



广发银行
CHINA GUANGFA BANK

Annual Report 2010

China Guangfa Bank Co., Ltd.





Pooling Talents Together for Boundless Development

The new logo, in the shape of an equilateral triangle, expresses the idea of a solid foundation and dauntless thriving, illustrating Guangfa Bank's corporate image of stability and ambition.

With three equal sides as the basic elements, the logo indicates endless innovation, infinite vitality and constant development, as the number "three" implies in traditional Chinese philosophy.

The three curves of the logo also represent the Yellow River, the Yangtze River and the Pearl River, the three most important rivers, converging in prosperous China. Such an arrangement refers to Guangfa Bank's pooling outstanding talents, abundant funds and advanced technologies to achieve a win-win situation and benefits for the world.

Besides, the three sides interconnecting from end to end indicate our development philosophy of breaking boundaries for seamless connectivity. Also, the triangular shape couples hardness with softness, signifying Guangfa Bank's ability to keep up with changing times and to constantly satisfy customers' diversified and individual needs.

The logo is mainly in red with multi-layered hues, which on the one hand embodies the Chinese tradition of warmth and amicability, while on the other hand features the international modernness of diversification and energy. As a whole, the logo fully illustrates Guangfa Bank's great ambition of starting from China towards the world and embracing future with a solid foundation.

CONTENTS

2	Honor List	108	Report of the Board of Supervisors
5	Chairman's Statement	112	Material Events
9	President's Statement	118	Internal Control Assessment Report
13	Corporate Profile	120	Financial Statements
15	Financial Highlights	120	Auditors' Report
19	Shareholding's Change and Shareholders' Profile	122	Balance Sheet
22	Directors, Supervisors, Senior Managers and Employees	124	Income Statement
35	Corporate Governance	126	Statement of Cash Flow
43	Summary of General Meeting of Shareholders	129	Statement of Changes in Shareholders' Equity
45	Report of the Board of Directors	131	Notes on the Financial Statements
45	Management Discussion and Analysis	237	Directory of Branches and Sub-branches
103	Routine Work of the Board of Directors		
107	2010 Profit Distribution Plan		

Important Notice

- The Board of Directors, Directors and Senior Managers of the Bank warrant that there are no fraudulent disclosures or misleading statements contained in or any material omissions from this report, and are individually and jointly responsible for the authenticity, accuracy and completeness of the information contained in this report.
- Annual Report 2010 of China Guangfa Bank Co., Ltd. was reviewed and approved by the Third Meeting of the Sixth Board of Directors of the Bank. 17 Directors were required to be present at the meeting, and 16 Directors were in attendance. Director Zheng Yong authorized Director Liu Jiade in writing to exercise the right to vote on his behalf.
- KPMG Huazhen Certified Public Accountants had audited the Bank's 2010 Financial Statements according to China's Accounting Standards, and had issued unqualified audit report. At the same time, KPMG had audited the Bank's 2010 Financial Statements according to International Accounting Standards and U.S. Accounting Standards, and had respectively issued unqualified audit reports.
- This report is prepared in both Chinese and English. In the case of any discrepancies, the Chinese version shall prevail.
- Apart from historical fact, certain sections in this report contain forward-looking statements, such as statements that include the words relating to the Bank's future financial position, strategy, planning and the management's mapping of future operations. The Bank's future performance and development may vary due to various factors and uncertainties. The Bank would not undertake the obligations to update or revise any of the forward-looking statement.

The Board of Directors of China Guangfa Bank Co., Ltd.

Chairman Dong Jianyue, President Morris Li, Deputy President Edward Chou and Head of Financial Institution Fan Wenning ensure the authenticity and completeness of financial statements in Annual Report 2010.

Honor List



● China Banking Regulatory Commission

Chairman Dong Jianyue was elected as “2010 Banking Top 10 Leader of Financial Services for SME”



● The People's Bank of China, Guangzhou Branch

2010 Best Execution Prize in Bank Card Business
2010 Bank Card Risk Management Achievement Award



● CBRC Guangdong Office and The Banking Association of Guangdong

Award of financial services organization for the Asian Games in Guangdong Banking Industry
Award of financial services innovation for the Asian Games in Guangdong Banking Industry



● China Union Pay

2010 Union Pay Standard Card Issuance Excellent Achievement Award
2010 Cross-bank Transaction Outstanding Contributions Award
2010 Business Innovation Excellence Award



● VISA

Award for Excellent Credit Card of Business Operation



● Hong Kong Call Center Association (HKCCA)

Award for the Best Call-in Call Center
Award for the Best Call Center for Corporate Social Responsibility



中国银行业协会
CHINA BANKING ASSOCIATION

● **China Banking Association**

Award of Comprehensive Model for Customer Service Centers
in China's Banking Industry

Award of the Best Service for Customer Service Centers
in China's Banking Industry

Award for 2010 Top 10 Feature Financial Products for SMEs as well as
Businesses Related to Agriculture, Rural areas and Farmers
Innovation Award for EXPO Financial Services



首席财务官
CFO WORLD

● **CFO World Magazine**

The Best Cash Management Innovation Award in 2010
CFO most trusted banks' election



CFCA 中国金融认证中心

● **China Financial Certification Authority (CFCA)**

2010 Best Marketing Prize for Online Banking in China



CASME 中国中小企业协会
China Association of Small and Medium Enterprises

● **China Association of Small and Medium Enterprises**

2010 Excellent Service Product for Small-and-Medium Enterprises
2010 Excellent Service Institution for Small-and-Medium Enterprises



和讯
hexun.com
中国财经网络门户

● **Hexun.com**

2010 Top 10 Brand Bank of the 8th China Finance and
Economics Billboard



LACP

● **League of American Communications Professionals**

Annual Report 2009 was awarded Gold Award for the category of
Commercial Banks in China and Bronze Award for
the Best Letter to Shareholders in Asia Pacific

Chairman's Statement



In 2010, facing numerous opportunities and challenges, the new Board of Directors transformed the development model and strived for better development quality by means of scientific planning and resolute decision-making. Thanks to our joint efforts, the Bank managed to make significant progress in different aspects.

While the global economy started recovering in 2010, the aftermath of the international financial crisis still had extensive and profound impacts, causing considerable uncertainties to the recovery process. On the other hand, China's economy maintained steady and fast development, however, conflicts of structural imbalance and the pressure of inflation were becoming increasingly prominent. Facing numerous opportunities and challenges, the new Board of Directors transformed the development model and strived for better development quality by means of scientific planning and resolute decision-making. Thanks to our joint efforts, the Bank managed to make significant progress in all aspects. Our profitability was greatly enhanced, with a year-on-year increase of 82.73% in the net profit. The Bank also recorded constant improvement in asset quality. Both the NPL ratio and NPL amount dropped, with the NPL ratio down by 0.82 percentage points over the previous year. In addition, our capital strength was significantly enhanced. The year-end CAR and the core CAR were 11.02% and 8.30% respectively, with the net capital being RMB 56.617 billion, up by 65.14% year on year. Accordingly, shareholders got better returns, with the EPS being RMB 0.46 within the reporting period, indicating a year-on-year increase of 64.29%.

The above achievements were attributed to the Bank's conscientious compliance with the macro-control policies and regulatory requirements, as well as our full implementation of the new Five-year Development Strategic Planning. Besides, a series of continuous and profound reforms also contributed to the consolidation of development foundation, the establishment of innovation mechanism and the promotion of development transformation.

The Bank improved the corporate governance mechanism and actively enhanced the professionalism of the Board, with the successful election of a new Board of Directors and a new team of senior management. The Bank gave further play to the professional role of independent directors, who are currently chairing professional committees such as the Audit Committee, the Risk Management Committee, the Connected Transaction Control Committee, the HR and Remuneration Committee. Besides, the Bank constantly enhanced the system of decision-making and supervision, with obvious improvement made in the quality and efficiency of decision-making.

Chairman's Statement

The Bank strengthened capital management, improved risk management system, thus comprehensively promoted our abilities in risk resistance and control. With the establishment and implementation of the capital management planning for 2010-2012, the Bank initiated the consultation and planning project for new capital agreement and successfully issued additional shares of RMB 15 billion. Besides, the Bank reformed the framework of risk management and pushed forward the vertical construction of credit risks management and audit system, thus enhanced the management and prevention of reputation risks.

The Bank promoted strategic management and enhanced the reform of the operation and management system, with comprehensive efforts in facilitating the transformation of business development mode. With the establishment of the new Five-year Development Strategic Planning, efforts were made for the steady progress of organizational structure reform, process optimization and management accounting project. The overall planning of human resources management was fully implemented, together with measures to promote the establishment of a market-oriented system of human resources management. Besides, the Bank accelerated implementation of IT strategic planning. Apart from being authorized to set up a post-doctoral research center, the Bank also started constructing a professional financial service center in the Finance High-tech Service Zone in Nanhai of Guangdong Province, for the sake of constant improvement of customer-oriented IT infrastructure with security and stability. In terms of business transformation, the Bank stepped up efforts on developing businesses related to SMEs, personal banking, credit cards and cash management.

The Bank strengthened infrastructure construction, enhanced institutional expansion, business innovation and brand building, so as to promote market influence and brand reputation. The Bank vigorously expanded and optimized our networks, with a number of branches established or to be set up in Tianjin, Harbin and other cities. Besides, the Bank further accelerated product innovation in terms of relevant management framework and operating mechanism. The Bank also launched the Brand Reengineering Project, rebuilding Guangfa brand via reform of the brand management system.

The Bank honored our social responsibilities as a corporate citizen and achieved co-existence, win-win results and joint development between the Bank and stakeholders. Among other things, the Bank supported SME development and continued services for agriculture, rural areas and farmers, with active attempts to set up rural banks and accelerate the expansion of networks in Western China. The Bank also offered great support for education development, and played an active role in social welfare projects such as post-disaster reconstruction and poverty alleviation. Besides, the Bank strengthened security operation and provided secure, efficient and excellent financial services during the World Expo and the Asian Games, which was widely acclaimed in the society.

Looking into 2011, the global economy will continue to recover while China will start her "12th Five-year Plan", which means valuable development opportunities will be brought to commercial banks thanks to the transformation of the economic development pattern and enhanced adjustment of the economic structure. The Bank will implement the Five-year Development Strategic Planning on a full scale in strict accordance with the strategic goal of "establishing a first-class commercial bank", so as to accelerate business transformation and open a new chapter in development!

Finally, I would like to express my sincere thanks to all my Guangfa colleagues for their hard work and solidarity, to the directors and supervisors for their positive contributions to the Bank, and to all the shareholders and friends for their great support and trust. I truly believe that with our joint efforts, Guangfa Bank will certainly be able to make sustainable development and further progress!



Chairman Dong Jianyue

President's Statement



In 2010, the Management of the Bank duly carried out the Board's decisions, clarified future development strategies, took the initiative to adjust the Bank's operational strategies and business structure, effectively improved management performance and smoothly pushed forward a variety of reforms. As a result, the Bank's profitability was significantly improved, with sound and sustainable development in terms of business scale and asset quality.

Despite the economic complexity and volatility both domestically and internationally in 2010, the Management of the Bank duly carried out the Board's decisions, clarified future development strategies, took the initiative to adjust the Bank's operational strategies and business structure, effectively improved management performance and smoothly pushed forward a variety of reforms. As a result, the Bank's profitability was significantly improved, with sound and sustainable development in terms of business scale and asset quality.

As of the end of 2010, total assets of the Bank amounted to RMB 814.390 billion, total liabilities amounted to RMB 771.508 billion, and shareholders' equity amounted to RMB 42.882 billion, representing an increase of 22.19%, 19.74% and 93.25% YoY respectively. The balance of loans and deposits grew to RMB 466.839 billion and RMB 628.858 billion respectively, increased by 22.57% and 15.62% YoY accordingly. The Bank realized drops in both NPL balance and NPL ratio, with the former declining by RMB 1.743 billion to RMB 7.380 billion and the latter by 0.82 percentage to 1.58% YTD. The provision coverage ratio increased by 52.40 percentages to 208.48% YTD. The loan provision ratio of 3.30% made us a forerunner among joint-stock banks. The CAR and core CAR were 11.02% and 8.30%, increased by 2.04 and 2.68 percentages respectively YTD. The Bank recorded a net profit after tax of RMB 6.189 billion, exceeding the aggregated net profits of the previous two years, increased by 82.73% YoY, with weighted average ROE up 3.61 percentages to 19.78% YoY.

No pains, no gains. The good performance in 2010 was owing to the Bank's key work carried out in the following areas:

The Bank actively expanded the market and improved market competitiveness. Breakthrough was made in marketing core corporate banking customers, with strategic partnership established with China Unicom, China National Materials and other super-scale enterprises. SME financial services were further strengthened, with healthy and rapid growth of the "Hao Rong Tong" business. The Bank also restructured personal banking business and started professional marketing pilot with active exploration for new models of marketing services. Credit card business has recorded profits for consecutive six years, with the aggregated cards acquisition amount exceeding 10 million. Besides, the Bank integrated the businesses of monetary market, fixed income, bills inter-bank discounting and agency consulting into a financial market segment, for the flexible deployment of funds in line with market conditions, thus achieving both liquidity and profitability.

President's Statement

The Bank strengthened the capacity of risk management and control to ensure healthy business development. The Bank earnestly enhanced the construction of a comprehensive risk management system including credit risks, market risks, operation risks, liquidity risks, reputation risks and etc. In strict accordance with the orientation of the national macro-control policies, the Bank consistently strengthened the study and application of credit procedures, asset quality and measurement technologies, consolidated and optimized the fundamental platform of risk management in a comprehensive manner, so as to steadily promote the refinement of risk management. The Bank strictly implemented various regulatory requirements, including strengthening screening of key credit fields as well as in-depth identification of weakness in the risk management system, with early preparations in place to ensure the healthy and steady development of various businesses.

The Bank reinforced the procedure structure redesign and enhanced the construction of procedural banking. The mechanism of “product development teams” was established for trial operation of new procedures in product development and standardized management. The Bank established Chief Credit Officer (CCO) system with authorization based on his ability, together with the reform of credit approval procedures. Measures were also taken to enhance the Head Office's service support for branches in terms of business guidance, marketing promotion and technological initiatives, and to accelerate the cultivation of customer relationship managers, product managers and risk managers throughout the Bank. The transformation of organizational structure was steadily promoted, with regional audit centers set up in Beijing, Shanghai and Guangzhou, in addition to regional credit approval centers established in the northern, southern and eastern parts of China. The boundary of responsibilities of each department was further specified based on the separation of customers, products and channels.

The Bank strengthened the construction of support system to comprehensively enhance its development potentials. Strategic development planning was studied and formulated to define the development direction and goals of the coming five years. The Bank steadily promoted the reform of human resources system, with the establishment of an open and transparent mechanism of cadre appointment featuring competition and mobility. The Bank also took proactive action to promote and implement IT planning project, with the planning and construction of “three centers in two places” to fully guarantee the effective, secure and steady operation of the information system. The Bank has launched the establishment of a professional financial service center in Finance High-tech Service Zone in Nanhai ,Guangdong Province, in order to build a strong backup guarantee base.

The achievements in 2010 could not be reached without the guidance and assistance of the Board of Directors and the Board of Supervisors, as well as the trust and support from extensive investors and the social communities, and last but not least, the diligence and dedication of all the staff. Hereby, on behalf of the Senior Management, I would like to extend my sincere gratitude to those who care and support the development of Guangfa Bank.

President's Statement

2011 marks the beginning of the Bank's five-year strategic development planning, thus being a key pivot in our progress. With that in mind, guided by the five-year strategic development planning, the management will duly keep the risk bottom line, deepen various reforms, strengthen strategic implementation, carry out business line management, promote cross marketing, pursue the development mode with refined management, cost-efficient capital, differentiated products and dynamic competitive edge, and make great efforts to achieve our strategic objective of becoming a "first-class commercial bank" as soon as possible in thorough compliance with the government's "12th Five-Year Plan" and various regulatory requirements.



President Morris Li

About Us

Guangfa Bank, one of the joint-stock commercial banks first established in China, was founded in 1988. Since openness for business, the Bank has made many “No. 1”s in China’s Banking Industry, always standing in the frontline of the financial reform. In 1995, the Bank unified the legal person system; in 1996, the Bank acquired Zhong Yin Trust Investment Company, being the first case of commercial banks acquiring non-banking financial institutions, and started to establish branch networks in nationwide major cities; in 2006, the Bank completed the restructuring successfully, introduced world-class well-known companies, including Citigroup, China Life, State Grid and Citic Trust, etc. as strategic investors. In April 2011, the Bank changed the name of “Guangdong Development Bank” into “Guangfa Bank”, and launched the new Corporate Image (CI).

After more than 20 years’ development, Guangfa Bank has become a competitive and influential national joint-stock commercial bank from a regional bank. By the end of 2010, the Bank has established branches and sub-branches in 45 cities of prefecture level and over in 12 provinces (cities) in Mainland China, including Beijing, Tianjin, Liaoning, Heilongjiang, Shanghai, Jiangsu, Zhejiang, Henan, Hubei, Hunan, Guangdong, and Yunnan, in addition to Macau SAR, with 544 business outlets under the Bank’s full jurisdiction. Besides, the Bank has two representative offices in Beijing and Hong Kong, and a post-doctoral research station at the Head Office. More than 15,000 employees provide high-quality services of local and foreign currency saving deposits, payment and settlement, personal loans, comprehensive wealth management and credit card, etc. for personal customers, comprehensive financial solutions for corporate clients, and comfortable, swift and secure e-banking services.

1. Statutory Name in Chinese: 广发银行股份有限公司

(Abbreviation: 广发银行)

Statutory name in English: China Guangfa Bank Co., Ltd.

(Abbreviation: Guangfa Bank)

2. Business Philosophy and Business Scope

Business Philosophy

Develop various commercial banking businesses in line with the principles of equality, free will, fairness and honesty; promote and support the development of national economy and the overall prosperity of society; and seek the benefit for the interests of shareholders at the maximum extent.

The Bank shall regard safety, mobility and profitability as its principles of operation, and shall operate independently at its own risk, assume sole responsibility for its profits and losses and be self-disciplined.

Business Scope

Taking public deposits; granting short-term, mid-term and long-term loans; handling settlements in and out of China; honoring bills and offering discounting services; issuing financial bonds; issuing, paying for and underwriting government bonds as an agent; sales and purchases of negotiable securities such as government bonds and financial bonds; inter-bank borrowings; providing letters of credit and security; engaging in banking card business; acting as payment and receipt agent and insurance agent; providing safe deposit box services; taking deposits and granting loans in foreign currency; foreign currency remittance; foreign currency exchange; international settlements; foreign exchange settlements and sales; inter-bank foreign currency borrowings; honoring bills of exchange and offering discounting services in foreign currency; granting foreign currency loans; granting foreign currency guarantees; sales and purchases of negotiable securities other than shares in a foreign currency for itself and as an agent; issuing negotiable securities other than shares in a foreign currency for itself and as an agent; sales and purchases of foreign exchange on its own account and on behalf of its customers; issuing and making payments for foreign credit cards as an agent; offshore financial operations; assets and credit verification, consultation and notarization businesses; other businesses approved by the China Banking Regulatory Commission (hereinafter as CBRC) and other relevant authorities.

3. Legal Representative: Dong Jianyue

4. Secretary to Board of Directors: Zheng Xiaolong

5. Registered Office Address: No. 713, Dongfengdong Road, Yuexiu District, Guangzhou, Guangdong Province, P.R. China

Postcode: 510080

Tel: 86-20-38322888

Fax: 86-20-87310779

Website: www.gdb.com.cn

Corporate Profile

6. Place for Obtaining Annual Report: Office of Board of Directors of the Bank

7. Other Relevant Information

Authority of registration: Guangdong Provincial Administration for Industry and Commerce of PRC

Corporate business license serial number: 440000000046541

Financial institution license serial number: B0012H144010001

Organization code: 19033642-8

Tax registration certificate number: Yue State Tax 440101190336428

Yue Local Tax 440102190336428

8. Engaged Auditors

Domestic Auditor: KPMG Huazhen Certified Public Accountants

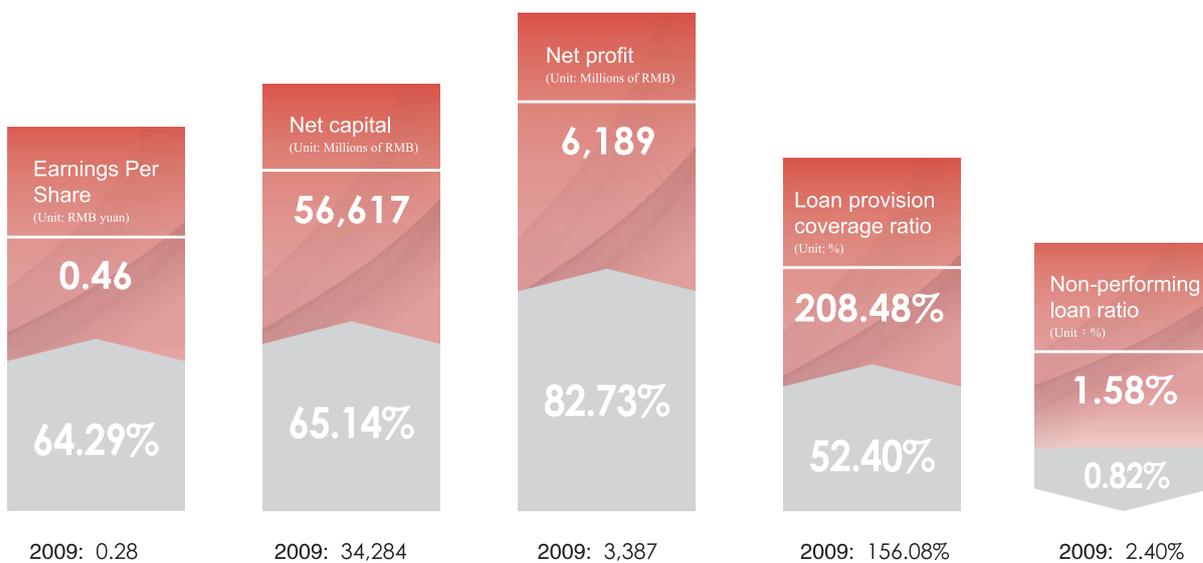
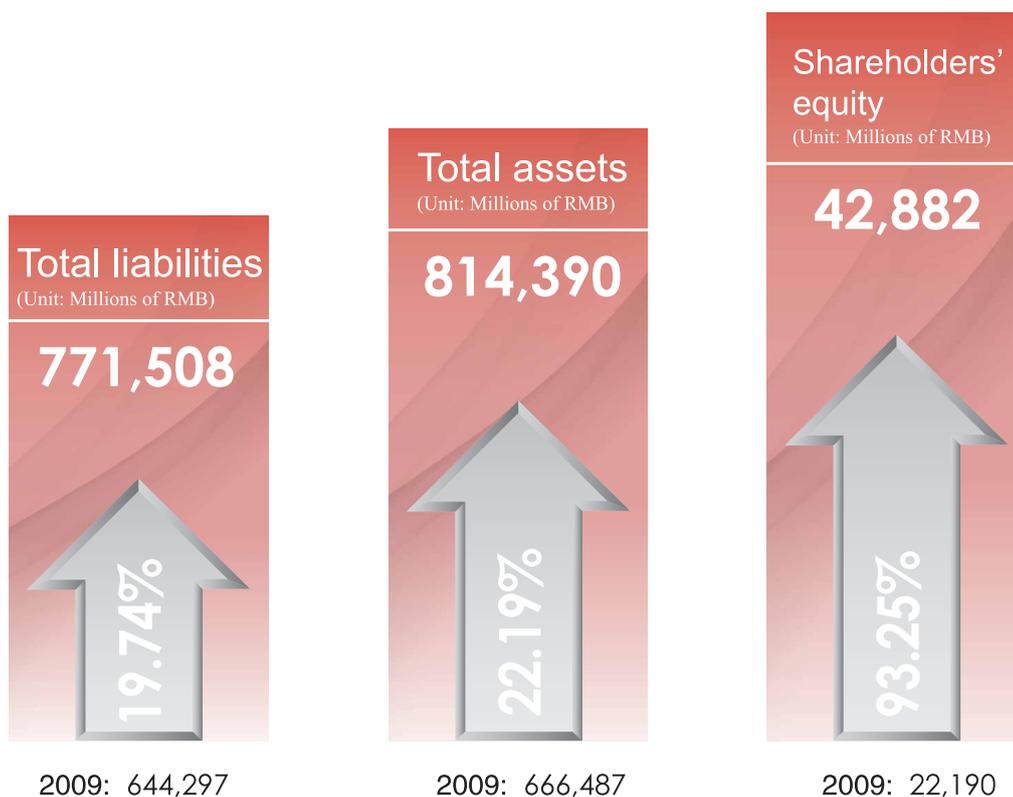
Office Address: 8th Floor, Tower E2, Oriental Plaza, 1 East Chang An Avenue, Beijing, China

International Auditor: KPMG

Office Address: 8th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong

9. This report was prepared in accordance with the Measures on Information Disclosure of Commercial Banks by CBRC, as well as the Notice on Regulating the Contents of Annual Reports of Join-stock Commercial Banks promulgated by CBRC.

Financial Highlights



Financial Highlights

1. Financial Summary

Items	2010	2009	2008
Business results (RMB thousands)			
Net interest income	19,362,322	13,097,726	15,716,478
Net fee and commission income	2,366,301	1,746,350	1,571,936
Operating income	21,957,867	15,114,715	17,710,991
Operating and administrative expenses	(9,059,658)	(7,326,305)	(6,530,295)
Allowances for asset impairment	(2,807,783)	(1,465,120)	(6,865,318)
Operating profit	8,489,975	5,021,097	2,977,156
Total profit	8,603,517	5,011,562	3,083,631
Net profit	6,188,614	3,387,131	2,784,008
Net profit attributing to shareholders of ordinary share	6,188,614	3,387,131	2,784,008
Net cash flows from operating activities	14,865,065	43,297,949	4,453,873
End of Reporting Period (RMB thousands)			
Total assets	814,390,022	666,486,624	546,015,349
Total loans and advances to customers	466,838,802	380,875,019	311,698,506
Allowances for loans and advances impairment losses	(15,386,721)	(14,239,750)	(13,360,269)
Net investment	63,676,381	89,195,702	80,032,347
Total liabilities	771,508,425	644,296,593	526,413,634
Deposits from customers	628,857,912	543,890,399	404,654,710
Deposits from banks and non-bank financial institutions	55,539,436	50,819,648	51,054,132
Placements from banks and non-bank financial institutions	13,938,614	2,576,589	11,863,236
Shareholders' equity	42,881,597	22,190,031	19,601,715
Net capital	56,617,230	34,284,246	32,073,904
Net core capital	42,636,247	21,481,817	18,388,063
Supplementary capital	15,884,772	14,706,221	13,689,633
Deductions	(1,907,578)	(1,907,584)	(7,584)
Net risk-weighted assets	513,759,170	381,903,730	275,812,260
Data for per share (RMB yuan)			
Net assets per share ²	2.78	1.85	1.72
Basic earnings per share ¹	0.46	0.28	0.24
Diluted earnings per share ¹	0.46	0.28	0.24
Net cash flow from operating activities per share	0.97	3.61	0.39

Note: 1. It is calculated according to the provisions of the CSRC of the Rules for the Compilation of Information Disclosures by the Companies That Offer Securities to the Public (No. 9) - Calculation and Disclosure of ROE and Earnings per Share (2010).

2. Shareholders' equity at the end of the period divided by equity at the end of the period.

2. Financial Ratios

Items	2010	2009	2008
Profitability ratios (%)			
ROAA ¹	0.84	0.56	0.57
Weighted average return on net assets ²	19.78	16.17	15.80
Net interest spread ³	2.62	2.24	3.30
Net interest margin ⁴	2.70	2.26	3.34
Ratio of net fee and commission income to operating income	10.78	11.55	8.88
Cost to income ratio ⁵	41.26	48.47	36.87
Asset quality ratios (%)			
Non-performing loan ratio ⁶	1.58	2.40	2.85
Loan provision coverage ratio ⁷	208.48	156.08	150.63
Loans provision ratio ⁸	3.30	3.74	4.29
Capital adequacy ratios (%)			
Core capital adequacy ratio	8.30	5.62	6.67
Capital adequacy ratio	11.02	8.98	11.63

Note: 1. Net profit divided by the average balance of total assets at the beginning and end of the period.

2. It is calculated according to the provisions of the CSRC of the Rules for the Compilation of Information Disclosures by the Companies That Offer Securities to the Public (No. 9) - Calculation and Disclosure of ROE and Earnings per Share (2010).

3. Average interest earning assets yield deducts average interest rate of interest-bearing liabilities.

4. Net interest income divided by average interest earning assets.

5. Operating and administrative expenses divided by operating income.

6. Balance of Non-performing loans divided by total loans and advances.

7. Balance of Loan impairment allowances divided by balance of Non-performing loans.

8. Balance of Loan impairment allowances divided by total loans and advances.

Financial Highlights

3. Supplementary Financial Ratios

key indicators		Regulatory indicators(%)	2010 EoP (%)	2009 EoP (%)	2008 EoP (%)
Loan-deposit ratio	Converted into RMB	≤ 75	72.35	68.15	73.97
Liquidity ratio	RMB	≥ 25	55.61	54.28	52.59
	FX	≥ 25	46.46	64.81	120.82
Proportion of call loans	Called-in RMB	≤ 4	1.89	0.4	2.84
	Called-out RMB	≤ 8	1.79	0.92	2.52
Proportion of loans to the top single borrower to net capital		≤ 10	7.95	10.21	4.37
Proportion of loans to the top 10 borrowers to net capital			41.71	56.43	31.07

Note: The above data were calculated according to CBRC's regulatory requirements.

4. Changes in Shareholders' Equity

In RMB Thousand

Item	2010 EoP	Increase for the reporting period	Decrease for the reporting period	2009 EoP
Share capital	15,402,397	3,423,553	0	11,978,844
Capital reserve	11,787,197	11,628,499	(535,826)	694,524
Statutory general reserve	6,693,316	1,522,157	0	5,171,159
Surplus reserves	1,504,142	618,861	0	885,281
Retained earnings	7,546,507	6,188,614	(2,141,018)	3,498,911
Foreign currency translation reserve	(51,962)	0	(13,274)	(38,688)
Total Shareholders' Equity	42,881,597	23,381,684	(2,690,118)	22,190,031

Note: Main reason of changes in shareholders' equity:

1. In accordance with additional share issuance proposal adopted by resolution of the first extraordinary general meeting of shareholders in 2010, the Bank issued additional shares to shareholders who met the regulatory requirements and according to the proportion of issuing additional 2.858 shares for per 10 shares. After certification by a registered accountant, as of July 30, 2010, the Bank totally has received RMB 14.995 billion of investment fund paid by shareholders, inclusive of RMB 3.424 billion of share capital and RMB 11.572 billion of share premium.
2. Capital reserve refers to the alteration reserve of fair value of financial assets available for sale and share premium.
3. The Bank drew 10% of net profit of current year as statutory surplus reserve.
4. The Bank drew statutory general reserve according to the difference of 1% of the balance of risk assets (before deduction of impairment preparation) of December 31st, 2010.

Shareholding's Change and Shareholders' Profile

1. Change in Shareholding

According to the 2010 Additional Shares Issuance Plan reviewed and approved by the First Extraordinary General Meeting of Shareholders in 2010 of the Bank on April 8, 2010 and the Official Reply Concerning the Approval of Qualifications of Relevant Shareholders of Guangdong Development Bank and the Program for Increasing Capital and the Number of Shares (Yin Jian Fu [2010] No. 299) issued by the CBRC on July 5, the Bank, in accordance with the proportion of issuing 2.858 additional shares to shareholders for every 10 shares, issued 3,423,553,537 additional shares at a price of RMB 4.38 per share to shareholders who met the regulatory requirements and registered in the shareholding list. The total number of shares of the Bank increased accordingly from 11,978,843,727 to 15,402,397,264 after the issuance of additional shares. Meanwhile, a public notice concerning the issuance of additional shares has been published on the Bank's website and in the Financial Times and the Nanfang Daily.

(Unit: share)

Nature of shares	Before the change	Proportion of shareholding	Increase/decrease	After the change	Proportion of shareholding
State-owned shares	59,159,208	0.494%	(9,171,713)	49,987,495	0.325%
Shares held by State-owned legal persons	8,537,378,186	71.270%	2,532,996,324	11,070,374,510	71.874%
Shares held by foreign investors	2,963,565,938	24.740%	684,710,707	3,648,276,645	23.686%
Shares held by individuals	965,070	0.008%	0	965,070	0.006%
Shares held by other domestic investors	417,775,325	3.488%	215,018,219	632,793,544	4.108%
Total	11,978,843,727	100.00%	3,423,553,537	15,402,397,264	100.00%

2. Number of Shareholders and Shareholdings

At the end of the reporting period, the Bank had 621 shareholders holding a total of 15,402,397,264 shares of the Bank.

3. Profile of Top 10 Shareholders

(Unit: share)

Name of shareholder	Increase/decrease in the reporting period	Number of shares held	Proportion of shareholding
CITIGROUP INC.	684,710,707	3,080,479,452	20.0000%
China Life Insurance Co., Ltd.	684,710,707	3,080,479,452	20.0000%
Yingda International Holdings Corporation, Ltd.	684,710,707	3,080,479,452	20.0000%
CITIC Trust Co., Ltd.	684,710,707	3,080,479,452	20.0000%
IBM CREDIT LLC	0	567,797,193	3.6864%
Guangdong Finance Investment Holdings Corporation, Ltd.	69,947,336	314,689,589	2.0431%
Shanghai Shenhua Holdings Co., Ltd.	49,699,769	223,596,793	1.4517%
Jiangsu Suzhou Iron & Steel Group Co., Ltd.	53,443,103	222,777,231	1.4464%
Lianda Group Co., Ltd.	0	177,091,050	1.1498%
Heungkong Group Co., Ltd.	118,399,466	145,016,357	0.9415%
Total	3,030,332,502	13,972,886,021	90.7189%

Shareholding's Change and Shareholders' Profile

- Note: 1. There are no hypothecated, sequestrated or frozen shares for single shareholder holding over 5% of the Bank's Shares.
2. According to the SASAC and CBRC's approval, shareholder State Grid Corporation of China had freely transferred all its shares of the Bank to State Grid Asset Management Co., Ltd which is State Grid's wholly owned subsidiary. In December 2010, State Grid Asset Management Co., Ltd changed its name to Yingda International Holdings Corporation Limited after approved by State Administration Bureau for Industry and Commerce.

4. Introduction of Shareholders Holding over 5% of the Bank's Shares

(1) Citigroup Inc.

Citi, the leading global financial services company, has approximately 200 million customer accounts and does business in more than 160 countries and jurisdictions. Through Citicorp and Citi Holdings, Citi provides consumers, corporations, governments and institutions with a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, transaction services and wealth management. Additional information may be found at www.citigroup.com or www.citi.com.

(2) China Life Insurance Co., Ltd.

China Life Insurance Co., Ltd. is a life insurance company established in Beijing, China on 30 June, 2003 according to the Company Law of the People's Republic of China. The Company was successfully listed on the New York Stock Exchange, the Hong Kong Stock Exchange and the Shanghai Stock Exchange on 17 and 18 December 2003, and 9 January 2007, respectively. The Company's registered capital is RMB28,264,705,000. The Company is the largest life insurance company in China's ("China" refers to the People's Republic of China, excluding the Hong Kong Special Administrative Region, Macau Special Administrative Region, and Taiwan region) insurance market. Its distribution network, comprising exclusive agents, direct sales representatives, and dedicated and non-dedicated agencies, is the most extensive one in China. The Company is one of the largest institutional investors in China, and through its controlling shareholding in China Life Insurance Asset Management Co., Ltd., the Company is the largest insurance asset management company in China. The Company also has controlling shareholding in China Life Pension Company Limited. Products and services of the Company include individual life insurance, group life insurance, accident and health insurance. The Company is China's leading life insurance company, a leading provider of annuity products and life insurance for both individuals and groups, and a leading provider of accident and health insurance in China.

(3) Yingda International Holdings Corporation, Ltd.

Yingda International Holdings Corporation, Ltd. was reorganized and founded from the original State Grid Asset Management Co., Ltd. in December 2010, being one of wholly-owned subsidiaries of State Grid Corporation of China with registered capital RMB16 billion. Being the management and control body of financial industries of State Grid Corporation of China, Yingda International Holdings Corporation, Ltd. manages China Power Finance Co., Ltd., Yingda Taihe Property Insurance Co., Ltd., Yingda Taihe Life Insurance Co., Ltd., Yingda International Trust Co., Ltd., Yingda Securities Co., Ltd., Yingda Chang'an Insurance Brokers Co., Ltd. and Yingda Futures Co., Ltd.. Based on the development strategy of "collectivization, marketization, internationalization, branding", Yingda International Holdings Corporation, Ltd. will be built into a domestic first-class financial holding group.

Shareholding's Change and Shareholders' Profile

(4) CITIC Trust Co., Ltd.

CITIC Trust Co., Ltd. is a national financial institution under direct regulation of the China Banking Regulatory Commission. Its predecessor CITIC Development Co., Ltd. was a wholly-owned subsidiary of the CITIC Group and set up on March 5, 1988. In 2002, the Company completed its restructuring and changed its name to CITIC Trust and Investment Co., Ltd. before adopting its current name in 2007. The Company's registered capital was expanded in 2006 to reach RMB 1.2 billion (including the value converted from 23 million US dollars). The two shareholders are China CITIC Group and CITIC East China (Group) Co., Ltd. respectively.

