 days to 3 years	More than 3 years	**Total**	Fair value of collateral
Loans	1,295	-	-	-	**1,295**	2,067

	31-12-2009					
	Less than 90 days	Over 90 days to 360 days	Over 360 days to 3 years	More than 3 years	**Total**	Fair value of collateral
Loans	1,267	-	-	-	**1,267**	1,649

The carrying amount of the loans that would otherwise be past due or impaired if not restructured is as follows:

The Group and the Company	31-12-2010	31-12-2009
Loans	244	203

(2) Liquidity risk

The Assets and Liabilities Management Committee of the Company monitors and manages the liquidity risk of the Group. The committee will regularly analyze and discuss the liquidity risk assessment report submitted, and determine the liquidity risk management strategy, the monitoring indicators and the alarming index.

The Group will regularly monitor the surplus reserve ratio, liquidity ratio, loan-to-deposit ratio and set alarming and security limits for each ratio. The Group will also prepare general liquidity analysis report based on liquidity indicators recorded and net cash flow position of assets and liabilities, incorporating also the consideration of macroeconomy and interbank liquidity status. The report is submitted to the Assets and Liabilities Management Committee for assessment. The assessment report will be submitted together with credit risk, liquidity risk and market risk to the Risk Management Committee of the Board of Directors for the analysis of the Group's overall risk assessment to determine the management strategy accordingly.

The Planning and Financial Department is responsible for:

(1) drafting liquidity risk management policies and measures;

(2) monitoring different types of liquidity ratios and exposure indicators. The Planning and Financial Department monitors the liquidity risk ratios monthly by reviewing the assets' and liabilities' structure. If there are any ratios close to or over the alarming limits, the office has to investigate the reasons and make recommendations to adjust the assets' and liabilities' structure accordingly; and

(3) analyzing the liquidity risk and reporting to the Assets and Liability Management Committee regularly.

The Financial Markets Department and the Planning and Financial Department are responsible for the daily operation of the liquidity management. Both departments are responsible for establishing a cash position forecast system at the Company level in order to meet the Company's cash payment needs and assure the liquidity for the business development needs.

Regular key monitoring indicators for liquidity include surplus reserve ratio, liquidity ratio, liquidity gap ratio, long-term assets and liabilities mismatching ratio, financing ratio, loan-to-deposit ratio, etc. The Company set security limits of these indicators. The general liquidity analysis report, which is prepared based on liquidity indicators and cash flow period of assets and liabilities as well as the macroeconomic and interbank liquidity, is submitted to the Board of Risk Management Committee for their deliberation as an integral part of the comprehensive risk management appraisal report. Relevant management measures are formulated accordingly.

44. FINANCIAL INSTRUMENT RISK POSITION *continued*

(2) Liquidity risk *continued*

A maturity analysis of financial assets and liabilities of the Group at the end of the reporting period is as follows:

	2010-12-31							
	Over-due	On Demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	Total
Non-derivative cash flows:								
Financial assets:								
Cash and balances with the Central Bank	-	219,833	22,327	25,856	17,066	80	3,568	**288,730**
Due from and placements with banks and other financial institutions	138	8,192	34,787	17,764	1,020	-	-	**61,901**
Financial assets at fair value through profit or loss	-	-	100	2,029	3,819	208	-	**6,156**
Reverse repurchase agreements	-	-	259,157	96,620	25,602	-	-	**381,379**
Loans	4,820	-	99,986	300,501	365,035	269,220	-	**1,039,562**
Finance leasing receivables	-	-	420	1,255	8,004	1,084	-	**10,763**
Available-for-sale financial assets	-	-	7,531	17,206	104,109	40,251	111	**169,208**
Held-to-maturity investments	-	-	907	10,922	18,539	8,959	-	**39,327**
Loan and receivable investments	-	-	3,329	38,147	16,592	8,804	-	**66,872**
Other financial assets (excluding interest receivable)	10	1,536	818	1,018	1,604	26	-	**5,012**
Total financial assets	**4,968**	**229,561**	**429,362**	**511,318**	**561,390**	**328,632**	**3,679**	**2,068,910**
Financial liabilities:								
Borrowings from the Central Bank	-	-	207	159	-	-	-	**366**
Due to and placements from banks and other financial institutions	-	193,739	197,783	51,431	4,380	-	-	**447,333**
Repurchase agreements	-	-	72,456	17,900	-	-	-	**90,356**
Customer deposits	-	680,974	161,132	186,603	123,157	574	-	**1,152,440**
Bonds issued	-	-	554	25,951	23,224	25,857	-	**75,586**
Other financial liabilities (excluding interest payable)	-	2,690	9,600	1,254	1,317	187	218	**15,266**
Total financial liabilities	**-**	**877,403**	**441,732**	**283,298**	**152,078**	**26,618**	**218**	**1,781,347**
Net none-derivative cash flows	**4,968**	**(647,842)**	**(12,370)**	**228,020**	**409,312**	**302,014**	**3,461**	**287,563**
Derivative cash flows:								
Derivatives settled by net values	-	-	(21)	22	79	(1)	-	**79**
Derivatives settled by total values								
- Cash in	-	-	87,468	67,424	2,244	-	-	**157,136**
- Cash out	-	-	(85,876)	(67,463)	(2,243)	-	-	**(155,582)**
	-	-	1,592	(39)	1	-	-	**1,554**
Credit commitments	**-**	**-**	**116,326**	**94,162**	**4,871**	**33**	**-**	**215,392**

A maturity analysis of financial assets and liabilities of the Group at the end of the reporting period is as follows *continued*:

	2009-12-31							
	Over-due	On Demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	**Total**
Non-derivative cash flows:								
Financial Assets:								
Cash and balances with the Central Bank	-	129,929	14,732	16,484	7,911	-	2,904	**171,960**
Due from and placements with banks and other financial institutions	138	16,869	32,556	6,257	690	-	-	**56,510**
Financial assets at fair value through profit or loss	-	-	90	292	2,973	444	-	**3,799**
Reverse repurchase agreements	-	-	157,748	27,170	13,148	304	-	**198,370**
Loans	4,944	-	92,570	242,873	301,537	207,432	-	**849,356**
Available-for-sale financial assets	-	-	981	8,600	85,438	33,045	161	**128,225**
Held-to-maturity investments	-	-	3,599	12,292	25,717	5,464	-	**47,072**
Loan and receivable investments	-	-	8,960	19,673	12,759	3,018	-	**44,410**
Other financial assets (excluding interest receivable)	6	697	101	1,026	1,488	34		**3,352**
Total financial assets	**5,088**	**147,495**	**311,337**	**334,667**	**451,661**	**249,741**	**3,065**	**1,503,054**
Financial Liabilities:								
Borrowings from the Central Bank	-	-	16	24	-	-	-	**40**
Due to and placements from banks and other financial institutions	-	159,469	60,126	18,856	1,009	-	-	**239,460**
Repurchase agreements	-	-	45,373	669	-	-	-	**46,042**
Customer deposits	-	553,938	135,783	151,345	72,743	1	-	**913,810**
Bonds issued	-	-	7,660	2,031	48,106	23,040	-	**80,837**
Other financial liabilities (excluding interest payable)	-	1,847	6,889	519	1,376	49	-	**10,680**
Total financial liabilities	**-**	**715,254**	**255,847**	**173,444**	**123,234**	**23,090**	**-**	**1,290,869**
Net none-derivative cash flows	**5,088**	**(567,759)**	**55,490**	**161,223**	**328,427**	**226,651**	**3,065**	**212,185**
Derivative cash flows:								
Derivatives settled by net values	-	-	(11)	(3)	66	(3)	-	**49**
Derivatives settled by total values								
- Cash in	-	-	60,314	56,466	1,197	-	-	**117,977**
- Cash out	-	-	(59,502)	(56,511)	(1,196)	-	-	**(117,209)**
	-	-	812	(45)	1	-	-	**768**
Credit commitments	**-**	**-**	**80,668**	**60,434**	**3,862**	**76**	**-**	**145,040**

44. FINANCIAL INSTRUMENT RISK POSITION *continued*

(2) Liquidity risk *continued*

A maturity analysis of financial assets and liabilities of the Company at the end of the reporting period is as follows:

	2010-12-31							
	Over-due	On Demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	Total
Non-derivative cash flows:								
Financial Assets:								
Cash and balances with the Central Bank	-	219,834	22,327	25,856	17,065	80	3,568	**288,730**
Due from and placements with banks and other financial institutions	138	8,192	34,787	17,764	1,020	-	-	**61,901**
Financial assets at fair value through profit or loss	-	-	100	2,029	3,819	208	-	**6,156**
Reverse repurchase agreements	-	-	259,157	96,620	25,602	-	-	**381,379**
Loans	4,820	-	99,986	300,501	365,035	269,220	-	**1,039,562**
Available-for-sale financial assets	-	-	7,531	17,206	104,109	40,251	111	**169,208**
Held-to-maturity investments	-	-	907	10,922	18,539	8,959	-	**39,327**
Loan and receivable investments	-	-	3,329	38,147	16,592	8,804	-	**66,872**
Other financial assets (excluding interest receivable)	10	1,536	796	545	755	26	-	**3,668**
Total financial assets	**4,968**	**229,562**	**428,920**	**509,590**	**552,536**	**327,548**	**3,679**	**2,056,803**
Financial Liabilities:								
Borrowings from the Central Bank	-	-	207	159	-	-	-	**366**
Due to and placements from banks and other financial institutions	-	193,971	198,236	43,728	4,380	-	-	**440,315**
Repurchase agreements	-	-	72,456	17,900	-	-	-	**90,356**
Customer deposits	-	680,974	161,132	186,603	123,157	574	-	**1,152,440**
Bonds issued	-	-	554	25,951	23,224	25,857	-	**75,586**
Other financial liabilities (excluding interest payable)	-	2,690	9,559	1,134	781	58	-	**14,222**
Total financial liabilities	**-**	**877,635**	**442,144**	**275,475**	**151,542**	**26,489**	**-**	**1,773,285**
Net none-derivative cash flows	**4,968**	**(648,073)**	**(13,224)**	**234,115**	**400,994**	**301,059**	**3,679**	**283,518**
Derivative cash flows:								
Derivatives settled by net values	-	-	(21)	22	79	(1)	-	**79**
Derivatives settled by total values								
- Cash in	-	-	87,468	67,424	2,244	-	-	**157,136**
- Cash out	-	-	(85,876)	(67,463)	(2,243)	-	-	**(155,582)**
	-	-	1,592	(39)	1	-	-	**1,554**
Credit commitments	**-**	**-**	**116,326**	**94,162**	**4,871**	**33**	**-**	**215,392**

A maturity analysis of financial assets and liabilities of the Company at the end of the reporting period is as follows *continued*:

	2009-12-31							
	Over-due	On Demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	Total
Non-derivative cash flows:								
Financial Assets:								
Cash and balances with the Central Bank	-	129,929	14,732	16,484	7,911	-	2,904	**171,960**
Due from and placements with banks and other financial institutions	138	16,869	32,556	6,257	690	-	-	**56,510**
Financial assets at fair value through profit or loss	-	-	90	292	2,973	444	-	**3,799**
Reverse repurchase agreements	-	-	157,748	27,170	13,148	304	-	**198,370**
Loans	4,944	-	92,570	242,873	301,537	207,432	-	**849,356**
Available-for-sale financial assets	-	-	981	8,600	85,438	33,045	161	**128,225**
Held-to-maturity investments	-	-	3,599	12,292	25,717	5,464	-	**47,072**
Loan and receivable investments	-	-	8,960	19,673	12,759	3,018	-	**44,410**
Other financial assets (excluding interest receivable)	6	697	101	1,026	1,488	34	-	**3,352**
Total financial assets	**5,088**	**147,495**	**311,337**	**334,667**	**451,661**	**249,741**	**3,065**	**1,503,054**
Financial Liabilities:								
Borrowings from the Central Bank	-	-	16	24	-	-	-	**40**
Due to and placements from banks and other financial institutions	-	159,469	60,126	18,856	1,009	-	-	**239,460**
Repurchase agreements	-	-	45,373	669	-	-	-	**46,042**
Customer deposits	-	553,938	135,783	151,345	72,743	1	-	**913,810**
Bonds issued	-	-	7,660	2,031	48,106	23,040	-	**80,837**
Other financial liabilities (excluding interest payable)	-	1,847	6,889	519	1,376	49	-	**10,680**
Total financial liabilities	**-**	**715,254**	**255,847**	**173,444**	**123,234**	**23,090**	**-**	**1,290,869**
Net none-derivative cash flows	5,088	(567,759)	55,490	161,223	328,427	226,651	3,065	**212,185**
Derivative cash flows:								
Derivatives settled by net values	-	-	(11)	(3)	66	(3)	-	**49**
Derivatives settled by total values								
- Cash in	-	-	60,314	56,466	1,197	-	-	**117,977**
- Cash out	-	-	(59,502)	(56,511)	(1,196)	-	-	**(117,209)**
	-	-	812	(45)	1	-	-	**768**
Credit commitments	**-**	**-**	**80,668**	**60,434**	**3,862**	**76**	**-**	**145,040**

(3) Market risk

Market risk is the risk of loss, in respect of the Group's activities included and not included in the statement of financial position, arising from adverse movements in market rates including interest rates, foreign exchange rates and commodity prices. Market risk arises from both the Group's trading and non-trading business. The Group's market risk management objective is to control the market risk within a reasonable scope in order to achieve the optimal risk adjusted yield.

44. FINANCIAL INSTRUMENT RISK POSITION *continued*

(3) Market risk *continued*

The Management established the fundamental system of market risk including the establishment of market risk management policies and procedures, required identification, measurement, supervisory and control procedures on market risk, introduced related internal control and internal audit system, and set up market risk quantum system and the protocol for the market risk report.

According to the Group's market risk management structure, market risk management is critical for the management of the Group's assets and liabilities. Any major events should be reported to the Asset and Liability Management Committee for review and then authorized by the Company's president.

The Planning and Financial Department is responsible for implementing the Company's asset and liability management policy, analyzing and monitoring the implementation status of each type of indicators, and managing the assets and liabilities mismatch, etc. The Planning and Financial Department also acts as an administrative office for the Asset and Liability Management Committee to discharge its daily market risk management function and determine the market risk limit of each business unit for implementation.

In order to enhance the sensitivity and responsiveness to market risk management, the Risk Management Department has set up a middle office within the Financial Markets Department to monitor the operating status of the Financial Markets Department in a timely way and make risk evaluation reports regarding the operating status regularly.

Regular key monitoring indicators for market risk include interest rate risk sensitivity, basic point value of available-for-sale and trading assets, basic point value of total exposure of trading interest rate, accumulated foreign exchange exposure ratio, etc. The Company prepares periodical market risk analysis and assessment report for Asset and Liability Management Committee's discussion and the report is also submitted to the Risk Management Committee of the Board of Directors for discussion as part of the general risk assessment report.

(a) Currency risk

The Group is mainly exposed to currency risk resulting from currency mismatches of assets and liabilities, foreign currency transactions and foreign currency capital, etc.

The Financial Market Department of the Company centrally manages the currency risk. The currency risk that arises from all types of foreign exchange transactions at the branch level should be centralised to head office to manage the risk exposure and squares positions through the core business system.

The currency risk exposure between foreign currencies is managed on the basis of "overnight position limit" and "day time self-trading positions". The positions are centralised to the Financial Market Department in a timely way and managed centrally. This kind of position is relatively small compared to the Company's asset scale and is controllable.

Regarding the currency risk exposure between RMB and foreign currencies, the Company is mainly exposed to currency risk resulting from the comprehensive positions of the RMB market maker and the position of the foreign currency capital. As an active RMB market maker, the Company controls the position limit properly. To avoid the risk of the RMB appreciation, the comprehensive positions of the market maker are managed close to zero and the overnight positions are kept at low level. The position arisen from the foreign currency capital is the largest currency risk position between RMB and foreign currencies. Since the foreign currency capital is the necessity for the Company to develop its foreign currency business, the Company adopts a risk bearing strategy for this part of the position. The main method adopted by the Company to control the position is to apply to the State Administration of Foreign Exchange for the settlement of foreign currency capital and the foreign currency profit. The Group is established in the PRC and the majority of the Group's operations are conducted in Mainland China.

A breakdown of the relevant financial assets and liabilities of the Group by currency is as follows:

	31-12-2010 (RMB million)			
	RMB	USD	Others	**Total**
Financial assets:				
Cash and balances with the Central Bank	287,723	690	228	**288,641**
Due from and placements with banks and other financial institutions	55,335	4,474	1,158	**60,967**
Financial assets at fair value through profit or loss	5,537	-	-	**5,537**
Derivative financial assets	1,246	1,011	44	**2,301**
Reverse repurchase agreements	374,005	-	-	**374,005**
Loans	837,512	4,613	443	**842,568**
Finance leasing receivables	8,693	-	-	**8,693**
Available-for-sale financial assets	146,151	1,092	70	**147,313**
Held-to-maturity investments	32,914	1,200	176	**34,290**
Loan and receivable investments	61,321	-	-	**61,321**
Other financial assets	11,273	66	6	**11,345**
Total financial assets	**1,821,710**	**13,146**	**2,125**	**1,836,981**
Financial liabilities:				
Borrowings from the Central bank	365	-	-	**365**
Due to and placements from banks and other financial institutions	435,826	6,966	1,000	**443,792**
Derivative financial liabilities	2,192	107	18	**2,317**
Repurchase agreements	88,265	1,092	228	**89,585**
Customer deposits	1,123,283	6,939	2,545	**1,132,767**
Bonds issued	64,935	-	-	**64,935**
Other financial liabilities	23,649	165	24	**23,838**
Total financial liabilities	**1,738,515**	**15,269**	**3,815**	**1,757,599**
Net position	83,195	(2,123)	(1,690)	**79,382**
Foreign exchange derivative financial instruments	(6,341)	4,247	2,021	**(73)**
Loan commitments	203,057	10,397	1,938	**215,392**

44. FINANCIAL INSTRUMENT RISK POSITION *continued*

(3) Market risk *continued*

(a) Currency risk *continued*

A breakdown of the relevant financial assets and liabilities of the Group by currency is as follows:

	31-12-2009 (RMB million)			
	RMB	USD	Others	Total
Financial assets:				
Cash and balances with the Central Bank	171,176	521	207	**171,904**
Due from and placements with banks and other financial institutions	50,143	3,670	2,236	**56,049**
Financial assets at fair value through profit or loss	3,363	-	-	**3,363**
Derivative financial assets	1,138	250	11	**1,399**
Reverse repurchase agreements	195,884	-	-	**195,884**
Loans	687,176	4,525	262	**691,963**
Available-for-sale financial assets	109,696	1,451	77	**111,224**
Held-to-maturity investments	40,786	1,243	196	**42,225**
Loan and receivable investments	40,786	-	-	**40,786**
Other financial assets	7,618	73	20	**7,711**
Total financial assets	**1,307,766**	**11,733**	**3,009**	**1,322,508**
Financial liabilities:				
Borrowings from the Central bank	40	-	-	**40**
Due to and placements from banks and other financial institutions	235,470	2,699	607	**238,776**
Derivative financial liabilities	1,098	218	286	**1,602**
Repurchase agreements	45,146	764	-	**45,910**
Customer deposits	893,056	5,529	2,299	**900,884**
Bonds issued	68,928	-	-	**68,928**
Other financial liabilities	16,267	129	17	**16,413**
Total financial liabilities	**1,260,005**	**9,339**	**3,209**	**1,272,553**
Net position	47,761	2,394	(200)	**49,955**
Foreign exchange derivative financial instruments	(1,039)	679	121	**(239)**
Loan commitments	138,493	5,228	1,319	**145,040**

A breakdown of the relevant financial assets and liabilities of the Company by currency is as follows:

	31-12-2010 (RMB million)			
	RMB	USD	Others	**Total**
Financial assets:				
Cash and balances with the Central Bank	287,723	690	228	**288,641**
Due from and placements with banks and other financial institutions	55,334	4,474	1,158	**60,966**
Financial assets at fair value through profit or loss	5,537	-	-	**5,537**
Derivative financial assets	1,246	1,011	44	**2,301**
Reverse repurchase agreements	374,005	-	-	**374,005**
Loans	837,512	4,613	443	**842,568**
Available-for-sale financial assets	146,151	1,092	70	**147,313**
Held-to-maturity investments	32,914	1,200	176	**34,290**
Loan and receivable investments	61,321	-	-	**61,321**
Other financial assets	10,119	66	6	**10,191**
Total financial assets	**1,811,862**	**13,146**	**2,125**	**1,827,133**
Financial liabilities:				
Borrowings from the Central bank	365	-	-	**365**
Due to and placements from banks and other financial institutions	429,018	6,966	1,000	**436,984**
Derivative financial liabilities	2,192	107	18	**2,317**
Repurchase agreements	88,265	1,092	228	**89,585**
Customer deposits	1,123,283	6,939	2,545	**1,132,767**
Bonds issued	64,935	-	-	**64,935**
Other financial liabilities	22,608	165	24	**22,797**
Total financial liabilities	**1,730,666**	**15,269**	**3,815**	**1,749,750**
Net position	81,196	(2,123)	(1,690)	**77,383**
Foreign exchange derivative financial instruments	(6,341)	4,247	2,021	**(73)**
Loan commitments	203,057	10,397	1,938	**215,392**

44. FINANCIAL INSTRUMENT RISK POSITION *continued*

(3) Market risk *continued*

(a) Currency risk *continued*

A breakdown of the relevant financial assets and liabilities of the Company by currency is as follows *continued*:

	31-12-2009 (RMB million)			
	RMB	USD	Others	**Total**
Financial assets:				
Cash and balances with the Central Bank	171,176	521	207	**171,904**
Due from and placements with banks and other financial institutions	50,143	3,670	2,236	**56,049**
Financial assets at fair value through profit or loss	3,363	-	-	**3,363**
Derivative financial assets	1,138	250	11	**1,399**
Reverse repurchase agreements	195,884	-	-	**195,884**
Loans	687,176	4,525	262	**691,963**
Available-for-sale financial assets	109,696	1,451	77	**111,224**
Held-to-maturity investments	40,786	1,243	196	**42,225**
Loan and receivable investments	40,786	-	-	**40,786**
Other financial assets	7,618	73	20	**7,711**
Total financial assets	**1,307,766**	**11,733**	**3,009**	**1,322,508**
Financial liabilities:				
Borrowings from the Central bank	40	-	-	**40**
Due to and placements from banks and other financial institutions	235,470	2,699	607	**238,776**
Derivative financial liabilities	1,098	218	286	**1,602**
Repurchase agreements	45,146	764	-	**45,910**
Customer deposits	893,056	5,529	2,299	**900,884**
Bonds issued	68,928	-	-	**68,928**
Other financial liabilities	16,267	129	17	**16,413**
Total financial liabilities	**1,260,005**	**9,339**	**3,209**	**1,272,553**
Net position	47,761	2,394	(200)	**49,955**
Foreign exchange derivative financial instruments	(1,039)	679	121	**(239)**
Loan commitments	138,493	5,228	1,319	**145,040**

The Group and the Company adopt the sensitivity analysis to assess the possible impact on profit due to exchange rate changes. The following table shows the result of exchange rate sensitivity analysis of assets and liabilities on 31 December 2010 and 31 December 2009:

The Group and the Company

	31-12-2010		31-12-2009	
	Change in exchange rate (%)		Change in exchange rate (%)	
	(1)	1	(1)	1
(RMB million)				
Effect on profit	(25)	25	(30)	30
Effect on equity	-	-	-	-

The above sensitivity analysis is measured on the basis that all assets and liabilities have a static currency risk structure. The relevant assumptions are: (1) the exchange rate sensitivity represents the exchange gains or losses arisen from a 1% change of the closing exchange rates (middle price) of the different foreign currencies against RMB at the end of the reporting period; (2) the exchange rate changes of the different foreign currencies against RMB move in the same direction simultaneously; (3) the foreign currency position has included spot positions, forward positions and options. Based on the above-mentioned assumptions, the actual effect on the Group's foreign exchange differences due to changes in exchange rates may be different to the result of the sensitivity analysis.

(b) Interest rate risk

The interest rate risk of the Group includes repricing risk, yield curve risk, benchmark rate risk, and option risk, where the repricing risk is the main risk. At present, the Company has fully adopted internal transfer pricing for foreign currencies, and gradually adopted internal transfer pricing for mid-term and long-term RMB funding and utilisation. Through the internal transfer pricing arrangement by product and by term, the Company gradually centralised the interest rate risk management at the head office in order to enhance the effectiveness and efficiency of managing the interest rate risk positions.

As for the interest rate risk management of the banking book, the Company mainly evaluates the interest rate risk of the statement of financial position through a gap analysis. The Company monitors and controls the gap between the interest rate sensitive assets and liabilities through information systems such as the asset and liability management system. Based on the gap analysis, the Company can simply calculate the interest rate sensitivity of income and the economic value due to changes in interest rates. The income analysis focuses on the effect of the interest rate change to the short-term income while the economic value analysis focuses on the effect of the interest rate change to the net present value of the Company's future cash flows.

For the interest rate risk management of the trading book, the Company manages the interest rate risk position through the authorization limit control. The Company real time monitors its interest rate risk exposures of the trading book by utilizing the Capital Transaction and Analysis System. The Company has enhanced the management of measurement model, standardized the development process, tested and implemented the measurement model, set up regular post-evaluation mechanism to measure and ensured the interest rate risk exposure of the Company is accurately assessed. The introduction of the Capital Transaction and Analysis System has provided a real time measurement and effective technical support to monitor the interest rate risk of the trading book.

44. FINANCIAL INSTRUMENT RISK POSITION *continued*

(3) Market risk *continued*

(b) Interest rate risk *continued*

The following table summarises the contractual repricing or maturity date, whichever are earlier, of the Group's financial assets and liabilities as at 31 December 2010:

	31-12-2010 (RMB million)							
	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Overdue/ non-interest-bearing	**Total**
Financial assets:								
Cash and balances with the Central Bank	248,063	26,417	3,246	2,431	4,906	10	3,568	**288,641**
Due from and placements with banks and other financial institutions	51,234	9,066	99	400	168	-	-	**60,967**
Financial assets at fair value through profit or loss	430	2,222	439	1,132	1,139	175	-	**5,537**
Derivative financial assets	-	-	-	-	-	-	2,301	**2,301**
Reverse repurchase agreements	256,982	93,618	21,245	1,460	700	-	-	**374,005**
Loans	593,623	224,996	3,757	2,447	1,894	3,575	12,276	**842,568**
Finance leasing receivables	8,693	-	-	-	-	-	-	**8,693**
Available-for-sale financial assets	18,745	39,348	35,028	20,381	17,888	15,812	111	**147,313**
Held-to-maturity investments	771	11,098	6,758	2,065	6,298	7,300	-	**34,290**
Loan and receivable investments	25,696	26,959	2,708	545	2,545	2,868	-	**61,321**
Other financial assets	1,148	-	-	-	-	-	10,197	**11,345**
Total financial assets	**1,205,385**	**433,724**	**73,280**	**30,861**	**35,538**	**29,740**	**28,453**	**1,836,981**
Financial liabilities:								
Borrowings from the Central Bank	207	158	-	-	-	-	-	**365**
Due to and placements from banks and other financial institutions	389,457	50,335	-	-	4,000	-	-	**443,792**
Derivative financial liabilities	-	-	-	-	-	-	2,317	**2,317**
Repurchase agreements	71,925	17,660	-	-	-	-	-	**89,585**
Customer deposits	870,152	187,452	23,032	17,251	34,808	72	-	**1,132,767**
Bonds issued	4,996	28,984	6,995	-	1,999	21,961	-	**64,935**
Other financial liabilities	119	-	-	-	-	-	23,719	**23,838**
Total financial liabilities	**1,336,856**	**284,589**	**30,027**	**17,251**	**40,807**	**22,033**	**26,036**	**1,757,599**
Interest rate risk exposure	**(131,471)**	**149,135**	**43,253**	**13,610**	**(5,269)**	**7,707**	**2,417**	**79,382**

The following table summarises the contractual repricing or maturity date, whichever are earlier, of the Group's financial assets and liabilities as at 31 December 2009 *continued*:

	31-12-2009 (RMB million)							
	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Overdue/ non-interest-bearing	**Total**
Financial assets:								
Cash and balances with the Central Bank	150,820	16,094	1,168	699	219	-	2,904	**171,904**
Due from and placements with banks and other financial institutions	49,235	6,178	334	302	-	-	-	**56,049**
Financial assets at fair value through profit or loss	205	859	963	591	513	232	-	**3,363**
Derivative financial assets	-	-	-	-	-	-	1,399	**1,399**
Reverse repurchase agreements	156,633	26,451	4,900	7,200	400	300	-	**195,884**
Loans	402,774	267,645	4,620	4,215	1,708	2,643	8,358	**691,963**
Available-for-sale financial assets	11,943	31,572	10,489	33,243	13,443	10,373	161	**111,224**
Held-to-maturity investments	3,915	12,790	8,577	6,728	5,948	4,267	-	**42,225**
Loan and receivable investments	9,065	19,211	3,191	2,224	5,189	1,906	-	**40,786**
Other financial assets	-	135	-	-	-	-	7,576	**7,711**
Total financial assets	**784,590**	**380,935**	**34,242**	**55,202**	**27,420**	**19,721**	**20,398**	**1,322,508**
Financial liabilities:								
Borrowings from the Central Bank	16	24	-	-	-	-	-	**40**
Due to and placements from banks and other financial institutions	219,179	18,597	-	1,000	-	-	-	**238,776**
Derivative financial liabilities	-	-	-	-	-	-	1,602	**1,602**
Repurchase agreements	45,270	640	-	-	-	-	-	**45,910**
Customer deposits	736,212	145,683	10,577	6,427	1,984	1	-	**900,884**
Bonds issued	11,994	10,330	18,647	6,991	1,998	18,968	-	**68,928**
Other financial liabilities	-	-	-	-	-	-	16,413	**16,413**
Total financial liabilities	**1,012,671**	**175,274**	**29,224**	**14,418**	**3,982**	**18,969**	**18,015**	**1,272,553**
Interest rate risk exposure	**(228,081)**	**205,661**	**5,018**	**40,784**	**23,438**	**752**	**2,383**	**49,955**

44. FINANCIAL INSTRUMENT RISK POSITION *continued*

(3) Market risk *continued*

(b) Interest rate risk *continued*

The following table summarises the contractual repricing or maturity date, whichever are earlier, of the Company financial assets and liabilities as at 31 December 2010:

	31-12-2010 (RMB million)							
	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Overdue/ non-interest-bearing	**Total**
Financial assets:								
Cash and balances with the Central Bank	248,063	26,417	3,246	2,431	4,906	10	3,568	**288,641**
Due from and placements with banks and other financial institutions	51,233	9,066	99	400	168	-	-	**60,966**
Financial assets at fair value through profit or loss	430	2,222	439	1,132	1,139	175	-	**5,537**
Derivative financial assets	-	-	-	-	-	-	2,301	**2,301**
Reverse repurchase agreements	256,982	93,618	21,245	1,460	700	-	-	**374,005**
Loans	593,623	224,996	3,757	2,447	1,894	3,575	12,276	**842,568**
Available-for-sale financial assets	18,745	39,348	35,028	20,381	17,888	15,812	111	**147,313**
Held-to-maturity investments	771	11,098	6,758	2,065	6,298	7,300	-	**34,290**
Loan and receivable investments	25,696	26,959	2,708	545	2,545	2,868	-	**61,321**
Other financial assets	-	-	-	-	-	-	10,191	**10,191**
Total financial assets	**1,195,543**	**433,724**	**73,280**	**30,861**	**35,538**	**29,740**	**28,447**	**1,827,133**
Financial liabilities:								
Borrowings from the Central Bank	207	158	-	-	-	-	-	**365**
Due to and placements from banks and other financial institutions	390,188	42,796	-	-	4,000	-	-	**436,984**
Derivative financial liabilities	-	-	-	-	-	-	2,317	**2,317**
Repurchase agreements	71,925	17,660	-	-	-	-	-	**89,585**
Customer deposits	870,152	187,452	23,032	17,251	34,808	72	-	**1,132,767**
Bonds issued	4,996	28,984	6,995	-	1,999	21,961	-	**64,935**
Other financial liabilities	-	-	-	-	-	-	22,797	**22,797**
Total financial liabilities	**1,337,468**	**277,050**	**30,027**	**17,251**	**40,807**	**22,033**	**25,114**	**1,749,750**
Interest rate risk exposure	**(141,925)**	**156,674**	**43,253**	**13,610**	**(5,269)**	**7,707**	**3,333**	**77,383**