5. Connected Transactions

Based on the Governing Rules for Connected Transactions between Commercial Banks and Internal Parties/Shareholders promulgated by CBRC and the Governing Rules for Connected Transactions of Guangdong Development Bank Co., Ltd., The Bank follows the following principles when conducting connected transactions: (i) Abide by relevant laws, regulations, provisions, national uniform accounting policies and banking regulatory rules; (ii) Keep in conformity to the principles of honesty, creditworthiness and fairness; (iii) Keep to the commercial principles and proceed the connected transactions with terms not superior to those for non-connected parties. In 2010, the Bank continued to strengthened the risk management and control of connected transactions, regularized behaviors of connected transactions, and revised the Governing Rules for Connected Transactions of Guangdong Development Bank Co., Ltd., further improved the Bank's management processes of connected transactions.

The connected parties of the Bank refer to: the Bank's shareholders with 5% or above shares and their controlling shareholders; legal representatives, natural persons or other organizations with direct, indirect, co-control or capable of casting significant influence over the Bank's shareholders with 5% or above shares; the Bank's Directors, Senior Managers and other parties and their next-of-kin with the power to decide or participate in the Bank's credit lending and asset transfer; legal representatives or other organizations with direct, indirect, co-control over or capable of casting significant influence over the Bank's Directors, Senior Managers and other parties and their next-of-kin with the power to decide or participate in the Bank's credit lending and asset transfer. The Bank has no controlling shareholder. Shareholders who hold 5% and more than 5% shares include: Citigroup Inc., China Life Insurance Co., Ltd., Yingda International Holdings Corporation, Ltd. and CITIC Trust Co., Ltd., each of whom holds 20% of the Bank's shares. In 2010, the Bank has no substantial connected transactions or special substantial connected transactions.

At the end of the reporting period, the Bank has no NPL balance in connected transactions.

Directors, Supervisors, Senior Managers and Employees

1. Directors, Supervisors and Senior Managers

(1) Basic Information (Chinese names listed according to strokes of family name; English according to alphabetical order)

Name	Title	Gender	Birth	Appointment Date
Wan Feng	Director	Male	52	2009/03/17
Wang Fenghua	Director	Male	57	2006/12/18
Liu Jiade	Director	Male	47	2006/12/18
Li Zimin	Director	Male	39	2007/06/26
Li Dianjun	Independent Director	Male	68	2010/06/18
Chan Tai Loi	Independent Director	Male	51	2006/12/18
Morris Li	Executive Director, President	Male	54	2010/06/18
Lin Jianjun	Director	Male	38	2008/04/22
Zheng Yong	Executive Director, Deputy President	Male	48	2009/12/01
Larry Zong	Executive Director, Deputy President	Male	45	2010/06/18
Gai Yongguang	Director	Male	50	2006/12/18
Zhang Shengman	Director	Male	53	2007/09/20
Dong Jianyue	Chairman of the Board, Party Secretary of the CPC Committee of the Bank	Male	49	2009/06/22
Pu Jian	Director	Male	50	2006/12/18
Phee Boon Kang	Independent Director	Male	59	2007/09/20
James Morrow	Executive Director, Deputy President, Chief Risk Officer	Male	55	2010/03/23
Anthony P. Della Pietra Jr	Director	Male	50	2010/01/18
Ma Xiangdong	Employee Representative Supervisor	Male	51	2009/02/18
Deng Jianhua	Shareholder Representative Supervisor	Male	49	2007/06/26
Wang Jianmin	Shareholder Representative Supervisor	Male	41	2007/06/26
Li Jinsheng	Chairman of the Board of Supervisors, Employee Representative Supervisor	Male	54	2009/02/18
Hong Wenjian	Employee Representative Supervisor	Male	40	2009/02/18
Liang Jianhua	Employee Representative Supervisor	Male	58	2009/02/18
Tan Jinsong	External Supervisor	Male	45	2007/06/26
Zhai Meiqing	Shareholder Representative Supervisor	Female	46	2007/06/26
Jin Haiteng	Deputy President	Male	59	2006/12/18
Edward Chou	Deputy President	Male	45	2006/12/18
Zheng Lianming	Deputy President	Male	50	2007/01/30
Amy Choi	Deputy President	Female	52	2010/06/18
Zheng Xiaolong	Secretary to Board of Directors	Male	47	2006/12/18

Directors, Supervisors, Senior Managers and Employees

(2) Main Working Experience and Incumbency in the Shareholding Companies or Other Organizations of Directors, Supervisors and Senior Managers

Main Working Experience



Wan Feng

Director of the Bank.

Mr. Wan is Executive Director and President of China Life Insurance Company Ltd., Deputy President of China Life Insurance (Group) Company, Director of China Life Pension Company Ltd., Director of China Life Property and Casualty Insurance Company Ltd., Director of China Life Asset Management Company Ltd..

Ph.D in Economics, MBA, Senior Economist Engineer. He has served as Deputy General Manager of PICC Jilin Municipal Branch Company, Deputy General Manager of Life Insurance Division of PICC Jilin Provincial Company, Assistant to General Manager of China Life Hong Kong Branch Company, Senior Deputy General Manager of Taiping Life Insurance Co., Ltd. Hong Kong Branch, General Manager of China Life Shenzhen Branch Company, Deputy General Manager of China Life and General Manager of Shenzhen Municipal Branch Company, Deputy President of China Life Insurance Company Ltd..



Wang Fenghua

Director of the Bank.

Mr. Wang is Assistant to the General Manager of State Grid Corporation of China; Party Secretary of the CPC Committee and Chairman of Yingda International Holdings Corporation, Ltd.. Master's degree, Senior Economist Engineer. He has served as Deputy Director and Director of De Zhou Electric Power Bureau; Head of Finance Department of Shandong Electric Power Bureau; General Manger of Yingda International Trust and Investment Co. Ltd.; Chief Economist of Shandong Electric Power Group; Chairman of Weishen Securities Co. Ltd.; Party Secretary of the CPC Committee and Deputy President of State Grid Power Development Co. Ltd.; General Manager, Chairman of the Board and Party Secretary of the CPC Committee of China Power Finance Co., Ltd., Deputy Chief Economist and Head of Financial Asset Management Department of State Grid Corporation of China.



Liu Jiade

Director of the Bank.

Mr. Liu is Deputy President of China Life Insurance Company Limited, Director of China Life Insurance Asset Management Company Limited, and Director of China Life Franklin Asset Management Company.

Bachelor's degree. Mr. Liu had served as Deputy Division Chief and Division Chief in the Commercial Finance Bureau of Ministry of Finance, Deputy County Chief of the People's Government of Guan Tao County in Hebei Province, the Division Chief in the Treasury Bond Finance Bureau of the Ministry of Finance from 1998 to 2000, Deputy Director of the Finance Bureau of the Ministry of Finance from 2000 to 2003. During his tenure at the Ministry of Finance, Mr. Liu gained extensive experience in the administration of assets, finance and taxation of insurance companies, banks, trust companies and securities institutions.

Directors, Supervisors, Senior Managers and Employees

Main Working Experience



Li Zimin

Director of the Bank.

Mr. Li is Chief Operating Officer and General Manager of Investment Banking Department I of CITIC Trust Co., Ltd., at the same time, he is Director of MaoMing Petro-Chemical ShiHua Co., Ltd., Director of ZhongYinXin Investment Co., Ltd., Director of FangChengGang Municipal Xinrun Petro-Chemical Co., Ltd., Director of Fujian Tongchun Pharmaceutical Co., Ltd., Supervisor of Beijing Zhongguancun Science City Construction Co., Ltd.. MBA and Senior Economist. He has served as project manager of Assets Preservation Dept. and Investment Management Dept. of CITIC Industrial Trust Investment Co., Ltd.; Deputy General Manager of Finance Dept. of Zhongxing Shenyang Commercial Building (Group) Company Limited; Director and Deputy General Manager of Beijing Techgreen Company Limited; Senior Manager of Enterprise Annuity Dept., Head of Comprehensive Financial Service Group, and Company Expert of CITIC Trust and Investment Co., Ltd..



Li Dianjun

Independent Director of the Bank.

Bachelor's degree, researcher. After graduation from University in 1967, Mr. Li served as the Secretary of the Standing Committee of the People's Congress in Yongji County, Jilin Province, Head of the Propaganda Department of the County Party Committee (member of the standing committee), Deputy Secretary of the County Party Committee; Deputy Director and Director of Personnel Bureau of Head Office of the People's Bank of China; Deputy Secretary of Party Committee and Deputy President of Head Office of Agricultural Bank of China; member of the Central Financial Work Committee; Chairman of Board of Supervisors of major state-owned financial institutions (at the vice-ministerial level). Mr. Li has the experience of working in local party and government administration, Central Bank, State-owned Commercial Bank and State-owned Insurance Company and is familiar with the policies and business of Banking or Issuance Industry. He has solid academic knowledge and theoretical attainment, published more than 200 articles in newspapers above provincial level like People's Daily, Guangming Daily, Economic Daily and Chinese Finance, chiefly edited 18 books like Finance Dictionary, Course of Commercial Banking Law of the People's Republic of China, Art of Leadership of Commercial Banks, 8 Elements of Winning Means of Insurance Companies, etc. Once engaged as Adjunct Professor and graduate student tutor by Southwestern University of Finance and Economics.



Chan Tai Loi

Independent Director of the Bank.

Bachelor of Business Administration. He has served as stockbroker of Nomura Securities; Assistant Vice President of Citibank; General Manager of Franklin And Taylor Asset Management Limited; Sales Director of Heng Feng Securities Limited; Chairman of the Board of Directors of Premium Holdings P/L; General Manager in Corporate Finance Department of Peregrine Securities (Taiwan); Chairman of the Board of Directors of Premium Group P/L; Senior Vice President of Asia Financial Securities; Director and Head of Corporate Finance and Equity Capital Market of CU Securities and CU Capital (Asia), COO of Shang Hua Holdings Limited.

Directors, Supervisors, Senior Managers and Employees

Main Working Experience



Morris Li

Executive Director, President of the Bank.

Graduated from the National Taiwan University. Before joining Guangfa Bank, Mr. Li was the Citi Country Officer of Citi Taiwan and also Chairman of Citibank Taiwan Ltd. Mr. Li joined Citi in 1989 and has worked in Taipei and Hong Kong for Citi in various senior positions including Treasury Marketing Unit Head, FX Sales and Derivatives Head and Financial and Capital Markets Head. He has served as Country Treasurer of Citi Taiwan, Head of Sales and Trading for Taiwan, and Head of Corporate Sales and Structuring for Greater China. Mr. Li once joined Chinatrust, one of the largest local banks in Taiwan as Senior EVP, in charge of the bank's capital markets and treasury businesses.



Lin Jianjun

Director of the Bank.

Mr. Lin is Director of Business Synergy Department of Yingda International Holdings Corporation, Ltd..

Master of Finance. Mr. Lin has served as Manager Assistant of Investment Banking Dept. of Securities HO of China Power Trust & Investment Co., Ltd.; Deputy Manager of Corporate Financing Dept., Institution Management Dept., Treasury Planning Dept., Director of General Manager Office, Commercial Banks Dept. and Credit Management Dept. of China Power Finance Co., Ltd.; member of CPC Committee and Senior Deputy General Manager of Eastern China Branch of China Power Finance Co., Ltd..



Zheng Yong

Executive Director, Deputy President of the Bank.

LL.M. degree. Mr. Zheng has served as Division Chief of the Ministry of Justice of China; an attorney-at-law with Beijing L&A Law Firm, the China Law Office (Hong Kong) as well as Beijing De Heng Law Firm; Deputy General Manager of Legal Affairs Department, Company Secretary, General Manager of Legal and Compliance Department of China Life Insurance Co., Ltd. He was a visiting fellow at both Harvard Law School and J.F. Kennedy School of Government in the US from August 1996 to October 1997. He is an arbitrator of China International Economic and Trade Arbitration Commission.



Larry Zong

Executive Director, Deputy President of the Bank.

MBA. Mr. Zong has served as Assistant Vice President of the Settlement Department in Bank of Communications Co., Ltd., New York Branch, Manager of the Operations Department and Deputy President of Industrial Bank of Japan, Dalian Branch, Deputy General Manager of the International Business Department of Shanghai Pudong Development Bank (SPDB), President of SPDB Dalian Branch, Director of System Reform Office of SPDB, President of SPDB Shenzhen Branch. Mr. Zong was also responsible for the operation of SPDB Hong Kong representative office during his position in System Reform Office and in Shenzhen.

Directors, Supervisors, Senior Managers and Employees

Main Working Experience



Gai Yongguang

Director of the Bank.

Mr. Gai is Chairman of the Board and Party Secretary of the CPC Committee of Ying Da International Trust Co., Ltd..

Master's degree, Senior Engineer. He has served as Program Manager, Deputy Director of the Machinery Office, Assistant of Institute Head, Director of Multi-operation Office, Deputy Institute Head and CPC Committee Commissioner in Shandong Electric Power Research Institute; Deputy President of Shandong Electric Power Science Institute; Deputy General Manager of Shandong Electric Power Materials Company; General Manager of Shandong Electric Power International Trade Company; Deputy Secretary and Secretary of the CPC Committee of Shandong Electric Power Science Institute; Deputy President of Shandong Electric Power College; Deputy President of Shandong Electric Power Institute; Deputy General Manager, Deputy Chairman of the Board, General Manager, Chairman of the Board and Party Secretary of the CPC Committee of Ying Da International Trust Co., Ltd..



Zhang Shengman

Director of the Bank.

Mr. Zhang is Chairman of Citigroup (Asia Pacific), member of Citi Management Committee, Independent Director of Fosun International.

MPA. He has served as Division Director and Deputy Director-General of Ministry of Finance of PRC; China Executive Director, Deputy President and Secretary General, Senior Deputy President, Duty Deputy President of World Bank; Chairman of Operation Committee, Crisis Management Committee, Sanction Committee and Corporate Fraud and Corruption Policy Committee of World Bank.



Dong Jianyue

Chairman of the Board and Party Secretary of the CPC Committee of the Bank.

Bachelor's degree, Senior Engineer. He has served in Ministry of Chemical Industry of the People's Republic of China, successively taking posts of Deputy Division Head of Facilities and Power Division in Department of Production General Affair, Division Head of Facilities and Energy Division in Department of Production Coordination, Deputy Department Head of Department of Production Coordination, and he took post in Wuxi City Government as a Mayor assistant; worked successively as Deputy General Manager of Credit Business Department, Corporation Business Department, General Manager of Asset Preservation Department at Bank of China (BOC) Head Office, also took the position as Secretary-general of Asset Disposal Committee of BOC Head Office, Member of Risk Management Committee and Risk Control Committee of BOC Hong Kong, the Chairman of the Board of Zhonggang (Cayman) Company, Director of Bank of China Group Investment Company; worked as Branch President and Secretary of the Party Committee of BOC Liaoning Provincial Branch; took the position as Member of Executive Committee of Bank of China Group, Branch President and Secretary of the Party Committee of BOC Beijing Branch.

Directors, Supervisors, Senior Managers and Employees

Main Working Experience



Pu Jian

Director of the Bank.

Mr. Pu is Managing Director and Chairman of the Executive Committee of CITIC Trust Co., Ltd.; Director of China CITIC Group; Chairman of the Board of Directors of China International Economic Consultants Incorporation, Director of Allianz China Life Insurance, Director of TaiKang Life Insurance.

MBA, Senior Economist. He served as Director and Head of Manufacture Department, General Manager's Assistant, and General Manager in Jiangsu Province Suntory Food Co., Ltd.; worked in Light Industry Department of Citic-Sociate Trust Investment Company; Deputy Manager of Investment Banking and Assistant Manager of Citic Securities Limited; General Manager and Secretary of Communist Party Committee (CPC) at Citic Securities, Shanghai Office; Deputy General Manager and Manager of Research Department at Citic Securities Limited; Deputy-Chairman of Board of Directors and Secretary of CPC at China Sea Helicopter Controlling Company; General Manager and Secretary of CPC at Citic Sea Helicopter Co., Ltd.



Phee Boon Kang

Independent Director of the Bank.

Mr. Kang is Founder & President of Boon Associates L.L.C.; Chairman of the Board, Jane Goodall Institute Global Secretariat; Trustee, Beloit College, Wisconsin.

Master of Science in Management & Editor of MIT Sloan Management Review. Mr. Kang served as Senior Vice President & Area Manager for Taiwan and the Philippines in American Express where he held various positions including Chairman/CEO of American Express International (Taiwan) Inc., and concurrently General Manager of American Express Bank Ltd., Taiwan Branch. Prior to that he was Senior Vice President & the start-up Retail Country Manager in Bank of America Taiwan. Until 1995, Mr. Kang had worked for Citicorp/Citibank in New York, Kuala Lumpur, Singapore, Manila, Tokyo and Taipei, starting in corporate and merchant banking operation management, followed by 15 years of retail banking roles at country business manager level in 5 Asian countries, including pioneering roles in Japan, Indonesia and Malaysia.



James Morrow

Executive Director, Deputy President of the Bank, Chief Risk Officer.

MBA. Mr. James Morrow served as operations manager of operations and corporate banking at Citi affiliate Saudi American bank, corporate banker in Citibank (Sweden), risk asset examiner in the Audit Division covering the Asia Pacific region, Taiwan's Country Risk Manager, Country Corporate Officer in Sweden, the Global Industry Head for Citi's worldwide business with electronic companies, Group Executive and Japan Registered Representative for Citi's Corporate Banking business in Japan, Chief Risk Officer of Citibank Korea Inc., Citi Country Officer Morocco, Cluster Head Morocco, Tunisia and Libya.

Directors, Supervisors, Senior Managers and Employees

Main Working Experience



Anthony P. Della
Pietra Jr

Director of the Bank.

Mr. Anthony ("T. J.") Della Pietra is Citi's General Counsel in Asia Pacific. JD degree, University of Virginia; BS degree, Boston College. He joined Citi in 2004 as Chief Legal Officer in Japan and assumed his current position in 2009. Before joining Citi he worked as a corporate lawyer at Davis Polk & Wardwell and in senior legal roles at J.P. Morgan & Co. Incorporated. He is admitted to practice in New York and Washington, D.C.



Ma Xiangdong

Employee Representative Supervisor of the Bank.

Mr. Ma is now working as member of the Discipline Committee, member of Trade Union Committee and General Manager of Security Department in China Guangfa Bank. M.A. in Money and Banking, Senior Engineer and Economist. Mr. Ma worked successively as Director of Department I of Guangzhou Light Industry Machinery Designing Research Institute of the Ministry of Light Industry, Party Committee member; temporary post of Deputy County Head and Party Committee member of People's Government of Gaozhou County of Guangdong Province; Deputy Director of Infrastructure Division of the Department of Light Industry of Guangdong; Deputy General Manager of Credit Department, General Manager of Domestic Business Department, General Manager of Business Department, General Manager of Audit Department, Secretary of Party Sub-Committee of Guangdong Development Bank.



Deng Jianhua

Shareholder Representative Supervisor of the Bank.

Mr. Deng is Senior Deputy General Manager of Guangdong Finance Asset Management Co., Ltd., General Manager of Zhuhai Providence Real Estate Development Co., Ltd.. Auditor, Master of Economics. He used to serve as Chief Accountant of Jiang Xi Chemical Examination Factory, Manager of Industry and Communication Division of Audit Bureau, Jiang Xi Province, Deputy Manager of Audit Department of Guangdong Finance Trust and Investment Co., Ltd., General Manager of Audit Department of Guangdong Finance Investment (Holding) Co., Ltd.. General Manager of Guangdong Finance Investment Company Limited, Director of Guangdong Fenghua Advanced Technology (Holding) Co., Ltd..

Directors, Supervisors, Senior Managers and Employees

Main Working Experience



Wang Jianmin

Shareholder Representative Supervisor of the Bank.

Mr. Wang is Chairman and President of Zhejiang Wojin Investment and Management Co., Ltd..

PhD of Management Science & Engineer. He has served as Deputy General Manager, General Manager of Investment & Development Dept. of Zhejiang Zhongda Group Co., Ltd., Deputy General Manager, Chairman of the Board of Directors of Zhejiang Zhongda Group Investment Company Co., Ltd., Supervisor, Director and President of Zhejiang Zhongda Group Co., Ltd., Deputy Chairman of Zhejiang Zhongda Futures & Broker Co., Ltd. and so on.



Li Jinsheng

Chairman of the Board of Supervisors, Employee Representative Supervisor of the Bank.

Mr. Li is now working as member of the Party Committee of China Guangfa Bank.

Ph.D in Money and Banking of Southwestern University of Finance and Economics, Senior Economist. Mr. Li worked successively as cadre of the Commerce Division of Finance Department of Heilongjiang Province; cadre of Finance Office, Office III of General Office and Governor's Office of Heilongjiang Province; Deputy Director of General Office of Bank of China Harbin Branch (provincial branch); Director of General Office of Guangdong Development Bank, General Manager of Audit Department, General Manager of Treasury Department; Deputy Director of Working Group of Preparation for the Incorporation of Guangzhou Branch of Guangdong Development Bank and Deputy Branch President (in charge of overall administration), Branch President and Secretary of Party Committee; Chief Auditor and member of Party Committee of Guangdong Development Bank.



Hong Wenjian

Employee Representative Supervisor of the Bank.

Mr. Hong is now working as Deputy General Manager of the Strategic Management Department and Deputy Chairman of the Trade Union of China Guangfa Bank.

B.A. in law, Economist. Mr. Hong had taken part in the Bank's acquisition of Zhong Yin Trust & Investment Co., Ltd., custody of Enping Urban and Rural Credit Cooperatives and Reform and Restructuring of GDB. He worked successively as Deputy Manager of Asset Management Department, Manager and Deputy General Manager of Planning and Management Department of Guangdong Development Bank.

Directors, Supervisors, Senior Managers and Employees

Main Working Experience



Liang Jianhua

Employee Representative Supervisor of the Bank.

Mr. Liang is now working as member of the Trade Union of China Guangfa Bank. Ph.D in Economics of Renmin University of China, associate research fellow. Mr. Liang worked successively as driver in Five-Seven Cadres School of Unit 024 of the People's Liberation Army, Squad Leader of Unit 51058 of the People's Liberation Army, Counsellor of Beijing School of Economics, associate researcher of Financial Research Institute of the People's Bank of China, manager of International Department of HO, Deputy President of Jiangmen Branch, one of the leaders of the working group of the acquisition of Zhong Yin Trust & Investment Co., Ltd.. General Manager and Secretary of Party Sub-Committee of Treasury Department, temporary person-in-charge of Operation Management Department of Guangdong Development Bank.



Tan Jinsong

External Supervisor of the Bank.

Mr. Tan is the Party Secretary of the CPC Committee, Professor and Doctor Advisor of the School of Business of SUN YAT-SEN University; Commissioner of Education Committee of MPAcc, Executive Director of Chartered Accountants Association of Guangdong, Director of Guangdong Audit Association; Director of Internal Audit Association of China and Director of Budget and Accounting Research Association of Guangdong. PhD. of Management (Accounting). He has served as Principal Director of Accounting Department in School of Business of SUN YAT-SEN University, Associate Dean of School of Business of SUN YAT-SEN University.



Zhai Meiqing

Shareholder Representative Supervisor of the Bank.

Ms. Zhai is Chairman of the Board and President of Heungkong Group Co., Ltd., Chairman of the Board of Directors of Kinhom Group Co., Ltd. and of Heungkong Southern Group Co., Ltd., Chairman of the Board of Directors of Heungkong Holding Co., Ltd. Member of the Standing Committee of All-China Women's Federation, Deputy President of China Association for the Promotion of Industry Development, Member of the Standing Committee of the Guangdong People's Political Consultative Conference, Deputy President of the Women's Federation of Guangdong Province, Member of the Standing Committee of the Shenzhen People's Political Consultative Conference, Chairman of Heungkong Social Assistance Fund, Deputy Chairman of Guangdong Association of Industry & Commerce, President of Guangdong Association of Women Entrepreneurs. Master of Business Administration.

Directors, Supervisors, Senior Managers and Employees

Main Working Experience



Jin Haiteng

Deputy President of the Bank.

Senior Economist. As the educated youth, he once worked in the countryside of Yi Lan County in Heilongjiang Province to experience the life there. He has served as the Deputy Section Chief, Deputy General Director of Ningbo Commodities Price Bureau; Deputy Director, Deputy Secretary of CPC Committee of Ningbo Finance & Trade Office; Secretary of CPC Committee and Director General of Ningbo Commercial Bureau, County Head, Deputy Secretary of County Party Committee of Yinxian County, Deputy General Manager, Principal of overseas business in Zhong Yin Trust and Investment Corporation Ltd., President, Secretary of CPC Committee of Guangdong Development Bank Hangzhou Branch, Deputy President, member of Party Committee of Guangdong Development Bank Head Office.



Edward Chou

Deputy President of the Bank.

Master of Finance. He has served as the Manager of Treasury Operations Department; Head of Financial Accounting & Reporting of Citibank, Taipei; Chief Financial Officer of Chase Manhattan Bank, Taipei; Chief Financial Officer of Citigroup, China; Representative of Citibank China Head Office and Chief of Staff of Citigroup, China.



Zheng Lianming

Deputy President of the Bank.

Graduated from School of Economics of Peking University, Master's degree, Senior Economist. He used to work for the State Development and Planning Commission as Deputy Director of Laws and Regulations Restructuring Bureau and Deputy Director of Policy Research Office (in charge of all-round work). After joining GDB, he has served as Deputy General Manager of HO General Office, Deputy General Manager and General Manager of HO International Business Department, President Assistant of Head Office and President of Foshan Branch, member of HO CPC Committee and Deputy President of the Bank.

Directors, Supervisors, Senior Managers and Employees

Main Working Experience



Amy Choi

Deputy President of the Bank.

Graduated from City University in the UK with a Master Degree of Science in Business System Analysis and Design. Ms. Choi joined Citibank Hong Kong in 1994 and has served as Systems Manager in the Technology Department, Hankow Center Branch Manager, Card Merchant Relationship Development Manager and International Personal Banking Team Head. She was appointed District Sales Manager in 2001 and Director of Sales and Distribution of Citibank Hong Kong in 2004. Prior to joining Citibank, Ms. Choi was System Engineering Manager at IBM. She also held various other service management roles at IBM.



Zheng Xiaolong

Secretary to Board of Directors of the Bank.

Master of Economics. He used to be a lecturer in Electronic Industry Management Cadre College and serve in Everbright International Leasing Co., Ltd.. In 1996, he participated in Guangdong Development Bank Co., Ltd.'s acquisition of Zhong Yin Trust & Investment Co., Ltd.. In 1997, he served as the Deputy Branch President in charge of GDB Huizhou Branch's operations. In 2001, he served as the General Manager of the Planning and Management Department of GDB Head Office, and concurrently the Head of GDB Restructuring and Development Office. In 2006, he served as the Secretary to Board of Directors of Guangdong Development Bank.

(3) Shares held by Directors, Supervisors and Senior Managers

No Directors, Supervisors and Senior Managers of the Bank hold shares of the Bank.

(4) Annual Remuneration and Incentive Measures

Remuneration of Non-executive Directors and Supervisors is verified and paid in accordance with the Remuneration System for Non-executive Directors and Supervisors of Guangdong Development Bank Co., Ltd. The specific standards are as follows:

Remuneration of Non-executive Directors and Supervisors of the Bank is composed of three parts, remuneration of Directors/Supervisors, remuneration of members or principal member of specialized committees and meeting allowance: (1) remuneration of Directors is RMB 200,000 each year, remuneration of Supervisors is RMB 100,000 each year; (2) remuneration of members of the Audit Committee is RMB26,000 each year, remuneration of members of other committees is RMB 24,000; remuneration of the principal member of Audit Committee is RMB 45,000 each year, remuneration of principal members of other committees is RMB 34,000. Committee remuneration of Directors and Supervisors participating in the work of multiple specialized committees is paid according to the number of committees on which they serve; (3) meeting allowance refers to allowance granted to Non-executive Directors and Supervisors for attending meetings of the Board of Directors and Board of Supervisors, the standard is RMB3,000 each time.

Directors, Supervisors, Senior Managers and Employees

The program for the allocation of remuneration for Senior Management shall, after being examined and verified by the HR and Remuneration Committee, be submitted to the Board of Directors for consideration and approval before being implemented. As of December 31, 2010, remuneration set aside for the Bank's Directors, Supervisors and Senior Management for 2010 was RMB 21 million.

In 2010, the Bank further improved the remuneration system and incentive and restraint mechanisms for Senior Management, the Board of Directors reviewed and adopted the Measures for Managing the Accountability of Senior Management and actively amended and improved the remuneration management system for Senior Management to promote Senior Management's compliance with laws and regulations in performing their duties and enhance the Bank's operating management and market competitiveness.

The Bank has bought liability insurance for Directors, Supervisors and Senior Management. The Bank hasn't granted equity incentives to Directors, Supervisors and Senior Management.

(5) Changes of Directors, Supervisors and Senior Managers

On 18th January 2010, the 9th Meeting of the 5th Board of Directors reviewed and approved the Proposal on the Resignation of Mr. Martin Wong from the 5th Board of Directors of Guangdong Development Bank Co., Ltd. and relevant Arrangement concerning the By-election of Director. Due to Mr. Martin Wong's resignation, the Board of Directors triggers a shortage of Directors and does not cause the quorum of the Board of Directors to fall below the statutory minimum. Pursuant to Article 110 and some other regulations of Articles of Association, the Board of Directors appointed Mr. Anthony P. Della Pietra Jr. as Director of the 5th Board of Directors to perform duty accordingly. The term of appointment will expire upon the convention of the next General Meeting of Shareholders and the matters in relation to the by-election of Director will be submitted for review.

On 23 March, 2010, the First Extraordinary Meeting in 2010 of the Bank's Fifth Board of Directors reviewed and approved the Proposal on the Resignation of Mr. Daniel Massey from the Fifth Board of Directors of Guangdong Development Bank and Relevant Arrangement concerning the By-election of Director. Due to Mr. Daniel Massey's resignation, the Board of Directors triggers a shortage of Directors and does not cause the quorum of the Board of Directors to fall below the statutory minimum. Pursuant to Article 110 and some other regulations of Articles of Association, the Board of Directors appointed Mr. James Morrow as Director of the 5th Board of Directors to perform duty accordingly. The term of appointment will expire upon the convention of the next General Meeting of Shareholders and the matters in relation to the by-election of Director will be submitted for review.

On March 23, 2010, the First Extraordinary Meeting of the Bank's Fifth Board of Directors reviewed and approved the Proposal for the Resignation of Mr. Daniel Massey from the Post of Vice President and Chief Risk Officer of Guangdong Development Bank Co., Ltd. and the Proposal for the Appointment of Mr. James Morrow as Vice President and Chief Risk Officer of Guangdong Development Bank, appointed Mr. James Morrow as Vice President and Chief Risk Officer of the Bank.

On April 8, 2010, the Bank's First Extraordinary General Meeting of Shareholders elected Mr. Anthony P. Della Pietra Jr and Mr. James Morrow as Directors of the Fifth Board of Directors of the Bank.

Directors, Supervisors, Senior Managers and Employees

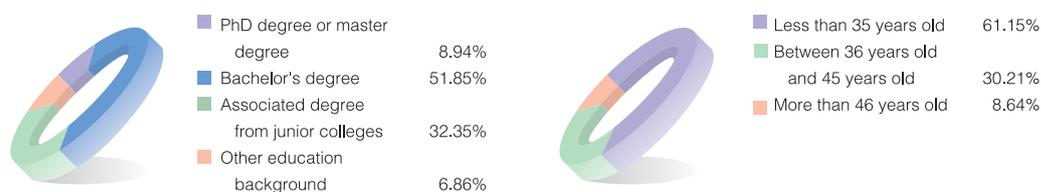
On May 24, 2010, the Fourth Extraordinary Meeting of the Bank's Fifth Board of Directors reviewed and approved the Proposal for the List of Suggested Candidates for Directors of the Sixth Board of Directors of Guangdong Development Bank Co., Ltd. The Bank's Sixth Board of Directors is composed of 17 directors, including three Independent Directors. The list of candidates for Directors of the Sixth Board of Directors reviewed and approved by meeting of the Board of Directors and submitted to the General Meeting of Shareholders for election is: Dong Jianyue, Wan Feng, Wang Fenghua, Pu Jian, Zhang Shengman, Liu Jiade, James Morrow, Zheng Yong, Morris Li, Anthony P. Della Pietra Jr, Li Zimin, Gai Yongguang, Lin Jianjun, Larry Zong, Chan Tai Loi, Phee Boon Kang and Li Dianjun, of whom Chan Tai Loi, Phee Boon Kang and Li Dianjun are Independent Directors.

On June 18, 2010, the Bank's 2009 Annual General Meeting of Shareholders reviewed and approved the Proposal for the Election of Directors of the Sixth Board of Directors of Guangdong Development Bank Co., Ltd. See above for the list of members of the new Board of Directors.

On June 18, 2010, the First Meeting of the Sixth Board of Directors of the Bank elected Mr. Dong Jianyue as Chairman of the Sixth Board of Directors and legal representative of Guangdong Development Bank, appointed Mr. Morris Li as President, Mr. James Morrow as Vice President and Chief Risk Officer. Mr. Jin Haiteng as Vice President, Mr. Zheng Yong as Vice President, Mr. Larry Zong as Vice President, Mr. Edward Chou as Vice President, Mr. Zheng Lianming as Vice President, Ms. Amy Choi as Vice President, Mr. Zheng Xiaolong as Secretary to Board of Directors.

2. Employees

As of the end of 2010, the Bank had 15,939 employees, increasing 1,417 persons compared with that of 2009. With respect to academic achievement, 8.94% of all employees have received PhD degree or master degree; 51.85% of all have bachelor's degree; 32.35% with associated degree from junior colleges, and 6.86% with other education background. In terms of age structure, 61.15% of all employees are less than 35 years old; 30.21% of all are between 36 years old and 45 years old; 8.64% of all are more than 46 years old. Total retired employees amounted to 574 persons.



Corporate Governance

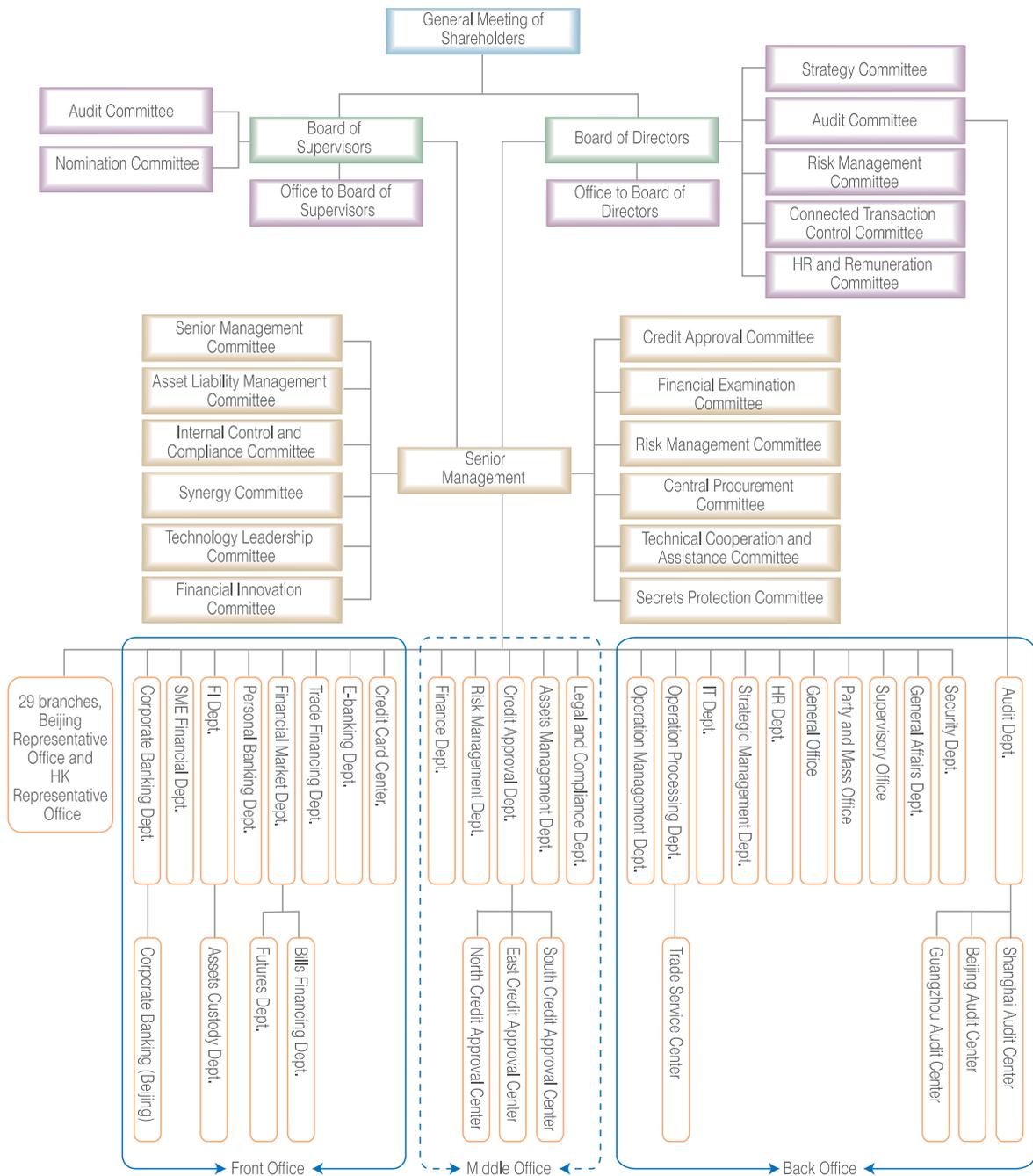
The Bank has earnestly complied with and implemented applicable laws and regulations and regulatory authorities' requirements for corporate governance, continuously upgraded corporate governance system, and constantly improved corporate governance performance, various tasks for corporate governance were steadily achieved. During the reporting period, the re-appointment of Board of Directors and Senior Management were smoothly accomplished, the specialized committees of the Board of Directors and their personnel composition were optimized and adjusted; the additional share issuance was successfully completed, risk control and capital management was strengthened; the transparency of information disclosure was continuously improved, enhanced capital strength and harmonious corporate governance environment created a solid foundation for achieving the strategic target of becoming a first-class joint-stock commercial bank.