The following table summarises the contractual repricing or maturity date, whichever are earlier, of the Company financial assets and liabilities as at 31 December 2009 *continued*:

	31-12-2009 (RMB million)							
	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Overdue/ non-interest-bearing	**Total**
Financial assets:								
Cash and balances with the Central Bank	150,820	16,094	1,168	699	219	-	2,904	**171,904**
Due from and placements with banks and other financial institutions	49,235	6,178	334	302	-	-	-	**56,049**
Financial assets at fair value through profit or loss	205	859	963	591	513	232	-	**3,363**
Derivative financial assets	-	-	-	-	-	-	1,399	**1,399**
Reverse repurchase agreements	156,633	26,451	4,900	7,200	400	300	-	**195,884**
Loans	402,774	267,645	4,620	4,215	1,708	2,643	8,358	**691,963**
Available-for-sale financial assets	11,943	31,572	10,489	33,243	13,443	10,373	161	**111,224**
Held-to-maturity investments	3,915	12,790	8,577	6,728	5,948	4,267	-	**42,225**
Loan and receivable investments	9,065	19,211	3,191	2,224	5,189	1,906	-	**40,786**
Other financial assets	-	135	-	-	-	-	7,576	**7,711**
Total financial assets	**784,590**	**380,935**	**34,242**	**55,202**	**27,420**	**19,721**	**20,398**	**1,322,508**
Financial liabilities:								
Borrowings from the Central Bank	16	24	-	-	-	-	-	**40**
Due to and placements from banks and other financial institutions	219,179	18,597	-	1,000	-	-	-	**238,776**
Derivative financial liabilities	-	-	-	-	-	-	1,602	**1,602**
Repurchase agreements	45,270	640	-	-	-	-	-	**45,910**
Customer deposits	736,212	145,683	10,577	6,427	1,984	1	-	**900,884**
Bonds issued	11,994	10,330	18,647	6,991	1,998	18,968	-	**68,928**
Other financial liabilities	-	-	-	-	-	-	16,413	**16,413**
Total financial liabilities	**1,012,671**	**175,274**	**29,224**	**14,418**	**3,982**	**18,969**	**18,015**	**1,272,553**
Interest rate risk exposure	**(228,081)**	**205,661**	**5,018**	**40,784**	**23,438**	**752**	**2,383**	**49,955**

44. FINANCIAL INSTRUMENT RISK POSITION *continued*

(3) Market risk *continued*

(b) Interest rate risk *continued*

The Group and the Company adopt a sensitivity analysis to assess the possible effect of interest rate changes to the net interest income. The following table shows the result of the interest rate sensitivity analysis of the assets and liabilities as at 31 December 2010 and 31 December 2009:

The Group	31-12-2010 Interest rate change (basis point)		31-12-2009 Interest rate change (basis point)	
	(100)	100	(100)	100
Effect on net interest income	591	(591)	1,224	(1,224)
Effect on equity	2,810	(2,810)	1,931	(1,931)

The Company	31-12-2010 Interest rate change (basis point)		31-12-2009 Interest rate change (basis point)	
	(100)	100	(100)	100
Effect on net interest income	654	(654)	1,224	(1,224)
Effect on equity	2,810	(2,810)	1,931	(1,931)

The above sensitivity analysis is measured on the basis that all assets and liabilities have a static interest rate risk structure. The analysis measures the interest rate change in one year and reflects the effect on the profit of the Group due to repricing of the assets and liabilities. The relevant assumptions are: (1) all assets and liabilities are repriced again at the middle during the period for within 3 months and 3 to12 months; (2) the yield curve moves parallel with the change of interest rate; (3) the portfolio of assets and liabilities has no other change. Based on the above-mentioned assumptions, the actual effect on the Company's profit due to changes in interest rates may be different to the result of the sensitivity analysis.

Based on the assumption of the parallel movement of the yield curve with interest rate change, the sensitivity analysis of the equity is derived by re-evaluating the ending balance of the available-for-sale financial assets as a result of interest rate's certain percentage changes.

45. FAIR VALUE OF FINANCIAL INSTRUMENTS

(1) Financial instruments measured at fair value

Determination of fair value and fair value hierarchy:

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1:quoted prices in active markets for identical financial instruments

Level 2: inputs for the asset or liability other than quoted prices included in Level 1 that are observable, either directly or indirectly

Level 3:inputs for the asset or liability that are not based on observable market data

For the fair values determined by level 2 and level 3, those assumptions and approaches provide a consistent basis for the fair value determination of the Company's financial instruments. However, since other financial institutions may use different assumptions and approaches, therefore, the fair values disclosed by different financial institutions may not be comparable.

The following table summarizes the analysis for financial instruments using the three-level fair value hierarchy determination.

The Group and the Company

31-12-2010	Level 1	Level 2	Level 3	Total
Financial assets:				
Derivative financial assets	-	2,301	-	**2,301**
Financial assets at fair value through profit or loss	-	5,537	-	**5,537**
Available-for-sale financial assets	298	146,916	-	**147,214**
	298	**154,754**	**-**	**155,052**
Financial liabilities:				
Derivative financial liabilities	-	2,317	-	**2,317**
	-	**2,317**	**-**	**2,317**

31-12-2009	Level 1	Level 2	Level 3	Total
Financial assets:				
Derivative financial assets	-	1,399	-	**1,399**
Financial assets at fair value through profit or loss	-	3,363	-	**3,363**
Available-for-sale financial assets	767	110,329	-	**111,096**
	767	**115,091**	**-**	**115,858**
Financial liabilities:				
Derivative financial liabilities	-	1,602	-	**1,602**
	-	1,602	-	**1,602**

In 2010, there was neither significant transfer from level 1 and level 2 to level 3, nor significant transfer between level 1 and level 2 in the fair value hierarchy.

(2) Financial instruments measured at cost

Financial assets

The Group's financial assets mainly include cash, due from the Central Bank, amounts due from and placements with banks and other financial institutions, loans and investments.

Due from the Central Bank, due from and placements with banks and other financial institutions

These are mainly priced at market interest rates and mainly mature within one year. Accordingly, their carrying values approximate to their fair values.

Loans

Loans are mostly priced at floating rates close to the PBOC benchmark rates. Accordingly, their carrying values approximate to their fair values.

Investments and derivative financial instruments

Available-for-sale investments, investments at fair value through profit or loss and derivative instruments are stated at fair value in the financial statements. Available-for-sale equity investments, that do not have a quoted market price in an active market and whose fair value cannot be measured, are measured at cost.

45. FAIR VALUE OF FINANCIAL INSTRUMENTS *continued*

(2) Financial instruments measured at cost *continued*

Financial liabilities

The Group's financial liabilities mainly include due to and placements from banks and other financial institutions, customer deposits, subordinated bonds issued and long-term debt securities issued.

Due to and placements from banks and other financial institutions

These are mainly priced at market interest rates and are mainly due within one year. Accordingly, their carrying values approximate to their fair values.

Customer deposits

Customer deposits mainly represent deposits with repricing dates or maturity dates less than one year. Accordingly, their carrying values approximate to their fair values.

The following table discloses the carrying values and the fair values of the held-to-maturity investments, loan and receivable bond investments, and bonds issued, all of which are not stated at fair value.

The Group and the Company

	Carrying value	Fair value
31-12-2010		
Held-to-maturity investments	34,290	34,031
Loan and receivable bond investments	7,675	7,653
Bonds issued	64,935	63,770
31-12-2009		
Held-to-maturity investments	42,225	42,485
Loan and receivable bond investments	18,830	18,828
Bonds issued	68,928	68,138

46. CAPITAL MANAGEMENT

During 2009, the Group has established the Capital Management Plan of 2009 to 2012 (the "Plan") in accordance with the business strategy and the risk situation of the Group and regulatory requirement. The Group analyses, based on the internal and external situations, and prepares a forecast for the business growth for the next three years by clearly indicating the asset growth, capital requirement and capital supplementary sources. The Plan also demonstrated the necessity and feasibility for capital supplement, and indicated the level of capital adequacy ratio and core capital adequacy ratio to be maintained in order to achieve the healthy, continuous and rapid business development.

The ultimate objective of the Group's capital management is to maximise the shareholders' value. In order to achieve the objective, the Group has planned to (i) ensure the available capital coped with the current and future business development plans and meet the capital adequacy ratio set; (ii) raise and manage capital through appropriate combination of capital instruments; and (iii) maximise return of shareholders by an appropriate investment plan.

The Group has set minimum target requirements where capital adequacy ratio is maintained at 10% and core capital adequacy ratio at 7% in order to keep a higher capital quality and adequate capital level for stability, enhancement and risk resistance consideration. On top of regulatory requirement and the minimum targets set above, the Group plans to maintain adequate capital reserve to achieve a CAR(Capital Adequacy Ratio) of 12% and a core CAR at 8% which are on competitive to those of other banks and built up a good image in the market.

The Group	31-12-2010	31-12-2009
Core capital	88,595	56,663
Supplementary capital	25,190	20,365

Core capital includes share capital, capital surplus, surplus reserves and retained earnings. Supplementary capital includes general reserve of loans, subordinated bonds issued and hybrid bonds issued.

47. SIGNIFICANT EVENTS

(1) Rights issue and listing

Pursuant to the approval of the CSRC (Zheng Jian Xu Ke [2010] No. 586), the Company offered rights issue to all the shareholders registered at Shanghai Branch of the China Securities Depository and Clearing Company Limited on the basis of 2 shares for every 10 shares by the end of the register day, i.e., 24 May 2010.

As approved by Shanghai Stock Exchange, the total 992,450,630 RMB ordinary shares of the Company from the right issue exercise listed on 8 June 2010.

(2) Issuance of subordinated bonds

On 30 March 2010, the Company has issued subordinated bond amounting to RMB3,000 million pursuant to the approval obtained from the CBRC and the PBOC respectively. The subordinated bond was issued to replace the redeemed part of the subordinated bond issued in 2004 and was within the revolving quota approved then.

The interest rate for the first year to the tenth year is 4.8% per annum. If the Company does not exercise the option, the interest rate will be increased by 3.0% for the eleventh year onward.

(3) Establishment of wholly-owned subsidiary

Pursuant to the approval of CBRC (Yin Jian Fu [2010] No. 98 and Yin Jian Fu [2010] No. 401), the Company set up Industrial Bank Leasing Co., Ltd. with registered capital of RMB2 billion.

48. EVENT AFTER THE END OF THE REPORTING PERIOD

The Company purchased 51.18% of shares of Union Trust Limited at an agreed price of Rmb852 million from New Hope Group Co., Ltd. Sichuan South Hope Enterprises Co., Ltd. and Fujian Hua Tou Investment Co., Ltd. (formerly known as “Fujian Overseas Chinese Investment (Holding) Co.”). The total registered capital of Union Trust Limited was RMB510 million as at 9 February 2011.