- The smooth and steady completion of the re-appointment of the Board of Directors and senior management ensured the continuity and stableness of various tasks of the Board of Director and senior management, and laid a good foundation for the future operation and development of the Bank.
- The specialized committees of the Board of Directors and their personnel structure were optimized and adjusted. The former Risk Management and Connected Transaction Control Committee was divided into a Risk Management Committee and a Connected Transaction Control Committee; the former Nomination Committee and Remuneration and Appraisal Committee were combined into a HR and Remuneration Committee. The personnel structures of these committees were also adjusted accordingly. Other than the Strategy Committee, the principal member of each committee is served by an Independent Director. The new committee structure and personnel arrangement will enable the committees to function in a scientific, efficient and systemic manner.
- The additional share issuance was successfully completed. The near RMB15 billion core capital replenishment task was completed within just over five months, which significantly improved risk resistance ability and profitability, providing strong support for the Bank's stable and sustainable development.
- The HR reform was furthered. An HR management reform with the cores of position management, performance management and remuneration management was fully implemented, so as to optimize the distribution of human resources and improve the management and monitoring system of HR cost.
- Risk management was constantly improved and risk management ability and risk management independence were further strengthened. The risk management structure was reformed, the credit system and procedure reform was furthered, the credit review and approval procedures were optimized, a credit executive and special reviewer system was established, an individual-based and differentiated facility grant system was implemented, thereby adopting a personal responsibility system for risk management and risk control. The vertical auditing system reform was developed with significant progress; local audit centers were officially launched for operation, and a vertical and integrated auditing report system and report channel were gradually established, so as to reinforce the systems under the new structure, sort out, formulate or amend the audit center management, audit project management, audit system management and other measures, and further regulate the audit procedures from difference aspects, thereby making full use of the independent inspection, supervision and evaluation functions of the auditing system.

Corporate Governance

- The information disclosure system was strictly implemented, various periodical reports and interim reports were published according to the law, the content of the information disclosed by the Bank was gradually improved to ensure the efficiency and transparency of such information disclosure. Investor relationship management has been constantly improved, and a regular and good contact has been established with rating companies. In 2010, while the overall rating for banks was prudently adjusted, rating institutions sustained the rating level for the Bank, which effectively improved the Bank's image in the society and its market reputation.
- Various approaches were taken to facilitate information communication, to reinforce the understanding and communications among Directors, managers and Shareholders, and to improve the quality and efficiency of decision-making of the Board of Directors. While the Newsletter for Directors and Supervisors was continuously circulated, the Declaration and Management Measures for Major Matters and Importance Information was discussed and formulated, whereby the report and communication channels for important information can be regulated to further ensure that the Board of Directors is able to quickly and fully learn the business information, thereby improving the efficiency of obtaining information and making business decisions.
- The Directors were organized to attend corporate governance trainings, the managers and intermediaries were arranged to make special reports to the Board regarding the strategic planning amendments and provide trainings on the new capital agreement, thereby enabling the Board of Directors to be fully and timely aware of the latest regulatory requirements, the macroeconomic trend, the business operation of peers and the Bank's development status, thus effectively upgrading the duty fulfillment quality and performance capacity of the Directors.

1. Organizational Structure



2. Board of Directors and Specialized Committees under Board of Directors

(1) Composition of the Board of Directors

The Bank's Board of Directors has 17 members at present, including three independent directors and four executive directors; the number of people and composition of the Board of Directors comply with the regulatory requirements and provisions of the Articles of Association. Independent Directors are well-known experts in finance and accounting and have international background, are well versed in corporate finance and management and have deep understanding upon China's banking industry and the Bank's development; executive directors have been engaging in bank operations management for a long time and have extensive professional experience; all non-executive directors come from large scale well-known enterprises and have profound management experience.

In 2010, the Board of Directors adjusted the setup and composition of specialized committees and on the basis of the original Strategy Committee, Audit Committee, Risk Management and Connected Transactions Control Committee, Remuneration and Appraisal Committee and Nomination Committee of the Board of Directors, separated the Connected Transactions Control Committee from Risk Management and Connected Transactions Control Committee, and combined the Remuneration and Appraisal Committee and the Nomination Committee into the HR and Remuneration Committee to make the responsibilities of various specialized committees of the Board of Directors more clear and their structures more reasonable. Among the current five specialized committees of the Board of Directors, all the Committee principal members except Strategy Committee are Independent Directors; in the Audit Committee and Connected Transactions Control Committee, Independent Directors account for more than half of the Committee members.

(2) Functions and powers of the board of directors

Main functions and powers of the Board of Directors include the following:

- ◎ Convening general meetings of shareholders and reporting work to general meetings;
- ◎ Executing resolutions of general meetings of shareholders;
- ◎ Determining the setup of internal management organizations of the bank;
- ◎ Determining the Bank's risk management and internal control policies;
- ◎ Determining the Bank's annual business plan and investment programs;
- ◎ Formulating the Bank's annual financial budget plans and final settlement plans;
- ◎ Formulating the Bank's profit distribution plan and plan for making up for losses;
- ◎ Formulating plans for increasing or decreasing the Bank's registered capital, issuing bonds or other securities and listing;
- ◎ Formulating the Bank's basic management system;
- ◎ Hearing the work report of the Bank's President and examine the work of the President;
- ◎ Be responsible for the Bank's information disclosure and bearing the ultimate responsibility for the integrity and accuracy of the Bank's accounting and financial reporting system;
- ◎ Regularly evaluating and improving the Bank's corporate governance;
- ◎ Other functions and power stipulated by laws, regulations and Articles of Association of the Bank, or granted by the Bank's General Meeting of Shareholders.

(3) Specialized Committees under Board of Directors

Reviewed and approved by the Second Meeting of the Sixth Board of Directors on October 20, 2010, the organization layout of the specialized committees under Board of Directors was adjusted as follows: the original Risk Management & Connected Transaction Control Committee was divided into Risk Management Committee and Connected Transaction Control Committee; the original Nominations Committee and the original Remuneration & Appraisal Committee were combined into HR & Remuneration Committee. As a result, there were totally 5 specialized committees under the Board of Directors: Strategy Committee, Audit Committee, Risk Management Committee, Connected Transaction Control Committee and HR & Remuneration Committee.

During the reporting period, the specialized committees under Board of Directors held 8 meetings in total on the important issues related to the operation and management of the Bank, such as risk management, audit issues, performance appraisal and remuneration of Senior Managers, Director nomination and so on. Such meetings supplied professional support for Board of Directors to make scientific decisions and boosted a further improvement in the Bank's corporate governance.

Strategy Committee

Strategy Committee under Board of Directors is consisted of 5 Directors, of whom Chairman of the Board Dong Jianyue is the principal member of the Committee and four other directors, Morris Li, Liu Jiade, Pujian and Gai Yongguang are committee members. The primary responsibilities of Strategy Committee are set as follows: researching and studying out operation objectives and medium-and-long-term development strategies for the Bank; supervising and evaluating the implementation process of our strategies; supervising, examining and evaluating performance of our annual operation plans and investment proposals.

Audit Committee

Audit Committee under Board of Directors is consisted of 3 directors, of whom Independent Director Li Dianjun is the principal member and two other directors, Phee Boon Kang and Anthony P. Della Pietra Jr., are committee members. The primary responsibilities of Audit Committee are set as follows: examining our accounting policies, financial position and procedures of financial reports; examining risk position and law compliance issues; supervising and evaluating internal audit work of the Bank.

Risk Management Committee

Risk Management Committee under Board of Directors is consisted of 5 directors, of whom Independent Director Phee Boon Kang is the principal member and four other directors, Lin Jianjun, Li Zimin, James Morrow and Zheng Yong, are committee members. The primary responsibilities of Risk Management Committee are set as follows: evaluating and discussing risk management strategies, risk management policies, grand issues on risk management and grand projects of assets disposition of the Bank; controlling, managing, evaluating and supervising risks of the Bank.

Connected Transaction Control Committee

Connected Transaction Control Committee under Board of Directors is consisted of 3 directors, of whom Independent Director Chan Tai Loi is the principal member and two other directors, Li Dianjun and Larry Zong, are committee members. The primary responsibilities of the Committee are set as follows: managing the related trades of the Bank; auditing and supervising the formulation and implementation work of management measures on related trades; supervising the establishment and improvement of our management system of related trade; examining and evaluating our related trades and controlling risks in related trades.

HR & Remuneration Committee

HR & Remuneration Committee under Board of Directors is consisted of 5 directors, of whom Independent Director Chan Tai Loi is the principal member and four other directors, Wan Feng, Wang Fenghua, Pu Jian and Zhang Shengman are committee members. The primary responsibilities of the Committee are set as follows: formulating procedures and standards of electing directors and senior managerial personnel; primarily checking the qualification of director and senior manager candidates; formulating evaluation system, payment policy and motivation scheme for directors and senior managerial personnel; supervising implementation of the said policies and scheme.

(4) Tenure of Directors

In accordance with the regulation of the Bank's Articles of Association, Directors shall be elected, changed or dismissed from office by General Meeting of Shareholders and the tenure of a generation of Directors is not exceeding three years since the date when the resolution on such appointment is approved by General Meeting of Shareholders. A director may be re-elected and take office for the next tenure when his/her previous tenure is expired.

3. Board of Supervisors and Specialized Committees under Board of Supervisors

(1) Structure of Board of Supervisors

At present, there are eight members in Board of Supervisors, of whom four members, Mr. Li Jinsheng, Mr. Hong Wenjian, Mr. Ma Xiangdong and Mr. Liang Jianhua, are Employee Representative Supervisors; three members, Mr. Deng Jianhua, Mr. Wang Jianmin and Ms. Zhai Meiqing, are Shareholder Representative Supervisors; and one member, Mr. Tan Jinsong, is External Supervisor.

Nomination Committee and Audit Committee are set up under Board of Supervisors.

(2) Functions, Power and Operation of Board of Supervisors

Board of Supervisors is the supervisory organ of the Bank and responsible for General Meeting of Shareholders. According to the Articles of Association of the Bank, the functions and powers of Board of Supervisors are listed as follows:

- ◎ Supervising duty performance of Board of Directors and senior managerial personnel;
- ◎ Supervising duty performance of directors, Chairman of the Board and senior managerial personnel;
- ◎ Requiring directors, Chairman of the Board and senior managerial personnel to rectify his/her breaching behavior when such behavior hurts the Bank's benefit, if any;
- ◎ Auditing directors, Chairman of the Board and senior managerial personnel when such persons are to leave their posts;
- ◎ Examining and supervising financial activities of the Bank;
- ◎ Inquiring directors, Chairman of the Board and senior managerial personnel when necessary;
- ◎ Auditing operation decisions, risk management issues and internal control of the Bank and guiding internal audit department of the Bank to work if necessary;
- ◎ Attending meetings held by Board of Directors;
- ◎ Proposing to convene temporary shareholders' meeting;
- ◎ Formulating and amending rules of procedure of Board of Supervisors;
- ◎ Other functions and power stipulated by laws, regulations and Articles of Association of the Bank, or granted by the Bank's General Meeting of Shareholders.

Board of Supervisors Meeting is the primary manner of discussion in Board of Supervisors, which are divided into regular and extraordinary meetings. The regular meeting of Board of Supervisors shall be held at least four times per year.

(3) Specialized Committees under Board of Supervisors

Nomination Committee

Nomination Committee is consisted of three Supervisors, of whom External Supervisor Tan Jinsong is the principal member and two other Supervisors Deng Jianhua and Hong Wenjian are committee members. The primary responsibilities of Nominations Committee are set as follows: studying out procedures and standards of electing and appointing supervisors; primarily auditing the qualification and conditions of Supervisor candidates and putting forward suggestions to Board of Supervisors on the scale and members of Board of Supervisors; nominating candidates to Board of Supervisors and recommending nominees to specialized committees; searching eligible Supervisor candidates from a broad perspective.

Audit Committee

Audit Committee shall be consisted of seven Supervisors and now has six members, they are External Supervisor Tan Jinsong, Supervisor Wang Jianmin, Supervisor Zhai Meiqing, Supervisor Li Jinsheng, Supervisor Ma Xiangdong and Supervisor Liang Jianhua. The primary responsibilities of Audit Committee are set as follows: studying out supervisory scheme for Board of Supervisors to supervise the duty fulfillment of Board of Directors and Senior Management; studying out supervisory scheme for Board of Supervisors to supervise the duty fulfillment of Directors, Chairman and Senior Managers; studying out audit scheme for Board of Supervisors to audit Directors and Senior Management when they are to leave their posts; studying out schemes for Board of Supervisors to check and supervise financial activities of the Bank; studying out schemes for Board of Supervisors to check and supervise our operation decisions, risk management, internal control and so on if necessary; checking and examining the regular reports prepared by Board of Directors and profit distribution schemes formulated by Board of Directors, and giving its own opinions to Board of Supervisors in written form.

4. Senior Management and Specialized Committees under Senior Management

President of the Bank is responsible for the Board of Directors and is under the supervision of the Board of Supervisors. Deputy Presidents and other Senior Managers assist President to work. The power limits of Senior Management and the Board of Directors are divided strictly in accordance with corporate governance documents of the Bank, such as Articles of Association.

The specialized committees under Senior Management of the Bank include: Senior Management Committee, Asset Liability Management Committee, Internal Control and Compliance Committee, Coordination and Synergy Committee, Technology Leadership Committee, Product and Innovation Committee, Credit Approval Committee, Financial Examination Committee, Risk Management Committee, Central Procurement Committee, Technical Cooperation and Assistance Committee, Secrets Protection Committee.

Summary of General Meeting of Shareholders

1. Annual General Meeting of Shareholders

On June 18 2010, 2009 Annual General Meeting of Shareholders was held in Guangzhou.

There were 84 shareholders and shareholder proxies attended the meeting with 10.818 billion shares which accounted for 90.31% of the total shares of the Bank.

The meeting deliberated each proposal and approved the following proposals by ballot: Proposal on the 2009 Annual Working Report of the Board of Directors of Guangdong Development Bank Co., Ltd.; Proposal on the 2009 Annual Working Report of the Board of Supervisors of Guangdong Development Bank Co., Ltd.; Proposal on the 2009 Final Financial Report of Guangdong Development Bank Co., Ltd.; Proposal on 2009 Profit Distribution Plan of Guangdong Development Bank Co., Ltd.; Proposal on the 2010 Financial Budget of Guangdong Development Bank Co., Ltd.; Proposal on the 2010 Sub-Debt Issuance Plan, Proposal on the Modification of Articles of Association of Guangdong Development Bank Co., Ltd.; Proposal on Electing Directors of the Sixth Board of Directors of Guangdong Development Bank Co., Ltd.; Proposal on the Postponement of the Election of the Fifth Board of Supervisors of GDB, Proposal on Obtaining Authority from the Shareholders Meeting to Authorize the Board of Directors to Carry out the D&O Liabilities Insurance, and relevant resolutions were reached at the meeting.

King & Wood Lawyer's Office provided on-site witness for and released legal opinions on the legality of the convening and procedures of the meeting, the qualification of the shareholders present, the voting procedures and other relevant issues.

2. Extraordinary General Meeting of Shareholders

On April 8 2010, the First Extraordinary General Meeting of Shareholders in 2010 was held in Guangzhou.

There were 100 shareholders and shareholder proxies attended the meeting with 10.949 billion shares which accounted for 91.4% of the total shares of the Bank.

The meeting deliberated each proposal and approved the following proposals by ballot: Proposal on 2010-2012 Capital Management Plan of Guangdong Development Bank Co., Ltd.; Proposal on the 2010 Additional Share Issuance, Proposal on Change in Registered Capital of GDB and the Articles of Association in the Additional Share Issuance; Proposal on Obtaining Authority from the Shareholder Meeting to Authorize the Board of Directors to Carry out the Additional Share Issuance; Proposal on Electing Mr. Anthony P. Della Pietra Jr to the Fifth Board of Directors of Guangdong Development Bank Co., Ltd.; Proposal on Electing Mr. James Morrow to the Fifth Board of Directors of Guangdong Development Bank Co., Ltd., and relevant resolutions were reached at the meeting.

King & Wood Lawyer's Office provided on-site witness for and released legal opinions on the legality of the convening and procedures of the meeting, the qualification of the shareholders present, the voting procedures and other relevant issues.

Summary of General Meeting of Shareholders

On November 19, 2010, the Second Extraordinary General Meeting of Shareholders in 2010 was held in Guangzhou.

There were 52 shareholders and shareholder proxies attended the meeting with 13.898 billion shares which accounted for 90.24% of the total shares of the Bank.

The meeting deliberated each proposal and approved the following proposals by ballot: Proposal on Amending Registered Name and Articles of Association of Guangdong Development Bank, Proposal on Amending Legal Person Address and Articles of Association of Guangdong Development Bank, and relevant resolutions were reached at the meeting.

King & Wood Lawyer's Office provided on-site witness for and released legal opinions on the legality of the convening and procedures of the meeting, the qualification of the shareholders present, the voting procedures and other relevant issues.

Report of the Board of Directors

Management Discussion and Analysis

1. Economic, Financial and Regulatory Environment

(1) Economic Financial and Regulatory Environment of the World

In 2010, the world economy started to rebound. According to the Outlook on World Economy in 2011 released by the World Bank, the world economy grew by 3.9% in 2010. However, the conflicts of imbalance and discordance of the world economy still stood out, which mainly reflected themselves in the imbalance of the recovery of the developed and emerging markets. The inner drive of the economic recovery of the developed countries was still insufficient. The economic rebound of the United States, the Euro area and Japan was rather slow; consumption and investment were in bad shape; the unemployment rate remained high; governments faced heavy debt burden and the threat of deflation. The sovereign debt crisis of Europe continued to be instable, adding uncertainty to the recovery of world economy. In order to stimulate the economy, the developed countries generally kept a rather low interest rate level and carried out a quantitative easing monetary policy. The emerging economies enjoyed a stronger rebound, but faced severe asset bubble and inflationary pressure. With an aim to curb inflation, the emerging economies represented by India, South Korea and Brazil tightened the monetary policy through measures like raising interest rates, which diverged from the monetary policy of rich economies.

Influenced by the diverse changes of economic policies of all countries and the sovereign debt crisis of Europe, the international financial market witnessed intensified turbulence. In the aspect of the foreign exchange market, the exchange rate fluctuated frequently, and the US Dollar showed a trend of appreciation as a whole. Regarding the bond market, the bond price of the emerging and US markets climbed up by and large. Regarding the stock market, most stock markets in the world showed strong performances. As for the commodity market, thanks to the gradual recovery of the global economy, especially the powerful performances of the emerging economies such as Asia, the commodities prices of gold, crude oil, copper, etc. saw large increases.

In 2010, steady progress was made in the reform of international financial supervision and initial results were achieved. The Toronto Summit held in June 2010 defined the four pillars of the international financial supervision for the first time. The Seoul Summit held in November 2010 urged the G20 members to implement the capital and liquidity reform program proposed by the Basel Committee from January 1st 2013 and meet a new supervisory standard on January 1st 2019. The Summit also agreed on the policy framework, working program and timetable related to reducing the moral hazard of the systemically important financial institutions and solve the problem of “too-big-to-fail”. Also, the Summit required all member countries to incorporate the new standard of financial supervision into their own supervisory laws and regulations, and push all member countries to adopt the new standard through international evaluation and supervision.

In 2011, the world economy is expected to continue its recovery. But due to the influence of many instable factors, such as the high rate of unemployment of the developed countries, the debt crisis of the euro area, the imbalance of the economic recovery of major economies, the inflation of the emerging economies, the flow of global instable capital etc., the recovery of the world economy is fraught with uncertainty. In the

Report of the Board of Directors

light of the Outlook on World Economy in 2011 published by the World Bank, it is estimated that the world economy in 2011 will rise by 3.3% on average.

(2) Economic Financial and Regulatory Environment in China

In 2010, China's economy withstood the severe challenges from the economic environments home and abroad and maintained a stable and rapid growth. China's GDP grew by 10.3% YOY. Quarterly speaking, China's GDP in the first, second, third and fourth quarter rose by 11.9%, 10.3%, 9.6% and 9.8% respectively. The economic growth tended towards stability after the downturn. The domestic demand further increased its contribution to the economy, and the promotion of consumption, investment and export to economic development was more balanced. The coordination of regional development was strengthened, and the economic growth of the central and western regions was relatively fast. Notable accomplishments were made in energy saving and emission reduction, and the energy consumption and pollution reduction targets of the 11th Five-Year Plan were met basically.

Meanwhile, the basis for the recovery of domestic economy was still insecure. There were still many uncertain and unstable factors in the economic operation. The macro-economic control was confronted with dilemmas. This was particularly reflected in the imbalance of the recovery of global economy, the need to strengthen the domestic private investment and impetus for economic growth, the responsibilities to continually improve the income distribution, expand the residents' consumption and promote the economic restructuring, the tight restrictions of resources and environment in the economic growth, as well as the risk in the fiscal and financial areas which should not be neglected. Above all, given the pressure of price hike, the inflation expectation management still needed to be reinforced.

In 2010, the People's Bank of China proceeded with the moderately easy monetary policy. Within the year, the RMB deposit reserve ratio was raised six times and the RMB deposit and lending basic rates twice. The reform of the RMB exchange rate formation mechanism was pushed ahead, and the elasticity of exchange was enhanced remarkably. At the end of 2010, the central parity rate of RMB against the dollar was 6.6227, up 3% than that of 2009. As for the supervisory policies, the construction of the institutional framework of the financial macro-prudential management in the conversion period was speeded up, and high quality prudential supervision legislation was formed and continuously improved.

The financial market continued to operate in a sound and stable way. All year round the monetary market showed an active performance, and the market interest rates elevated significantly in fluctuation. The bond market index was increased and the bond issuance enlarged steadily. The stock market index was down slightly while the equity financing reached record high.

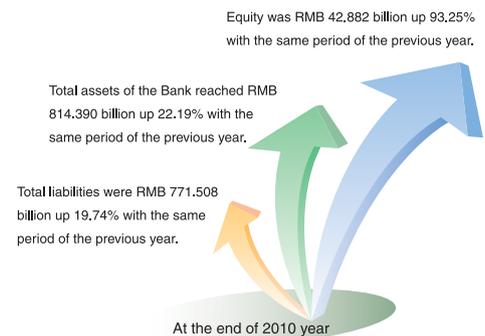
In 2011, the keynote of China's macro-economic control policies is to adopt a proactive fiscal policy and a prudent monetary policy while optimizing the pertinence, flexibility and effectiveness of macro control. The proactive fiscal policy will sustain a rapid economic growth. At the same time, the domestic economy is still challenged with huge difficulties, namely the serious and complicated external environment, the heavy pressure of price increase, and the urges to propel the transformation of the mode of economic development.

As for the domestic supervisory policies, in the next few years, regulatory authorities will gradually utilize four new supervisory tools, namely the capital adequacy ratio, the provision ratio, the leverage ratio, and the liquidity, as well as give effect to a new prudential supervisory framework upon commercial banks, so as to manage and control alternative risks and intensify the perceptiveness of supervision.

2. Review of the Bank's Operations in the Reporting Period

(1) The Profile of the Overall Business Operation

Till the end of 2010, the total assets of the Bank reached RMB 814.390 billion, the total liabilities were RMB 771.508 billion, and the owner's equity was RMB 42.882 billion, up 22.19%, 19.74% and 93.25% respectively compared with the same period of the previous year. All year round the net income reached RMB 6.189 billion, up 82.73% than that of last year, indicating a sustained and dramatic increase of profitability. The non-performing loans (NPL) were RMB 7.380 billion, down RMB 1.743 billion compared with the same period of the previous year. The NPL ratio was 1.58%, down 0.82 percentage YOY, reflecting a more mature risk control. The loan provision coverage ratio was 208.48%, up 52.40 percentages YOY. The provision to total loan ratio was 3.30%, ranking front among domestic banks. The capital adequacy ratio was 11.02%, and the core capital adequacy ratio was 8.30%, up 2.04 and 2.68 percentages respectively YTD, suggesting a remarkable increase of capacity to ward off risks and stronger foundation of development.



(2) The Status of the Business Operation

Changes of the macro situation and the business environment were understood, comprehensive revision of the strategic planning was pushed forward.

Ever since the outbreak of the international financial crisis, significant changes have taken place in the aspect of the economic and financial conditions home and abroad as well as the supervisory environment. In line with the actual conditions of the Bank and the competition of peers, the Bank launched a revision program of the five-year strategic development plan. Through a thorough diagnostic analysis and an extensive research and discussion, the Bank established a five-year strategic development plan of speeding up the construction of a first-class joint stock commercial bank.

Capital management was strengthened, capital planning formulated, and capital strength improved.

According to the business development strategies, risk profile and the supervisory requirements, the Bank framed a 2010-2012 capital management plan and confirmed the capital management targets and attempts in 2010-2012. The Bank successfully completed the additional shares issuance of RMB 15 billion, bolstering the core capital strength. In the light of the supervisory requirements and IPO standards, the Bank improved the corporate governance and business administration, steadily pressing ahead the IPO process.

Report of the Board of Directors

Asset and liability management was propelled, and management accounting project was advanced.

On the basis of the requirements of macro control and supervision, the Bank regulated the credit scale and optimized the credit structure, balanced the allocation of credit resources, and adjusted the credit line plan in due time. Besides, the Bank also expedited the development of management accounting project, completed the design of the blueprint, and upgraded the refined management.

Risk management level was improved, and internal control management mechanism perfected.

In line with the country's control policies and supervisory requirements, the Bank reinforced credit risk management, started the pressure test at regular intervals, stepped up efforts in handling NPAs, and innovated NPL recovery measures. According to the New Basel Capital Accord, the Bank established and optimized policies and procedures of market risk management, as well as reformed the management process. As for liquidity risk management, the Bank set up multi-layer measures of liquidity guarantee and risk mitigation. The Bank also drew up the Implementation Rules of the Reputation Risks Management, and standardized the management and precaution of reputation risks. Besides, the Bank perfected the vertical audit management system, and gave full play to the function of independent inspection, supervision and evaluation of the audit. In addition, the Bank introduced the project of internal control mechanism and operational risk management system, and reinforced the construction of internal control system. Moreover, the Bank strengthened the management of legal affairs, and promoted compliance risk management. The work of anti-money laundering was further intensified.

Building of the support system was promoted, and development basis consolidated.

In response to the professional management and business development, the Bank further standardized its organization, function and authority delegation, bettered the operation flow and management process, and lifted the working efficiency and financial service level. Besides, the Bank implemented the human resources reform plan, started the management selection through open competition, and actively pursued an open and transparent mechanism of competition for posts and a flexible talent selection mechanism. The Bank also established a classified training and development system, and raised the comprehensive quality and professional skills of the staff. In addition, the Bank spurred the implementation of IT strategic planning, increased the investment in information technology, and built professional financial services center in the financial high-tech services area of Nanhai, Guangdong. What's more, the Bank founded and improved the Technology Production Center, the Intra-city Backup Center and the Off-site Disaster Recovery Center, ensuring a safe and stable operation of the information system.

Development of new networks was accelerated, outlet layout enhanced.

The Bank accelerated the establishment of first-class branches. In 2010, Tianjin Branch was officially opened, and Harbin Branch received the approval for preparations. The secondary branches and remote branches were set up with steady steps. Newly opened were four secondary branches, including Suzhou Branch, Pingdingshan Branch, Taizhou Branch, and Benxi Branch, as well as three remote branches, including Anshan Branch of Liaoning, Rui'an Branch of Zhejiang and Huangshi Branch of Hubei. Four secondary branches, including Yiwu Branch, Nantong Branch, Hengyang Branch and Yingkou Branch were approved for preparations.

3. Financial Statement Analysis

(1) Income Statement Analysis

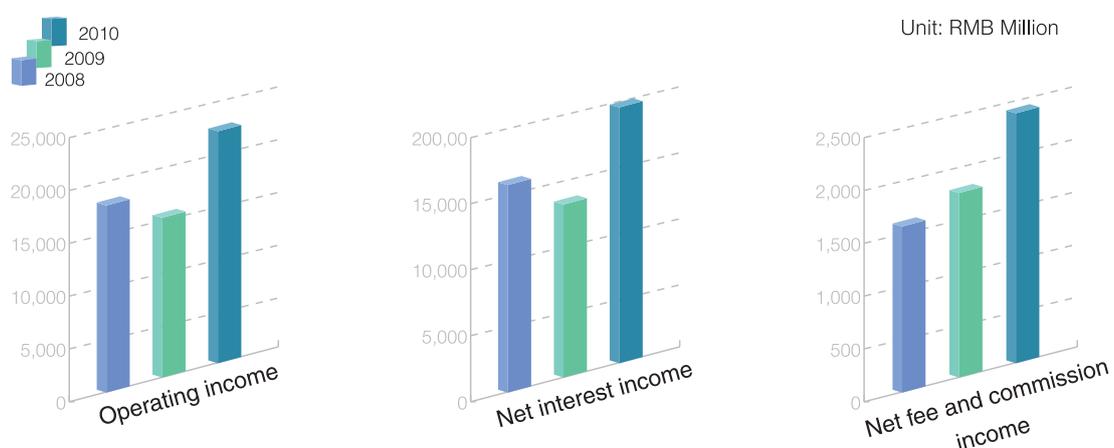
Mainly due to the healthy development of the businesses, the after-tax profit of the Bank in 2010 was RMB 6.189 billion, up RMB2.802 billion than last year, or up 82.73%. The Bank improved profitability by optimizing asset allocation structure, strengthening product innovation, expanding businesses of small and medium enterprises and promoting growth of fee-based business.

In RMB Thousand

Items	2010	2009
Operating income	21,957,867	15,114,715
Including: Net interest income	19,362,322	13,097,726
Net fee and commission income	2,366,301	1,746,350
Other non-interest income	229,244	270,639
Business taxes and surcharges	(1,593,128)	(1,279,897)
Operating and administrative expenses	(9,059,658)	(7,326,305)
Allowances for asset impairment	(2,807,783)	(1,465,120)
Other operating costs	(7,323)	(22,296)
Net amount of non-operating income and expenses	113,542	(9,535)
Gross profit	8,603,517	5,011,562
Income tax expense	(2,414,903)	(1,624,431)
Net profit	6,188,614	3,387,131

(a) Net interest income

Net interest income of this year increases 47.83% than that of the previous year, up RMB 6.265 billion YOY, mainly due to the growth of scale of interest earning assets, increase of average yield of interest earning assets and decrease of average interest rate of interest-bearing liabilities.



Report of the Board of Directors

(i)

In RMB Thousand

Items	2010			2009		
	Average Balance	Interest income / expense	Average yield / payment of interest rate(%)	Average Balance	Interest income / expense	Average yield / payment of interest rate(%)
Loans and advances to customers	433,684,970	23,938,302	5.52	347,764,818	18,118,547	5.21
Investment securities ¹	76,131,070	2,399,937	3.15	94,677,492	2,830,857	2.99
Deposits with central banks	84,229,542	1,231,452	1.46	60,480,129	879,284	1.45
Deposits and placements with banks ²	122,824,327	3,342,553	2.72	75,607,108	1,340,468	1.77
Total interest-earning assets	716,869,909	30,912,244	4.31	578,529,546	23,169,156	4.00
Deposits from customers	564,201,692	8,318,088	1.47	470,898,916	7,816,922	1.66
Deposits and placements from bank ³	114,151,311	2,946,139	2.58	96,241,453	1,950,064	2.03
Subordinated bonds	5,000,000	285,695	5.84	5,000,000	304,444	6.11
Total interest-bearing liabilities	683,353,003	11,549,922	1.69	572,140,369	10,071,430	1.76
Net interest income	N/A	19,362,322	N/A	N/A	13,097,726	N/A
Net interest spread	N/A	N/A	2.62	N/A	N/A	2.24
Net interest margin	N/A	N/A	2.70	N/A	N/A	2.26

Note: 1. Investment securities includes investment securities designated at fair value through profit and loss, sale-available investment securities, held-to-maturity investments and receivables investments.

2. Deposit placements with banks mainly include deposit from other banks, Funds for inter-bank lending, placements, financial assets under resale agreements.

3. Deposit placements with bank mainly include deposit due to other banks and/or other financial institutions, borrowed inter-bank funds and financial assets sold for repurchase.

Report of the Board of Directors

(ii) Net interest income and changes of size and interest rate.

In RMB Thousand

	Causes of change (Comparison of 2010 and 2009)		Net increase / (decrease)
	Size	interest rate	
Assets			
Loans and advances to customers	4,476,440	1,343,315	5,819,755
Investment securities	(554,538)	123,618	(430,920)
Deposits with central banks	345,278	6,890	352,168
Deposits and placements with FIs	837,133	1,164,952	2,002,085
Change of interest income	5,104,313	2,638,775	7,743,088
Liabilities			
Deposits from customers	1,548,826	(1,047,660)	501,166
Deposits and placements from FIs	362,893	633,182	996,075
Subordinated bonds	0	(18,749)	(18,749)
Change of interest expense	1,911,719	(433,227)	1,478,492
Change of net interest income	3,192,594	3,072,002	6,264,596

Note: The change of size was measured based on the change of average balance, the change of interest rate was measured based on the change of average interest rate. The change derived from both size and interest rate was allocated in the change of interest rate.

(b) Net interest spread and net interest margin

In 2010, Net interest spread of the Bank was 2.62%, increased by 38 basis points over that of the last year. The main reason was that average yield of interest earning assets of the Bank increased from 4.00% in 2009 to 4.31% in 2010, increased by 31 basis points, average interest rate of interest-bearing liabilities decreased from 1.76% in 2009 to 1.69% in 2010, decreased by 7 basis points.

In 2010 net interest margin of the Bank was 2.70%, increased by 44 basis points over that of the last year. The main factors of the above change were structural adjustment of loans, reinforcement of asset return management and the upgoing market interest rate.

Unit: %

Items	2010	2009	Change (basis points)
Interest rate of interest-earning assets	4.31	4.00	31
Interest rate of interest-bearing liabilities	1.69	1.76	(7)
Net interest spread	2.62	2.24	38
Net interest margin	2.70	2.26	44

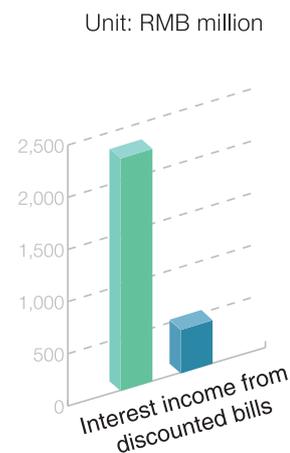
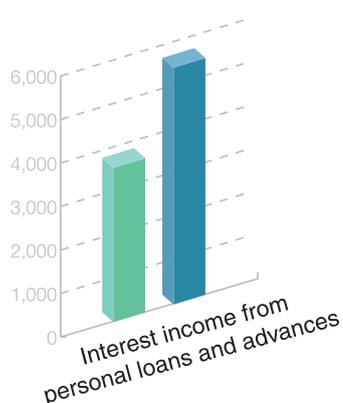
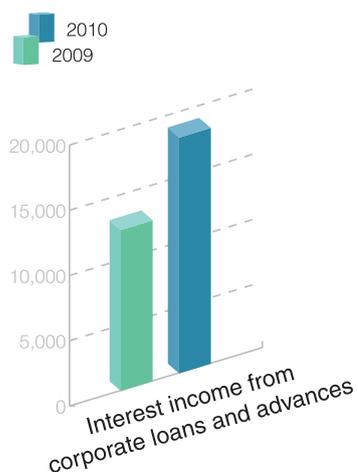
Report of the Board of Directors

(c) Interest income

In 2010, interest income of the Bank increased 33.42% over the last year, mainly due to rapid growth of interest income from loans and advances to customers.

In RMB Thousand

Items	2010		2009	
	Amount	% of total	Amount	% of total
Interest income from loans and advances to customers	23,938,302	77.4	18,118,547	78.2
Including: Corporate loans and advances	18,077,938	58.5	12,344,909	53.3
Personal loans and advances	5,444,196	17.6	3,545,821	15.3
Discounted bills	416,168	1.3	2,227,817	9.6
Interest income from investment securities	2,337,016	7.6	2,757,912	11.9
Interest income from deposits with central banks	1,231,452	4.0	879,284	3.8
Interest income from placements with FIs	179,124	0.6	333,455	1.4
Interest income from financial assets held under resale agreement	2,782,609	9.0	944,311	4.1
Interest income from deposits with FIs	380,820	1.2	62,702	0.3
Other interest income	62,921	0.2	72,945	0.3
Total	30,912,244	100.0	23,169,156	100.0



Unit: RMB million

Report of the Board of Directors

(d) Interest expense

In 2010, interest expense of the Bank increased 14.68% over the last year, mainly due to increase of deposit interest expense and interest expense of financial assets sold under repurchase agreement.

In RMB Thousand

Items	2010		2009	
	Amount	% of total	Amount	% of total
Deposit interest expenses	8,318,088	72.0	7,816,922	77.6
Subordinated bond interest expenses	285,695	2.5	304,444	3.1
Interest expenses of deposit from FIs	1,449,471	12.6	1,463,650	14.5
Interest expenses of placements from FIs	187,905	1.6	134,697	1.3
Interest expenses of financial assets sold under repurchase agreement	1,308,763	11.3	351,717	3.5
Total	11,549,922	100.0	10,071,430	100.0

(e) Non-interest income

In 2010, the Bank accumulatively realized RMB 2.596 billion of non-interest income, increased by 28.68% over the last year, which mainly due to increase of net fee and commission income and foreign exchange gain.