On 1 February 2011, the Company received the Yin Jian Fu [2011] No. 35 from the CBRC and the acquisition of Union Trust Limited of the Company has been formally approved by then.

49. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 25 March 2011.

2010 Internal Control Self-assessment Report by the Board of Directors of Industrial Bank Co., Ltd.

The Board of Directors of Industrial Bank Co., Ltd. (hereinafter referred to as the "Company") guarantees the authenticity, accuracy and completeness of the information provided in this report and that there are no false records, misleading statements or material omissions.

In accordance with the provisions of the "Company Law of the People's Republic of China", "Securities Law of the People's Republic of China", "Guidelines for Internal Control of Commercial Banks", "Guidelines of the Shanghai Stock Exchange for the Internal Control of Listed Companies" and "Basic Standard for Enterprise Internal Control" and the requirements of the China Securities Regulatory Commission (hereinafter referred to as "CSRC"), the China Banking Regulatory Commission (hereinafter referred to as the "CBRC") and the Shanghai Stock Exchange, holding on to the principles of "comprehensiveness, prudence, effectiveness and independence", the Company continuously strengthens its internal control measures in areas such as internal control environment, risk identification and assessment, internal control activities, information exchange and feedback, and supervisory evaluation and rectifications to improve its internal control mechanism, establishing a relatively scientific internal control system and creating an internal control mechanism that enables feed-forward control, concurrent control, and feedback supervision and rectification of risk so that internal control requirements can be effectively implemented in important areas.

I. SUMMARY OF INTERNAL CONTROL STATUS

Establishing sound internal control and effectively implementing them are the responsibilities of the Company's Board of Directors and management. The company's internal control objectives are: to ensure that national laws and regulations, regulatory requirements of external regulators and the Company's internal rules and regulations are effectively implemented; to ensure that the Company's development strategies and business objectives are fully implemented and realized; to ensure the effectiveness of the Company's risk management system; and to ensure the timeliness, authenticity and integrity of business records, financial information and other management information.

As there are inherent limitations in internal control, we can only provide reasonable assurance to achieve the above objectives. Moreover, the effectiveness of the internal control may change as the Company's internal and external environment as well as operating conditions change. The Company has set up inspection and supervision mechanisms for its internal control. Once internal control deficiencies are identified, the Company will take immediate corrective measures.

When setting up and implementing the internal control system, the Company has considered the five elements of internal control environment, risk identification and assessment, internal control activities, information exchange and feedback, and supervisory evaluation and rectification.

(I) Internal control environment

1. Corporate governance

In the aspect of corporate governance, the Company has established a corporate governance structure that focuses on the general shareholders' meeting, the Board of Directors, the Board of Supervisors and the senior management, creating a sound governance structure characterized by clear responsibilities, effective checks and balances, and coordinated operations. On this basis, the Company persists in the new corporate governance concept of "actively explore many ways to perform the bank's social responsibility to create a sound situation where man lives in harmony with nature, environment and society"; further strengthens the decision-making functions of the Board of Directors and supervisory functions of the Board of Supervisors; constantly improves the transmission mechanism of corporate governance; strengthens the operation of the committees under the Board of Directors and the Board of Supervisors; and further improves the level of diligence of the directors and supervisors when performing their duties.

In 2010, the Company held general shareholders' meeting, Board of Directors' Meeting and meetings of committees under the Board of Directors to consider management issues, effectively playing a major role in decision making. It organized the directors to carry out research on development planning, senior executive remuneration and operation characteristics and participate in activities such as discussions with the CBRC and investor relations, and strengthened the directors' guidance for operation and management. The formulation of the "Opinions on Further Strengthening the Construction of the Board of Directors" specified the key tasks for constructing the Board of Directors, further improving the transmission mechanism of corporate governance. During the reporting period, the Board was replaced upon completing its term of office, further improving the organizational structure of corporate governance. As of December 31, 2010, the Board of Directors comprised 15 directors, including six shareholding directors, four senior management directors and five independent directors. Under the Board of Directors, there were five committees, including the Executive Committee, Risk Management Committee, Audit and Related Party Transactions Committee, Nomination Committee, and Remuneration and Evaluation Committee. After the establishment of the new Board of Directors, the Board of Directors rationally mixed and matched the composition of committee members to ensure that the various committees could perform their duties to the fullest extent. In 2010, the Committee held a total of four on-site meetings and one teleconference to deliberate on 22 motions, including the internal audit plan, the internal audit department's semi-annual and annual work reports, internal control self-assessment report and two major related party transactions, as well as to conduct three on-site communications with the certified public accountants of the annual audit, thus playing an active role to maintain the integrity of the bank's internal control system. In addition, during the reporting period, the Company revised its Articles of Association and allowance system for independent directors and systematically fine-tuned its Rules of Procedure for General Shareholders' Meeting, further improving the other basic systems of corporate governance.

With regard to the set up and performance of duties of the Company's Board of Supervisors, the Board of Supervisors comprised nine supervisors, including four shareholding supervisors, three workers serving as supervisors and two external supervisors. Under the Board of Supervisors, there are two special committees, including the Supervision Committee and the Nomination, Remuneration and Evaluation Committee. During the reporting period, the Board of Supervisors and the committees under it organized and held 10 meetings to consider or listen to 34 issues and from time to time carried out various special investigations and inspections, thus fully and effectively performing its basic duties.

2. Authorization management system

The Company comprehensively strengthened its centralized corporate governance and set up a sound credit business and financial authorization system with clear, separate authority between the head office and the branches, thereby strengthening its centralized management and internal control to effectively prevent and control risk, while promoting business development and improving operational efficiency. During the reporting period, the Company continued to improve its credit business authorization. It issued its business credit authorization document for the year and timely adjusted the credit business authorization for some industries and key businesses according to policy changes and the Company's business orientation, effectively balancing risk control and business development. 2010's annual financial authorization continued to be managed by category and classification. Based on the previous year's financial authorization and combined with factors such as 2009's consolidated evaluation results, management level and financial authorization implementation, the Company appropriately adjusted some financial disbursement authorization to improve the head office's scientific and standardized financial authorization management of the branches.

3. Human resource management mechanism

The Company effectively implemented the "expertly run bank" strategic human resource management guiding ideology, focusing on strengthening the construction of leadership at all levels, increasing the selection and training of young cadres, and continuing to further develop a market-oriented employment mechanism that enables job transfers and competency to work both at the top and at the grass roots. During the reporting period, the Company managed its staff by classification and set up a teller queue management system, ensuring the same pay for the same job and promoting operation according to law so as to stabilize the teller team and increase counter service capacity

I. SUMMARY OF INTERNAL CONTROL STATUS *continued*

(I) Internal control environment *continued*

3. Human resource management mechanism *continued*

and service levels; standardized the setting up of human resources departments of the branches, enhanced the full-time human resource management staffing of the branches, and steadily established the bank's human resources organization system; continued to optimize the structure of the cadre team, set up non-leadership positions such as business inspector and business counselor, and improved the management of non-leadership positions; continued to strengthen the management of cadre appointment and the team building of cadres at all levels and all types of personnel, effectively improving its strategy implementation and business collaboration capabilities; set up and staffed the various departments of the head office to promote scientific allocation of staff; made great efforts to explore the establishment of a human resource management system that is adapted to the bank's comprehensive management and required by the development of a group structure, and actively provided human resources management service and support to the subsidiaries where it has controlling shares during the early days of their development.

4. Construction of a comprehensive compliance management system

During the reporting period, the Company continued to strengthen compliance-based management, strengthened the branch-level compliance management organization, and promoted the orderly conduct of compliance management. It continued to carry out training and advocacy for compliance culture and the Equator Principles, continuously enhancing the compliance awareness of its staff and speeding up the accumulation of compliance culture in the bank. It actively promoted the implementation of compliance evaluation and accountability mechanisms, refined and clarified the evaluation content for the branches' compliance management, and regularly evaluated the compliance of the branches. The evaluation results were included in the scope of the branches' comprehensive management evaluation. The Company continued to sponsor projects for internal control and compliance management system and conducted pilots in the branches. It consolidated the results from promoting the construction of the comprehensive compliance management system, refined the compliance duties of the business units, expanded the scope of compliance monitoring, and strengthened communications with regulators. It further promoted legal services and systematic management, further improved the functions of the comprehensive compliance management system, strengthened the compliance management information structure, and constantly improved the effectiveness of compliance management.

(II) Risk identification and assessment

Guided by the risk management strategies, the Company strengthened the various types of risk identification and assessment, scientifically innovating and rationally using risk management tools and techniques to improve overall risk management capacity. During the reporting period, the Company developed the "Policy on IT Risk Management ", "Rules on Reputation Risk Management ", "Measures on Outsourcing Risk Management " to strengthen the management of IT risk, reputation risk and outsourcing risk, and continued to improve and enrich the comprehensive risk management strategy system. At the same time, it developed the annual implementation work plan for risk management strategies, regularly tracking feedback to promote the effective implementation of the risk management strategies. The Company continued to improve its risk tolerance indicator plan by adding risk indicators and supplementing and improving warning values to enhance the scientific nature and integrity of the tolerance indicator system.

It continued to further develop and refine its credit risk management. First, it strengthened the risk management and control for key industries. The Company thoroughly implemented regulatory requirements, effectively carried out risk management for loans to government financing vehicles, set up accounting for loans to government financing vehicles based on comprehensive risk investigations, conducted category management in accordance with the principles of cash flow coverage, strengthened the management of collaterals for government financing vehicle loans, project cash flow and repayment conditions, asset classification and provisioning, improved the post-loan management coordination mechanism for loans to local government financing vehicles, timely tracking and monitoring credit risks; strengthened the risk management for real estate development loans, carried out risk investigation for real estate development loans, enhanced the access management for real estate development loans through a list system; increased risk investigation for loans to the "high-energy-consumption and high-pollution" industries, industries with excess capacity and industries with backward capacity; included the process, technical and environmental requirements that are involved in industrial development policies as part of the criteria for post-loan inspection, going further into the business to investigate the various potential risk. The Company strictly enforced the differentiated housing loan policy, strengthened credit risk pricing, and timely monitored the impact of housing price volatility on mortgage loans and rates. Second, it strengthened industry quota management. By increasing the quota levels, it strengthened the concentration early warning measures, improved industry quota management, strengthened ex ante control of credit risk, further optimized credit structure, implemented industry restructuring to customer restructuring, and pushed for the allocation of limited credit resources to key industries and high-quality clients. Third, it further implemented the CBRC's "three measures and one guideline". The Company developed and refined the relevant supporting systems, regularly organized business training and inspections, strengthened the monitoring of credit fund payment, continued to further advocate loan payment management philosophy, strictly implemented "entrusted payment", and effectively lowered the risk of credit funds being misappropriated.

It focused on strengthening liquidity risk identification and assessment, timely monitored the bank's liquidity ratio performance indicator and changes in liquidity needs, established short-term liquidity ratio target mechanism for the business units, urged the business units to strengthen liquidity management and rationally control maturity mismatch, and enhanced the bank's management and control standard for liquidity gap risk. It continued to promote liquidity stress testing by adjusting and improving the liquidity risk stress testing programs and methods, further improving the stress test mechanism.

The Company continued to improve market risk management. It strengthened interest rate management, appropriately adjusted internal funds transfer pricing, facilitated a balanced and coordinated development of the bank's foreign and local currency deposit and loan business to prevent foreign exchange liquidity risk; strengthened ex ante risk management for the treasury business and increased overall risk management and control capability on the treasury business; strengthened risk management efforts on emerging businesses, with the risk management department actively participating in project assessment through the committees of wealth management, proprietary investment and investment banking, and actively provided guidance for the optimal adjustment of business direction by submitting business management recommendations.

The Company continued to improve operational risk management. On the basis of continually establishing and improving the operational risk management positions for the head office and the branches and improving the functions of operational risk management, first, it continued to improve the operational mechanisms for operational risk identification and assessment, focusing on strengthening innovative project risk assessment, creating comprehensive risk assessment templates for innovative projects, and taking hold of the risk identification assessment during the access phase of innovative projects. Second, it preliminarily established a bilinear matrix operational risk reporting mechanism for the head office and branches. Third, it strengthened the operational risk management system and developed operational risk management policies, operational risk loss and major event statistical practices, and operational risk record management rules. Fourth, it preliminarily established some key risk monitoring indicators for enterprise-level operational risks, providing timely and effective early warning information to prevent vicious incidents from happening and to ensure the security and stability of the bank's operating environment. Fifth, it strengthened its efforts on operational risk management training to actively cultivate a competent operational risk management team.

The Company further promoted IT risk management. It stressed on comprehensive, proactive IT risk

I. SUMMARY OF INTERNAL CONTROL STATUS *continued*

(II) Risk identification and assessment *continued*

control, started building an IT risk monitoring platform, strengthened the centralized management of IT risk information assets, achieving the dynamic monitoring targets of risk measurement, rating and risk control.

The Company carried out internal rating system construction. During the reporting period, it developed a credit risk quantification model system, rolled out internal rating-related systems such as "Industrial Bank Non-retail Customers Internal Rating Management Measures" and constructed a primary law enforcement system of internal rating. It developed an implementation program for the internal rating system in the five areas of exposure classification, breach of contract identification, rating process, risk mitigation identified and loss data collection, preliminarily constructing an internal rating system for the Company and customers within the sector. It promoted the development of the internal rating system and successfully carried out system development and overall testing, resulting in the main functions of the various system modules being developed.

The Company actively and effectively carried out stress testing. During the reporting period, it set up a stress testing mechanism and constantly increased the quality and efficiency of stress testing. On the basis of closely monitoring the macro-economy and policy changes and according to regulatory and business development requirements, it regularly or irregularly carried out credit risk, market risk and liquidity risk stress tests, including sensitivity analysis and scenario analysis of the key risks faced by the bank such as overall credit risk, credit concentration risk, local government financing vehicle loan risk, real estate loan risk, overcapacity industry loan risk, export sector credit risk, manufacturing company credit risk, trading account interest rate risk, bank account interest rate risk, exchange rate risk and liquidity risk, and developed corresponding measures and made management recommendations.

(III) Internal control activities

1. Internal control for credit business

In the area of credit management, the Company set up a sound credit risk management system that is adapted to the risk management strategies, continuously improved risk management rules and regulations, and enhanced credit risk management expertise. It correctly grasped the trend of economic development, strictly implemented national and regulatory policies, scientifically organized the target of credit funds, optimized credit restructuring, focused on key industries and key businesses and strengthened credit asset quality control, effectively avoiding credit risks.

During the reporting period, based on external policies and the changing situation, and fully considering the needs of internal management refinement, the Company introduced the "2010 Industrial Bank Credit Business Access Rules" and "2H 2010 Industrial Bank Credit Business Access Rules"; amended and improved the "Unified Credit Management Measures for Group Customers", specifying the duties of the head office's relevant management departments, strengthening the unified credit management of group customers, and effectively avoiding group customer credit risk; strengthened off-site corporate customers credit business risk control by amending the "Off-site Corporate Customers Credit Business Management Measures"; amended the "Corporate Credit Business Guarantee Agencies Management Measures", further standardizing the management of corporate credit business guarantee agencies to prevent and control risks; updated and rolled out the "Industrial Bank Retail Credit Business Operation Manual (2010 Edition)", timely standardizing the retail credit business operations; amended the "Industrial Bank Individual Customer Credit Due Diligence Management Measures", improving the management of individual customer credit business; amended and improved the "Non-performing Credit Asset Management Measures" and developed the "Operating Procedures for Disposing Non-performing Credit Assets", strengthening the management of non-performing credit assets and improving the bank's credit asset quality and management efficiency.

2. Internal control for capital business

In the area of capital business management, the Company continued to improve the risk management and control system (featuring clear responsibilities as well as checks and balances) that comprises the operations department, risk management departments at all levels and audit department; set up a sound new capital product management system; continuously improved the capital business management system, optimized capital business risk management tools and techniques, and improved treasury business risk management standards and internal practices.

During the reporting period, the Company strengthened its capital business risk management, added risk compliance offices within the operations management sections of the Financial Markets Department to collaborate and complement with the risk management mid-office accredited by the head office to the Financial Markets Department to perform the risk management responsibilities of the Financial Markets Department. It rolled out rules and regulations such as the “Industrial Bank Physical Gold Sales Agency Operating Procedures (Interim)”, “Industrial Bank Shanghai Gold Exchange Proprietary Silver Trading Management Measures” and “Industrial Bank Treasury Operation Center Measurement Model Management Measures” to regulate physical gold agency sales, proprietary silver trading management and risk measurement model management.

3. Internal control for deposits and counter operations

In the area of deposit and counter operations, the Company had consistently adhered to the principle of separation of incompatible positions and differentiation between authorizations, actively made use of counter system tools, optimized counter operation process and strengthened electronic counter hard constraints to prevent operational risks. It set up a sound deposit and counter service management rules and regulations system and strengthened its efforts on execution as well as supervision and inspection to ensure the business was conducted according to law and in compliance.

During the reporting period, it comprehensively promoted counter process reengineering projects. After the counter process reengineering, the counter service efficiency of the various business outlets had markedly improved, customer service experience had greatly improved, and the pressure on tellers had lowered to some extent. It carried out rolling checks on deposit risk and risk investigations on corporate pension fund accounts. It eliminated potential risks by pointing out daily operational risks such as those on bank settlement account management, bank acceptance bill business and transfer of accounting documents. It carried out follow-up verification for RMB bank settlement accounts, laying the basis for account management. It carried out bank-wide self-inspection activities on the agency treasury business and investigations on the risks and hazards of the agency treasury business, strengthening the management of the business.

The Company further improved its anti-money laundering internal control system by issuing the “Industrial Bank Management Rules for Keeping Customer Identification and Customer Identity Information and Transaction Records”, “Industrial Bank Guidelines for Analysis and Screening of Suspicious Transactions”, “Industrial Bank System Operating Procedure for Submitting Anti-Money Laundering Monitoring Data” and the specifications for completing anti-money laundering reports. It continued to carry out customer money-laundering risk rating classification. It optimized the anti-money laundering system functions and adjusted the quantification rule parameters for the anti-money laundering system so that the branches could focus on the analysis and screening of unusual transactions.

4. Internal control for intermediary business

During the reporting period, the Company actively promoted comprehensive management, achieved the effect of comprehensive management through new business approaches such as financial leasing, trust business and debt financing, continued to foster new growth drivers for intermediary businesses, and took effective measures to control business risks. Through special research on internal control and business management for investment banking, the Company put forward recommendations on basic

I. SUMMARY OF INTERNAL CONTROL STATUS *continued*

(III) Internal control activities *continued*

4. Internal control for intermediary business *continued*

specifications and process rationalization for investment banking to guide the business lines to adapt to the changes in the external market environment and to improve internal risk management standards; it strengthened financial services risk management and sorted out the bank's financial services development to uncover the existing problems of financial services and proposed risk management-related recommendations to further regulate the business model and promote the healthy development of the bank's financial services business; it actively supported the development of the financial leasing business and comprehensively sorted out the status of the financial leasing company to uncover any risks and raise internal management standards.

5. Internal control for finance

In the area internal control for finance, the Company had always adhered to the financial authorization principle of "unified leadership, centralized management, accounting by classification and differentiated authorization" to constantly improve the financial management system, preliminarily explore financial vertical management reform, steadily advance the head office's operations department financial head appointment system, and strengthen the financial management and control capabilities of the head office's operations and management departments. Through the finance head, it encouraged the management departments of the head office to enhance input-output awareness, increase planning and finance management efficiency, improve the centralized management mechanism for planning and finance and effectively control financial risks.

In the area of cost management, on the basis of the existing institutional system and according to external environmental changes, the Company amended and improved the financial related systems. During the reporting period, it amended and improved rules and regulations such as those for business unit start-up cost disbursement management and new off-site unit financial management, travel and conference fees cost disbursement management, and training fees management in order to further standardize the financial accounting system and strengthen cost management to effectively prevent the various types of tax risk. During the reporting period, it strengthened financial checks and controls, enhanced the transparency of financial information, and gradually established a risk prevention mechanism and accountability system to promote a culture of compliance.

6. Internal control for accounting

The Company set up a relatively complete accounting and payment settlement management system, continued to strengthen basic accounting management, actively prevented and controlled cases and operational risks, steadily promoted pilot projects for reforming accounting supervision model, and improved the effectiveness of accounting management.

During the reporting period, based on the new accounting standards and actual situation of business innovation, the Company amended and improved the accounting system and accounts classification system to improve accounting management. It held special training sessions such as those for new accounting items description to improve the professional quality of accounting management staff. It continued to strengthen inspection and supervision on key businesses, special operations and high-risk business operations. It preliminarily created a complementary accounting supervision system of daily inspection and supervision, accounting risk monitoring and early warning and back-office operation center to further strengthen effective management and oversight of accounting, standardize operations and prevent major errors. During the reporting period, it issued the "Industrial Bank Accounting cum Compliance Officer Appointment Management Rules (Sep. 2010 Amendment)" to specify the job duties, appointment management and appraisal and reward for the business office accounting cum compliance head, effectively split the responsibilities of the accounting manager, promote the reform of the functions of the business office, and improve the risk management standards of the business office; it issued the "Industrial Bank Unit Demand Deposits Long-term Dormant Account Management Rules" to strengthen operations management on long-term dormant accounts, further clarify the relevant requirements for accounts cleaning up, confirmation, accounting, reconciliation and daily inspection and supervision in order to ensure the security of the long-term dormant accounts; it developed the "Industrial Bank Enter and Withdraw Payment System Management Rules" to specify the access mechanism for the payment system, control risks at source, ensure the security of the payment system and promote the safe and efficient operation of the payment settlement business.