In RMB Thousand

Items	2010	2009
Net fee and commission income	2,366,301	1,746,350
Investment gain/(loss)	(19,525)	51,008
Loss arising from changes in fair value	(128,038)	(40,869)
Foreign exchange gain	345,588	235,244
Other operating income	31,219	25,256
Total	2,595,545	2,016,989

Main composition of net fee and commission income

In RMB Thousand

Items	2010	2009	Amount of increase/ (decrease)	Growth rate (%)
Remittance and settlement	534,216	389,685	144,531	37.09
Agency service	225,182	231,432	(6,250)	(2.70)
Bank card	1,827,948	1,337,228	490,720	36.70
Others	356,312	262,023	94,289	35.99
Fee and commission income	2,943,658	2,220,368	723,290	32.58
Deduct: Fee and commission expenses	(577,357)	(474,018)	(103,339)	21.80
Net fee and commission income	2,366,301	1,746,350	619,951	35.50

Report of the Board of Directors

(f) Operating and administrative expenses

In 2010, operating and administrative expenses of the Bank was RMB 9.060 billion, increased by 23.66% over the last year, cost-income ratio was 41.26%, decreased by 7.21 percentages over the last year.

Main reasons of increase in operating and administrative expenses were as follows: 1. with the increase of employees owing to business development and new establishment of institutions of the Bank, staff costs increased accordingly; 2. due to the reinforcement in network construction, update of electronic equipments and business expansion of the Bank, rental fee, depreciation and business expenses increased accordingly.

In RMB Thousand

Items	2010		2009	
	Amount	% of total	Amount	% of total
Staff costs	4,855,492	53.6	3,940,051	53.8
Rental fee	655,249	7.2	544,656	7.4
Maintenance fee	531,177	5.9	430,255	5.9
Depreciation	388,430	4.3	311,965	4.2
Others	2,629,310	29.0	2,099,378	28.7
Total	9,059,658	100.0	7,326,305	100.0

(g) Allowances for asset impairment

In 2010, expenditure of allowances for asset impairment was RMB 2.808 billion, increased by 91.64% over the last year.

In RMB Thousand

Items	2010		2009	
	Amount	% of total	Amount	% of total
Impairment of loans and advances to customers	2,894,752	103.1	1,461,422	99.8
Impairment of available-for-sale investment securities	4,765	0.2	0	0
Impairment of fixed assets	1,000	0	12,437	0.8
Impairment of repossessed assets	20,532	0.7	7,012	0.5
Others	(113,266)	(4.0)	(15,751)	(1.1)
Total	2,807,783	100.0	1,465,120	100.0

(h) Segment reporting

Segment operating results by regions

In RMB Thousand

Region	Total assets	Operating income	Gross profit
Yangtze River Delta	194,252,500	4,627,126	2,488,111
Pearl River Delta	266,124,222	6,585,366	3,251,096
Bohai Rim	145,172,326	3,490,975	1,851,439
Central and Western	101,941,666	2,823,316	1,724,292
Head Office	332,168,497	4,325,591	(744,124)
Overseas	5,773,860	105,493	32,703

(2) Balance Sheet Analysis

(a) Assets

The total assets of the Bank at the end of 2010 was RMB 814.390 Billion, increased by RMB 147.903 billion over the last year, mainly due to the increase of loans and advances to customers, financial assets held under resale agreement, cash and deposit with central banks.

In RMB Thousand

Items	December 31, 2010		December 31, 2009	
	Amount	% of total	Amount	% of total
Total loans and advances to customers	466,838,802	57.3	380,875,019	57.1
Less: Allowances for impairment losses	(15,386,721)	(1.9)	(14,239,750)	(2.1)
Loans and advances to customers, net	451,452,081	55.4	366,635,269	55.0
Net investment securities	63,676,381	7.8	89,195,702	13.4
Cash and deposits with central banks	106,782,503	13.1	82,590,316	12.4
Net deposits and placements with banks and non-bank financial institutions	36,176,928	4.5	19,277,092	2.9
Financial assets held under resale agreement	136,597,172	16.8	90,113,168	13.5
Others	19,704,957	2.4	18,675,077	2.8
Total assets	814,390,022	100.0	666,486,624	100.0

(i) Loans and advances to customers

As of December 31, 2010, the total loan reached RMB 466.839 billion, up RMB 85.964 billion over the end of previous year. The Bank proactively implemented the State's macro-policies, reasonably controlled the loan lending progress, greatly enhanced risk management when achieving steady loan growth, properly handled the relationship between business development and risk management, and promoted the healthy and sustainable development of loan business.

Loans of the Bank classified by business type at the end of the reporting period

In RMB Thousand

Business Type	December 31, 2010	December 31, 2009
Corporate loans and advances	357,034,139	281,790,948
Personal loans and advances	105,649,299	71,530,758
Discounted bills	4,155,364	27,553,313
In Total	466,838,802	380,875,019

At the end of 2010, the Bank optimized loan structure efficiently, deduced volume of discounted bills, and raised the proportion of corporate and personal loans. Corporate loans increased by 26.70% YOY, and personal loans rose by 47.70%; while discounted bills decreased by 84.92%.

Report of the Board of Directors



Categories, average daily balance and average annual interest rate of major loans

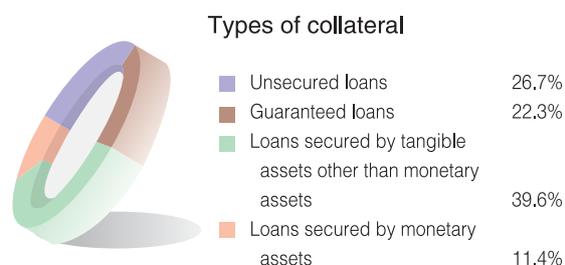
In RMB Thousand

Items	Average daily balance	Average annual interest rate(%)
Loans and advances to customers	433,684,970	5.52
Including: Loans and advances to customers (without discounted bills)	418,947,557	5.61
Discounted bills	14,737,413	2.82

The structure of personal loans classified by product type

In RMB Thousand

Items	December 31, 2010		December 31, 2009	
	Loan Balance	% of total	Loan Balance	% of total
Personal housing loan	62,118,717	58.8	47,002,159	65.7
Personal consumption loan	555,377	0.5	411,957	0.6
Personal credit card overdraft	30,947,131	29.3	16,466,634	23.0
Others	12,028,074	11.4	7,650,008	10.7
In Total	105,649,299	100.0	71,530,758	100.0



Report of the Board of Directors

In 2010, the Bank made great efforts in developing quality clients. Balance of personal loans increased by RMB 34.119billion, up by 47.70% YOY. Among all, Personal housing loans increased by RMB 15.117billion, up by 32.16% YOY; personal consumption loans increased by RMB 0.143 billion, up by 34.81%; personal credit card overdraft increased by RMB 14.480 billion, up by 87.94%.

Distribution of loans by types of collateral

In RMB Thousand

Types of collateral	December 31, 2010		December 31, 2009	
	Loan Balance	% of total	Loan Balance	% of total
Unsecured loans	124,400,548	26.7	86,042,952	22.6
Guaranteed loans	104,165,664	22.3	124,649,750	32.7
Loans secured by tangible assets other than monetary assets	184,853,225	39.6	134,694,894	35.4
Loans secured by monetary assets	53,419,365	11.4	35,487,423	9.3
In Total	466,838,802	100.0	380,875,019	100.0

Loan concentration ratio: information of top 10 loan clients

In RMB Thousand

Top 10 Single Borrowers	Loan Balance	Proportion in Net Capital(%)	Proportion in Total Term-end Loan Balance(%)
Client A	4,499,306	7.95	0.96
Client B	3,500,000	6.18	0.75
Client C	2,880,000	5.09	0.62
Client D	2,200,000	3.89	0.47
Client E	1,930,000	3.41	0.41
Client F	1,900,000	3.35	0.41
Client G	1,900,000	3.35	0.41
Client H	1,700,000	3.00	0.36
Client I	1,606,000	2.84	0.34
Client J	1,500,000	2.65	0.32
In Total	23,615,306	41.71	5.06

Report of the Board of Directors

(ii) Investment

Investment of the Bank in securities and other financial assets includes financial assets held for trading, available-for-sale financial assets, financial assets classified as receivables, held-to-maturity investments and long-term equity investments.

Classification by accounts

In RMB Thousand

Items	December 31, 2010		December 31, 2009	
	Balance	% of total	Balance	% of total
Trading	1,478,034	2.3	1,564,846	1.8
Available for sale	18,558,909	29.1	40,832,913	45.8
Debt securities classified as receivables	2,582,226	4.1	5,379,100	6.0
Held to maturity	41,053,112	64.5	41,414,743	46.4
Long-term equity investment	4,100	0	4,100	0
Total	63,676,381	100.0	89,195,702	100.0

Classification by issuers

In RMB Thousand

Types	December 31, 2010		December 31, 2009	
	Balance	% of total	Balance	% of total
Government bonds	9,580,833	15.1	9,927,643	11.1
Bills and financial bonds of central banks	45,985,741	72.2	76,047,990	85.3
Other bonds ¹	7,922,921	12.4	3,025,967	3.4
Other investment ²	182,786	0.3	190,002	0.2
Long-term equity investment	4,100	0	4,100	0
Total	63,676,381	100.0	89,195,702	100.0

Note: 1. Other bonds include corporate bonds;
2. Other investment includes unlisted equity investments.

The total bond investment at the end of 2010 decreased by RMB 25.512 billion YTD, the reason was that in 2010 yield of various investment products at the financial market was generally very low, and expectation for rate hike was strong in the context of inflation, reducing position can appropriately prevent the risk of decline in overall rate of return on investment and reduction of market value at the interest-rate hike cycle. On the whole, proportion of types of bond investments in 2010 was equivalent to that in 2009, credit debt (short-term financing bonds, medium-term notes) holdings increased over that in 2009, because the yield of credit bonds was higher than that of products with interest rate of the corresponding period, during interest rate rising period, it not only can reduce allocation pressure in the short term, but also can reduce the risk of decline in overall position yields and decline in market value.

Report of the Board of Directors

Investment distribution by remaining maturity

In RMB Thousand

Maturity	December 31, 2010		December 31, 2009	
	Amount	% of total	Amount	% of total
Undated	139,870	0.2	150,777	0.2
Within 3 months	4,463,272	7.0	8,682,520	9.7
3-12 months	19,683,181	30.9	27,415,223	30.7
1-5 years	27,890,450	43.8	46,214,912	51.8
Over 5 years	11,499,608	18.1	6,732,270	7.6
Total	63,676,381	100.0	89,195,702	100.0

Top 5 government bonds held at the end of reporting period

In RMB Thousand

Items	par value	maturity date	interest rate(%)
08 government bond 11	610,000	2011-07-14	3.92
10 coupon-bearing government bond 11	500,000	2011-04-29	1.49
10 discount government bond 10	500,000	2011-05-09	1.85
09 coupon-bearing government bond 09	400,000	2012-05-21	1.55
07 government bond 17	330,000	2012-10-22	4.00
Total	2,340,000		

Top 5 financial bonds (including central bank bills) held at the end of reporting period

In RMB Thousand

Items	par value	maturity date	interest rate(%)
10 Central Bank Bill 60	2,950,000	2013-07-16	2.65
08 Agricultural Development Bank of China 09	2,460,000	2011-05-19	4.58
10 Central Bank Bill 69	1,080,000	2013-08-13	2.65
10 Central Bank Bill 37	1,060,000	2013-05-07	2.72
10 Central Bank Bill 42	1,050,000	2013-05-21	2.70
Total	8,600,000		

Long-term equity investment

In 1994, the Bank invested RMB 4.10 million (41% of equity proportion) to establish the Guangfa International Financial Consulting Co., Ltd. As of the end of 2010, the equity investments balance of the Bank to the Guangfa International Financial Consulting Co., Ltd. was RMB 4.10 million.

(b) Liabilities

As of December 31, 2010, total Liabilities of the Bank were RMB 771.508 billion, increased by RMB 127.212 billion over the last year, mainly due to increase of deposits balance. Deposits balance of the Bank at Year-end was RMB 628.858 billion, increased by RMB 84.968 billion over the last year, up by 15.62%.

Report of the Board of Directors

(i) Composition of liabilities

In RMB Thousand

Items	December 31, 2010		December 31, 2009	
	balance	% of total	balance	% of total
Deposits from customers	628,857,912	81.5	543,890,399	84.4
Deposit from FIs	55,539,436	7.2	50,819,648	7.9
Financial assets sold under repurchase agreements	54,147,425	7.0	32,773,870	5.1
Subordinated bonds	5,000,000	0.7	5,000,000	0.8
Other liabilities	27,963,652	3.6	11,812,676	1.8
Total	771,508,425	100.0	644,296,593	100.0

(ii) Main deposit types, average daily balance and yearly average interest rate of deposit

In RMB Thousand

Items	2010		2009	
	Average daily balance	Yearly average interest rate(%)	Average daily balance	Yearly average interest rate(%)
Corporate demand deposits	189,996,815	0.63	142,692,423	0.56
Corporate time deposits	186,735,612	2.17	152,478,690	2.61
Personal demand deposits	34,627,730	0.38	29,449,417	0.36
Personal time deposits	61,771,599	2.15	51,141,751	2.60
Other deposits	91,069,935	1.77	95,136,635	1.91

(iii) Deposits distribution by business type

In 2010, the Bank actively expanded the deposit business, constantly enriched the product range, accelerated channel construction, effectively promoted the growth of liability business, and provided fund support for business development of assets.

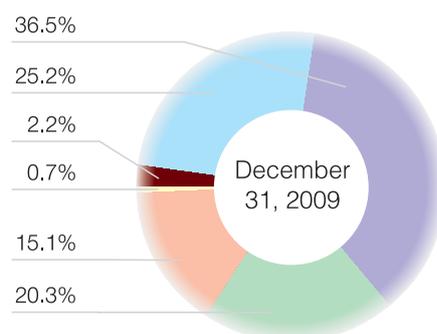
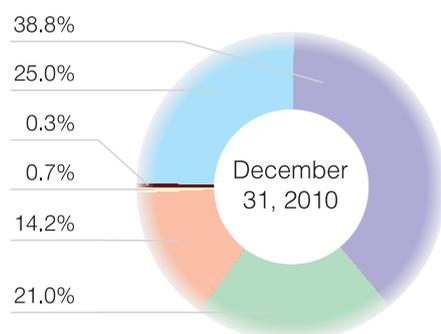
In RMB Thousand

Items	2010		2009	
	balance	% of total	balance	% of total
Demand deposits	258,385,003	41.1	226,358,731	41.6
Including:				
Corporate	213,021,322	33.9	191,902,126	35.3
Personal	45,363,681	7.2	34,456,605	6.3
Time deposits	261,485,369	41.6	225,464,205	41.5
Including:				
Corporate	199,051,466	31.7	170,483,565	31.4
Personal	62,433,903	9.9	54,980,640	10.1
Other deposits	108,987,540	17.3	92,067,463	16.9
Total	628,857,912	100.0	543,890,399	100.0

(iv) Deposits distribution by regions

In RMB Thousand

Region	December 31, 2010		December 31, 2009	
	Amount	% of total	Amount	% of total
Head Office	1,878,743	0.3	12,164,902	2.2
Yangtze River Delta	156,904,861	25.0	137,090,181	25.2
Pearl River Delta	243,844,367	38.8	198,632,448	36.5
Bohai Rim	132,393,484	21.0	110,304,637	20.3
Central and Western	89,641,941	14.2	82,075,845	15.1
Overseas	4,194,516	0.7	3,622,386	0.7
Total	628,857,912	100.0	543,890,399	100.0



Deposits distribution by regions



(v) Deposits distribution by maturity

In RMB Thousand

Maturity	December 31, 2010		December 31, 2009	
	Amount	% of total	Amount	% of total
Demand / Spot	282,408,397	44.9	247,187,372	45.5
Within 3 months	147,801,383	23.5	83,441,240	15.3
3-12 months	149,079,396	23.7	150,276,241	27.6
1-5 years	44,462,414	7.1	59,239,300	10.9
Over 5 years	5,106,322	0.8	3,746,246	0.7
Total	628,857,912	100.0	543,890,399	100.0

Report of the Board of Directors

(3) Financial position and operating performance of the Bank

(a) Changes of the main financial indicators and corresponding reasons

In RMB Thousand

Items	December 31, 2010	Change over the end of last year(%)	Brief reasons
Total assets	814,390,022	22.19	Growth of loans
Total liabilities	771,508,425	19.74	Growth of deposits
Shareholders' equity	42,881,597	93.25	Additional shares issuance and profits increase
Net profit	6,188,614	82.73	Enhanced profitability

(b) Items whose change over 30% in financial statements

In RMB Thousand

Main accounts	December 31, 2010	Change over the end of last year(%)	Brief reasons
Deposit with banks and non-bank financial institutions	21,804,665	108	Increase of deposit with FIs
Placements with banks and non-bank financial institutions	14,372,263	63	Increase of placements with FIs
Derivative assets held for trading	200,111	91	Increase in trading volume of derivatives
Financial assets held under resale agreements	136,597,172	52	Increase of bills held under resale agreement
Available-for-sale financial assets	18,558,909	(55)	Sale and due of available-for-sale financial assets
Debt securities classified as receivables	2,582,226	(52)	Due of classified as receivables
Construction in progress	241,741	(70)	Converted into fixed assets
Intangible assets	606,677	50	Increase of land use right and PC software fee
Placements from banks and non-bank financial institutions	13,938,614	441	Increase of placements from FIs
Derivative liabilities held for trading	285,871	284	Increase in trading volume of derivatives
Financial assets sold under repurchase agreements	54,147,425	65	Increase of bills sold under repurchase agreement
Provisions	84,254	85	Increase of accrual provisions for lawsuit cases
Taxes payable	2,370,175	100	Increase of profit before tax
Capital reserve	11,787,197	1597	Increase of share premium due to additional shares issuance
Surplus reserve	1,504,142	70	Accrual proportionally after profit increased
Retained earnings	7,546,507	116	Increase of current period profit
Interest income	30,912,244	33	Increase of loan scale and raise of average interest rate
Fee and commission income	2,943,658	33	Increase of income from fees of bank card and settlement
Investment income/(loss)	(19,525)	(138)	Increase of market return
Loss arising from changes in fair value	(128,038)	213	Increase of RMB swap transactions
Foreign exchange gain	345,588	47	Increase of exchange settlement and sales as agent for customers and increase of RMB swap transactions
Non-operating income	263,474	59	Increase from fixed assets disposal and creditor's right liquidation
Allowances for asset impairment	(2,807,783)	92	Increase of loan provision coverage ratio
Income tax expense	(2,414,903)	49	Increase of profit before tax this year

Report of the Board of Directors

(4) Other financial information

(a) Financial assets and financial liabilities held at the end of reporting period

In RMB Thousand

Items	Opening amount	Profit or loss on changes in fair value of the period	Accumulation of changes in fair value including in equity	Impairment counted and drew in the period	Ending amount
(1)	(2)	(3)	(4)	(5)	(6)
Financial assets					
Including: 1. Financial assets at fair value through profit and loss	1,669,633	94,374	0	0	1,915,923
Including: derivative financial assets	104,787	95,324	0	0	200,111
2. Debt securities classified as receivables ¹	5,379,100	0	0	0	2,582,226
3. Available-for-sale financial assets	40,832,913	0	(312,423)	(4,765)	18,558,909
4. Held-to-maturity investment ¹	41,414,743	0	0	0	41,053,112
Total financial assets	89,296,389	94,374	(312,423)	(4,765)	64,110,170
Financial liabilities	74,407	(222,412)	0	0	523,649

- Note: 1. For financial assets not designated at fair value, it is not necessary to fill in column 3 and 4.
 2. Accumulative fair value change which is directly calculated into equity.
 3. The sheet does not exist necessarily articulation.

(b) Off-balance sheet items which may have material impact on financial position and operating results

In RMB Thousand

Items	December 31, 2010	December 31, 2009	December 31, 2008
Loan commitments	9,154,865	8,708,725	1,915,831
Bank acceptances	173,722,721	126,199,257	89,604,814
Letter of guarantee issuance	9,683,729	5,481,396	5,764,956
Letters of credit issuance	12,688,480	9,741,993	6,675,550
Financial derivative instruments	27,942,299	9,912,343	8,844,523
Operating lease commitments	2,578,813	2,208,676	2,098,502
Capital expenditures commitments	1,077,035	578,707	545,430
Credit card unused overdraft limit	42,406,215	29,130,743	26,150,805

(c) Change in on-sheet and off-sheet interest receivable

In RMB Thousand

Items	Opening balance	Ending balance
On-sheet Interest receivable	2,414,746	2,230,458
Off-sheet Interest receivable	2,774,923	2,387,510

Report of the Board of Directors

Due to the Bank moving the overdue loan interest receivable over 90 days from on-sheet to off-sheet, the Bank doesn't make any provision for loan interest receivable (except credit card interest receivable) alone.

4. Business Summary

(1) Corporate Finance Business

During the reporting period, the Bank provided customers with comprehensive financial services such as financing, wealth management, settlement and cash management, SME business, trade financing, precious metals, industry finance, investment banking, etc. The Bank steadily increased its profitability in corporate financial services and realized a more reasonable customer structure, thus optimizing both business and income structures.

Corporate Deposits and Loans

The Bank actively promoted the transformation of business and management models as well as line-based management. Besides, efforts were made to improve the construction of three mechanisms: customer relationship management, products management as well as system & planning management. The Bank set up differential market positioning strategy, cultivated core client group focusing on customers in different sectors. The Bank established strategic cooperative partnership with China Unicom, China Salt Industry, China National Materials, China Construction, China Guodian and other large enterprise groups. And as the leading bank for the first time, the Bank successfully completed the syndicated loan business with the participation of 3 banks.

The Bank strengthened brand building and personnel training for corporate wealth management business system, launched RMB wealth management scheme of "Salary-plus-Salary No. 13 - Flexible Money Series". In addition, the Bank expanded cooperation with trust and securities companies and tried working with institutions in such new domains as PE and industrial funds, so as to broaden the cooperation platform for wealth management products. While enhancing and expanding mature businesses of investment banking such as project financing, syndicated loans, bond underwriting and financial



The Bank established strategic cooperative partnership with China Unicom, China Salt Industry, China National Materials, China Construction, China Guodian and other large enterprise groups.

consultancy, the Bank also took active steps in promoting new businesses like merger & restructuring and equity financing. Major categories of investment banking businesses witnessed rapid development.

The Bank made remarkable achievements in product innovation and promotion, strengthened the construction of channels and platform of payment settlement, with our cash management system launched and operated at a domestically advanced level. The Bank's cash management system is a comprehensive product, which focuses on liquidity management of corporate funds, combines transaction management and investment / financing management together, and provides innovative functions like finance optimization adjustment and cross-bank accounts management, etc. Due to the excellent performance in innovation of cash management, the Bank was awarded "the Best Cash Management Innovation Award" in 2010 CFO most trusted banks' election sponsored by CFO World Magazine.

As of the end of 2010, the Bank's corporate deposits balance (local and foreign currencies) of various types amounted to RMB 521.06 billion, corporate loans with a balance of RMB 357.034 billion (excluding bills discounting), increasing by 14.66% and 26.7% respectively YTD.

SME Businesses

As one of the Bank's focuses of strategic development, SME finance businesses made healthy and rapid development during the reporting period. By the end of 2010, the balance of RMB ordinary loans to SMEs (without discounting) stood at RMB 171.046 billion, accounting for 49.73% of the Bank's RMB corporate loans, up by RMB 35.009 billion or 25.74% YTD; the number of SME RMB ordinary loan clients amounted to 9,116, accounting for 83.3% of the total, up by 1,359 or 17.5% YTD.



As for organizational constitution, the Bank continued to strengthen the line-based management and construction of special marketing units for SME banking. Based on the foundation of SME Financial Department being set up by Head Office in 2009, the Bank successively established SME Financial Department in branches in Hangzhou, Nanjing, Zhengzhou, Shanghai, Shenzhen, Foshan, etc. In terms of resource allocation, the Bank made separate credit plans for SMEs for the first time, giving SMEs preferential supporting resources and policies. Among the initiatives of business promotion, the Bank improved the planning and orientation for the strategic development of SMEs, actively expanded marketing channels and constructed a platform for close bank-government-company cooperation, in addition to extensive cooperation with chambers of commerce, industry associations and other social organizations. The Bank also made achievements in product innovation and brand building, constantly enriched and improved the system of financial products for SMEs. By making great efforts in brand building, the Bank significantly enhanced the market awareness of our financial services and the "Hao Rong Tong" program for SMEs. For IT systems construction, the Bank strengthened the information management of SME banking, improved the systems

Report of the Board of Directors

of operational monitoring and customer rating, and promoted the system construction for managing relations with SME customers, for the sake of better risk management.

During the reporting period, Chairman of the Board Mr. Dong Jianyue was awarded one of “the Top 10 Leaders in Banking Industry Providing SME Financial Services in 2010” by CBRC, the Bank was awarded “2010 Excellent Service Institution for SME Enterprises” by China Association of Small and Medium Enterprises. The Bank’s “Hao Rong Tong” SME financing solution obtained a number of honors including the “Prize for Top 10 Feature Financial Products for SMEs as well as Businesses Related to Agriculture, Rural areas and Farmers” by China Banking Association, the “2010 Excellent Service Product for SME Enterprises” by China Association of Small and Medium Enterprises, etc..

Financial Institution Business

The Bank’s financial institutions business witnessed steady development in 2010. Firstly, the scale of inter-bank deposits was further stabilized and inter-bank funds were utilized in an active manner, business of deposits with banks increased dramatically, with interest income up 507.35% YOY. Increase was also witnessed in repurchased credit assets transfer business and the lending scale to financial institutions, which expanded the channels of FI funds utilization. Secondly, the Bank basically realized the unified credit granting to financial institutions, with 182 credit customers in the banking sector, in addition to great breakthroughs in credit businesses regarding finance companies, auto financing companies and financial leasing companies. Thirdly, the Bank continued to launch innovative businesses, including the vigorous promotion of the asset sell-out business. Besides, greater efforts were made in the marketing towards financial institutions, with active initiatives in building the platform for business cooperation with other banks, so as to enhance the overall capacity of channel marketing. There was also new progress in the assets custody business, with the successful custody and leading sales of open-end public fund, i.e., “Lombarda China Enhanced Returns Bond-type Securities Investment Fund”, with custody scale of RMB 2.373 billion. In addition, the Bank obtained preferable income from fee-based businesses by successfully launching the product of “Custody of Customer Particular Purpose Funds”, such as transaction funds and special-purpose funds.

Trade Financing Business

Making changes in line with customer needs, the Bank has established six comprehensive solutions for trade financing, namely those regarding accounts receivable, prepayments, letters of guarantee, overall process of trade, cross-boarder linkage and exchange rate hedging, covering product systems in multiple domains including letters of credit, letters of guarantee, factoring, credit insurance financing, chattel financing, internal guarantees for external loans, wealth management with risk hedging, etc. “Mao Rong Tong”, our brand for supply chain financing, was gradually gaining recognition in the market and won the 2010 “Innovation Award for Best Brand of Trade Financing” as jointly presented by sinotf.com and Trade Financing Magazine.

By the end of the reporting period, the Bank had a balance of RMB 221.9 billion in trade financing (including bank acceptances balance), and USD 61.791 billion in international settlement. Paying attention to the innovation of differentiated products for trade financing, the Bank has organically integrated the common natures of traditional products of supply chain financing with the uniqueness of specific target sectors, so as to form the differentiated competition edge with professional features. Focusing on core enterprises in

the sectors of automobiles, household appliances, pharmacy, iron & steel, energy and non-ferrous metals as well as those with regional characteristics, our services are extended to SMEs in both upstream and downstream of the industrial chains. Besides, through the interactions among international, domestic and offshore platforms, the Bank provides customers with one-stop comprehensive services of trade financing both domestically and internationally, so as to satisfy their needs for financial services along the whole process from contract signing to delivery and payment.

(2) Personal Finance Businesses

The Bank provides individual customers with diversified products and services in retail banking, mainly including personal banking business (including saving deposits in RMB and foreign currencies, payment settlement, personal loans, wealth management) and credit card business.

The Bank reorganized the structure of personal businesses in 2010. Among other things, the Head Office's functions were enhanced in terms of product development, customer segmentation and marketing, while pilot efforts were made in the professional marketing system for personal banking, which served as the basis for active exploration for a new marketing model of personal banking. In 2010, the Bank's revenues from personal banking (excluding credit card business) exceeded RMB 3 billion, with an increasing percentage in the Bank's overall business revenues.

During the reporting period, the Bank's RMB savings deposits exceeded RMB 100 billion for the first time, with the ending balance reaching RMB 104.466 billion, which represented a 19.16% increase over the beginning of the year. At the end of 2010, the Bank's balance of RMB personal loans (excluding credit card business) represented an increase of 36.76%, with that percentage being one of forefront among joint-stock commercial banks.



Personal Deposits

During the reporting period, the Bank's RMB savings deposits exceeded RMB 100 billion for the first time, with the period-end balance reaching RMB 104.466 billion, which represented a 19.16% increase YTD and accounted for 16.76% of the Bank's overall deposit balance. 2010 witnessed the issuance of 1.96 million "Li Cai Tong" debit cards, with an accumulated number of 15.78 million cards issued so far.

Personal Loans

At the end of 2010, the Bank's balance of RMB personal loans (excluding credit card overdraft) stood at RMB

74.312 billion, representing an increase of RMB 19.976 billion or 36.76% YTD, with that percentage being one of forefront among joint-stock commercial banks. In 2010, the Bank made greater efforts in renovating the products and expanding the market shares of personal loans. Among other things, the Bank launched non-mortgage loans for consumption and operation, thus laying a solid foundation for the constant increase of return on capital and the expansion of income sources of fee-based businesses.

Wealth Management Business

In 2010, the Bank has greater R&D efforts on wealth management products, with the successful construction of an independent platform for specialization R&D of wealth management products, launching such wealth management products as Salary-plus- Salary Nos. 12, 13 & 15. At the end of 2010 the Bank formally started the pilot construction of a professional marketing system for personal banking, forming a full-time, professional and efficient marketing team for related businesses in each major branch, which served as the basis for active exploration for a new marketing model of personal banking. The quality of the Bank's VIP customers has been further enhanced, with average assets of each customer exceeding RMB 1 million.

Credit Cards

With the domestic economy picking up, the Bank's credit card business witnessed strong rebound. The Bank issued 2.02 million new cards over the year, with an accumulated number of 11.64 million cards already issued, up by 37.96% and 24.99% respectively YOY. The transaction amount and the overdraft balance were RMB 130.584 billion and RMB 30.947 billion respectively, increasing by 36.24% and 87.93% YOY. Newly increased NPL ratio in the reporting period was 0.95%, decreased by 1.54 percentage YOY. With continuous improvement of profitability, the Bank became the only card issuer earning profits for six consecutive years in Mainland China.

The Bank accelerated the innovation of credit card products and functions, enriching the product line by launching such products as the Premium Card, the China Eastern Airline Titanium Card, the Shenzhen Airline Card and the China Unicom Card. Besides, the Bank optimized measures of risk control, and cracked down malicious overdraft and fraudulence. The Bank also launched quality customer incentive program, which resulted in steady improvement of customer quality. During the year, the Bank passed ISO27001 information security certification and established an overall system of information security. In addition, the Bank advocated service innovation and continuously improved service details for the sake of greater customer satisfaction. Among other things, the customer service center of Guangfa Credit Card obtained the "Award of Comprehensive Model" and the "Award of Best Services" for Customer Service Centers in China's Banking Industry awarded by China Banking Association, being the only customer service center in the domestic banking sector to receive both honors. Efforts were also made in increasing brand promotion and influence, resulting in such honors as the "Award for Excellent Credit Card of Business Operation", the "2010 Union Pay Standard Card Issuance Excellent Achievement Award", the "2010 Business Innovation Excellence Prize", etc.

(3) Financial Market Businesses

The Bank pushed forward both customer business (including customer transactions and wealth management services, etc.) and self-operated businesses (including financial market investments and transactions, etc.) in a balanced manner, enhanced management capability of daily liquidity and interest rate risk. In 2010, revenue from financial market businesses exceeded RMB 2.2 billion.

Customer services are a key point in the strategic development of financial market businesses. In view of that, the Bank established specific teams of product design and customer services, together with three major business systems, namely customer transaction, whole-series wealth management products and debt financing instrument issuance; the Bank launched a number of new products of customer wealth management, including “Capital Pool”, “Money Full”, specialized corporate wealth management, and gold-linked deposits, in addition to the agency trading service of gold in Shanghai Gold Exchange under the brand of “Guangfa Gold”. Income from customer-oriented foreign exchange transaction increased by 23.64% YOY, with customer foreign exchange / RMB transaction volume rising to No. 4 among joint-stock banks in China. The agency business of bond settlement reached RMB 29.911 billion, an increase of 6 times YOY. As for the lead underwriting of debt financing instruments, the volume and the amount rose by 175% and 152.94% respectively YOY, with revenues from underwriting and distribution fees increasing by 266.44% YOY. The Bank was awarded “the Best Bond Underwriting Project” Prize in 2010 China Outstanding Investment Banks Election presented by Securities Times.

The Bank successfully completed the transition from differentiated capital management to overall capital management, with good operation in position scheduling and daily liquidity management. Based on the concept of capital operation, the Bank integrated the money market, the fixed-income investments and the bills inter-bank discounting business, unified the allocation of capital resources and the management of interest rate risk exposure and liquidity gaps, and established a capital operation framework ensuring both liquidity and profitability.

Bills inter-bank discounting business witnessed a profit of over RMB 700 million in 2010, the Bank also actively participated in the construction of inter-bank bills market in China and attended bills joint meetings of major banks throughout the country, and was elected the managing director bank of the Bills Professional Committee of the Banking Association of Guangdong. Besides, the electronic system of commercial bills was formally launched and accepted by the People's Bank of China (PBOC).

The Bank established specific teams of product design and customer services, together with three major business systems in that aspect, namely customer transaction, whole-series wealth management products and debt financing instrument issuance.

广东发展银行
GUANGDONG DEVELOPMENT BANK

广发金 金易求金

黄金现货交易业务—11月4日隆重推出

• 交易代理 • 结算清算 • 交割提货 • 行情资讯

广东发展银行联合上海黄金交易所打造全新黄金投资产品——广发金·黄金现货交易业务, 为您提供集交易代理、结算清算、交割提货、行情资讯等一体化的综合性黄金投资服务。

更多详情, 敬请到我行网点咨询。
网址: www.gdcb.com.cn 客服热线: 400-830-8003

- 收储投资皆宜, 国家信誉保障
- 客户增值免税, 全球资讯尊享
- 开通日市夜市, 交易渠道通畅
- 广发金易求金, 金品传世典藏

广发金 金易求金

Report of the Board of Directors

During the reporting period, the Bank became a market maker for inter-bank RMB bonds, a market maker for forex spots and a trial market maker for forex forward swaps, as well as a member of the SHIBOR quotation team, with the qualification to quote prices for interest rate derivatives with the SHIBOR benchmark, and as a participant and a voucher opener for core transactions of credit risk mitigation instruments in the inter-bank market. The Bank has already obtained all the access qualifications for financial market businesses in the domestic market. In the meantime, the Bank established a capital trading office in Shanghai, in order to participate in the evolution of China's financial market and the development of financial centers, to expand inter-bank relations and recruit more professional talents, thus providing customers with better services in financial market businesses.

(4) Construction of Distribution Channels

Institution Network

By the end of 2010, the Bank has established branches and sub-branches in 45 cities of prefecture level and over in 12 provinces (cities) in Mainland China, including Beijing, Tianjin, Liaoning, Heilongjiang, Shanghai, Jiangsu, Zhejiang, Henan, Hubei, Hunan, Guangdong, and Yunnan, in addition to Macau SAR, with 544 outlets under the Bank. Besides, the Bank has two representative offices in Beijing and Hong Kong, and a post-doctoral research station at the Head Office.



During the reporting period, the Bank newly opened one branch directly under the Head Office (Tianjin Branch), four Tier-2 branches (in Suzhou, Pingdingshan, Taizhou and Benxi), as well as three non-local sub-branches (in Anshan of Liaoning, Rui'an of Zhejiang and Huangshi of Hubei), in addition to obtaining the permission to set up a direct branch (Harbin Branch) and four Tier-2 branches (in Yiwu, Nantong, Hengyang and Yingkou). Those newly-established institutions not only further optimized the Bank's outlet distribution across the nation, but also played an active role in improving lending directions, optimizing business structure and customer distribution, as well as promoting the balanced development of different businesses.

E-banking

The Bank made great efforts on the E-banking business by closely adhering to the operational targets of "enlarging the scale, adjusting the structure, expanding the functions, and promoting the brand" in accordance with the service principles of "comfort, convenience and security". Among other things, the Bank paid more attention to the construction of such electronic channels as online banking, ATM, SMS platform and telephone banking. The Bank also initiated the construction of the new online banking system, officially launched the new website, successfully put phase I of mobile banking into operation, so as to constantly expand service contents, optimize product functions, and promote the development of electronic banking in a profound and diversified manner.