7. Internal control for computer information systems

During the reporting period, the Company set up sound IT risk management and control. It developed the "Information Technology Risk Management Policy" to clarify the IT risk strategic objectives and risk preferences, management principles, organizational structure and functions, risk management procedures, risk control measures and mid-to-long term planning; improved the IT risk key indicator system and put forward 17 enterprise-level indicators in the seven areas of technology governance, personnel management, information security, system development, operation and maintenance, outsourcing and business continuity to comprehensively track and monitor IT risks; set up an IT reporting mechanism for periodic assessment and reporting of IT risk events, and by designing quantitative risk levels and frequency, it enhanced the qualitative analysis of the impact of IT risk events and risk trends and tracked the implementation of the rectifications; developed the "Industrial Bank Important Information System Emergency Response Procedures" to set up an emergency management mechanism for important information systems so as to promote the normalization and standardization of information system emergency management; carried out customer information security and confidentiality management to ensure the security of customer information; further strengthened the IT risk emergency response mechanism by completing the emergency drills for core business systems and other important information systems in accordance with the released annual emergency exercise plans as well as emergency responses for major issues such as core business system data clean-up and reconstruction, effectively improving the integrated management standards and emergency response capacity for IT emergency; continued to strengthen information system monitoring and warning, steadily increase IT operations support capabilities, complete the IT security work for the World Expo and the Asian Games and the bank's Tier I backbone network transformation project; continued to improve the technical specifications for security throughout the entire process of research and development, strengthening the risk control in the project construction process; actively promoted end-document security projects to ensure the safety of office documents and protect the Company's trade secrets and intellectual property; transformed the Company's internet access control to improve internet access security management; effectively improved software development capability and ensured the quality of software development through Software Quality Management CMMI3-level on-site official assessment; officially carried out branch-level IT management assessment to improve branch-level IT management.

(IV) Exchange of information and communication

1. Building a comprehensive mechanism for information exchange and communication

During the reporting period, the Company continued to improve the comprehensive risk management reporting system, with the various branches summarizing the adopted risk management measures and key issues quarterly and the head office's relevant departments timely studying the branches' comprehensive risk management reports and summarizing the highlights of the risk management measures and typical cases and feeding back the head office's comments and suggestions on the branches' reports and regularly submitting the report results to the head office's risk management committee and the Board of Directors for their consideration and issuing the summarized situation in circulars to the various branches for reference so as to effectively promote the risk management measures.

I. SUMMARY OF INTERNAL CONTROL STATUS *continued*

(IV) Exchange of information and communication *continued*

1. Building a comprehensive mechanism for information exchange and communication *continued*

The Company set up a dual reporting mechanism for the planning and finance functions of the head office and branches. In order to meet the needs for organizational flattening and vertical business management, it rolled out the "Industrial Bank Planning and Finance Dual Reporting Management Rules" to set up the branch-level major accounting and finance matter reporting mechanism, smoothen the communication channels for the planning and finance function, and create an open, transparent and efficient management mechanism to enhance the execution capacity of the bank's planning and finance function.

During the reporting period, in accordance with the "Communications System for the Board of Directors and its Committees and Senior Management", the Company further strengthened the effective communication and exchange between the senior management and the Board of Directors and its committees to ensure that the Board of Directors and its committees have timely, accurate and complete access to information related to the Company's operations and management. During the reporting period, the Company also organized many research activities for the directors according to their needs to perform their duties, playing an active role to increase the Board of Directors' strategic decision-making standards and operational efficiency.

2. Improving the information exchange and communication platform

The Company had fully promoted document digitization and achieved real-time information sharing of external documents and internal company documents through the office automation system, comprehensively improving document operational efficiency and ensuring that the bank's staff are able to grasp information such as the decision-makers' strategies, policies and the relevant systems and regulations. The Company paid close attention to the information exchange and communication platform, and actively strengthening the information sharing between business development and risk management through the internal e-journal platform.

3. Strengthening information disclosure

In strict accordance with regulatory requirements, it diligently carried out information disclosure to guide investors to gain a comprehensive understanding of the bank. In a timely manner, it released the ad-hoc reports of the resolutions of the Board of Directors and the Board of Supervisors as well as corporate governance documents; mastered regulatory dynamics and continuously monitored the information of the Board of Directors, the Board of Supervisors and senior management as well as changes in ownership status, and updated them on the SSE website; optimized the electronic management of investor information and disclosure.

(V) Monitoring and evaluation

By continuously improving the internal supervision system and the internal supervisory methods and operating procedures, the Company controlled the various risks in a timely manner and rationally evaluated the effectiveness of the internal control, continuing to promote the effective operation of the supervision and evaluation mechanism.

1. Continuously improving the internal audit monitoring system

To meet the needs for integrated business management, it strengthened audit supervision on the subsidiaries, and during the reporting period it rolled out the "Industrial Bank Subsidiary Auditing Management Practices" to specify the requirements for the subsidiaries' internal audit systems and the authority, format, tasks and methods, and operational processes of the internal audit department for carrying out audit supervision on the subsidiaries, thus improving the internal audit supervision system.

2. Comprehensively promoting supervision and inspection

During the reporting period, the Company's internal audit department focused on strengthening the enforcement of the audit supervision measures, improving the auditing systems, mechanisms and processes, continuously improving the auditing supervision system with daily supervision and project audit as the two main pillars. With respect to daily supervision, the Company's internal audit department gained in-depth understanding and took complete control of the branches' management and internal control situation through continuous information collection and analysis as well as on-site visits and verification in order to effectively carry out internal control evaluation. It continued to strengthen follow-up tracking and problem rectification, carried out problem tracking by using a non-site-based approach after summarizing and analyzing the key issues identified during the on-site audit and daily supervision, issued audit follow-up rectification notices to the appropriate units which had not properly rectified the key matters and important issues, urged the audited units to implement appropriate corrective measures and to specify the persons responsible for the rectification and the rectification period, thus strengthening the rectification process control. With regard to project audit, it actively carried out on-site audit of projects, continuing to enhance audit supervision. First, focusing on the authenticity of assets, liabilities, profits and losses, and the integrity and effectiveness of the internal control, it carried out comprehensive audit and outgoing president audit on a number of branches; second, targeting the key and high-risk businesses and to promote the improvement in the bank's integrated management and service capabilities, it organized a number of audit investigations and special audits.

At the same time, the Company's management department increased its efforts on supervision, inspection and counseling, carried out checks on the implementation of new real estate policies, the implementation of loans to government financing vehicles and management of fixed asset loans, and the implementation of the new regulations for loans related to the "three measures and one guideline", and promptly corrected the biases of the business units in their business development and management; organized retail credit supervision and inspection, focusing on the examination of the branches' retail credit risk control, business process compliance, standardized construction of retail credit centers and due diligence of personnel responsible for credit; carried out branch-level accounting inspection, branch-level cashier inspection, special inspection of foreign exchange funds, anti-money laundering follow-up tracking inspection and external debt compliance inspection, thus continuing to promote the compliant management of the bank.

3. Further carrying out internal control evaluation

During the reporting period, the Company's internal audit department continued to implement a periodic disclosure system for internal control assessment and internal control reporting; combining the various types of information it has obtained from the on-site audits and daily monitoring, it will make a consolidated assessment and comprehensive evaluation of the internal control situation of the head office's business units and the various branches every six months, including risk management, process control, due diligence, performance of their duties and continuous improvement, urging the business units to strengthen internal control management and risk control capacity. The Company continued to promote an integrated pilot for the comprehensive compliance management system and internal control assessment system, fully making use of the results of the original pilots of both systems; it preliminarily completed rolling out the bank's internal control self-assessment template and daily operation mode, effectively establishing a solid foundation for internal control self-assessment in the bank.

II. INTERNAL CONTROL SELF-ASSESSMENT CONCLUSION

The Company's Board of Directors conducted a self-assessment on its internal control in all of the above areas between 1 Jan 2010 and 31 Dec 2010. It found that between 1 Jan 2010 and 31 Dec 2010, there have been no major defects with regard to the integrity and rationality of the Company's internal control mechanisms and internal control system; there also have been no significant deviation in actual implementation and no major defects with regard to effectiveness. Along with the gradual improvement of the national legal system, changes in internal and external environment and the

II. INTERNAL CONTROL SELF-ASSESSMENT CONCLUSION *continued*

Company's continued rapid development, the Company will further improve the internal control system, effectively implementing and enforcing it in practice.

Faced with the complex and ever-changing domestic and international economic situations and increasingly stringent external regulatory requirements, and considering the need to refine internal management, the Company's management needs to further regulate credit performance, improve its ability to perform due diligence while strengthening inspection and supervision to ensure the healthy and standardized development of its credit business. In addition, the management should enhance its understanding and grasp on the various types of risk inherent in the emerging businesses, deepen its understanding of their risk characteristics, increase risk awareness and the standard of risk identification, and strike a balance between business development and risk control.

This report had been considered and approved at the third meeting of the Company's Seventh Board of Directors on 25 March 2011. The Company's Board of Directors and all its members accept joint and several responsibilities for the authenticity, accuracy and completeness of the content of this report.

Fujian Huaxing Certified Public Accountants Co., Ltd. issued the "Opinions on Internal Control Self-assessment Report by the Board of Directors of Industrial Bank Co., Ltd." for this report.

The Board of Directors of Industrial Bank Co., Ltd.

25 March 2011

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Opinions on Internal Control Self-assessment Report by the Board of Directors of Industrial Bank Co., Ltd.

MHXS (2011) SHZ No. G-001

The Board of Directors of Industrial Bank Co., Ltd.:

As commissioned, we have audited the financial statements for Industrial Bank Co., Ltd. (hereinafter referred to as the Company), including the 31 December 2010 consolidated and company balance sheets; 2010 consolidated and company income statements, statement of changes in owner's equity and cash flow statement for the year 2010; and notes to the financial statements. Accordingly, we issued a standard unqualified audit report on 25 March 2011. The management of the Company is responsible for the preparation of these financial statements in accordance with the Accounting Standards for Business Enterprises. Our responsibility is to express an opinion on these financial statements based on our audit.

In the audit process, we followed the relevant requirements of the "Chinese CPA Standards on Auditing No. 1211 – Understanding the audited entity and its environment and assessing the risk of material misstatement" to understand the internal control related to the audit of the financial statements of the Company in order to assess the risk of material misstatement in the financial statements and design the nature, timing and scope of further audit procedures. At the same time, as part of the implementation of audit procedures, we follow the relevant requirements of the "Chinese CPA Standards on Auditing No. 1231 – Procedures in response to assessed risk of material misstatement" to test the relevant internal control related to the preparation of the financial statements. In the above process to understand the internal control and test the control system, in accordance with the Company's actual situation, we carried out inspection procedures that we considered necessary, including inquiring, observing, inspecting and tracking the processing procedure and re-execution of transactions in the financial reporting and information system.