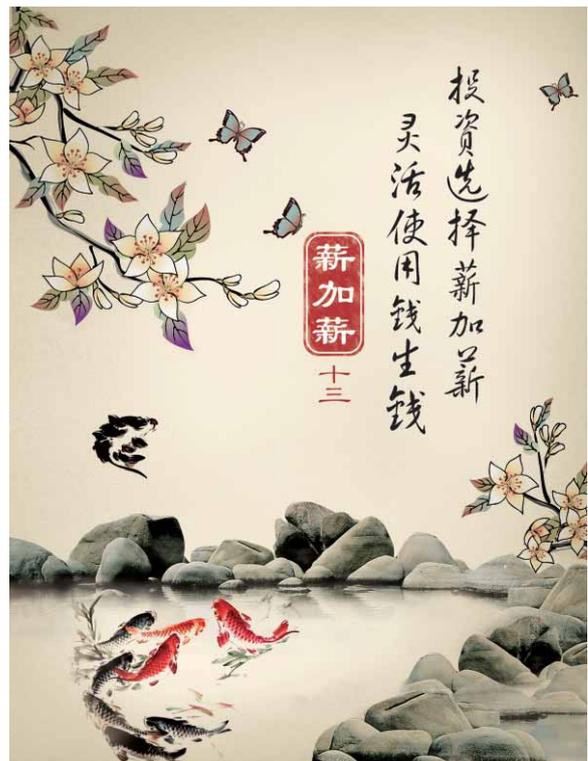
During the whole year, the Bank launched 149 new products, services and functions, including electronic commercial bills, inter-bank settlement of online payment, online trading of precious metals, ATM deposit without card or passbook, online banking without software or soft key, corporate online international settlement, electronic receipts stamped with electronic seals, renewal of online banking certificates, inter-bank online repayment of credit card debts, self-service online payment of personal fees, online direct payment with Seven-Day Hotel Co-brand cards, etc., in addition to transferring from demand to time deposit with One-in-All cards, inquiry of transaction journal of debit cards, inquiry of loan information and inquiry of fixed-term transactions on ATM machines. Those initiatives expanded the scope of our products and services of electronic banking, enhanced the user-friendliness and practicality of electronic channels, as well as improved customer experience, thus being conducive to the rapid and healthy development of electronic banking.

Throughout the year, the Bank conducted more than 80 marketing and promotion functions for E-banking. As a result, the number of E-banking customers reached 2.09 million by the end of 2010, an increase of 55% YOY. The whole year witnessed 8.72 million transactions of online transfer, increased by 75% YOY, with the amounts being RMB 1,528.6 billion, increased by 83% YOY; 18.35 million transactions of online payment, increased by 52% YOY, with the amounts being RMB 6.2 billion, increased by 63% YOY; there were 3,638 self-service facilities operating online, up by 23% over the previous year. Customer penetration ratio of online banking in the whole year was 11.1%, increased by 2.2 percentage points YOY; online banking transaction substitution rate was 19.2%, increased by around 10 percentage points YOY; self-service facilities transaction substitution rate was 27.6%, under the situation of transaction scale continuously increasing 31.6%, the substitution rate was basically the same as that of last year, increased by 0.4 percentage point YOY. Transaction channels distribution were increasingly reasonable, and cost efficiency emerged. The Bank was awarded “2010 Best Marketing Prize for Online Banking in China” by China Financial Certification Authority (CFCA).

(5) Information Technology and R&D

The Bank devoted more resources to scientific and technological initiatives and made active efforts in promoting IT construction, improving and expanding the original IT system by effectively adopting advanced computer information and Internet technologies, so as to provide more sufficient support for the accelerated development of businesses.

In 2010, the Bank's implementation of IT planning made significant progress, including the



www.gdb.com.cn
客服热线: 400-830-8003

真情理财 SINCERE BANKING 用心为您 增值每一天

Report of the Board of Directors

successful implementation and release of the three major projects, i.e., the integration of core systems of consumer banking, core system accounts integration and back office business procedure reengineering. The Bank also orderly promoted the transformation of core systems, thus making the system infrastructure more stable and the business response more efficient. Besides, the Bank offered stronger support for expanding business markets and strengthening customer services through the establishment of investment, wealth management and marketing management platforms for cash management, electronic commercial bills and market making of foreign exchanges, etc., as well as the construction of a corporate customer management system. In addition, the Bank made continuous efforts to expand and optimize the functions of fee-based businesses, with the completion of over 40 fee-based business projects, such as the gold trading management system and Guangzhou Branch's public accumulation funds management system, thus enhanced our market competitiveness. As for IPO technical preparations, the Bank successfully transformed the interest accrual function for loans and deposits in the core system, set up the purchase management system and initiated management accounting project, thus providing support for management decisions and satisfying various regulatory requirements. Last but not least, the Bank constructed the on-site audit management system, the credit card data mart and the personal business analysis system, so as to support comprehensive risk management and guarantee business compliance and steady development. Thanks to the rapid development in 2010, the Bank has made new achievements in IT construction, with significant improvement in the support for business development, operation and management.

The Bank has continued to strengthen IT risk management and further enhanced information security management, effectively minimizing the operational risks of information systems, ensuring the smooth operation of businesses, meeting the goals of "zero breakdown, zero error & zero customer complaint" during the Shanghai World Expo and the Guangzhou Asian Games.

Attaching great importance to the future development of and the resources input in IT initiatives, based on the adjustment of the five-year science and technology planning, the Bank has formulated the 2011-2013 three-year planning for scientific and technological development, in line with changes in the situations. By constructing "three centers in two places" and fundamental IT facilities, adjusting the IT organization structure and optimizing the existing service process, the Bank established a secure, stable and service-oriented IT infrastructure, so as to enhance the adaptability to business changes and to support the sustainable development of the Bank's businesses.

(6) Human Resource Management

2010 was a key year for the Bank to continue the fundamental construction of and to further the comprehensive reform in human resource management. Guided by the "Overall Planning in Human Resource Management Reform", aiming at establishing a market-oriented system of human resource management, the Bank comprehensively pushed forward the reform of human resource management with the core being position management, performance management and remuneration management. By rearranging the position system, the Bank established three talent teams in the aspects of "business management", "professional skills" and "technical operation". Employees are hired on a contractual basis for various posts across the Bank, with all the positions set up "as needed" and filled through competition. Referring to the "balanced score card" and other modern concepts of human resource management, the Bank rearranged and established a performance management system framework which is based on value creation, so as to

effectively promote the implementation of the new performance concept. The Bank reformed the remuneration management system, gradually established a staff remuneration system which features position performance salaries, in order to not only strengthen the incentives of remunerations and benefits, but also preliminarily realize market-based remunerations.

The Bank stuck to the concept of “Talents being the most important resources”, actively conducting recruitment of talents. Based on conducting extensive recruitment drives for professional and technical talents from both at home and abroad, the Bank strengthened campus recruitment, through the manner of organizing campus recruitment presentations in Peking University, Tsinghua University and other well-known universities, selected a group of high-quality and resourceful graduating students, and reserved talents for the Bank’s future development.

The Bank stuck to the concept of “strategic orientation and performance orientation”, constantly improved the mechanism of controlling human resource costs. The Bank developed detailed regulations on the management of human resource costs allocation throughout the Bank, fully reflected the principle of effective incentives, stressed the systematic and comprehensive implementation of labor cost control based on the itemized and detailed accounting of human resource costs, in order to promote the sustainable development of different businesses.

The Bank adheres to the basic principles of “aligning with strategies and supporting development”, continuously optimized human resource allocation, and strengthened the development and management of human resource. The Bank pays attention to input-output analysis, with priorities given to front offices and areas with strategic importance in the allocation of limited human resources; The Bank attached importance to talents cultivation, continuously promoted personnel training in different levels, different varieties and multiple channels, effectively enhanced the personnel quality of different levels and business lines, and greatly supported healthy and stable development of various businesses.

(7) Brand and Services

Brand Building

With the aim of becoming a “first-class commercial bank”, the Bank made publicity of our corporate image and products via news reports, advertisements and events, thus raising public awareness of the Bank’s corporate brand and core business brands.

The Bank streamlined the brand architecture and pushed forward the reform of brand management system. With principles of a unified system, centralized management and specific post to take responsibility, the Bank formulated brand management policies and measures. Specific teams and posts in the Head Office and branches were set up for brand publicity and promotion.

The Bank also stepped up efforts in media publicity and implemented proactive news management, comprehensively utilized multiple manners of mass media, large-scale theme events, etc. to strengthen the effect of brand propagation and enhance the Bank’s popularity. The Bank published news reports in national print media channels such as “Financial Times”, “21st Century Business Herald”, etc.. The Bank also

Report of the Board of Directors

ran advertisements of our corporate image as well as products on famous TV media like China Central Television, Phoenix Television, etc.. Besides, the Bank constructed a platform of communication and exchanges with the public and the customers by means of high art, organized a large publicity event entitled “Art without Borders and Love in China: Guangfa Bank World High Art National Tour for Charity”.

To expand the connotation of our brand, the Bank launched relevant issues such as renaming “Guangdong Development Bank” into “China Guangfa Bank”, at the same time, engaged Landor, an internationally famous designing firm, to design the Bank’s new logo which will be more international and modern. In 2010, the Bank was awarded “Top 10 Brands of Banks in 2010 the Eighth China Finance Billboard” presented by Hexun.com and “Top 10 Brands of Banks and Insurances Most Loved by Public Servants” presented by Nanfang Daily.

Service Management

Adhering to the concept of services being the core competitiveness, the Bank established a service quality management system which covers customer remarks, service quality assessment, supervision and inspection, as well as dynamic management of customer complaints, strengthened the effective management of service quality in such three processes as pre-event, during-event and post-event control, went all out to promote the enhance of service level.

The Bank conducted monitoring of customer satisfaction, linked the remuneration of counter staff to the assessment of customers. By regular trainings and examinations of business skills and regulating services behaviors, the Bank enhanced the service skills and response capability of staff. Initiatives include regular and surprise checks as well as unannounced inspections by third-party “mystery customers”, by means of both on-site assessment and random video checks, the Bank can grasp service quality timely. The Bank improved the dynamic management system of customer complaints, accepted customer supervision and complains via the 24-hour service hotline, together with unified standards as regards the deadline and method of complaint handling, and established a mechanism to interact with complaining customers. According to the survey results by Horizon Research Consultancy Group in the reporting period, the Bank made progress in 2010 over 2009 in terms of customer satisfaction and loyalty.

During the Shanghai World Expo and the Guangzhou Asian Games, based on excellent services and the image as an outstanding and modern commercial bank, the Bank was awarded the “Innovation Award for Financial Services at World Expo” from China Banking Association, the title of “Outstanding Provider of Financial Services and Guarantees for the 16th Asian Games” from the Financial Service Coordination Team for the Games, as well as the awards of financial services organization and innovation for the Asian Games from the CBRC Guangdong Office and the Banking Association of Guangdong. Besides, during the selection of “A Thousand Model Units in China’s Banking Industry in Providing Pilot and Standard Services” organized by China Banking Association, 17 of our outlets were qualified for that honor due to our marvelous performance, making the best result in history.

During the Shanghai World Expo and the Guangzhou Asian Games, based on excellent services and the image as an outstanding and modern commercial bank, the Bank was awarded the “Innovation Award for Financial Services at World Expo” from China Banking Association, the title of “Outstanding Provider of Financial Services and Guarantees for the 16th Asian Games” from the Financial Service Coordination Team for the Games



5. Risk Management of the Bank

(1) Risk Management Overview

In 2010, the Bank steadily pushed forward overall risk management work. At present the Bank has an independent and professional risk management system as well as complete and reasonable risk management framework. The Bank will further subdivide the risk management frameworks of public loans, personal loans, financial inter-bank business and financial market business, and establish a comprehensive and line-based risk management organization system. In addition it will strengthen the prevention and management of credit risk, improve the measurement, management and control ability over market risk, optimize the demands on fund allocation, enhance the management of liquidity risk and perfect the management of operational risk to ensure lawful operation. The Bank will actively prevent and mitigate risks and promote the structure optimization and adjustment to further improve the overall risk management ability.

The Bank has set up Risk Management Committee of Board of Directors under the Board of Directors, responsible for examining and discussing risk policies, rules and regulations as well as internal control implementation schemes, assessing risk management ability of the Bank and establishing management strategies on credit risk, market risk, operational risk and liquidity risk. The Committee authorizes the Chief Risk Officer engaged by the Bank to be responsible for overall risk management work. The Risk Management Committee, Assets and Liabilities Management Committee as well as Internal Control and Compliance Committee are responsible for examining and discussing market risk, liquidity risk and operational risk management rules and regulations, assessing the effectiveness of the management rules and regulations, supervising the implementation of the management rules and regulations, and identifying the deficiencies of the management rules and regulations and making solutions respectively. The Risk Management

management foundation platform, and steadily pushed forward the refined construction of the risk management work of the Bank.

- Further perfected and deepened the construction of standardized, dynamic and refined risk management policies, rules and regulations. In 2010, the Bank comprehensively and deeply studied the influence of the changes of the macro-economic situation on the operation management of the Bank, formulated the corresponding risk guidelines and risk prompts timely, studied and established credit business management rules and regulations according to the regulatory requirements and the “Three Measures and One Guideline” and enhanced the management of “paying the exact loans borrowed” and “entrusted payment” and strengthened the control over the whole loan process.
- Continuously strengthened credit business authorization and re-authorization management, gradually improved and optimized credit authorization system, and implemented hierarchical and three-dimensional authorization management by business type and region, such as the special authorization for “Hao Rong Tong” and “Yi Ya Tong” products. In 2010, the Bank further pushed forward the approver system and established credit responsibility mechanism with clearly-defined responsibilities according to the vertical and independent development planning of risk management line framework.
- In 2010, the Bank strengthened credit risk management of key business areas and effectively promoted credit structure adjustment according to the macroeconomic control measures of the State and the regulatory requirements of China Banking Regulatory Commission. In addition, the Bank paid close attention to and further strengthened risk management over governmental financing platform, real estate, as well as industries with overcapacity and potential overcapacity, organized and conducted risk elimination and recheck of credit business in key areas, directed branches to operate lawfully and to seriously carry out the macroeconomic control measures of the State and the regulatory requirements of the China Banking Regulatory Commission.
- In 2010, the Bank continuously improved and perfected off-site monitoring management measures, platform and methods to improve risk monitoring efficiency. The Bank developed the “Credit Statistics and Monitoring Data System (CDS)” and put it into use across the whole bank in 2010 to provide a new platform and high efficient tool for the statistics and monitoring work of the whole bank. In addition, the Bank continuously carried out loan limit and portfolio management from such dimensions as industry, client, product and area and strengthened loan portfolio analysis from such aspects as product, cost, type of risk, loan period and grading migration to improve portfolio risk management level and prevent systematic risks.
- In 2010, the Bank has further improved quantitative risk management technology promotion and application, and comprehensively improved risk management level and quantization ability. In addition, the Bank identified risks and simulated risk loss degree by adopting such risk measurement methods as stress testing and made corresponding management strategies based on stress testing result. The Bank strengthened the development of risk management tools and model, improved the rating model, developed standardized financial analysis tools, strengthened credit business data intelligent analysis and improved quantitative risk management capacity.

Report of the Board of Directors

- Strengthened building of risk management foundation platform and improved risk management technical measures. In 2010, the Bank continuously optimized the Credit Management System (CMS), strengthened the rigid control of the information system over business process and improved the support of IT to risk management.
- Comprehensively pushed forward the optimization of risk management processes, perfected post-loan management and risk early warning mechanism to effectively improve risk identification, control and mitigation ability. In 2010, the Bank carried out post-loan management process optimization according to the principle of “specialized, integrated, differentiated and dynamic management”, designed and started up risk warning management to realize rapid response mechanism for risk management.
- Focused on strengthening the management over collateral and pledge and enhanced risk mitigation of the second loan repayment source while sticking to the emphasis on the first repayment source. In 2010, the Bank developed and established credit guarantee management system to realize rigid systematical control over credit guarantee management process and restricted credit guarantee. In addition, the Bank continuously pushed forward the construction of credit guarantee management rules and regulations and process refinement, strengthened the management over professional guarantee companies and third party chattel property pledge supervision companies to effectively prevent guarantee risk.

(i) Five-tier loan grading and the change of non-performing loans

Five-tier loan grading and loss provision for each grade

In RMB Thousand

Items	Year-end Balance	% of total	Year-end Loan Loss Provision Balance
Pass	451,986,875	96.82	10,175,728
Special-mentioned	7,471,560	1.60	665,773
Sub-standard	1,581,523	0.34	554,493
Doubtful	4,608,842	0.99	2,801,337
Loss	1,190,002	0.25	1,189,390
In Total	466,838,802	100.0	15,386,721

Provision Coverage Ratio (balance of loan loss provision / balance of NPL) : 208.48%.

Change of non-performing loans

In RMB Thousand

Items	December 31, 2009		Increase/(decrease)		December 31, 2010	
	Amount	% of total	Amount	% of total	Amount	% of total
Sub-standard	4,261,570	1.13	(2,680,047)	(0.79)	1,581,523	0.34
Doubtful	3,367,148	0.88	1,241,694	0.11	4,608,842	0.99
Loss	1,494,760	0.39	(304,758)	(0.14)	1,190,002	0.25
In Total	9,123,478	2.40	(1,743,111)	(0.82)	7,380,367	1.58

(ii) Main management policies and measures for non-performing assets and their effects

The Bank tried its best to suppress newly-added non-performing loans to reduce the non-performing loan balance and proportion while enhancing the collection and disposal of the existing non-performing assets. The main measures taken by the Bank for managing non-performing assets include: First, actively carried out various industrial policies and credit policies of the State, strengthened the policy guidance for credit orientation of the whole bank, further optimized credit asset structure and suppressed new non-performing loans from the source. Second, managed the whole process of credit risk assets, carried out comprehensive risk management concept, and reconstructed and optimized all risk management processes including credit access, pre-loan investigation, loan examination, post-loan management and non-performing loan collection and disposal. Third, made reasonably collection and assessment plan. The Head Office and branch jointly took collection measures including cash collection, transfer of creditor's right, discount of creditor's right, loan restructuring and writing off of bad debts to make every attempt to collect and dispose non-performing loans. Fourth, focused on large amount non-performing asset projects and branches with large amount non-performing asset balance to successfully collect and dispose a batch of key large-amount non-performing assets projects. Fifth, managed special-mentioned loans in advance, disposed and mitigated credit risk in time. Sixth, tried to sell non-performing assets in package and successfully sold a batch of non-performing assets. Seventh, perfected the writing-off of the bad debt loss of the Bank to dispose asset loss timely and enhanced risk resistance capacity strictly according to the relevant provisions of the Ministry of Finance. Eighth, continuously revised and perfected non-performing asset management rules and regulations and business process. Ninth, carried out non-performing asset special collection person system and strengthened the direct participation of the Head Office in non-performing loan collection. Tenth, continuously enhanced team building and actively attracted and cultivated non-performing asset collection and management talents.

Through the above-mentioned measures, the Bank has achieved remarkable success in non-performing asset management:

- At the end of 2010, the non-performing loan balance of the Bank was RMB 7.380 billion, a decrease of RMB 1.743 billion than that of 2009 and the non-performing ratio was 1.58%, a decrease of 0.82 percentage than that of 2009. Both the non-performing loan balance and ratio were decreased.

Report of the Board of Directors

- The Bank collected and disposed RMB 5.40 billion full-caliber non-performing assets and collected RMB 3.43 billion non-performing assets in cash. The cash collection ratio was 63.5 %.

Structure of loans and non-performing loans classified by business type

In RMB Thousand

Items	December 31, 2010			December 31, 2009		
	Loan Balance	% of total	NPL Ratio (%)	Loan Balance	% of total	NPL Ratio (%)
Corporate Loans (including discounted bills)	361,189,503	77.4	1.80	309,344,261	81.2	2.53
Personal Loans Including: credit card overdraft	105,649,299	22.6	0.85	71,530,758	18.8	1.80
	30,947,131	6.6	1.51	16,466,634	4.3	4.45
In Total	466,838,802	100.0	1.58	380,875,019	100.0	2.40

In 2010, the Bank optimized loan structure, allocated loan resources scientifically, shrank the volume of discounted bills, developed corporate and personal loans, and supported business of overseas institutions like Macau Branch. Corporate loans, personal loans increased respectively by 16.76% and 47.70% YOY.

Asset quality of different types of loans was evidently improved. NPL ratio of corporate loans was 1.80%, decreased by 0.73 percentage YOY; NPL ratio of personal loans was 0.85%, decreased by 0.95 percentage YOY.

Report of the Board of Directors

Structure of corporate ordinary loans and non-performing loans classified by industry

In RMB Thousand

Industry	December 31, 2010			December 31, 2009		
	Loan Balance	% of total	NPL Ratio (%)	Loan Balance	% of total	NPL Ratio (%)
Manufacturing	102,204,752	28.63	3.82	80,624,208	28.61	5.17
Wholesale and Retail	72,074,964	20.19	2.19	53,220,534	18.89	3.86
Energy and Raw Materials	59,739,286	16.73	0.13	49,539,478	17.58	0.15
Transportation	27,208,162	7.62	0.07	19,048,232	6.76	0.29
Property	46,474,257	13.02	0.27	27,687,751	9.83	0.22
Tourism and service sector	18,772,046	5.26	0.24	14,730,888	5.23	0.70
Construction and installation	16,372,177	4.59	1.18	12,466,043	4.42	1.52
Securities and investment management	2,738,143	0.77	0.00	5,952,307	2.11	0.00
Postal and telecommunication services	2,424,474	0.68	0.44	2,993,118	1.06	17.19
Others	9,025,878	2.53	0.64	15,528,389	5.51	0.23
In Total	357,034,139	100.00	1.68	281,790,948	100.00	2.57

According to latest development of different industries and its own actualities, the Bank adjusted loan policies for industries in time, actively guided the branches to analyze the market condition and client risk, strengthened risk monitoring of related clients, provided risk suggestion for different industries and carried out related countermeasures. As a result, loans of different industries were reasonably released, and asset quality of different industries was improved continuously.

Among all industries, manufacturing, wholesale and retail, property ranked in the front. NPL ratio of each was 3.82%, 2.19% and 0.27%, decreased by 1.35, 1.67 and increased 0.05 percentage points respectively compared with 2009.

(iii) Accrual and writing-off of loan loss provision in 2010

In RMB Thousand

Items	Loan Loss Provision
Opening balance	(14,239,750)
Change for the year	(3,521,775)
Release during the year	627,023
Unwinding of discount	237,616
Recoveries	(77,259)
Writing-offs	1,587,424
Closing balance	(15,386,721)

Report of the Board of Directors

(iv) Risk management concerning loans granted to group clients

In 2010, the Bank continuously strengthened the management of loans granted to group clients and further improved group client risk management level through enhancing the examination, approval and maintenance of the correlation of group clients as well as the authorization control over credit line of group clients. As of the end of December 2010, the Bank had established 1,386 group clients, including 149 group clients at head office level and 1,237 group clients at branch level.

The main rules and regulations carried out in group client risk management include the “Measures for the Administration of Comprehensive and Unified Credit Granting to Legal Person Clients by GDB” and the “Notice on Strengthening Group Client Credit Granting Management”. The Bank controlled the total credit risk of the group clients in the Bank through examining and approving the comprehensive and unified credit limit of the group clients.

The Bank has taken the following specific measures in group client risk management under the framework of the above-mentioned policies and rules:

- Group client access. The Bank has adopted stricter standards for identifying the correlation of group clients. In addition to equity control relationship, clients with same legal representative, obvious operation-influenced relationship, under joint control of family members, under joint control of key management personnel, with close mutual guarantee relation as well as clients who might not transfer assets and profit according to fair value principle are included into the management of group clients.
- Group client credit granting examination and approval. Within group clients, the Bank grants loans mainly to manufacturing enterprises and enterprises with core competitiveness and can directly generate cash flow. The examination personnel verify the related party relationship of the group clients. In case that the overall credit line to a group client exceeds a certain limit, it must be submitted to the Head Office for examination and approval.
- Perfected the risk management system that can enable the main control unit, secondary control unit and main responsible controller to effectively control the credit risk of group clients. The main control branch is responsible for managing the group clients as a leader. The Bank has effectively established a coordinated and uniform group client risk management mode between the Head Office and the branches.
- Post-loan management of group clients. In addition to carrying out the existing relevant post-loan check rules and regulations, the Bank has also established off-site monitoring rules and regulations to timely identify the risks faced by a group client and the risks caused to the whole group, and monitored the effect of correlation and mutual guarantee on group clients.

(5) Basic information concerning Repossessed Assets

In RMB Thousand

Items	December 31, 2010	December 31, 2009
Repossessed assets	262,079	295,520
Including: Properties and buildings	230,448	268,294
Land	17,263	20,764
Others	14,368	6,462
Deduction: Allowances for impairment losses	(45,098)	(26,430)
Net value of repossessed assets	216,981	269,090

(b) Liquidity Risk

Liquidity risk refers to the risk that a commercial bank is unable to obtain sufficient funds or is unable to obtain sufficient funds at reasonable cost in time to deal with assets increase or pay the debts due although it has solvency.

The key points of liquidity risk management strategy of the Bank are: setting appropriate risk tolerance, striving for improving financing capacity, keeping proper assets liquidity, continuously assessing the cashability of assets, paying attention to the effect of various risks on liquidity, focusing on the application of the stress test of liquidity risk and paying attention to its limitation.

As for liquidity risk management, the Bank adopted asset liquidity management strategy and liability liquidity management strategy. Starting from 2010, the Bank has paid great attention to cash flow management and liquidity limit management technical methods according to the "Guidelines on the Liquidity Risk Management of Commercial Banks" promulgated by the China Banking Regulatory Commission to effectively control liquidity risk in conjunction with the external regulatory indicators, internal liquidity indicators and stress testing technology. The asset liquidity management strategy of the Bank includes asset diversification, improving the cashability of assets and building liquidity asset portfolio. The liability liquidity management strategy includes keeping the stability of liabilities, improving the proportion of core deposits in liabilities and keeping good market financing capacity.

The liquidity risk management status and the main measures taken by the Bank in 2010 were as the follows:

- The Bank realized various regulatory indicators on liquidity risk management, which showed that the liquidity of the Bank was good and the non-performing loan ratio was reduced continuously. The assets and liabilities matched reasonably in terms of period and structure. The capital position was operated and controlled appropriately. The Bank withstood the short-period market liquidity crunch in 2010.
- Established liquidity risk identification, measurement, monitoring and reporting system and enabling the Front Office Business Department, Planning & Finance Department and Risk Management Department to communicate with each other on liquidity risk status of the Bank through the platform of regular meetings of Asset and Liability Management Committee;

Report of the Board of Directors

- Established a full set of liquidity risk management policy system with the core policies on liquidity risk management as the guiding principles, covering such management techniques and methods as asset and liability liquidity risk management measures, cash flow management and liquidity risk limit management, emergency preplans and stress testing methods;
- With the formal application of the Internal Fund Transfer Pricing (FTP) Mechanism in the whole bank in 2010, the Bank changed its fund management mode from the traditional “difference fund management” to the “full amount fund management”. This is helpful for carrying out the liquidity risk management strategy across the whole bank;
- Further enriched the system of external regulatory indicators and internal liquidity indicators and made multi-layer liquidity guarantee and liquidity risk mitigation measures, including two new indicators introduced by the regulatory authority-Liquidity Coverage Ratio(LCR) and Net Stable Funding Ratio(NSFR);
- Strengthened liquidity risk monitoring to monitor in high frequency the liquidity risk regulatory indicators and liquidity gap;
- Established multi-level liquidity preparations according to the difference of asset liquidity to enhance the financing capacity of the Bank for financing from multiple financing markets including inter-bank market and enable the Bank to take into consideration various factors including liquidity risk, credit risk and market risk while operating bond investment portfolio and note asset portfolio;
- Paid close attention to market movement and monetary policies of the People’s Bank of China, monitored the change in large amount funds, and reasonably arranged reserves to ensure liquidity safety;
- Actively supplemented capital, enhanced the risk resistance capacity of capital, strengthened credit asset risk management and improved provision coverage ratio and reduced the impact of bad debts on liquidity;
- Periodically conducted liquidity risk scenario analysis and stress testing, and perfected liquidity risk management emergency plans.

(c) Market Risk

Market risk refers to the risk of losses incurred in both trading and non-trading business, as well as losses in on-sheet and off-sheet business caused by the adverse change of market price (including interest rate, exchange rate, stock and commodity). The market risk of the Bank is mainly caused by interest rate and exchange rate risks. Market risk related to stocks and commodities are basically not involved. As for complicated derivative products, market risk must be completely hedged in the market.

The market risk management of the Bank refers to the whole process of identifying, measuring, monitoring and reporting market risk exposure level. The target of market risk management is to, by controlling market risk exposure within tolerable range in accordance with the bank’s capital strength and risk appetite, realize risk-adjusted maximum yield.

Based on the classification of trading account and banking account, the Bank adopted different methods or models to measure different kinds of risks, and identified, measured, monitored and managed the market risks in businesses through methods and models including duration monitoring, exposure analysis, sensitivity analysis and scenario analysis.

The banking account market risk management focused on the management of interest rate risk and exchange rate risk. The Bank continuously assessed the mismatching between the interest rate sensitive assets and interest rate sensitive liabilities, adjusted and hedged the mismatching of interest rate sensitivity gap and assessed the bank account risk status quarterly through stress test. In terms of trading account market risk management, the Bank delegated market risk limit target inclusive of exchange rate and interest rate sensitivity target, and stop loss target. Sensitivity analysis and stress test were utilized to measure market risk of trade account.

The following main measures have been taken to strengthen market risk management during the reporting period: Set up market risk limit system to business units engaged in market risk, with interest rate sensitivity limit being the main part; the monitoring of the use of limit by a department independent of the front office. Based on the Bank's strategy and capital strength, nailed down the tolerance level of market risk economic capital and banking account interest rate risk potential loss, and set up various limits for businesses based on the business nature, magnitude, sophistication level and risk characteristics. Strengthened control on treasury products, sophisticated products and innovated wealth management products and ensured the identification and assessment on market risk factors through comprehensive review before launching new products. Perfected new product risk monitoring process, and improved the identification, measuring, monitoring and control of new products; In accordance with CBRC guideline, ran stress test in the principle of prudence. In 2010, risk management started the VaR calculation, and set aside market risk capital by using standardized approach, as a preparation for the kick-off of Basel II projects; Strengthened trade counterparty credit risk management, worked out risk exposure measurement rules for treasury products of counterparty, especially some derivatives products; Rolled out initiatives in revising interest rate fixing clauses to clarify interest rate re-fixing and re-pricing schedules; With the implementation of ALM system and FTP mechanism, all interest rate sensitive factors in banking account have been captured in market risk statements.

In the second half of 2010, the Bank started Basel II consultation project, and analyzed the gap between the existing risk management of the Bank and CBRC guidelines. The Bank started modeling selection and other initial preparatory initiatives in relation to market risk management system based on the gap analysis, in a bid to gradually build up a sound market risk measurement management framework, improve all types of policies and procedures, and strengthen risk management capability.

(d) Operational Risk

Operational risk refers to the risk of loss caused by imperfect or defective internal procedures, employees, information technology system and external events.

Report of the Board of Directors

The Bank has already made operational risk management policies, established basically operational risk management organization structure, and clearly defined the responsibilities of the Board of Directors, Risk Management Committee, senior management, Internal Control and Compliance Committee in operational risk management. The Compliance Department is the leading department, responsible for operational risk management. Each business and management department is responsible for specific operational risk management within its responsibility in actual practice. The main measures taken by the Bank in 2010 for managing operational risk include:

- Introduced professional organization to provide consulting service, and carried out internal control and operational risk management system construction project.
At the first stage of the project, the Bank sorted out, assessed and rectified the existing main business processes according to the requirements of the “Basic Standard for Enterprise Internal Control” in order to establish risk and control self-assessment methods, processes and mechanism covering the existing main business processes. At the second stage of the project, the Bank established operational risk management tools in order to use these tools to assess, monitor and control the operational risk in a systematic way. Meanwhile, the Bank matched the business line and risk classification with the loss event category according to the Basel New Capital Agreement and made a solid foundation for the quantization of operational risk and the implementation of the Basel New Capital Agreement through data accumulation. At present, the trial work of the first stage of the project has been basically completed. The promotion work of the first stage and the work of the second stage are being prepared actively.
- Sped up the construction of information technology platform and strengthened information technology risk management.
In 2010, the Bank continuously perfected the construction of infrastructural facilities and Information Security management and developed or optimized several information systems used for controlling operational risk to improve the support of information technology to operational risk management. In addition, the Bank conducted comprehensively information technology risk self-check and information security risk self-check work for several times, with focus on doing a better job in information technology risk management for Shanghai Expo 2010 and 2010 Guangzhou Asian Games. As a result, the Bank realized the work target of “zero difference, zero complain and zero failure” financial service for Guangzhou Asian Games.
- Continuously strengthened the establishment of rules and regulations and process optimization work, enhanced the foundation of rules, regulations and processes for effective operational risk management. In 2010, the Bank continuously sorted out rules and regulations, focusing on sorting out, summarizing, analyzing, assessing and perfecting the implementation of the relevant rules and regulations, carefully detected the existing outstanding problems according to the requirements of regulatory laws and regulations and internal control management, analyzed systematically the causes of the existing problems, timely discovered and corrected the deficiencies in the rules and regulations, perfected and optimized business and management processes, as well as refined and improved various business operation instructions according to the importance and urgency and the difficulty degree.

- Strengthened human resources management and enhanced the construction of employee incentive mechanisms.

The Bank established “Administrative Measures for the Remuneration of Management Personnel of First-Class Branches”, “Measures for the Implementation of Finance Director Dispatching System”, “Measures for the Implementation of Credit Risk Director Dispatching System” and “Measures for the Administration of Personnel Employment of Domestic Branches”, perfected the remuneration incentive constraint mechanism for the management personnel of branches, strengthened the financial, credit risk management and supervision of branches at each level, and standardized the personnel employment of branches to provide guarantee for preventing and mitigating various risks. In addition, the Bank established a series of performance appraisal management rules and regulations, and built basically a positive incentive mechanism propitious to stable, healthy and legal operation. Meanwhile, the Bank took such measures including organizing various business trainings and performing human resources management compliance check to strengthen human resources management of the whole bank.

- Perfected operational risk supervision, assessment and correction mechanism.

In 2010, the Bank conducted “Internal Control and Violation Prevention System Implementation Year” activity across the whole bank. In addition, organized various kinds of check, continuously strengthened audit and supervision work and provided guidance to each department to help them check carefully their business operational risk and promoted daily monitoring over the operational risk of each branch. In order to realize the purpose of reducing illegal operation and effectively carrying out corrective measures, the Legal and Compliance Department took the lead to establish the records of violations found by the supervision unit and each department of the Bank during check for following up and supervising the implementation of the corrective plans. In addition, the Legal and Compliance Department urged and coordinated each department and branch to implement the corresponding corrective measures, and continuously followed up the implementation of them.

(e) Compliance Risk

Compliance risk refers to the risk that the commercial banks might suffer legal sanction, regulatory punishment, heavy financial loss and reputation loss due to failure to observe laws, rules and standards.

The Bank has basically established a top-down compliance risk management framework, which includes the legal and compliance departments and business management departments of the Head Office and branches, as well as the part-time compliance officers in sub-branches and outlets under the leadership of the Board of Directors and the senior management. The Board of Directors and the Senior Management supervise and assess the effective implementation of compliance risk management. The Senior Management and the responsible person of each department listen to the report on compliance risk management each quarter at the regular meeting of Internal Control and Compliance Committee to understand the compliance risk status of the Bank and put forward resolutions and measures to deal with the weaknesses and hidden risks in the construction and implementation of rules and regulations to continuously perfect the compliance risk management of the Bank.

Report of the Board of Directors

The Business Department, Legal and Compliance Department and Audit Department form three effective defense lines for compliance risk management. Each functional department in the three defense lines fulfills its own duties, cooperates with each other and effectively carries out compliance risk management work.

The head of the business department is the first responsible person for the compliance risk management of its business line to actively practice compliance culture. In addition, he is responsible for marketing to appropriate clients according to the provisions of the authorization and credit granting system, product development system and business expansion system, comprehensively understanding the clients to avoid money laundering risk, reporting suspicious and large amount funds, disclosing truthfully to the clients product risk and benefits, handling each business pursuant to law, as well as organizing compliance self-check, monitoring the business line, and reporting the compliance risk and the abnormal behavior of employees.

The Legal and Compliance Department is the second defense line for compliance risk management, responsible for taking the lead to establish the compliance risk management working mechanism of the Bank and coordinating in pushing forward the construction of compliance culture of the Bank. In addition, it is in charge of sticking to the compliance bottom line to ensure legal operation, participating in developing compliant products and guiding the front-line department to sell legally, organizing special checks to find out and handle illegal conducts in time, organizing and implementing rules and regulations and conducting risk management assessment to continuously improve compliance risk management effectiveness, and monitoring and reporting compliance risk immediately.

As an independent internal audit department directly reporting to the Board of Director, the Audit Department is the third defense line for compliance risk management, responsible for auditing the compliance and effectiveness of each operation and management activity of the whole bank internally and assessing independently the fulfillment of duties in compliance risk management on a regular basis.

In 2010, the major work performed by the Bank for deepening compliance risk management included:

- Enhanced advance prevention and concurrent control functions in compliance risk management, kept the synchronism between compliance management and business and product innovation and process reengineering, and establishing continuous and standardized compliance examination mechanism to guarantee the compliance of the products and processes.
- Practiced compliance performance appraisal, enhanced compliance accountability, guided the branches and employees at each level of the Bank to operate legally. From 2010, the Bank started to take the act of violating compliance requirements and causing compliance risk as a deduction item in the performance appraisal indexes of each department and branch. Established definite compliance responsibility system in the bank through continuously perfecting this work, specified the compliance responsibilities of personnel of each post at each level, and pursued responsibility for acts that cause the Bank to suffer or might suffer severe consequences and other compliance risks including legal sanction, regulatory punishment, heavy financial loss or reputation loss due to intentional act or negligence, failure to fulfill or correctly fulfill compliance responsibilities.

- Adjusted rules and regulations and established systems, as well as revised and perfected the internal control rules and regulations relevant to compliance management. In 2010, the Bank sorted out rules and regulations by taking the relevant columns in the internal internet as a platform, upgraded in time relevant rules and regulations.
- Established regulatory provisions understanding and follow-up mechanism so as to enable the regulatory policies to be accurately understood and carried out in the Bank. The Bank classified and assessed the laws, regulations and regulatory policies that have significant impact on the Bank according to business relevance and supervision degree, analyzed key points, communicated and reported to the Senior Management and the relevant business lines timely in order that the Bank could accurately understand the supervisory policies and the corresponding compliance requirements to take countermeasures to eliminate potential compliance risk and ensure the legality and compliance of each operation and management activity.
- Studied and established tools that can effectively identify, assess and control compliance risk, and perfected compliance risk management mechanism. The Bank pushed forward the construction of the laws and regulations database and the compliance risk matrix with the support and cooperation of professional consultation institutions. It is planned to provide a basic tool for identifying, assessing and detecting compliance risk through construction of this project.