Establishing a sound internal control system is the responsibility of the Company's management. The procedures that we performed to understand the internal control and test the control system are based on the requirements of the above-mentioned Chinese CPA Standards on Auditing for the purpose of auditing the financial statements. They are neither special audit of internal control nor designed to uncover internal control flaws, fraud and embezzlement. Therefore, it is impossible that we can discover all the existing deficiencies. Hence, this report shall not be regarded as a special audit opinion on the internal control of the Company. In addition, as with any internal control, there are inherent limitations, so it is possible that there are undetected misstatements in the financial statements that are due to errors or fraud. Therefore, our audit shall not be relied upon to uncover all material errors and irregularities. In addition, speculating about the future effectiveness of the internal control based on the results of the internal control assessment has a certain degree of risk. This is because changes in circumstances may lead to the internal control becoming inadequate, or the extent of complying with control policies and procedures being reduced. Therefore, there is no guarantee that the currently effective internal controls will be effective in the future.

The Company has prepared the "2010 Internal Control Self-assessment Report by the Board of Directors of Industrial Bank Co., Ltd" (hereinafter referred to as the "Internal Control Self-assessment Report") according to the requirements of the China Securities Regulatory Commission. According to our study and evaluation, in all material respects we found no inconsistency in the Company's internal control relevant to the preparation of the 2010 annual financial statements and the self-assessment on the internal control in the attached "Internal Control Self-assessment Report".

This report shall only be used by Industrial Bank for the purpose of submitting the annual report to the China Securities Regulatory Commission and the stock exchange and not for other purposes.

Fujian Huaxing Certified Public Accountants Co., Ltd.

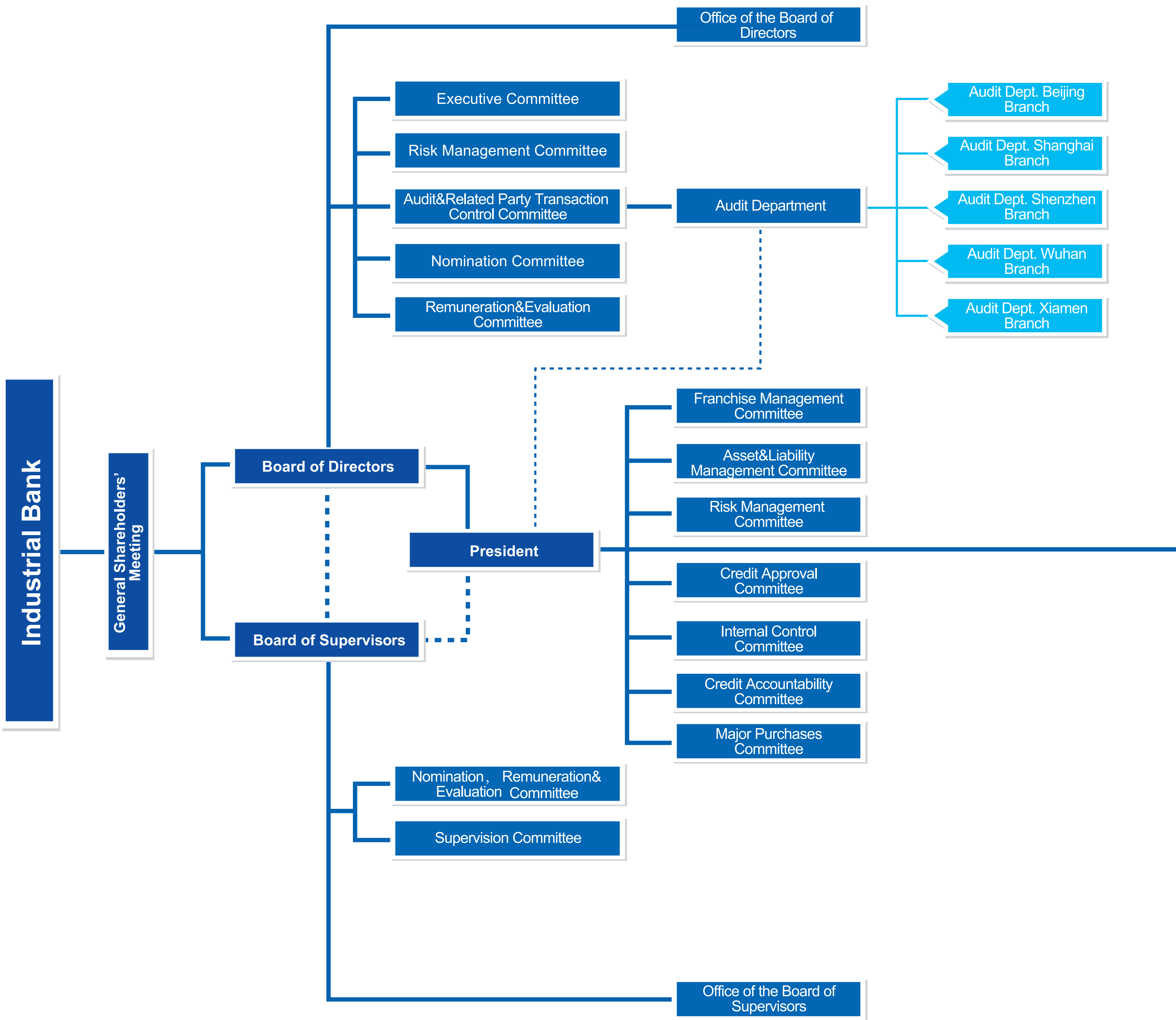
Certified Public Accountant Registered in the Peoples' Republic of China: Lin Baoming

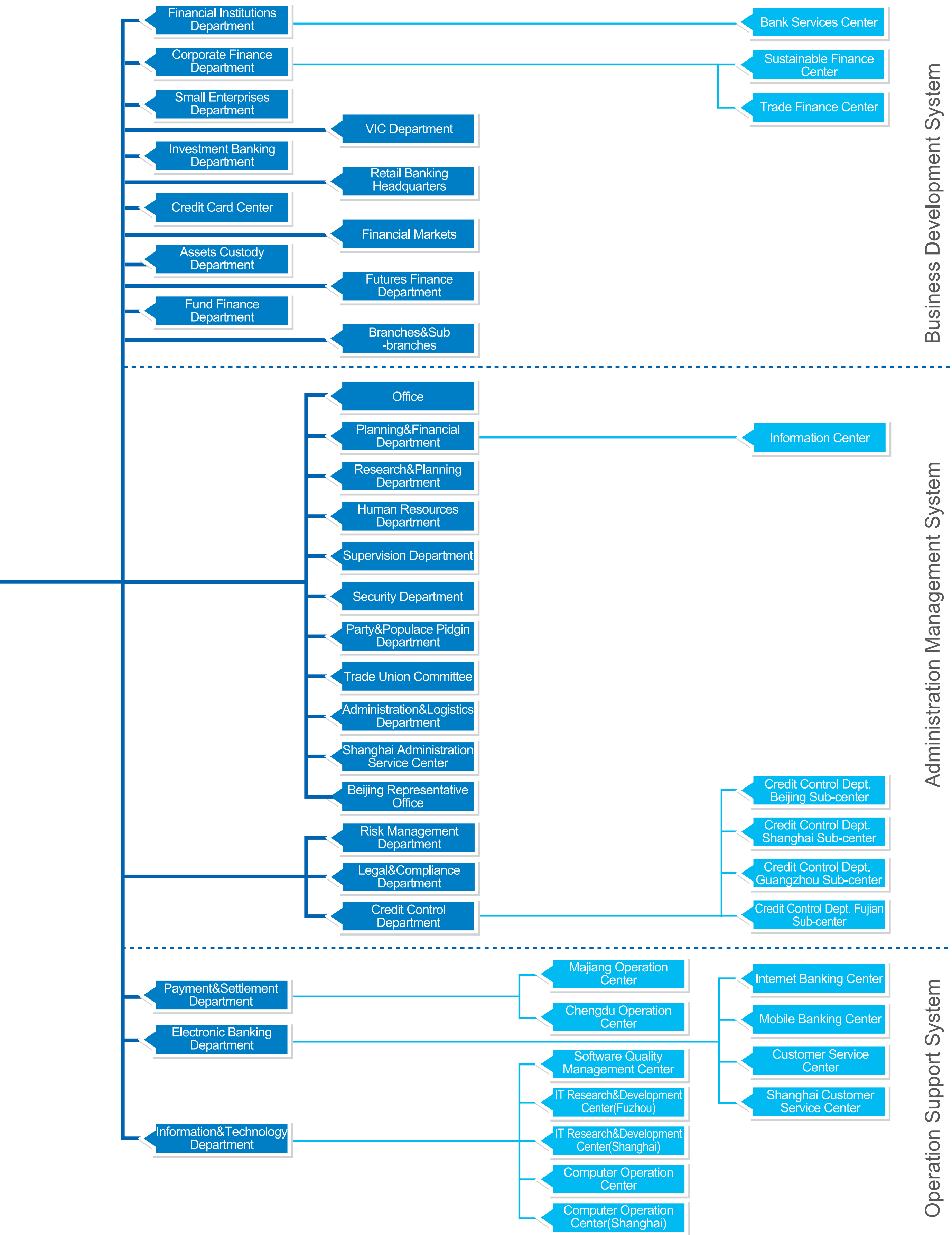
Certified Public Accountant Registered in the Peoples' Republic of China: Zhang Xiangyu

Fuzhou, China

25 March 2011

The Company's Organizational Structure




Financial Institutions Department
Corporate Finance Department
Small Enterprises Department
Investment Banking Department
Credit Card Center
Assets Custody Department
Fund Finance Department
VIC Department
Retail Banking Headquarters
Financial Markets
Futures Finance Department
Branches&Sub -branches
Bank Services Center
Sustainable Finance Center
Trade Finance Center
Business Development System
Office
Planning&Financial Department
Research&Planning Department
Human Resources Department
Supervision Department
Security Department
Party&Populace Pidgin Department
Trade Union Committee
Administration&Logistics Department
Shanghai Administration Service Center
Beijing Representative Office
Risk Management Department
Legal&Compliance Department
Credit Control Department
Information Center
Credit Control Dept. Beijing Sub-center
Credit Control Dept. Shanghai Sub-center
Credit Control Dept. Guangzhou Sub-center
Credit Control Dept. Fujian Sub-center
Administration Management System
Payment&Settlement Department
Electronic Banking Department
Information&Technology Department
Majiang Operation Center
Chengdu Operation Center
Software Quality Management Center
IT Research&Development Center(Fuzhou)
IT Research&Development Center(Shanghai)
Computer Operation Center
Computer Operation Center(Shanghai)
Internet Banking Center
Mobile Banking Center
Customer Service Center
Shanghai Customer Service Center
Operation Support System

This annual report is printed on PEFC certified paper.

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