(f) Information Technology Risk

Information technology risks refer to the operational, legal and reputation risks caused by natural factors, human factors, technical vulnerabilities and management defects in the process of applying information technology by commercial banks.

The Bank has clearly specified the responsibilities of the Board of Directors and the Senior Management in information technology risk management, and also clearly defined the three defense lines for information technology risk prevention with the Information Technology Department, Legal and Compliance Department and Audit Department as the main bodies. In addition, the Bank has set up Chief Information Officer (CIO) and established official business discussion mechanism of Information Security Leading Team to hold meeting each quarter to discuss and make significant decisions on information security.



Report of the Board of Directors

The Bank has made science and technology information security management policies, clearly defined the overall management requirements on information security work, including 16 aspects such as science and technology information security organization system, science and technology information security rules and regulations system, personnel security, physical security, network security, emergency management and information secrecy. This policy will provide long-term effective guidance and development direction for the future information security management work of the whole bank. In addition, the Bank has established information technology rules and regulations framework, clearly defined the hierarchical relation of the information technology rules and regulations. Under this framework, the Bank has continuously sorted out information technology rules and regulations, organized and established 19 rules and regulations including “Measures for the Administration of Product Change in Information System”, “Measures for the Administration of Information Capacity”, “Measures for the Administration of Fundamental Software Versions of Information System”, “Guidelines for Replacing Computer Network Equipment”, and “Guidelines for Computer Network Monitoring Operation”. In addition, the Bank has revised seven rules and regulations including “Measures for the Administration of the Withdrawal of Electronic Data Assets”, “Rules on the Administration of Information Development Project Examination and Approval” and “Operation and Management of Bank’s Disaster Recovery Backup (Outsourcing) Center”.

According to the requirements of the regulatory authority on guaranteeing the information security of Shanghai Expo 2010 and 2010 Guangzhou Asian Games, the Bank organized and made the overall work plan and requirements for guaranteeing information security of Shanghai Expo 2010 and 2010 Guangzhou Asian Games, established information security guarantee organization, held information security guarantee mobilization meeting for several times, conducted information system emergency rehearsals and information technology risk assessment and check, solidified internet application security and carried out such requirements as production change, watch keeping, system monitoring, failure elimination, emergency handling and information communication. All these enabled the Bank to successfully accomplish the task for guaranteeing the information security of Shanghai Expo and Guangzhou Asian Games.

The Bank has nailed down the level of 57 information systems according to the requirements of the State on protecting the security level of information systems. In 2010, the Bank completed 14 information systems. The Bank entrusted the third party testing and assessing organization approved and registered by the public security authority to conduct difference testing and assessing work to the third party custody system of bank-securities funds settlement (Level III) and credit management system (Level II) from over 320 items in 10 aspects including physical security, network security, host security, application security, security management rules and regulations, and system operation and maintenance management, and completed acceptance test work.

The Bank organized and conducted special on-site check on information security of all branches. The contents checked include 320 items in 9 aspects including user management, system management, network management, computer room management and test key management. During this check, we especially checked such contents as system network parameter settings and security settings on the basis of the previous check methods and conducted scan detection with auxiliary tools. The check result showed that the overall information technology risk management of the Bank was good. The concerned branches had been organized to take corrective measures on the risks found in the check.

The Bank effectively pushed forward the information technology risk audit and correction work of the Head Office through refining correction requirements, determining responsible person at each level and improving correction and supervision methods. We completed such correction works as core system administrator right control, PC server development and test environment separation, network security management and application system user password setting, and effectively controlled and eliminated information technology risk.

The Bank has constructed disaster recovery backup center by two stages, including 19 information systems such as integrated business system, e-bank, counter terminal and self-service equipment, covering the core businesses, payment settlement and main channel businesses to meet business continuity needs. In addition, the Bank has started the construction of “two places and three centers” to build three data centers in two places (production center, intra-city backup center and off-site disaster recovery backup center) to realize different risk prevention targets, to meet the needs of high availability of bank information systems, disaster recovery backup and business continuity support and to resist various information system risks.

The Bank has implemented disaster recovery rehearsals in the disaster recovery backup center at four stages (reporting and notifying tree rehearsal, on-site rehearsal, simulation rehearsal and desktop rehearsal). First, the Bank finished disaster recovery backup emergency response preplan “notifying tree” desktop rehearsal and verified the effectiveness of the disaster recovery emergency response notifying and reporting process of the Bank. Second, the Bank selected the Trade Service Center System and SWIFT System to carry out disaster recovery practical switchover of the disaster recovery backup center for running three days in the disaster recovery backup center, and verified the availability and recoverability of the Trade Service Center System and SWIFT System of the disaster recovery backup center. Third, the Bank completed disaster recovery simulation rehearsal of the disaster recovery backup center to check and verify comprehensively the effectiveness of the disaster recovery backup system and disaster recovery process of the disaster recovery backup center through simulating the scenario when a disaster happens. Fourth, the Bank completed disaster recovery desktop rehearsal of the disaster recovery backup center, focusing on disaster warning, disaster declaration as well as business emergency and business recovery processes of branches after systems are switched over. This verified the effectiveness of the disaster recovery backup emergency response plan of the Bank.

The Bank conducts disaster recovery rehearsal once a year, and checks the infrastructure facilities of the disaster recovery backup center and their operation once a quarter. In addition, the Bank checks the benchmark of the other system networks once a month and checks the benchmark of the core host system of the disaster recovery backup center once a week in order to ensure the safe and stable operation of the disaster recovery backup center. The Bank assesses the production running risk of the data center of the Head Office each quarter and checks the management on the running of the data center each month and releases each day the information on the systems, transactions, failures and changes of the data center of the previous day in order to clearly know the running status and risks of the data center in real time.

The Bank has further controlled and mitigated information technology risk through implementing the above-mentioned measures for preventing and controlling information technology risk.

7.5.2.7 Reputation Risk

The Bank carefully carried out the requirements of China Banking Regulatory Commission on the management of reputation risk and formulated the “Detailed Rules of GDB on the Administration of Reputation Risk”. In addition the Bank established reputation risk management system, perfected reputation risk management mechanism, clearly defined management organizations and their responsibilities, and specified in details rules on reputation risk check and elimination and public opinion monitoring, reputation case emergency handling, media relation management, as well as reputation risk management assessment, training, rewards and punishment.

The Board of Directors of the Bank is the highest decision-making organ and the final responsible person for reputation risk management of the Bank. The Head Office has set up a reputation risk management leading team with the president as the team leader. The leading team is responsible for making decisions and work arrangement on reputation risk management under the leadership of the Board of Directors. In case that reputation cases or significant reputation cases happen, the departmental responsible person of the Head Office and the branch responsible person cooperate effectively with the leading team and the Head Office to effectively allocate resources and manpower to ensure that the reputation risk management departments and business departments share resources and cooperate with each other.

In order to improve the consciousness of the employees to prevent reputation risk, the Bank has set up reputation risk liaison teams among the employees of all first level departments of the Head Office and 29 branches, periodically announcing the key points of the latest public opinions of the Bank and providing public opinion prompts. The Head Office also irregularly provides training to the office responsible persons of the branches and employees engaging in reputation risk management, introducing the institutional system of reputation risk management and its running status quo, as well as typical cases and experience on reputation risk management. The reputation risk liaisons play an important role of “transfer station” and “educator” of public opinions of the Bank, irregularly reporting to the Head Office the public opinions of their respective business lines or branches. The reputation risk liaisons are also responsible for reputation risk education of their departments or branches, communicating with the employees in terms of the importance of preventing reputation risk on the development and operation of the Bank.

The Bank has significantly improved its reputation risk management level, initiative and enthusiasm for preventing and dealing with reputation risk, as well as reputation risk prevention and control ability through institutional improvement and efficient management of the reputation risk management system.

(3) Internal Control

The Bank strictly observed “Law of the People’s Republic of China on Commercial Banks” and the rules and regulations formulated by relevant regulatory authorities, continuously perfected modern corporate governance structure, pushed forward reform on organizational structure and business process, gradually strengthened risk identification and assessment work, enhanced internal control management measures, carried out full range risk management, strengthened supervision assessment and correction, effectively improved the internal control level of the whole bank and guaranteed the stable and healthy development of each businesses.

The Bank improved corporate governance structure. According to the regulatory requirements and the relevant provisions of the articles of association, the Bank has established mutually independent, coordinated and restricted corporate governance structure and corporate governance mechanism with the general meeting of shareholders, board of directors, board of supervisors and senior management as the main body to further define the responsibility boundary of the main bodies of corporate governance, perfected and improved relevant rules and regulations, and strengthened decision making and supervision functions. The relevant organizations including the board of directors and each specialized committee under it have strictly observed laws, regulations and the relevant provisions of the articles of association, fulfilled their duties diligently and made decisions scientifically. They have played a role of collectively discussing and making decisions democratically in the risk management and internal control and provided organizational guarantee for the effectiveness of internal control.

The Bank deeply pushed forward organizational structure reform. The Bank carried out first-class legal person system, and the Head Office is the first-class legal person. The Head Office manages the branches through authorization and other methods according to such factors as the operation and management level, risk control capacity and economic benefit of the branches as well as the economic environment of the regions the branches located. In the reporting period, the Bank continuously deepened the reform on organizational structure and gradually established the organizational structure with reasonable labor division, clearly-defined responsibilities, mutual restriction and clear reporting relationship. In addition, the Bank pushed forward the reform on credit examination and approval vertical management and vertical audit system, adjusted risk management framework and internal control compliance and legal affair management, optimized operational support guarantee system, outlet layout and the organizational structure of the branches, and improved internal operation efficiency so as to lay a solid foundation for rapid business development.

The Bank strengthened the construction of rules and regulations and standardized business flow. In 2010, the Bank continuously strengthened the construction of rules and regulations, optimized business and management process, refined various business operating instructions. In addition the Bank perfected the institutional foundation for the effective management of operational risk, established liquidity risk management policy system and formulated “Core Policies on Liquidity Risk Management”, “Measures for the Administration of Asset and Liability Liquidity Risk Management” and “Liquidity Risk Emergency Preplans”. In “Internal Control and Violation Prevention System Implementation Year” activity, each department of the Bank sorted out, amended and made additions to their respective rules and regulations according to the latest requirements of regulatory laws and regulations and internal control management as well as business development needs.

The Bank continuously perfected control measures covering the core risks of the Bank with risk management as the orientation.

- New progress has been made in credit risk management quantization technology research and result promotion and application. The Bank developed and completed new customer rating system and FSAP credit risk stress testing model. The rating efficiency and quality has been improved and stress testing system has been optimized and perfected. In addition the Bank enhanced the development of internal rating model and gradually improved the stability and accuracy rate of the internal rating model of the Bank.

Report of the Board of Directors

- The Bank has realized differentiated market risk management, and adopted different methods or models to control and manage different kinds of market risks, and identify, measure, monitor and manage the market risk in each business through such monitoring measures as duration monitoring, exposure analysis, sensitivity analysis and scenario analysis. The Bank set up a market risk limit system with interest rate sensitivity index as the main part which monitors the use of market risk limit independent of the front office, enhanced the management and control over new products, and ensured that the market risk in new businesses is identified and assessed as early as possible through the examination and approval procedure of the market risk in new products and complicated transaction business.
- The Bank pushed forward internal control and operational risk management project. The Bank conducted internal control and operational risk consultation through engaging professional consulting agency, sorted out business and management processes, identified internal control defects or weakness and take corrective measures. The Bank finally established internal control risk self-assessment methods, processes and mechanism. In 2011, the Bank plans to establish such operational risk management tools as key indexes and loss database of operational risk through this project to enhance the management of operational risk.

The Bank made an overall plan for comprehensive risk management. In order to implement the “Guiding Opinions on Implementation of New Capital Agreement by Chinese Banking Industry” issued by China Banking Regulatory Commission, the Bank introduced a professional consulting agency and formally initiated the “New Capital Agreement Consultation Planning Project” in August 2010, aiming at diagnosing the current risk management level and making gap analysis according to the requirements of Basel New Capital Agreement and the relevant provisions of the Guiding Opinions of China Banking Regulatory Commission, making the overall plan for comprehensive risk management according to the gap analysis result and submitting the relevant materials of Basel New Capital Agreement to China Banking Regulatory Commission for filing as soon as possible.

The Bank will continuously perfect internal control system according to business development and the change of external environment.

(4) Audit System

In recent years, the Bank has been dedicated to the vertical management reform of the audit system, established two-level audit organization system including “Audit Department of the Head Office and Regional Audit Center” and set up regional audit centers in Beijing, Shanghai and Guangzhou to further give full play to the independent check, supervision and assessment functions of audit and established vertical independent audit system responsible to the board of directors. Within the reporting period, the three regional audit centers officially started operation. Substantial progress has been made in audit system reform.

The responsibilities of the two-level audit organization system are as follows: The Audit Department of the Head Office is mainly responsible for centralizing advantageous resources and playing guidance and support role. It focuses on planning, organizing and managing the audit work of the whole bank. The regional audit centers are mainly responsible for on-site inspection, including carrying out routine audit to the branches within the designated region and special audit to key businesses, conducting economic responsibility audit to the main responsible persons of the branches within the designated region and periodical

independent assessment on the effectiveness of the risk management and internal control of the branches with the region and performing cross-regional cross audit and inspection.

In terms of institutional construction, the Bank sorted out the original audit systems, rules and regulations, established or amended a series of measures including audit center management, audit item management, audit system management, resignation economic responsibility audit, unannounced follow-up inspection and correction follow-up to further standardize audit process from different dimensions and improve work quality standard to lay a solid foundation for deeply promoting the vertical management reform of the audit system.

In terms of system construction, TeamMate Audit Management System has already been put into operation and running effectively. It has become an important tool for standardizing the audit process management and promoting audit resource utilization of the whole bank. The Bank tried to construct off-site audit model for operation and credit businesses. Initial success has been achieved in off-site audit analysis.

In 2010, the Bank has made continuous improvement in on-site audit organization, preparation, process control and correction follow-up, organized 64 on-site audits in total, including routine audit and follow-up audit to branches and the departments of the Head Office as well as special audit on information technology risk, fund liquidity risk, asset custody business and market risk management of the whole bank. The Bank conducted on-site inspection in intra-city and offsite sub-branches, followed up and verified the implementation of the corrective measures taken by the audited sub-branches to improve the compliance consciousness and management level of the sub-branches.

Under the new management system, the Bank will give full play to audit inspection, supervision and assessment functions of audit work and lay a solid foundation for developing business stably and healthily and enhancing internal control management across the whole bank, based on perfecting the vertical management system, focusing on establishing the supporting system covering the construction of systems, re-establishment of rules and regulations, improvement of processes and professional training by taking the improvement of the quality and efficiency of audit work as the core objective through making full use of such measures as on-site and off-site audits and unannounced follow-up inspection.

6. Capital Management

Targeting at maximizing the value of shareholders and improving the Bank's value, the Bank focuses on expanding capital replenishment sources, striving for establishing long-term effective capital replenishment mechanism, ensuring that the capital aggregate and structure meet the business development needs and regulatory requirements, enhancing capital restriction, realizing scientific and dynamic capital management and improving capital allocation level and use efficiency.

The Bank has formulated the "2010-2012 Capital Management Plan" according to the regulatory requirements and based on the future development strategy and actual operation, made a comprehensive planning upon the Bank's capital replenishment in 2010-2012, established the capital replenishment thought of "first choosing additional share issuance, issuing subordinated bonds as a supporting tool, and actively pushing forward IPO process".

Report of the Board of Directors

The Bank adopted proactive measures to ensure the implementation of the capital management plan, consolidated capital management base and improved capital management level. Through Improving management system and policies, clarifying the capital management organizational structure and improving capital management procedures, the Bank enhanced dynamic management of the capital aggregate and structure, formulated capital management measures that suit the Bank's actualities, strengthened capital management base. Starting from improving risk management ability to improve capital management level, The Bank, based on consolidating traditional business and corporate banking business, actively expanded low capital-consuming business, developed high value-added fee-based business and wealth management business with high technical content as well as those retailed businesses that occupy less capital and whose risk weight coefficient is low, so as to gradually adjust the business structure and income structure, and expand non-interest income source. The Bank brought the implementation of Basal II into the comprehensive developing plan from a strategy prospective, prepared for the implementation of Basal II and began to formulate implementation plan, clarified the targets, tasks, time table and relevant requirements. The Bank studied and established the performance appraisal and evaluation system focusing on economic capital management upon the improvement of the current performance appraisal system, so as to strengthen the function of capital management in optimizing the bank-wide capital allocation, and enhance the capital allocation efficiency.

(1) Capital Adequacy Ratio

As of the end of December 2010, the capital adequacy ratio and core capital adequacy ratio of the Bank were 11.02% and 8.30% respectively, increased 2.04 and 2.68 percentages respectively YOY. This was due to the effective capital management strategy and measures of the Bank. In terms of internally-generated capital replenishment, the net profit of the Bank reached RMB 6.189 billion, up 82.73% YOY. In terms of externally-generated capital replenishment, the Bank, supplemented RMB 15.0 billion core capital through issuing additional shares. Stronger capital strength greatly improved the risk resistance capacity, and provided strong support for continuous development of the Bank's businesses in the future.

Report of the Board of Directors

In RMB Thousand

Items	December 31, 2010	December 31, 2009
Core capital	42,640,036	21,485,609
Share capital	15,402,397	11,978,844
Counted part of capital reserves	11,498,857	(38,688)
Surplus reserves and general risk reserves	8,201,672	6,065,167
Counted part of retained earnings	7,537,110	3,480,287
Minority equity	0	0
Secondary capital	15,884,772	14,706,221
General reserves for loan loss	10,766,583	9,340,885
Long-term subordinated debts	5,000,000	5,000,000
Other secondary capital	118,189	365,336
Total capital base before deduction	58,524,808	36,191,830
Deduction	1,907,578	1,907,584
Unconsolidated equity investment	7,578	7,584
Goodwill	0	0
Others	1,900,000	1,900,000
Net capital	56,617,230	34,284,246
Net value of core capital	42,636,247	21,481,817
Net balance of risk-weighted assets	513,759,170	381,903,730
Core capital adequacy ratio	8.30%	5.62%
Capital adequacy ratio	11.02%	8.98%

(2) Capital Financing Management

In order to realize the capital management objective, the Bank will actively improve its profitability level, enhance its ability to generate capital internally, supplement capital through multiple ways by using equity and debt financing tools, simultaneously push forward and closely coordinate to ensure the effective realization of capital planning.

According to the resolution of the First Extraordinary General Meeting of Shareholders in 2010 and relevant written replies of regulatory authorities, the Bank smoothly completed the work of additional shares issuance in 2010. The Bank additionally issued 3.424 billion shares to the registered shareholders meeting the regulatory requirements on the record date at the price of RMB 4.38 per share, replenished core capital of RMB 15.0 billion. Through issuance of additional shares this time, the Bank's capital adequacy ratio rose to 11.02% and the risk resistance capacity has been increased.

According to the resolution of 2009 Annual General Meeting of Shareholders and the resolution of the Fourth Extraordinary Meeting in 2010 of the Fifth Board of Directors, the Bank started the relevant preparation work for issuing RMB 5.0 billion subordinated bonds. The Bank had got approval from CBRC for issuing subordinated bonds.

(3) Implementation/Preparation of New Capital Agreement

In order to carry out the "Guiding Opinions on Implementing New Capital Agreement by Chinese Banking Industry" issued by China Banking Regulatory Commission, the Bank formally initiated relevant work of the

Report of the Board of Directors

“New Capital Agreement Consultation Planning Project”, set up the New Capital Agreement Implementation Office to cooperate with the professional consulting company, conducted detailed difference analysis on new agreement implementation, prepared new capital agreement implementation integration report and blueprint. Within the reporting period, the project was progressing smoothly. It is planned to submit relevant materials of the Basel New Capital Agreement to China Banking Regulatory Commission for filing as scheduled.

7. Corporate Social Responsibility

The Bank actively pushed forward and fulfilled the social responsibility as corporate citizen, and strived for coexistence, win-win and common development of the Bank and the stakeholders.

(1) In Economic Aspect

The Bank strictly carried out the national industrial policies and supported the development of small and medium enterprises. The financing products suitable for the characteristics of small enterprises developed by the Bank have been highly appreciated by various circles of society. In addition, the Bank stuck to serving “agriculture, rural areas and farmers”, actively responded to the call of the regulatory authority on speeding up the development of new type of rural financial institutions, pushed forward the relevant preparation work for setting up banks in villages and towns. In addition, the Bank comprehensively carried out the overall arrangement of the Party Central Committee and regulatory authorities on supporting the leap-forward economic and social development of Xinjiang Uygur Autonomous Region and sped up the pace of establishing networks in Xinjiang.

(2) In Social Aspect

The Bank paid great attention to the health and education of children in poverty-stricken areas. The Bank has set up “CGB Hope Charity Fund” together with China Youth Development Foundation and issued the

The Bank actively pushed forward and fulfilled the social responsibility as corporate citizen, and strived for coexistence, win-win and common development of the Bank and the stakeholders.

The Bank paid great attention to the health and education of children in poverty-stricken areas. The Bank has set up “CGB Hope Charity Fund” together with China Youth Development Foundation.



first charity credit card—"CGB Hope Card" nationwide based on this to fulfill our long-term, steadfast and persistent commitment to charity. The Bank was awarded the honorary title of "Excellent Public Interest Partner in Hope Project for Twenty Years" by China Youth Development Foundation.

The Bank energetically supports the rebuilding work after disasters and helps the poor and the weak. After the drought disaster happened in the Southwest China and the earthquake happened in Yushu, the Bank carried forward the fine tradition of "one in difficulty and all will support", immediately organized donation activity among our staff and raised RMB2.13 million in total for disaster relief to show our love and concern for the people in the disaster-stricken areas with actual deeds. The Bank denoted over RMB 1.40 million in total to Guangdong Charity Federation and the charity organizations in each region and city during the "Poor-Supporting Activity in Guangdong Province" to continuously carry out poverty alleviation work in Xinnan Village, Wengyuan County, Shaoguan City.

The Bank actively devotes to social commonweal work, fulfills indeed the social responsibility of commercial banks, strives for improving the financial risk identification and prevention capacity of the public, protects the rights and interests of financial consumers and promotes the healthy and orderly development of the banking industry and social harmony and stability. The Bank actively conducted "Public Financial Education Service" activity and held the opening ceremony of "Public Financial Education Service of Guangdong Banking Industry" activity. The Bank conducted public financial presentation and education to improve the understanding of the public on modern finance through multiple methods including setting up presentation booths in schools and communities to make speeches and hold forums on wealth management and publicizing through short message, website, self-service equipment and media. In the activity period, the Bank set up presentation booths in nearly 200 outlets with more than 10,000 employees participated, issued 138,000 sets of publicity materials to 14.17 million participants.

8. Strategic Cooperation with Major Shareholders

Emphasizing the strategic cooperation with major shareholders, by incorporating business resources, advanced techniques and managerial methods, the Bank strengthened the synergy effect, expanded business domains and revenue resources, perfected the corporate governance, and promoted its overall competitiveness. With an aim to make the Bank a first-class commercial bank, the Chairman and the President have actively communicated with the shareholders through visits, discussion and reports, enhanced understanding and approval, and established a negotiation mechanism for solving important issues, which fully respected and upheld the rights and interests of all shareholders. In 2010, the Bank conducted cooperation in many fields of business management with Citigroup, China Life Insurance, Yingda International Holdings Corporation, Ltd., CITIC Trust, etc., and achieved good results.

According to the Technical Cooperation and Assistance Agreement signed between the Bank and Citigroup, Citigroup dispatched Consultant Teams to take part in the Bank's operation and management, providing multi-level and multi-channel technical cooperation and assistance in fields such as risk management, internal audit, financial accounting, human resource management, information technology, financial innovation etc.. In recent years, the Bank and the Consultant Team of Citigroup carried out research jointly in developing financial products, conducted professional training, developed business like deposits and customer cross-selling, making important breakthroughs in many fields such as operation and management strategies, marketing network and technological development, effectively improving corporate governance as well as operation and management performance.

Report of the Board of Directors

The Bank signed the Comprehensive Long-term Strategic Cooperation Agreement with China Life, carried out all-round cooperation in fields such as insurance, bank card, fund business, E-commerce, client resources sharing, information technology, product development and branding. China Life is the first insurance company with bancassurance inter-link business system that the Bank interfaced with. From March 2010, the Bank realized interface with the bancassurance inter-link business system of China Life. Through this system, the Bank acted as a sales agent and gathered statistics of the agent insurance products of China Life. Until the end of the year, China Life's negotiated deposit in the Bank reached RMB 12 billion.

The Bank maintained good business relationship with Yingda International Holdings Corporation, Ltd., CITIC Trust and its Affiliates. In 2010, the Bank's bond investment held the enterprise bonds of State Grid (the parent company of Yingda International Holdings Corporation, Ltd.) of RMB 1.6 billion, and carried out securities transaction of RMB 4.86 billion with CITIC Trust and its Affiliates, bringing stable benefits to the Bank. At the beginning of 2011, the Bank signed the Framework Agreement on Enhancing Business Cooperation with Yingda International Holdings Corporation, Ltd.. According to this agreement, Yingda International Holdings Corporation, Ltd. and its affiliated holding financial institutions established synergic and efficient cooperation mechanism with the Bank in the fields of outlet channels, financial innovation, fund and settlement, agency business, insurance funds, assets custody, etc., achieving effective sharing of client resources, shareholder resources and channel resources.

9. The Bank's Future Prospects

As the global economy steps into the post-crisis phase and China's "12th Five-year Plan" is implemented, an important strategic opportunity period featuring a new round of economic and financial reform is now coming. The government macro-control policies focus on "stable development, structure adjustment, curbing inflation", which means that the relationships among the maintenance of stable and quick economic development, the adjustment of economic structure and the management of inflation expectation need to be well dealt with, and the coordination, sustainability and internal drive for economic development needs to be strengthened. From the bank industry prospective, the 2011 regulatory environment will be further tightened, in particular, the higher and stricter capital supervision requirements, the deepening of interest-rate marketization reform, and the prudent monetary policy and differentiated reserve ratio adopted by the People's Bank of China, all became significant pressure for the banking industry in terms of operation and risk management. To face above opportunities and challenges, the Bank will have a business transformation, and adopt a development approach with refined management, cost-efficient capital, differentiated products and dynamic competitive edge.

Making full preparation for IPO, controlling an favorable timetable

According to the arrangement made in the Bank's 2010-2012 Capital Management Plan, in 2011, the Bank will focus on IPO and speed up various work related to IPO, upgrade operation and management levels, and establish an effective long-term mechanism for capital raising, thereby laying a solid foundation for implementation of Guangfa Bank's five-year (2011-2015) strategic development plan, strengthening capital restriction and EVA review, effectively improving the capital use efficiency and performance, and achieving the full, coordinated and sustainable development of various businesses.

Optimizing and adjusting the business structure, fully implementing the strategic plan

The Bank will actively explore low capital-consumption business, develop business with high added-value including business with small and medium-sized enterprises and business with other banks, funds business and middle and high-end personal financial business, so as to show the features and variety of services; the Bank will gradually adjust the income structure, expand non-interest income sources, and raise income from intermediary business; the Bank will also optimize allocation of resources, emphasizing on strategic direction, breaking down strategic plans, and establishing a strong strategic management system so as to improve its implementation of strategies.

Enhancing financial innovation and product innovation, actively exploring the market

Based upon the current R&D platform for self-owned wealth management products, the Bank will speed up to build a team of talents with innovation spirit, further optimize product research and development and examination and approval procedure, reinforce the duties of the R&D department, further the operation system of the R&D team, adopt a management policy for production innovation procedures, strengthen the comprehensive application to various financing channels such as trust, fund, financing leasing, syndicated loans, wealth management, and improve the Bank's market competition position in terms of business initiation, service plan designing and market distribution, and wealth management products.

Reinforcing risk control and guarding against risks

Risk management of key loan fields will be constantly strengthened to effectively enhance loan structure adjustment; the market risk brought by interest marketization and RMB exchange rate generation mechanism reform will be handled carefully; the liquidity management will be reinforced, allocation of assets and liability terms will be reasonably arranged, and the progress and scale of fund release will be prudently controlled; internal control will be strengthened to strictly prevent operational risks; the rectification and tracking of non-compliant matters will be furthered, which will be dynamically integrated with the self-evaluation mechanism for internal risks, and a management system for non-compliance rectification, focused risk self-evaluation and rectification will be gradually established.

Improving the cross-marketing internal mechanism, constantly reinforcing joint marketing

In 2011, the Bank will promote pilot experiences of cross-marketing of credit cards and personal banking businesses in the whole Bank, and actively study the expansion approaches and marketing strategies for cross-marketing, formulate relevant management measures and review index system, further promote the full cross-marketing of medium and small-sized companies, corporate banking, personal banking and other businesses, and continuously explore the width and depth of cross marketing. Through the joint marketing of corporate business and personal business, the company and its overall retailing business will develop.

Speeding up the expansion of branches, expanding service channels

The expansion will be furthered, the network allocation will be improved, and the resource will be favorably allocated on key areas and rising areas such as Pearl Rive Delta, Yangtze River Delta, Bohai Sea Rim Area, Sichuan and Chongqing; preparation work and application will be completed for upgrading Hong Kong representative office into Hong Kong branch. E-channel services such as online banking, self-service equipment, cell phone banking and SMS platform will be constantly explored to further improve our customers' experience.

Report of the Board of Directors

Furthering brand development, improving market popularity and reputation

The brand re-building project will be further implemented, the brand positioning and vision will be clarified, a clear brand promotion strategy will be formulated, together with the promotion of the new logo the brand promotion of new Guangfa Bank will also be fully strengthened, the communication and use of the Bank's brand will be effectively managed and regulated; cooperation with mainstream media and mass media will be deepened, so as to further improve our corporate image, enhance production promotion, and expand market influence.

Continuing HR and organizational structure reform, fully laying a solid foundation for development

The Bank will finish the duty system setting for the headquarter and branches, and speed up the building of three teams of talent: "operation and management" , "technical skills", "skilled operation"; the value-creation-oriented performance management system and appraisal system will be improved to meet the demand for reinforcing line management; based on the principles of position-based salary and performance-based remuneration, the remuneration system will be implemented and a remuneration system with market competitiveness will be established; the Bank's senior management position system will be completed and the building of management team and training of talent pool will be further enhanced.

Routine Work of the Board of Directors

1. Details of Board Meetings

The Bank held a total of 10 Board Meetings in 2010. The table below shows incumbent directors' attendance at Board Meetings during the reporting period:

Members of the board of directors	Times of attendance (Attended by Authorized Representative)/ required attendance	Attendance rate
Dong Jianyue	10/10	100%
Morris Li	5/5	100%
James Morrow	8/8	100%
Zheng Yong	10/10	100%
Larry Zong	5/5	100%
Wan Feng	10/10	100%
Wang Fenghua	10/10	100%
Pu Jian	10/10	100%
Zhang Shengman	10/10	100%
Liu Jiade	10/10	100%
Gai Yongguang	10/10	100%
Lin Jianjun	10/10	100%
Li Zimin	10/10	100%
Anthony P. Della Pietra Jr	9/9	100%
Chan Tai Loi	10/10	100%
Phee Boon Kang	10/10	100%
Li Dianjun	5/5	100%

Note: Please refer to "Changes of Directors, Supervisors and Senior Managers" for changes of directors.

On January 18, 2010, the Ninth Meeting of the Fifth Board of Directors of the Bank was convened and the following proposals were reviewed: Proposal on 2009 Annual Work Report of the Fifth Board of Directors of Guangdong Development Bank Co., Ltd., Proposal on 2010 Business Plan and Financial Budget of Guangdong Development Bank Co., Ltd., Proposal on 2010-2012 Capital Management Plan of Guangdong Development Bank Co., Ltd., Proposal on GDB 2010 Institution Development Plan, Proposal on GDB Operational Risk Management Policy, Proposal on Establishing the Credit Card Branch (SBU), Proposal on the 2008 Compensation Plan of Senior Managers and Proposal on the Resignation of Mr. Martin Wong from the Fifth Board of Directors of Guangdong Development Bank Co., Ltd. and relevant Arrangement concerning the By-election of Director. Relevant resolutions were reached at the meeting.

On March 23, 2010, the First Extraordinary Meeting in 2010 of the Fifth Board of Directors of the Bank was convened and the following proposals were reviewed: Proposal on 2009 Audited Financial Report of Guangdong Development Bank Co., Ltd., Proposal on the 2009 Year-end Financial Report of Guangdong Development Bank Co., Ltd., Proposal on the 2009 Profit Distribution Plan for Guangdong Development Bank Co., Ltd., Proposal on

Report of the Board of Directors

the 2010 Additional Share Issuance, Proposal on Change in Registered Capital of GDB and the Articles of Association in the Additional Share Issuance, Proposal on Obtaining Authority from the Shareholder Meeting to Authorize the Board of Directors to Carry out the Additional Share Issuance, Proposal on the Board of Directors Transferring Authorization for Matters Relevant to the Additional Share Issuance to the Appointed Individuals, Proposal on 2009 Annual Report of Guangdong Development Bank Co., Ltd., Proposal on 2010 Stress Testing Report, Proposal on Authorizing Market Risk Limits of 2010 to HO Financial Market Department and Macau Branch, Proposal on the Resignation of Mr. Daniel Massey from the Fifth Board of Directors of Guangdong Development Bank Co., Ltd. and relevant Arrangement concerning the By-election of Director, Proposal on the Approval of the Resignation of Mr. Daniel Massey from the Position of Deputy President and Chief Risk Officer of Guangdong Development Bank Co., Ltd., Proposal on the Appointment of Mr. James Morrow as Deputy President and Chief Risk Officer of Guangdong Development Bank Co., Ltd., Proposal on the Member Adjustment for Relevant Specialized Board Committees, Proposal on Administrative Measures of Guangdong Development Bank for Senior Manager Accountability (draft for discussion), Proposal on Convening the First Extraordinary General Meeting in 2010 of GDB. Relevant resolutions were reached at the meeting.

On April 19, 2010, the Second Extraordinary Meeting in 2010 of the Fifth Board of Directors of the Bank in form of correspondence for voting reviewed the Proposal on Making Donation to Qinghai Yushu Disaster Area. Relevant resolution was reached at the meeting.

On April 29, 2010, the Third Extraordinary Meeting in 2010 of the Fifth Board of Directors of the Bank in form of correspondence for voting reviewed the Proposal on Implementation Plan on 2010 Election at Expiration of the Board of Directors of GDB. Relevant resolution was reached at the meeting.

On May 24, 2010, the Fourth Extraordinary Meeting in 2010 of the Fifth Board of Directors of the Bank was convened and the following proposals were reviewed: Proposal on the 2010 Sub-Debt Issuance Plan, Proposal on the Modification of Articles of Association of Guangdong Development Bank Co., Ltd. ("AOA"), Proposal on the Proposed Directors Candidates of the Sixth Board of Directors of Guangdong Development Bank Co., Ltd., Proposal on Obtaining Authority from the Shareholders Meeting to Authorize the Board of Directors to Carry out the D&O Liabilities Insurance, Proposal on Engaging Aon-COFCO Insurance Brokers Co., Ltd. to Help the Bank Handle D&O Liabilities Insurance, Proposal on the Convening of the 2009 Annual General Meeting of Shareholders of Guangdong Development Bank Co., Ltd.. Relevant resolutions were reached at the meeting.

On June 18, 2010, the First Meeting of the Sixth Board of Directors of the Bank was convened and the following proposals were reviewed: Proposal on Election of the Chairman of the Sixth Board of Directors of Guangdong Development Bank, Proposal on Appointing the President of Guangdong Development Bank, Proposal on Appointing the Secretary to the Sixth Board of Guangdong Development Bank, Proposal on Appointing Senior Managers like Vice Presidents of Guangdong Development Bank. Relevant resolutions were reached at the meeting.

On August 12, 2010, the First Extraordinary Meeting in 2010 of the Sixth Board of Directors of the Bank in form of correspondence for voting reviewed the Proposal on Adjusting the 2010 Authorization for External Donation. Relevant resolution was reached at the meeting.

On September 21, 2010, the Second Extraordinary Meeting in 2010 of the Sixth Board of Directors of the Bank in form of correspondence for voting reviewed the following proposals: Proposal on Initiating the Establishment of Zhejiang Haiyan Rural Bank, Proposal on Establishing Urumqi Branch in Xinjiang, Proposal on the Renewal Plan of 2010/2011 Directors, Supervisors & Senior Managers Liabilities Insurance. Relevant resolutions were reached at the meeting.

On October 20, 2010, the Second Meeting of the Sixth Board of Directors of the Bank was convened and the following proposals were reviewed: Proposal on the Setup of Specialized Committees under the Sixth Board of Directors, Proposal on the Personnel Composition of Specialized Committees under the Sixth Board of Directors, Proposal on GDB 2009 Compensation Plan of Senior Managers Including Chairman and President etc., Proposal on Amending Registered Name and Articles of Association of Guangdong Development Bank, Proposal on Amending Legal Person Address and Articles of Association of Guangdong Development Bank, Proposal on Building Guangfa Financial Center Project, Proposal on Engagement of Accounting Firm for GDB Audit 2010, Proposal on the Payment of Technical Cooperation and Assistance Costs in 2008 and 2009, Proposal on Convening the Second Extraordinary General Meeting in 2010 of GDB, Proposal on the Setup of a Rural Bank by Guangdong Development Bank in Sichuan Province, Proposal on Sales of Packaged Corporate NPL of Hangzhou Branch, Proposal on Raising Approval Authorization Limit of the Senior Management of GDB on NPA Disposal. Relevant resolutions were reached at the meeting.

On December 25, 2010, the Third Extraordinary Meeting in 2010 of the Sixth Board of Directors of the Bank in form of correspondence for voting reviewed the following proposals: Proposal on Nonperforming Loan Made to Shanghai Broadband Technology Co., Ltd. and Nanjing Broadband Technology Co., Ltd., Proposal on Raising to BOD to Approve the "GDB Hope Charity Fund" Donation Affaires. Relevant resolutions were reached at the meeting.

2. Enforcement of General Meeting of Shareholders Resolutions by the Board of Directors

Board of directors has earnestly implemented all the resolutions made at shareholders' meeting and actively promoted all related work. All efforts have been made to achieve all goals in accordance with the financial budget for the year of 2010. As a result, our operation quality and efficiency reached a higher level, the major operation indexes are better than the operation plan and net profit hits record high; According to the Proposal of Additional Share Offering in 2010 which has been approved at the first temporary shareholders' meeting, the Board of Directors organized and fulfilled such additional offering efficiently with the authorization of the shareholders' meeting; As stock capital changed subsequently, the Bank changed registration capital and amended the related stipulations of Articles of Association as approved by China Banking Regulatory Commission; New generation of Board of Directors were elected at the shareholders' meeting in the principle of compliance, stability and qualification approval; The scale and structure of Board of Directors remain unchanged, and the qualification of newly-appointed directors have been reported to the regulatory authority to check and approve; The related issues of changing registration name and legal person's address had been smoothly completed; The issuance of RMB 5 billion subordinated bonds has been approved by CBRC.

Report of the Board of Directors

3. Independency and Responsibility Fulfillment by Independent Directors

At present, there are 3 Independent Directors in the Board of Directors, which fulfills the requirement of Article of Association in terms of the number of independent directors. The principal members of the committees under the Board of Directors, including Audit Committee, Risk Management Committee, Connected Transaction Control Committee and HR & Remuneration Committee, are all shouldered by Independent Directors. Independent Directors of the Bank get no benefit from the businesses or finance of the Bank, nor do they assume any managerial post in the Bank, so as to effectively guarantee their independency as well as the rights and benefits of our small-and-medium investors.

During the reporting period, Independent Directors earnestly fulfilled their own duties and each of them attended all board meetings and the meetings held by specialized committees. Each Independent Director, in the objective, independent and prudent principle and from the perspective of safeguarding the benefits of investors and the related beneficiaries, fully exerted their own professional functions to assist the Board of Directors. Their efforts duly facilitated the Board of Directors to make scientific decisions and promoted the Bank's business development in a sustainable and healthy manner.

In 2010, Independent Directors attended Board Meetings as follows:

Name of Independent Director	Board Meetings to be Attended	Attended in Person		Absent (Time)	Notes
		(Attended by Authorized Representative)	(Time)		
Lin Yixiang	5	5	5	0	Mr. Lin Yixiang was the Independent Director of the Fifth Board of Directors of the Bank, term of office up to June 18, 2010.
Li Dianjun	5	5	5	0	On June 18, 2010, 2009 Annual General Meeting of Shareholders of the Bank
Chan Tai Loi	10	10	10	0	elected Mr. Li Dianjun, Mr. Chan Tai Loi and Mr. Phee Boon Kang as Independent
Phee Boon Kang	10	10	10	0	Directors of the Sixth Board of Directors.

2010 Profit Distribution Plan

Based on audited after-tax profit in 2010 of the Bank which was RMB 6.189 billion, 10% of net profit, i.e. RMB 619 million, was accrued into statutory surplus reserve; based on the difference between 1% of the 2010 ending balance of the risk assets and the opening general provision balance of 2010, RMB 1.522 billion was accrued into the general provision for 2010; distributable profits to shareholders for the year was RMB 7.547 billion. After comprehensively considering the regulatory authorities' guideline opinions and capital replenishment need of the Bank, it is suggested not to distribute profits to shareholders for the year 2010.

The above Profit Distribution Plan shall be submitted to the 2010 Annual General Meeting of Shareholders of the Bank for approval, after that can it be implemented.

Report of the Board of Supervisors

1. Meetings Convened by Board of Supervisors and its Specialized Committees during the Reporting Period

There were 6 meetings convened by the Board of Supervisors during the reporting period:

On January 5, 2010, Proposal on Resignation Audit of Vice President Daniel Massey was reviewed in the form of correspondence voting at the fourth meeting of the fourth Board of Supervisors and the related resolution was formulated at the meeting.

On March 22, 2010, Proposal on Resignation Audit Report of Vice President Daniel Massey was reviewed in the form of correspondence voting at the fifth meeting of the fourth Board of Supervisors and the related resolution was formulated at the meeting.

On March 24, 2010, the sixth meeting of the fourth Board of Supervisors was convened to review the following proposals: Proposal on Setting up Office of Board of Supervisors; Proposal on 2009 Working Report of the Fourth Board of Supervisors of Guangdong Development Bank Co., Ltd.; Proposal on 2009 Audit Report of Guangdong Development Bank Co., Ltd.; Proposal on 2009 Profit Distribution Plan of Guangdong Development Bank Co., Ltd. and Proposal on 2009 Annual Report of Guangdong Development Bank Co., Ltd.; and the related resolutions were formulated at the meeting.

On April 12, 2010, Proposal on Initiating Resignation Audit Work of President Michael Zink was reviewed in the form of correspondence voting at the seventh meeting of the fourth Board of Supervisors and the related resolution was formulated at the meeting.

On May 24, 2010, the eighth meeting of the fourth Board of Supervisors was held to review the following proposals: Proposal on Postponing Reappointment of the 4th Board of Supervisors of Guangdong Development Bank Co., Ltd.; Proposal on Resignation Audit Report of President Michael Zink; Proposal on Initiating Resignation Audit Work of Vice President Raymond Lim and the related resolutions were formulated at the meeting.

On June 17, 2010, Proposal on Resignation Audit Report of Vice President Raymond Lim was reviewed in the form of correspondence voting at the ninth meeting of the fourth Board of Supervisors and the related resolution was formulated at the meeting.

During the reporting period, Audit Committee under Board of Supervisors held a meeting on March 24, 2010 to review the following proposals: Proposal on 2009 Audit Report of Guangdong Development Bank Co., Ltd.; Proposal on 2009 Profit Distribution Plan of Guangdong Development Bank Co., Ltd. and Proposal on 2009 Annual Report of Guangdong Development Bank Co., Ltd.; and resolutions were formulated on the said proposals.

2. Performance of External Supervisor

The Bank's Board of Supervisors has one external Supervisor. The external Supervisor serves as the principal member of the Nomination Committee. During the reporting period, the Bank's external Supervisor was acted in a diligent and responsible, made full use of his professional knowledge, actively attended the meetings of Board of Supervisors and committee meetings held in the year, conducted in-depth study on the meeting proposals and collected background information for such proposals, carefully reviewed various proposals, given his own

opinions and suggestions, performed his duties to facilitate the Board of Supervisors to effectively fulfill its functions.

3. Work of the Board of Supervisors

(1) Carefully performed its duties and conducted daily supervision

During the reporting period, the Bank held six meetings of Board of Supervisors and one Audit Committing Meeting of the Board of Supervisors, reviewed and voted 15 proposals including the annual report, the audit report, the Profit Distribution Plan, Resignation Audit for Senior Managers, etc, supervised the decision-making and implementation process of the Bank's daily operation and management matters, studied and discussed the Measures on Performance Review Conducted by the Board of Supervisors against Directors, Supervisors and Senior Management (Draft for Discussion), Information Report Policies for Senior Management (Draft for Discussion) and relevant arrangements of special inspection on the Bank, and delivered professional judgments, opinions and suggestions of the Board of Supervisors.

The members of the Bank's Board of Supervisors duly sit in each meeting of Board of Directors and attended each general meeting of shareholders, carefully read and reviewed various proposals, examined the legality and compliance of the convening and holding procedures of such meetings, and conducted site supervision on decision-making and ballot result. During such processes, the Board of Supervisors supervised the performance and duty-fulfilling of the Bank's Board of Directors, senior management and managers, urged the Directors and senior managers to act diligently and responsibly, and improved the operation efficiency of each body of corporate governance.

(2) Reinforced supervision on finance, risks, internal control and other relevant major matters

During the reporting period, the Bank's Board of Supervisors, through participation in the review and discussions of meeting proposals, listening to the special report by the management in relation to finance, risks, connected transactions, auditing, internal control and other matters, reviewing various reports submitted by the senior management of the Bank and other means, promptly understood the Bank's financial status, risk management, internal control and other major management matters, and paid active attention to the discussion and decision-making processes of major decisions. Meanwhile, the Banks' Board of Supervisors paid extra attention to the accounting information quality examination conducted by the Ministry of Finance, the Bank's government financing platform loans, the supervisory and inspection opinions and supervisory notices of the regulatory authority and other matters, listened to the senior management's report on relevant examinations and rectifications, delivered relevant opinions and suggestions on the stable operation and risk prevention of the Bank, which played an active role for the stable operation and standardized management of the Bank.

(3) Completed departure audit work on senior managers

During the reporting period, based on the actualities of new generations of Board of Directors and Senior Managers, the Bank's Board of Supervisors has steadily and gradually implemented departure audit work on senior managers, coordinated and organized the departure audit on the former President Michael Zink, former Vice-president Daniel Massey and former Vice-president Raymond Lim, and held discussions and research on how to regulate the departure audit procedures on senior managers and improve relevant rules and systems, formed relevant opinions and suggestions.

Report of the Board of Supervisors

(4) Reinforced system establishment and improved the rules governing the Board of Supervisors

During the reporting period, based on the requirements of laws, regulations, regulatory provisions and the Articles of Association of the Bank, the Board of Supervisors, after actively learning from the mature experience and advanced practices of listed companies and our peers, in addition to the currently-effective rules on the Board of Supervisors and its specialized committees, conducted research on the establishment of systems and procedures for business supervision, performance supervision and investigation and research, drafted the Measures on Performance Review Conducted by the Board of Supervisors against Directors, Supervisors and Senior Management (Draft for Discussion) and Information Report Policies for Senior Management (Draft for Discussion), carefully discussed such drafts during the meetings of Board of Supervisors, and delivered revising opinions and suggestions, so as to lay a solid foundation on duty fulfillment evaluation of Directors, Supervisors and Senior Management for the Bank, improve the rules governing the Board of Supervisors and provide system assurance for its performance of duties.

(5) Carried out self-construction of the Board of Supervisors

During the reporting period, the Bank compiled relevant laws, regulations, regulatory requirements and peers' rules on Board of Supervisors Governance into a brochure and sent it to each Supervisor for study. Through in-depth learning of relevant knowledge on corporate governance and various regulatory rules, the Supervisors tried their best in improving policy understanding abilities and business skills. In August 2010, Office to the Board of Supervisors was officially established, which clarified its work duties and work scope and significantly furthered personnel allocation and formulation of work duties. The knowledgeable personnel and professional services will significantly enhance the improvement of the organizational structure of the Board of Supervisors and the better performance of its supervision duties.

4. Independent Opinions Given by the Board of Supervisors on Relevant Matters

(1) On Legal Operation

During the reporting period, the operation activities of the bank were in compliance with the Company Law, the Commercial Bank Law and the Articles of Association of the Bank, the decision-making procedures were lawful and valid. No Director or senior manager of the Bank was discovered to have any conduct that violates laws, regulations, the Articles of Association of the Bank or other behaviors that harm the interest of the Shareholders during his/her performance of duties.

(2) Authenticity of Financial Statements

KPMG Huazhen Certified Public Accountants and KPMG audited the 2010 financial statements prepared by the Bank in accordance with China's Accounting Standards, International Accounting Standards and U.S. Accounting Standards, and issued standard unqualified audit reports. The financial statements of the Bank accurately, fairly and completely reflect the Bank's financial status and operation outcome during the reporting period.

(3) The Use of Raised Capital

During the reporting period, the Bank issued new shares to the registered Shareholders complied with regulatory requirements and raised a capital of RMB14.995 billion; the capital so raised will be used as

complementary capital to improve capital sufficiency, which is consistent with the Bank's commitment upon issuance of new shares.

(4) The Bank's Purchase and Sale of Assets

During the reporting period, no inside trading was found and no conduct that harms the interest of Shareholders was found during the Bank's major purchase and sale of assets.

(5) Connected Transactions

During the reporting period, the connected transactions of the Bank complied with the national laws and regulations, the Articles of Association of the Bank and other rules, the transactions were conducted fairly and justly, and no conduct was discovered to be against the fairness principle or to harm the Bank or its Shareholders' interest.

(6) Implementation of the Resolutions of General Meeting of Shareholders

The Board of Supervisors held no objection against the reports and proposals submitted by the Board of Directors to the General Meetings of Shareholders for review during the reporting period, supervised the implementation of the resolutions of the General Meetings of Shareholders, and is of the opinion that the Board of Directors has carefully implemented the resolutions passed by the General Meetings of Shareholders.

(7) Risk Management and Internal Control

During the reporting period, the Bank actively furthered the vertical management reform of audit system, and initiated the internal control and operational risk management system establishment, new capital agreement plan project and other projects. Risk management and internal control mechanism were further upgraded, and relevant systems were further improved. No major defects as to the completeness or reasonability of the Bank's risk management and internal control mechanism and systems was found.

Material Events

1. Change of Top 10 Shareholders during the Reporting period

- (1) In June, 2010, in accordance with the Approval of Relevant Issues on State-owned Stocks Free Transferring of Four Companies including China Everbright Bank, etc. (G.Z.C.Q. [2008] No. 279) issued by State-owned Assets Supervision and Administration Commission of the State Council, and the Approval of Proposal of Relevant Shareholders' Qualification and Additional Shares Issuance of Guangdong Development Bank (Y.J.F. [2010] No. 299) issued by China Banking Regulatory Commission, the Bank's shareholder State Grid Corporation of China transferred all its shares of the Bank to its wholly-owned subsidiary State Grid Assets Management Co., Ltd..
- (2) In December, 2010, based on the Rename Notice of State Grid Assets Management Co., Ltd. (State Grid R. Z. No. [2010]1627) issued by State Grid Corporation of China and the Notice of Approval of Rename Registration (State Rename Registration [2010] No.1123) issued by State Administration for Industry & Commerce of the People's Republic of China, the Bank's shareholder State Grid Assets Management Co., Ltd. was renamed as Yingda International Holding Corporation, Ltd..
- (3) After the Bank's 2010 Additional Shares Issuance, the Top 10 Shareholders' shareholding changed. Among them, Heungkong Group Co., Ltd. purchased other shareholders' shares, and took part in the Bank's 2010 Additional Shares Issuance, thus became the 10th largest shareholder of the Bank at the end of the reporting period.

2. Increasing or Decreasing Registered Capital

In accordance with the additional share issuance scheme which was approved at the first extraordinary general meeting of shareholders in 2010, the Bank offered additional shares to our shareholders in the principle of 2.858 additional shares per 10 original shares. As of July 30, 2010, the Bank received the contribution of RMB 14.995 billion from shareholders, of which the paid-up share capital reached RMB 3.424 billion and share capital premium of RMB 11.572 billion.

The said capital increase and additional share offering was audited by Guangzhou Tongyi Accounting Firm; and Guangzhou Tongyi Accounting Firm issued Capital Verification Report (No. 020201007008675) on July 30, 2010. The said capital increase and additional share issuance was approved by China Banking Regulatory Commission. The Bank has completed the registration change in authorities of industry and commerce.

3. Acquisition, Sales of Assets, Merger and Others

In 2010, the Bank sold debt repayment assets of RMB 9.17 million and non-performing loan of RMB 581.58 million through open channels, such as auction and so on.

4. Material Lawsuit and Arbitration

As of December 31, 2010, the Bank as plaintiff had 1,556 lawsuit cases of RMB 4.71 billion in total without final verdict or conclusion of execution; Up until now, the Bank as defendant has pending lawsuits and disputes of a total compensation claim of RMB 290 million, up RMB 100 million compared with that of 2009. The Bank had accrued sufficient provision for the estimated loss of the involved lawsuit cases and disputes according to the advice from inner and outer lawyers.

5. Material Events Concerning Custody, Guarantees, Commitments, Entrustment of Asset Management during the Reporting Period

(1) Material Custody, Contract and lease

In 2010, there were no such material events concerning custody, contracting and leasing of other companies' assets or custody, contracting and leasing of the Bank's assets by other companies, apart from the asset custody business conducted by the Bank within business scope as approved by CBRC.

(2) Material Guarantees

In 2010, there were no material guarantee events, apart from the financial guarantee business conducted by the Bank within business scope as approved by CBRC.

(3) Material Entrustment of Asset Management

In 2010, there were no material events concerning entrustment of asset management.

6. Punishment for the Commercial Bank, its Directors and Senior Managers by Related Regulatory and Judiciary Authorities

During the reporting period, there was no material punishment on the Bank, its directors or senior management members by state regulatory authorities.

7. Engagement and Disengagement of Public Accounting Agencies

In accordance with the resolution of the Second Meeting of the Sixth Board of Directors of the Bank, the Bank renewed engagement of KPMG Huazhen Certified Public Accountants and KPMG for one year to audit 2010 financial statements which were compiled by the Bank in accordance with China's Accounting Standards, International Accounting Standards and U.S. Accounting Standards and issue Audit Report on such financial statements.

8. Other Important Events

January

- ◎ The Bank's "New Generation of Teller Terminal System" won the Second Prize of the 6th Guangdong Financial Science and Technology Progress Award; "Paperless Credit Review System for Credit Card" won the Third Prize.
- ◎ The Bank was awarded "Outstanding Commonwealth Partner of Hope Project" by China Youth Development Foundation.

March

- ◎ The Bank signed strategic cooperation agreement with China National Materials Group.
- ◎ The Bank cooperated with China Eastern Airlines and jointly issued Guangdong Development Bank & China Eastern Credit Card, which was the first titanium airlines co-brand credit card in China.

Material Events

May

- ◎ The Bank was approved by China National Interbank Funding Center as the quoting Bank for Shibor benchmark interest rate swap.
- ◎ The Bank signed strategic cooperation framework agreement with China Unicom.
- ◎ Tianjin Branch opened.

June

- ◎ The acquisition of Guangfa credit cards broke through 10 million, and the Bank became the 1st bank with acquisition of 10 millions cards which was certified by ISO27001.

July

- ◎ The Bank jointly launched “Guangdong Development Bank & 7 Days Co-Branded Card” with 7 Days Inn Group, first created the function of “Card Tong Payment”.
- ◎ Annual Report 2009 was awarded “Gold Award for the category of Commercial Banks in China” and “Bronze Award for the Best Letter to Shareholders in Asia Pacific” by League of American Communications Professionals (LACP).

August

- ◎ The Bank signed strategic cooperation agreements with China Coal Energy, China Guodian and China State Construction Engineering respectively.
- ◎ The Bank was awarded as “A-list Taxpayer in 2008-2009 Taxpaying Rating” by Guangzhou Bureau of State Taxation and Guangzhou Bureau of Local Taxation.
- ◎ The foundation ceremony of Guangfa Financial Center was held in Guangdong High-Tech Service Zone for Financial Institutions in Nanhai.

September

- ◎ “Hao Rong Tong” SME program won the “Financial Business Innovation Prize” at 2010 China International Financial Exhibition.
- ◎ The Bank was awarded “The Most Favorite Bank Insurance Brand” in the election event of “2010 Favorite Consumable Brand by China Civil Servants” organized by Nanfang Daily.
- ◎ Pingdingshan Branch opened.
- ◎ The Bank was approved to set up Post-doctoral Research Center.

October

- ◎ Suzhou Branch and Taizhou Branch opened.
- ◎ “Hao Rong Tong” Small-and-Medium Enterprise Financing Solution was awarded “2010 Top 10 Feature Financial Products for SMEs as well as Businesses Related to Agriculture, Rural areas and Farmers” by China Banking Association, and awarded “2010 Excellent Service Product for Small-and-Medium Enterprises” by China Association of Small and Medium Enterprises.
- ◎ The Bank was awarded “2010 Excellent Service Institution for Small-and-Medium Enterprises” by China Association of Small and Medium Enterprises.
- ◎ The Bank was awarded “2010 Best Marketing Prize for Online Banking in China” by China Financial Certification Authority (CFCA).

- ◎ The Bank was awarded the Best Cash Management Innovation Award in 2010 CFO most trusted banks' election by CFO World Magazine.

November

- ◎ The Bank signed strategic cooperation agreement with China National Salt Industry Corporation.

December

- ◎ The Bank's Credit Card was awarded "2010 Most Popular Credit Card" on "2010 Sina (Central China) Gold Kylin Award & Annual Finance Rank" which was released at Sina (Central China) Gold Kylin Forum.
- ◎ The Bank's 17 outlets won the title of "2010 China Banking Excellent Service Model", and the proportion of winning outlets in Guangdong Province took the lead amongst peers for consecutive four years.
- ◎ Brand of "Mao Rong Tong" was awarded "2010 the Best Brand Innovation Award for Trade Financing" by China Trade and Finance Website and Magazine.
- ◎ The Bank won "Innovation Award for EXPO Financial Services in China's Banking Industry".
- ◎ The Bank won "The Outstanding Bank for Asian Games Financial Service and Support" and Guangdong Banking Industry Financial Service "Organization Award" and "Innovation Award" for Asian Games.
- ◎ The Bank was approved to establish Harbin Branch by CBRC.
- ◎ The Bank was awarded "The Best Call-in Call Center" and "The Best Call Center for Corporate Social Responsibility" by Hong Kong Call Center Association.
- ◎ The Bank's Call Center won "Award of Comprehensive Model for Customer Service Centers in China's Banking Industry" and "Award of the Best Service for Customer Service Centers in China's Banking Industry", and became the only call center having these two awards.
- ◎ The Bank signed strategic cooperation agreement with Guangzhou Radio Group.

January 2011

- ◎ The Bank was awarded "2010 Best Execution Prize in Bank Card Business", "2010 Bank Card Risk Management Achievement Award" by People's Bank of China, Guangzhou Branch.
- ◎ The Bank was awarded 2010 "Union Pay Standard Card Issuance Excellent Achievement Award", "Cross-bank Transaction Outstanding Contributions Award" and "Business Innovation Excellence Award" by China Union Pay.
- ◎ The Bank was awarded "2010 Top 10 Brand Bank of the 8th China Finance and Economics Billboard" by www.hexun.com.
- ◎ The Bank was officially approved as a national market-maker of inter-bank bond market.
- ◎ Benxi Branch opened.
- ◎ The Bank signed comprehensive cooperation agreement with Yingda International Holdings Corporation.

February

- ◎ Chairman Dong Jianyue was elected as "2010 Banking Top 10 Leader of Financial Services for SME" by CBRC.
- ◎ The Bank was awarded "Most Market Influential" and "Best Progress" in 2010 interbank local currency market by China Foreign Exchange Trade System & National Interbank Funding Center.

广纳百川 发展无限

Pooling Talents Together For Boundless Development

融合四方才智 成就人生梦想

Integrate Wisdom From All Sides, Make Your Dream Come True



广发银行与您一路同航

China Guangfa Bank, Sail With You !

Internal Control Assessment Report



Special Report on 2010 Internal Control and Risk Management System Assessment Report of Guangdong Development Bank Co., Ltd.

KPMG-A (2011) OR No.0042

The Board of Directors of Guangdong Development Bank Co., Ltd.:

We were appointed by Guangdong Development Bank Co., Ltd. (referred to below as “the Bank”) to audit its balance sheet as at 31 December 2010, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and the explanatory notes to the financial statements (collectively referred to below as “the financial statements”), which were prepared in accordance with the China Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People’s Republic of China, and the unqualified audit report was issued on 18 March 2011. The Bank’s management is responsible for the preparation of the financial statements and our responsibility is to express an opinion on the financial statements based on our audit.

In accordance with the requirements of Auditing Standard for Certified Public Accountants of China No. 1211 - “Understanding the entity and its environment and assessing the risks of material misstatement”, we obtain an understanding of the internal controls relevant to the entity, and internal controls relevant to the audit of the Bank’s financial statements in order to assess the risks of material misstatement of the financial statements, and to plan the nature, timing, and scope of further audit procedures. As part of the audit of the financial statements, we also performed test of control procedures in accordance with the relevant requirements of Auditing Standard for Certified Public Accountants of China No. 1231 - “Procedures in response to assessed risks of material misstatement”. Our understanding and testing of the Bank’s internal controls as mentioned above were not performed specifically for the purpose of expressing an opinion on the internal controls and were not for the purpose of identifying any defects, fraud, or corrupt practices existing within the internal control system. The Bank is responsible for the establishment of a sound internal control system. In the course of our understanding and testing of the internal controls as mentioned above, we took into account the Bank’s actual circumstance, and performed procedures including enquiry, observation, examination, walkthrough of the processing of transactions in the financial reporting information system and re-performance of procedures, that we considered necessary.

System of internal controls is subject to inherent limitations, and accordingly, financial statement misstatements may occur and not be detected due to error or fraud. In addition, any projection of the effectiveness of internal control in the future based on the result of assessment of the current internal control entails certain level of risk

Internal Control Assessment Report

as changes of the circumstances may result in the inappropriateness of the internal control or weaken its compliance with internal control policies and procedures. Consequently, an internal control that is effective in the current circumstance may not guarantee its effectiveness in the future.

In accordance with the Bank's appointment and the requirements of Notice on Standardizing the Content of Annual Report of Joint Stock Commercial Banks (Yin Jian Fa [2004] No.8) issued by the China Banking Regulatory Commission, we issue the following special report on the internal control and risk management system relevant to the preparation of financial statements as described in the 2010 Internal Control and Risk Management System Assessment Report of Guangdong Development Bank Co., Ltd. which is prepared by the Bank.

We have read the 2010 Internal Control and Risk Management System Assessment Report of Guangdong Development Bank Co., Ltd. prepared by the Bank's management. Based on the work we performed, we have not identified any significant inconsistencies between the Bank's internal control and risk management system relevant to the preparation of financial statements as described in the 2010 Internal Control and Risk Management System Assessment Report of Guangdong Development Bank Co., Ltd., and our audit findings based on our audit of the Bank's above-mentioned financial statements.

This report is intended solely for the use by the Bank to prepare its 2010 annual report and should not be used for any other purposes without our prior written consent.

KPMG Huazhen

Certified Public of Accountants
Registered in the People's Republic of
China

Li Wan Wei

Beijing, China

Liang Zhong Wei

18 March 2011

This is a translation only. In case of discrepancy, the original version in Chinese shall prevail.

Financial Statements



Auditors' Report

KPMG-A (2011) AR No.0214

All shareholders of Guangdong Development Bank Co. Ltd.:

We have audited the accompanying financial statements of Guangdong Development Bank Co. Ltd. ("the Bank") on pages 122 to 236 which comprise the balance sheet as at 31 December 2010, the income statement, the statement of changes in shareholders' equity, the cash flow statement for the year then ended, and notes to the financial statements.

1. Management's responsibility for the financial statements

The Bank's management is responsible for the preparation of these financial statements in accordance with the China Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China. 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; and (3) making accounting estimates that are reasonable in the circumstances.

2. Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts 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 principles used and the 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.

3. Opinion

In our opinion, the financial statements comply with the requirements of China Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China and present fairly, in all material respects, the financial position of the Bank as at 31 December 2010, and the results of operations and the cash flows of the Bank for the year then ended.

KPMG Huazhen

Certified Public Accountants
Registered in the People's Republic of
China

Li Wan Wei

Beijing, China

Liang Zhong Wei

18 March 2011

These financial statements have been issued in Chinese. This English translation copy is prepared for reference only. If there is any conflict of meaning between the Chinese and English versions, the Chinese version will prevail.

Financial Statements

Guangdong Development Bank Co., Ltd.

Balance sheet

for the year ended 31 December 2010

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2010	2009
Assets			
Cash and deposits with central banks	4	106,782,503	82,590,316
Deposits with banks and non-bank financial institutions	5	21,804,665	10,458,671
Placements with banks and non-bank financial institutions	6	14,372,263	8,818,421
Trading financial assets	7	1,478,034	1,564,846
Financial assets designated at fair value through profit or loss	8	237,778	-
Derivative assets held for trading	9	200,111	104,787
Financial assets held under resale agreements	10	136,597,172	90,113,168
Interest receivable	11	2,230,458	2,414,746
Loans and advances to customers	12	451,452,081	366,635,269
Available-for-sale financial assets	13	18,558,909	40,832,913
Held-to-maturity investments	14	41,053,112	41,414,743
Debt securities classified as receivables	15	2,582,226	5,379,100
Equity investments in subsidiary	16	4,100	4,100
Fixed assets	17	4,180,320	3,301,091
Construction in progress	18	241,741	814,428
Intangible assets	19	606,677	405,773
Deferred tax assets	20	3,144,234	2,611,918
Other assets	21	8,863,638	9,022,334
Total assets		814,390,022	666,486,624
Liabilities and shareholders' equity			
Liabilities			
Deposits from banks and non-bank financial institutions	23	55,539,436	50,819,648
Placements from banks and non-bank financial institutions	24	13,938,614	2,576,589
Financial liabilities designated at fair value through profit or loss	25	237,778	-
Derivative liabilities held for trading	9	285,871	74,407
Financial assets sold under repurchase agreements	26	54,147,425	32,773,870
Deposits from customers	27	628,857,912	543,890,399
Accrued staff costs	28	1,332,286	1,268,933
Taxes payable	29	2,370,175	1,182,521
Interest payable	30	4,757,209	3,929,955
Provisions	31	84,254	45,632
Subordinated bonds	32	5,000,000	5,000,000
Other liabilities	33	4,957,465	2,734,639
Total liabilities		771,508,425	644,296,593

The notes on pages 131 to 236 form part of these financial statements.

Guangdong Development Bank Co., Ltd.

Balance sheet

for the year ended 31 December 2010 (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2010	2009
Shareholders' equity			
Share capital	34	15,402,397	11,978,844
Capital reserve	35	11,787,197	694,524
Surplus reserve	36	1,504,142	885,281
Statutory general reserve	37	6,693,316	5,171,159
Retained earnings	38	7,546,507	3,498,911
Foreign currency translation reserve		(51,962)	(38,688)
Total shareholders' equity		42,881,597	22,190,031
Total liabilities and shareholders' equity		814,390,022	666,486,624

These financial statements have been approved by the Board of Directors of the Bank on 18 March 2011.

Dong Jianyue
Authorised representative

Morris Li
President

Edward Chou
Vice President in charge
of finance

Fan Wenning
General Manager of the
Finance Department

Guangdong Development
Bank Co., Ltd.

The notes on pages 131 to 236 form part of these financial statements.

Financial Statements

Guangdong Development Bank Co., Ltd.

Income statement

for the year ended 31 December 2010

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2010	2009
Operating income			
Interest income		30,912,244	23,169,156
Interest expense		(11,549,922)	(10,071,430)
Net interest income	39	19,362,322	13,097,726
Fee and commission income		2,943,658	2,220,368
Fee and commission expense		(577,357)	(474,018)
Net fee and commission income	40	2,366,301	1,746,350
Investment (loss)/income	41	(19,525)	51,008
Loss arising from changes in fair value	42	(128,038)	(40,869)
Foreign exchange gain		345,588	235,244
Other operating income		31,219	25,256
Operating income		21,957,867	15,114,715
Operating expenses			
Business taxes and surcharges		(1,593,128)	(1,279,897)
Operating and administrative expenses	43	(9,059,658)	(7,326,305)
Allowances for asset impairment	44	(2,807,783)	(1,465,120)
Other operating costs		(7,323)	(22,296)
Operating expenses		(13,467,892)	(10,093,618)
Operating profit		8,489,975	5,021,097
Add: Non-operating income	45	263,474	165,803
Less: Non-operating expenses	46	(149,932)	(175,338)
Gross profit		8,603,517	5,011,562
Less: Income tax expense	47	(2,414,903)	(1,624,431)
Net profit		6,188,614	3,387,131

The notes on pages 131 to 236 form part of these financial statements.

Guangdong Development Bank Co., Ltd.

Income statement

for the year ended 31 December 2010 (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2010	2009
Earnings per share			
- Basic earnings per share (in RMB)		0.46	0.28
- Diluted earnings per share (in RMB)		0.46	0.28
Other comprehensive income	48	(471,420)	(520,449)
Total comprehensive income		5,717,194	2,866,682

These financial statements have been approved by the Board of Directors of the Bank on 18 March 2011.

Dong Jianyue
Authorised representative

Morris Li
President

Edward Chou
Vice President in charge
of finance

Fan Wenning
General Manager of the
Finance Department

Guangdong Development
Bank Co., Ltd.

The notes on pages 131 to 236 form part of these financial statements.

Financial Statements

Guangdong Development Bank Co., Ltd.

Statement of Cash Flows

for the year ended 31 December 2010

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2010	2009
Cash flow from operating activities:			
Net increase in deposits from customers and from banks		90,396,061	139,002,032
Net increase in placements from non-bank financial institutions		32,735,580	-
Net decrease in placements with banks and non-bank financial institutions		-	15,740,318
Interest and fees and commission received		30,825,483	22,210,223
Cash received from other operating activities		980,705	735,698
Sub-total of cash inflows		154,937,829	177,688,271
Net increase in loans and advances to customer		(87,851,480)	(69,767,929)
Net increase in deposits with central banks and with banks and non-bank financial institutions		(24,386,677)	(22,600,306)
Net increase in placements with banks and non-bank financial institutions		(5,050,913)	-
Net decrease in placements from non-bank financial institutions		-	(20,768,464)
Interest and fees and commission paid		(11,008,639)	(10,554,429)
Cash paid for all types of staff cost		(4,792,139)	(3,724,701)
Cash paid for all types of taxes		(3,275,013)	(3,234,515)
Cash paid for other operating activities		(3,707,903)	(3,739,978)
Sub-total of cash outflows		(140,072,764)	(134,390,322)
Net cash inflow from operating activities	49(1)	14,865,065	43,297,949

The notes on pages 131 to 236 form part of these financial statements.

Guangdong Development Bank Co., Ltd.

Statement of Cash Flows

for the year ended 31 December 2010 (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2010	2009
Cash flow from investing activities:			
Proceeds from disposal of investments		350,933,620	166,161,950
Dividends received		5,314	2,966
Interest received from debt securities		3,145,625	2,593,346
Net proceeds received from disposal of fixed assets and other long-term assets		183,854	229,422
Sub-total of cash inflows		354,268,413	168,987,684
Payments on acquisition of investments		(326,121,089)	(175,690,925)
Payments on acquisition of fixed assets, intangible assets and other long-term assets		(1,258,983)	(1,773,007)
Sub-total of cash outflows		(327,380,072)	(177,463,932)
Net cash inflow / (outflow) from investing activities		26,888,341	(8,476,248)

The notes on pages 131 to 236 form part of these financial statements.

Financial Statements

Guangdong Development Bank Co., Ltd.

Statement of Cash Flows

for the year ended 31 December 2010 (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2010	2009
Cash flows from financing activities:			
Proceeds received for settlement of consideration for carved-out of non-performing assets		1,919,455	2,181,838
Cash received from shares issued to the original shareholders		14,974,372	-
Dividends and interest paid		(299,681)	(561,104)
Net cash inflow from financing activities		16,594,146	1,620,734
Effect of foreign exchange rate changes on cash and cash equivalents		(176,508)	(4,407)
Net increase in cash and cash equivalents	49(2)	58,171,044	36,438,028
Add: Cash and cash equivalents at the beginning of the year		78,832,026	42,393,998
Cash and cash equivalents at the end of the year	49(3)	137,003,070	78,832,026

These financial statements have been approved by the Board of Directors of the Bank on 18 March 2011.

Dong Jianyue
Authorised representative

Morris Li
President

Edward Chou
Vice President in charge
of finance

Fan Wenning
General Manager of the
Finance Department

Guangdong Development
Bank Co., Ltd.

The notes on pages 131 to 236 form part of these financial statements.

Financial Statements

Guangdong Development Bank Co., Ltd.

Statement of changes in shareholders' equity

as at 31 December 2010

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	Capital reserve			Surplus reserve	Foreign currency		Retained earnings	Total
		Share capital	Share premium	Investment revaluation reserve		General reserve	Translation reserve		
1 January 2010		11,978,844	-	694,524	885,281	5,171,159	(38,688)	3,498,911	22,190,031
Current year movements:									
1. Net profit		-	-	-	-	-	-	6,188,614	6,188,614
2. Other comprehensive income									
Changes in fair value of available-for-sale financial assets:									
- Fair value changes recognised in other comprehensive income		-	-	(312,423)	-	-	-	-	(312,423)
- Amortisation arising from reclassification to held-to-maturity investments		-	-	(184,139)	-	-	-	-	(184,139)
- Transfer to profit and loss on disposal		-	-	(39,264)	-	-	-	-	(39,264)
- Income tax relating to components of other comprehensive income		-	-	77,680	-	-	-	-	77,680
- Foreign currency translation differences		-	-	-	-	-	(13,274)	-	(13,274)
3. Shares issued to original shareholders	34/35	3,423,553	11,550,819	-	-	-	-	-	14,974,372
4. Profit appropriations									
- Appropriation to surplus reserve	36	-	-	-	618,861	-	-	(618,861)	-
- Appropriation to statutory general reserve	37	-	-	-	-	1,522,157	-	(1,522,157)	-
31 December 2010		15,402,397	11,550,819	236,378	1,504,142	6,693,316	(51,962)	7,546,507	42,881,597

The notes on pages 131 to 236 form part of these financial statements.

Financial Statements

Guangdong Development Bank Co., Ltd.

Statement of changes in shareholders' equity

as at 31 December 2010

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	Capital reserve			Surplus reserve	Foreign currency		Retained earnings	Total
		Share capital	Share premium	Investment revaluation reserve		General reserve	Translation reserve		
1 January 2009		11,408,423	-	1,208,504	546,568	4,233,000	(32,219)	2,237,439	19,601,715
Current year movements:									
1. Net profit		-	-	-	-	-	-	3,387,131	3,387,131
2. Other comprehensive income									
Changes in fair value of available-for-sale financial assets:									
- Fair value changes recognised in other comprehensive income		-	-	(388,332)	-	-	-	-	(388,332)
- Amortisation arising from reclassification to held-to-maturity investments		-	-	(216,387)	-	-	-	-	(216,387)
- Transfer to profit and loss on disposal		-	-	(1,008)	-	-	-	-	(1,008)
- Income tax relating to components of other comprehensive income		-	-	91,747	-	-	-	-	91,747
- Foreign currency translation differences		-	-	-	-	-	(6,469)	-	(6,469)
3. Profit appropriations									
- Appropriation to surplus reserve	36	-	-	-	338,713	-	-	(338,713)	-
- Appropriation to statutory general reserve	37	-	-	-	-	938,159	-	(938,159)	-
- Appropriation to shareholders - Share dividend		570,421	-	-	-	-	-	(570,421)	-
- Appropriation to shareholders - Cash dividend		-	-	-	-	-	-	(278,366)	(278,366)
31 December 2009		11,978,844	-	694,524	885,281	5,171,159	(38,688)	3,498,911	22,190,031

These financial statements have been approved by the Board of Directors of the Bank on 18 March 2011.

Dong Jianyue
Authorised representative

Morris Li
President

Edward Chou
Vice President in charge
of finance

Fan Wenning
General Manager of the
Finance Department

Guangdong Development
Bank Co., Ltd.

The notes on pages 131 to 236 form part of these financial statements.

Guangdong Development Bank Co., Ltd.

Notes on the financial statements

(Expressed in thousands of Renminbi unless otherwise stated)

1 Basic information

Guangdong Development Bank Co., Ltd. (“the Bank”) is a joint stock commercial bank with limited liability incorporated in Guangzhou of Guangdong Province in the People’s Republic of China (“the PRC”) on 8 September 1988 with the approval of the State Council and the People’s Bank of China (“PBOC”).

As at 31 December 2010, apart from the Head Office, the Bank has set up 29 branches in Beijing, Shanghai, Dalian, Shenyang, Zhengzhou, Nanjing, Hangzhou, Kunming, Guangzhou, Shenzhen, Dongguan, Zhuhai, Shantou, Meizhou, Huizhou, Shaoguan, Qingyuan, Zhongshan, Foshan, Jiangmen, Zhaoqing, Yangjiang, Zhanjiang, Wuhan, Maoming, Heyuan, Changsha, Tianjin and Macau respectively. In addition, the Bank has representative offices in Beijing and Hong Kong.

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

The Bank’s principal activities include the taking of deposits from the public, extension of loans, settlement, bill discounting, acting as issue and acceptance agent and underwriter for government debts and marketable securities other than shares, purchase and sale of government debts and marketable securities other than shares, issuance of credit cards, offshore business, and other Renminbi (“RMB”) and foreign currency businesses approved by the PBOC and China Banking Regulatory Commission (“CBRC”).

The financial statements were approved by the board of directors of the Bank on 18 March 2011.

2 Basis of preparation

The financial statements have been prepared on the basis that the Bank will continue to operate throughout the next accounting period until 31 December 2011 as a going concern.

(1) Statement of compliance

The financial statements have been prepared in accordance with the requirements of “Accounting Standards for Business Enterprises-Basic Standard” and 38 Specific Standards issued by the Ministry of Finance (MOF) on 15 February 2006, and application guidance, bulletins and other relevant accounting regulations issued subsequently (collectively referred to as “Accounting Standards for Business Enterprises” or “CAS”). These financial statements present truly and completely the financial position, the results of operations and the cash flows of the Bank.

(2) Accounting year

The accounting year of the Bank is from 1 January to 31 December.

Financial Statements

2 Basis of preparation (continued)

(3) Measurement basis

The measurement basis used in the preparation of the financial statements is historical cost basis except that the assets and liabilities set out below:

- Financial assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading) (See Note 3(3))
- Available-for-sale financial assets (See Note 3(3))

(4) Functional currency and presentation currency

The Bank's functional currency is RMB. The functional currencies of overseas branches are determined in accordance with the primary economic environment in which they operate, and are translated into Renminbi for the preparation of the financial statements (see Note 3(2)(b)). These financial statements are presented in Renminbi and, unless otherwise stated, expressed in thousands of Renminbi.

3 Significant accounting policies and accounting estimates

(1) Basis of preparing combined financial statements of the Bank

The combined financial statements of the Bank are prepared based on the information from the financial statements of the Head Office and branches and other information. All significant intra-bank transactions and balances have been eliminated on combination.

(2) Translation of foreign currencies

(a) Translation of foreign currency transactions

Foreign currency transactions are, on initial recognition, translated into the functional currency at the spot exchange rates at the dates of the transactions. Monetary items denominated in foreign currencies are translated into the functional currency at the spot exchange rates at the balance sheet date. The resulting exchange differences are recognised in income statement. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into functional currency using the spot exchange rates at the transaction dates. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the spot exchange rates at the dates the fair value are determined; the exchange differences are recognised in the income statement, except for the differences arising from the translation of available-for-sale equity instruments, which are recognised in equity.

(b) Translation of financial statements denominated in foreign currencies

Foreign currency financial statements of overseas branches are translated into Renminbi for the preparation of financial statements. The assets and liabilities in the financial statements denominated in foreign currencies are translated into Renminbi at the spot exchange rates ruling at the balance sheet date. The income and expenses of foreign operations are translated into Renminbi with average exchange rates for the reporting year. Foreign exchange differences arising from transaction are recognised as "exchange reserve" in the shareholder's equity on the balance sheet.

3 Significant accounting policies and accounting estimates (continued)

(3) Financial instruments

(a) Categorisation

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

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

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

A financial asset or financial liability is classified as held for trading if it is:

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

Financial assets or financial liabilities are designated at fair value through profit or loss upon initial recognition when:

- (i) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, and information about the Bank is reported on that basis to the Bank's key management personnel. Formal documentation has been prepared with respect to such risk management or investment strategy;
- (ii) the designation eliminates or significantly reduces an accounting mismatch in the gain and loss recognition arising from the difference in measurement basis of the financial assets or financial liabilities; or
- (iii) if a contract contains one or more embedded derivatives, an entity may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss unless: the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or it is clear with little or no analysis when a similar hybrid (combined) instrument is considered that separation of the embedded derivative(s) is prohibited.

Financial assets and financial liabilities designated at fair value through profit or loss are presented on the balance sheet individually.

Financial Statements

3 Significant accounting policies and accounting estimates (continued)

(3) Financial instruments (continued)

(a) Categorisation (continued)

Held-to-maturity investments

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- (i) those that the Bank intends to sell immediately or in the near term, which will be classified as held for trading;
- (ii) those that the Bank, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or
- (iii) those where the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale.

Loans and receivables mainly comprise deposits with central banks, deposits and placements with banks and non-bank financial institutions, financial assets held under resale agreements, loans and advances to customers, and debt securities classified as receivables.

Available-for-sale financial assets

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

Other financial liabilities

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

3 Significant accounting policies and accounting estimates (continued)

(3) Financial instruments (continued)

(b) Derivatives and embedded derivatives

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

Certain derivatives are embedded into non-derivative hybrid instruments (the host contracts). The embedded derivatives are separated from the host contract and accounted for as a separate derivative when:

- (i) the economic characteristics and risks of the embedded derivative are not closely related to the host contract;
- (ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (iii) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the income statement. When the embedded derivative is separated, the host contract is accounted for as a financial instrument in accordance with the accounting policies as set out in Note 3(3).

(c) Recognition and derecognition

A financial asset or financial liability is recognised in the balance sheet when the Bank becomes a party to the contractual provisions of a financial instrument.

The Bank derecognises a financial asset if the part being considered for derecognition meets one of the following conditions:

- (i) the contractual rights to receive the cash flows from the financial asset expire; or
- (ii) the contractual rights to receive the cash flows of the financial asset have been transferred and the Bank transfers substantially all the risks and rewards of ownership of the financial asset; or
- (iii) the Bank retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of transfer of cash flows and transfers substantially all the risks and rewards of ownership of the financial asset.

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

Financial Statements

3 Significant accounting policies and accounting estimates (continued)

(3) Financial instruments (continued)

(c) Recognition and derecognition (continued)

The financial liability is derecognised only when:

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

(d) Measurement

Financial assets are measured initially at fair value. For financial assets at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss; for other categories of financial assets, any attributable transaction costs are included in their initial costs.

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

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

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

When the available-for-sale financial assets are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments in equity that are released from equity.

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

3 Significant accounting policies and accounting estimates (continued)

(3) Financial instruments (continued)

(e) Impairment

The Bank assesses at the balance sheet date the carrying amount of financial assets (except for those at fair value through profit or loss). If there is any objective evidence that a financial asset is impaired, the Bank will recognise the impairment loss in the income statement. Losses expected as a result of future events, no matter how likely, are not recognised as impairment losses.

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

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

Financial Statements

3 Significant accounting policies and accounting estimates (continued)

(3) Financial instruments (continued)

(e) Impairment (continued)

Loans and receivables and held-to-maturity investments

Individual assessment

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

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

Collective assessment

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

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

Loans and receivables and held-to-maturity investments which are individually significant and therefore have been individually assessed but for which no impairment can be identified, are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss.

3 Significant accounting policies and accounting estimates (continued)

(3) Financial instruments (continued)

(e) Impairment (continued)

Loans and receivables and held-to-maturity investments (continued)

Collective assessment (continued)

The collective impairment loss is assessed after taking into account: (i) historical loss experience in portfolios of similar risk characteristics; (ii) the emergence period between a loss occurring and that loss being identified; and (iii) the current economic and credit environments and whether in management's experience these indicate that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

The emergence period between a loss occurring and its identification is determined by management based on the historical experience of the markets where the Bank operates. Impairment losses recognised on a collective basis represent an interim step pending the identification of impairment losses on individual assets (which are subject to individual assessment) in the pool of financial assets that are collectively assessed for impairment.

Collective assessment covers those loans and receivables and held-to-maturity investments that were impaired at the balance sheet date but was not individually identified as such until sometime in the future. As soon as information is available to specifically identify objective evidence of impairment on individual assets in a pool, those assets are removed from the pool of collectively assessed financial assets.

Impairment reversal and loan write-off

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

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

Financial Statements

3 Significant accounting policies and accounting estimates (continued)

(3) Financial instruments (continued)

(e) Impairment (continued)

Loans and receivables and held-to-maturity investments (continued)

Rescheduled loans

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

Available-for-sale financial assets

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

If, in a subsequent period, the fair value of available-for-sale financial assets increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss shall be treated in accordance with the following principles:

- (i) the impairment loss on debt instruments classified as available-for-sale shall be reversed, with the amount of the reversal recognised in the income statement;
- (ii) the impairment loss on equity instruments classified as available-for-sale shall not be reversed through the income statement. Any subsequent increase in the fair value of such assets is recognised directly in the equity; or
- (iii) the impairment loss in respect of available-for-sale equity investments carried at cost shall not be reversed. The impairment losses recognised in an interim period in respect of such financial assets shall not be reversed in a subsequent period. This is the case even if no loss or a smaller loss would have been recognised had the impairment been assessed only at the end of the year to which the interim period relates.

3 Significant accounting policies and accounting estimates (continued)

(3) Financial instruments (continued)

(f) Fair value measurement

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

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

When the Bank is using a valuation technique to establish the fair value of a financial instrument, the valuation technique shall whenever possibly incorporate all factors that affect the fair value of the financial instrument, including but not limit to such factors as risk-free interest rate, credit risk, exchange rate and market fluctuation.

(g) Offsetting

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

(h) Financial assets held under resale agreements and financial assets sold under repurchase agreements

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

The cash advanced or received is recognised as amounts held under resale or sold under repurchase agreements on the balance sheet. Assets held under resale agreements are not recognised and recorded as off-balance sheet items. Assets sold under repurchase agreements continue to be recognised on the balance sheet.

Financial Statements

3 Significant accounting policies and accounting estimates (continued)

(3) Financial instruments (continued)

(h) Financial assets held under resale agreements and financial assets sold under repurchase agreements (continued)

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

(i) Equity instrument

An equity instrument is a contract that proves the ownership interest of the assets after deducting all liabilities in the Company. The consideration received from the issuance of equity instruments net of transaction costs is recognised in paid-in capital (or share capital) and capital reserve. Consideration and transaction costs paid by the Company for repurchasing self-issued equity instruments are deducted from equity.

(4) Long-term equity investments

In the Bank's financial statements, investments in subsidiaries are accounted for using the cost method. The investments are stated at cost less impairment losses in the balance sheet. Except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid in obtaining the investments, the Bank recognises its share of the cash dividends or profit distribution declared by subsidiaries as investment income.

(5) Fixed assets

Fixed assets represent the tangible assets held by the Bank for use for operation and administrative purposes with useful lives over one year.

(a) Cost of fixed assets

Fixed assets are initially recognised at cost. The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of a self-constructed fixed asset comprises the construction materials, direct labour costs and those expenditures necessarily incurred for bringing the asset to working condition for its intended use. Where the individual component parts of an item of fixed asset have different useful lives or provide benefits to the Bank in different patterns thus necessitating use of different depreciation rates or methods, they are recognised as a separate fixed asset.

The subsequent costs including the cost of replacing part of an item of fixed assets are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of fixed assets are recognised in profit or loss as incurred.

3 Significant accounting policies and accounting estimates (continued)

(5) Fixed assets (continued)

(b) Depreciation and impairment of fixed assets

Fixed assets are depreciated after deducting the residual values (if any) using the straight-line method over their estimated useful lives. The impaired fixed assets are depreciated after deducting the accumulated provision for impairment.

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

Categories	Estimated useful life	Estimated residual value	Depreciation rate
Plants and buildings	30 - 35 years	3% - 5%	2.8% - 3.2%
Electronic equipment	5 years	3% - 5%	19% - 19.4%
Transportation and other equipment	5 years	3% - 5%	19% - 19.4%

Useful lives, residual values and depreciation methods are reviewed at at least each year-end.

Impairment losses on fixed assets are accounted for in accordance with the accounting policies as set out in Note 3(9).

(c) Disposal of fixed assets

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

(6) Constructions in progress

Construction in progress consists of buildings under construction and cost of their attached facilities. Cost includes purchase price, cost of construction, installation and other direct costs. The cost of constructions in progress is transferred to fixed asset when it is ready for its intended use and depreciates in accordance to relevant depreciation policy.

No depreciation is provided against construction in progress before it is ready for its intended use.

Impairment losses on construction in progress are accounted for in accordance with the accounting policies as set out in Note 3(9).

Financial Statements

3 Significant accounting policies and accounting estimates (continued)

(7) Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Bank. An intangible asset is measured initially at cost, and its useful life is determined according to the period over which the asset is expected to generate economic benefits for the Bank. An intangible asset is regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits.

An intangible asset with finite useful life is stated in the balance sheet at cost less accumulated amortisation and impairment losses, and its cost less impairment loss is amortised on the straight-line method over its estimated useful life.

The respective amortisation periods for such intangible assets are as follows:

	Estimated useful life
Land use rights	30 - 50 years
Software	5 years
Others	5 years

An intangible asset with indefinite useful life and is not amortised when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Bank. If any evidence indicates that the intangible asset has infinite useful life, and then it need pursuant to accounting policy of intangible assets with finite useful life as described above. At the balance sheet date, the Bank doesn't have any intangible assets with indefinite useful lives.

When an intangible asset is no longer expected to be able to generate any economic benefits that will flow to the Bank, the carrying amount of the intangible asset is recognised in profit or loss for the current period.

Impairment losses on intangible assets are accounted for in accordance with the accounting policies as set out in Note 3(9).

(8) Repossessed assets

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

When the Bank seizes assets to compensate for the losses of loans and advances and interest receivable, the repossessed assets are initially recognised at fair value, plus any taxes paid for the seizure of the assets, litigation fees and other expenses incurred for collecting the repossessed assets which are included in the carrying value of repossessed assets. Repossessed assets are recognised at the carrying value, net of allowances for impairment losses.

Impairment losses on repossessed assets are accounted for in accordance with the accounting policies as set out in Note 3(9).

3 Significant accounting policies and accounting estimates (continued)

(9) Impairment of non-financial assets

The carrying amounts of the following assets are reviewed at each balance sheet date to determine whether there is any indication of impairment:

- Long-term equity investment in subsidiaries
- fixed assets
- construction in progress
- intangible assets
- long-term deferred expenses
- repossessed assets

The Bank estimates the recoverable amount of assets with indication of impairment. If there is any indication that an asset may be impaired and it is not possible to estimate the recoverable amount of an individual asset, the Bank determines the recoverable amount of the CGU to which the asset belongs. In addition, for intangible assets with indefinite useful lives or not ready for their intended use, the Bank estimates their recoverable amount at least each year, irrespective of whether there is any indication of impairment or not.

CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or groups of assets. An asset group is composed of assets directly relating to cash-generation. Identification of an asset group is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Bank also considers how management monitors the Bank's operations and how management makes decisions about continuing or disposing of the Bank's assets.

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

(a) Impairment loss

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

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

(b) Reversing an impairment loss

An impairment loss is not reversed in subsequent periods.

Financial Statements

3 Significant accounting policies and accounting estimates (continued)

(10) Operating leases

Where the Bank has the use of assets held under operating leases, payments made under the leases are charged to the income statement, using the straight-line method, over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets.

(11) Employee benefits

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

(a) Defined contribution retirement schemes

Pursuant to the relevant laws and regulations in the PRC, the Bank has joined defined contribution retirement schemes for the employees arranged by local government labour and security authorities. The Bank makes contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the local government organisations. The contributions are charged to the income statement on an accrual basis. When employees retire, the local government labour and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

In addition to the statutory provision schemes, the Bank's employees have joined the annuity scheme set up by the Bank in accordance with state enterprise annuity regulations. The Bank has made annuity contributions in proportion to its employees' gross wages, which are expensed in the income statement when the contributions are made.

(b) Housing fund and other social insurance

In accordance with the related laws, regulations and policies of the PRC, the Bank participates in mandatory social insurance programmes, including housing fund, basic medical insurance, unemployment insurance, work injury insurance and maternity insurance etc. The Bank makes housing fund and social insurance contributions to government agencies in proportion to each employee's salary and expenses and recognises them in the income statement on an accrual basis.

(c) Termination benefits

Where the Bank terminates the employment relationship with employees before the end of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision is recognised for the compensation arising from termination of employment relationship, with a corresponding charge to the income statement for the current period, when both of the following conditions are satisfied: (i) the Bank has a formal plan for termination of employment relationship or has made an offer for voluntary redundancy, which will be implemented immediately; (ii) the Bank cannot unilaterally withdraw from the termination plan or the redundancy offer.

3 Significant accounting policies and accounting estimates (continued)

(11) Employee benefits (continued)

(c) Termination benefits (continued)

Early retirement expenses

The Bank recognises the present value of all its liabilities to employees who agreed to retire early in return for certain future payments as expenses in the income statement when the relevant staff accepts the early retirement arrangement and ceases to provide any services to the Bank. Differences arising from changes in assumptions and adjustments on welfare calculation basis are recognised in the income statement when incurred.

(12) Provisions and contingent liabilities

A provision is recognised on the balance sheet if, as the result of a past event, the Bank has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows.

A potential obligation arising from a past transaction or event whose existence can only be confirmed by the occurrence or non-occurrence of future uncertain events; or a present obligation that arises from past transactions or events where it is not probable that an outflow of economic benefits is required to settle the obligation or the amount of the obligation cannot be measured reliably, is disclosed as a contingent liability unless the probability of outflow of economic benefit is remote.

(13) Financial guarantee issued

Financial guarantees are contracts that require the guarantor (the “issuer”) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs when a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income in “other liabilities”. The deferred income is amortised in the income statement over the term of the guarantee as income from financial guarantees issued. Provisions are recognised on the balance sheet if and when it becomes probable that the holder of the guarantee will call upon the Bank under the guarantee, and the amount of that claim on the Bank is expected to exceed the carrying amount of the deferred income.

Financial Statements

3 Significant accounting policies and accounting estimates (continued)

(14) Fiduciary activities

The Bank's fiduciary business refers to the management of assets for customers in accordance with custody agreements signed by the Bank and securities investment funds, insurance companies, annuity plans and other organisations. The Bank fulfils its fiduciary duty and receives relevant fees in accordance with these agreements, and does not take up any risks and rewards related to the assets under custody, which are recorded as off-balance-sheet items.

The Bank conducts entrusted lending business, whereby it enters into entrusted loan agreements with customers. Under the terms of these agreements, the customers provide funding (the "entrusted funds") to the Bank, and the Bank grants loans to third parties (the "entrusted loans") according to the instructions of the customers. As the Bank does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, entrusted loans and funds are recorded as off-balance sheet items at their principal amounts and no impairment assessments are made for these entrusted loans.

(15) Income recognition

Revenue is recognised in profit or loss when it is probable that the economic benefits will flow to the Bank, the revenue and costs can be measured reliably and the following respective conditions are met:

(a) Interest income

Interest income for financial instruments is recognised in the income statement based on effective interest method. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest basis.

The effective interest basis is a method of calculating the amortised cost of financial assets and liabilities and of allocating the interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial instrument. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest on the impaired financial assets is recognised using the interest rate used as discounted rate to discount future cash flows for the purpose of measuring the related impairment loss.

3 Significant accounting policies and accounting estimates (continued)

(15) Income recognition (continued)

(b) Fee and commission income

Fee and commission income is recognised in the income statement when the corresponding service is provided. Origination or commitment fees received by the Bank which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Bank making a loan, the fee is recognised as revenue on expiry.

For proceeds obtained in related to award credits granted to bank card holders, the Bank recognises the fair value as deferred income. When those award credits are redeemed or expire, related portion of the deferred income the Bank recognised originally is transferred out and related fee and commission income will be recognised.

(c) Dividend income

Dividend income from unlisted equity investments is recognised in the income statement on the date when the Bank's right to receive payment is established. Dividend income from a listed equity investment is recognised when the share price of the investment goes ex-dividend.

(16) Income tax

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods. Deferred tax is provided for using the balance sheet liability method, which refers to the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax also arises from unused tax losses and unused tax credits. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Current income tax and movements in deferred tax balances are recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

At the balance sheet date, the book value of deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled according to the requirements of tax laws. The Bank also considers the possibility of realisation and the settlement of deferred tax assets and deferred tax liabilities in the calculation.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Bank has the legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity. Otherwise, the balances of deferred tax assets and deferred tax liabilities, and movements therein, are presented separately from each other and are not offset.

Financial Statements

3 Significant accounting policies and accounting estimates (continued)

(17) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents include non-limited deposit with central banks, deposits and placements with banks and non-bank financial institution with maturity within 3 months and financial assets held under resale agreements.

(18) Dividend distribution

Proposed dividends which are declared and approved after the balance sheet date are not recognised as a liability on the balance sheet and are instead disclosed as a subsequent event after the balance sheet date in the financial statements. Dividends payable are recognised as liabilities in the period in which they are approved.

(19) Related parties

If the Bank has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Bank and one or more parties are subject to common control, joint control or significant influence from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Bank is under common control only from the State and that have no other related party relationships are not regarded as related parties of the Bank. The Bank's related parties include but are not limited to the following:

- (a) the Bank's parents;
- (b) the Bank's subsidiaries;
- (c) enterprises that are controlled by the Bank's parents;
- (d) investors that have joint control over the Bank;
- (e) investors that exercise significant influence over the Bank;
- (f) an associate of the Bank;
- (g) a jointly controlled entity of the Bank;
- (h) principal individual investors of the Bank, and close family members of such individuals;
- (i) key management personnel of the Bank and close family members of such individuals;
- (j) key management personnel of the Bank's parents;
- (k) close family members of key management personnel of the Bank's parents; or
- (l) other entities that are controlled, jointly controlled, or significantly influenced by the Bank's principal individual investors, key management personnel, or close family members of such individuals.

(20) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Bank's internal organisation, management requirements and internal reporting system. An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Bank's management to make decisions about resource to be allocated to the segment and assess its performance, and for which financial information regarding financial position, results of operations and cash flows is available.

3 Significant accounting policies and accounting estimates (continued)

(20) Segment reporting (continued)

Two or more operating segments may be aggregated into a single operating segment if the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment.

(21) Taxation

The Bank's main applicable taxes and tax rates for business in Mainland China are as follows:

Business tax is charged at 5% on taxable income.

City construction tax is calculated as 1% - 7% of business tax.

Education surcharge is calculated as 3% of business tax.

Income tax is charged at 22% or 25% of taxable income.

According to the relevant tax ruling and implementation guidance, the Bank is paying different income tax rate in different region. Except for Shenzhen branch, the income tax rate that is applicable to the Bank is reduced from 33% to 25% effective from 1 January 2008. According to the Notice of Implementation of Income Tax Preferential Policy in Transitional Period by the State Council (Guofa [2007] No 39), the tax rate applicable to Shenzhen branch will be gradually increased to 25% in the five years from 2008 to 2012 and the tax rate for the year is 22% (2009: 20%).

Business tax is levied on loan interest income, income on disposal of financial assets, fee and commission and other operating income, but excluding revenue from transactions with financial institutions.

Taxation on overseas operations is charged according to the relevant local tax ruling.

(22) Significant accounting estimates and judgments

The preparation of financial statements in accordance with the CAS issued by the MOF requires management, base on experience and other reasonable factors under specific circumstance, to make judgement, estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. These estimates and assumption are the basis of calculating the carrying amount of assets and liabilities of which the carrying amount can not be identified through other channels. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The judgements that have significant impacts on financial statements and estimates that may have significant adjustment on the coming reporting periods are as follows:

3 Significant accounting policies and accounting estimates (continued)

(22) Significant accounting estimates and judgments (continued)

(a) Impairment losses on loans and advances, available-for-sale and held-to-maturity debt investments

The Bank reviews the portfolios of loans and advances, and available-for-sale and held-to-maturity debt investments periodically to assess whether impairment losses exist and if they exist, the amounts of impairment losses. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows identified with an individual loan and advance, available-for-sale or held-to-maturity debt investments. It also includes observable data indicating adverse changes in the repayment status of borrowers or issuers in the assets portfolio or national or local economic conditions that correlate with defaults on the assets in the portfolio.

The impairment loss for a loan that is individually assessed for impairment is the decrease in the estimated discounted future cash flows. For impairment loss of held-to-maturity debt investment, the Bank may measure the impairment loss on the basis of the instrument's fair value using an observable market price at the measurement date. The impairment loss for an available-for-sale debt investment is the difference between the acquisition cost (net of any principal repayments and amortisation) and the fair value, less any impairment loss previously recognised in the income statement at the measurement date.

When loans and advances are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the loans and advances, and adjusted on the basis of the relevant observable data that reflects current economic conditions. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual losses.

(b) Impairment of available-for-sale equity instruments

For available-for-sale equity instruments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the Bank considers historical market volatility and share price data of the specific equity instrument as well as other factors, such as sector performance, and financial information regarding the investee.

(c) Fair value of financial instruments

The fair value of financial instruments that are traded in an active market is based on their quoted market prices in an active market at the valuation date. A quoted market price is a price from an active market where price information is readily and regularly available from an exchange or from a dealer quotation and where this price information represents actual and recurring market transactions on an arm's length basis.

3 Significant accounting policies and accounting estimates (continued)

(22) Significant accounting estimates and judgments (continued)

(c) Fair value of financial instruments (continued)

For all other financial instruments the Bank determines fair values using valuation techniques which include discounted cash flow models, as well as other types of valuation model. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign currency exchange rates. Where discounted cash flow techniques are used, estimated cash flows are based on management's best estimates and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on observable market data at the balance sheet date.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

(d) Classification of held-to-maturity investments

In evaluating whether the requirements to classify a financial asset as held-to-maturity are met, management makes significant judgements. Change of the Bank in sustaining the intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

(e) Income taxes and deferred taxes

Determining income tax involves judgement on the future tax treatment of certain transactions. The Bank carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

(f) Depreciation and amortisation

Fixed assets, intangible assets and land use right are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual value (if applicable). The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in each reporting period. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation is revised in the coming financial years.

Financial Statements

3 Significant accounting policies and accounting estimates (continued)

(22) Significant accounting estimates and judgments (continue)

(g) Receivables from transfer for non-performing assets

According to the non-performing assets transfer agreement, the Bank received RMB 48.14 billion on 18 December 2006 as a part of the repayment of the receivable. The remaining RMB 10 billion will be repaid by instalment over a period of five years starting from 1 January 2007 by the Government of Guangdong Province ("the GGP") and the MOF with an annual interest rate of 2.7% of the remaining amount. The remaining receivables will be settled by the funding from the corporate income tax payment over a period of five years. In accordance with CAS (2006), the effective annual interest rate of the RMB 10 billion receivable, after taking into account the estimated future cash flow over the five years, is 2.68%. The Bank reviews management's estimations and assumption on the above future cash flow periodically, and estimates the possibility of impairment occurs.

4 Cash and deposits with central banks

	2010	2009
Cash	3,257,877	2,282,017
Deposit with central banks		
- Statutory deposit reserves (i)	80,686,780	62,971,660
- Surplus deposit reserves (ii)	22,335,481	16,997,018
- Fiscal deposits	502,365	339,621
Total	106,782,503	82,590,316

- (i) The Bank places statutory deposit reserve funds with the PBOC and the central bank of Macau. The statutory deposit reserve funds are not available for the Bank's daily business.

As at the balance sheet date, the statutory deposit reserve rates applicable to domestic branches of the Bank were as follows:

	2010	2009
Reserve rate for RMB deposits	16.5%	13.5%
Reserve rate for foreign currency deposits	5.0%	5.0%

The amount of statutory deposit reserve funds placed with the central bank of Macau by Macau Branch is determined by the local jurisdiction.

- (ii) The balances mainly represent funds maintained with the PBOC for the purposes of clearing and other non-restricted funds.

5 Deposits with banks and non-bank financial institutions

Analysed by type of financial institutions and geographical location

	2010	2009
Banks operating in mainland China	20,454,349	8,546,609
Other financial institutions operating in mainland China	11,102	10,762
Sub-total	20,465,451	8,557,371
Banks operating outside mainland China	1,331,902	1,901,300
Other financial institutions operating outside mainland China	7,312	-
Sub-total	1,339,214	1,901,300
Total	21,804,665	10,458,671

6 Placements with banks and non-bank financial institutions

Analysed by type of financial institutions and geographical location

	2010	2009
Banks operating in mainland China	13,149,420	7,861,835
Other financial institutions operating in mainland China	50,253	1,260
Sub-total	13,199,673	7,863,095
Banks operating outside mainland China	1,173,590	956,326
Total	14,373,263	8,819,421
Less: Allowance for impairment losses (Note 22)	(1,000)	(1,000)
Net balance	14,372,263	8,818,421

7 Trading financial assets

Debt Securities held for trading purpose

	2010	2009
<i>Analysed by type of debt securities and geographical location</i>		
<i>Unlisted</i>		
Issued by entities in mainland China		
- Government	57,239	-
- PBOC bills	39,086	873,794
- Policy banks	194,632	109,356
- Banks and non-bank financial institutions	552,374	538,371
- Corporate debt securities	587,688	-
	1,431,019	1,521,521
<i>Listed</i>		
Issued by entities outside mainland China		
- Fund investment	47,015	43,325
Total	1,478,034	1,564,846

Financial Statements

8 Financial assets designated at fair value through profit or loss

	2010	2009
<i>Unlisted</i>		
Structured deposits entered into with commercial banks in mainland China	237,778	-

9 Derivative assets and liabilities held for trading

Analysed by type of derivative contracts

	2010		
	Notional amounts	Assets	Liabilities
<u>Foreign currency derivatives</u>			
Forward and swap contracts	23,321,999	162,188	(235,761)
<u>Interest rate derivatives</u>			
Swap contracts	3,500,000	29,036	(41,223)
<u>Other derivatives</u>			
Gold linked option bought	560,150	8,887	-
Gold linked option sold	560,150	-	(8,887)
	27,942,299	200,111	(285,871)

	2009		
	Notional amounts	Assets	Liabilities
<u>Foreign currency derivatives</u>			
Forward and swap contracts	9,912,343	104,787	(74,407)

Credit risk weighted amount about derivatives are as below. The amounts have taken into account the effects of bilateral netting arrangements.

	2010	2009
Foreign currency derivatives	397,677	104,787
Interest rate derivatives	46,536	-
Other derivatives	20,090	-
Total	464,303	104,787

10 Financial assets held under resale agreements

Analysed by pledged securities held

	2010	2009
Debt securities		
- China government bonds	7,621,000	12,807,500
- PBOC bills	1,610,000	4,074,667
- Policy banks bonds	4,456,267	11,007,822
- Commercial banks bonds	9,880,050	7,136,953
	23,567,317	35,026,942
Bills	112,929,405	54,311,226
Receivables	100,450	-
Loans	-	775,000
Total	136,597,172	90,113,168

Analysed by type of counterparty

	2010	2009
Banks	129,645,605	22,047,565
Non-bank financial institutions	6,951,567	65,065,603
PBOC	-	3,000,000
Total	136,597,172	90,113,168

11 Interest receivable

Analysed by type of interest generating financial assets

	2010	2009
Deposits with central banks	39,517	30,278
Deposits with banks and non-bank financial institutions	78,611	20,574
Placements with banks and non-bank financial institutions	11,462	11,415
Financial assets held under resale agreements	7,654	40,744
Investment securities	972,556	1,616,230
Loans and advances to customers	1,117,547	691,760
Others	3,111	3,745
Total	2,230,458	2,414,746

Financial Statements

12 Loans and advances to customers

(1) Analysed by nature

	2010	2009
Corporate loans and advances	357,034,139	281,790,948
Residential mortgage	62,118,717	47,002,159
Credit cards	30,947,131	16,466,634
Other personal loans	12,583,451	8,061,965
Personal loans and advances	105,649,299	71,530,758
Discounted bills	4,155,364	27,553,313
Gross loans and advances to customers	466,838,802	380,875,019
Less: Allowances for impairment losses (Note 22)		
- individual assessment	(3,700,406)	(3,662,247)
- collective assessment	(11,686,315)	(10,577,503)
Total	(15,386,721)	(14,239,750)
Loans and advances to customers, net	451,452,081	366,635,269

(2) Analysed by type of collateral

	2010	2009
Loans secured by monetary assets	53,419,365	35,487,423
Loans secured by tangible assets other than monetary assets	184,853,225	134,694,894
Guaranteed loans	104,165,664	124,649,750
Unsecured loans	124,400,548	86,042,952
Gross loans and advances to customers	466,838,802	380,875,019
Less: Allowances for impairment losses	(15,386,721)	(14,239,750)
Net loans and advances to customers	451,452,081	366,635,269

12 Loans and advances to customers (continued)

(3) Overdue loans and advances analysed by type of collateral and overdue period

	2010				Total
	Overdue between 1 day and 90 days	Overdue between 90 days and one year	Overdue between one year and three years	Overdue more than three years	
Loans secured by monetary assets	120,534	37,109	1,111,587	9,736	1,278,966
Loans secured by tangible assets other than monetary assets	872,333	201,551	498,790	69,069	1,641,743
Guaranteed loans	56,235	166,680	322,161	9,351	554,427
Unsecured loans	2,182,307	41,018	61,924	3,357	2,288,606
Total	3,231,409	446,358	1,994,462	91,513	5,763,742

	2009				Total
	Overdue between 1 day and 90 days	Overdue between 90 days and one year	Overdue between one year and three years	Overdue more than three years	
Loans secured by monetary assets	78,927	752,653	106,559	24,490	962,629
Loans secured by tangible assets other than monetary assets	1,043,257	670,473	594,062	312,169	2,619,961
Guaranteed loans	394,086	1,340,957	227,955	20,519	1,983,517
Unsecured loans	1,946,798	37,430	135,214	23,317	2,142,759
Total	3,463,068	2,801,513	1,063,790	380,495	7,708,866

Pledged and collateralised loans which are overdue but not impaired is as follows:

	2010	2009
Loans secured by tangible assets other than monetary assets	910,481	1,127,596
Loans secured by monetary assets	67,365	88,182
Total	977,846	1,215,778

Financial Statements

12 Loans and advances to customers (continued)

(4) Analysed by assessment method of allowances for impairment losses

	2010			Total	Impaired loans and advances as a % of total loans and advances (%)
	Loans and advances for which allowances for impairment losses are collectively assessed	Impaired loans and advances for which allowances for impairment losses are collectively assessed	Impaired loans and advances for which allowances for impairment losses are individually assessed		
Gross balances of loans and advances	459,458,435	896,629	6,483,738	466,838,802	1.58
Less: Allowances for Impairment losses	(10,841,501)	(844,814)	(3,700,406)	(15,386,721)	
Net balances of loans and advances	448,616,934	51,815	2,783,332	451,452,081	

	2009			Total	Impaired loans and advances as a % of total loans and advances (%)
	Loans and advances for which allowances for impairment losses are collectively assessed	Impaired loans and advances for which allowances for impairment losses are collectively assessed	Impaired loans and advances for which allowances for impairment losses are individually assessed		
Gross balances of loans and advances	371,751,543	1,289,780	7,833,696	380,875,019	2.40
Less: Allowances for Impairment losses	(9,367,569)	(1,209,934)	(3,662,247)	(14,239,750)	
Net balances of loans and advances	362,383,974	79,846	4,171,449	366,635,269	

12 Loans and advances to customers (continued)

(4) Analysed by assessment method of allowances for impairment losses (continued)

The Bank assesses and provides for impairment allowances on loans and advances to customers in accordance with the accounting policy set out in Note 3(3)(e).

The amount of the allowance for impairment on impaired loans is measured as the difference between the loan's carrying amount and the present value of expected future cash flows discounted at its original effective interest rate. The source of repayment may include:

- (i) Cash flows generated by the business operation of the debtor;
- (ii) Cash flows generated by the business of the guarantor or other party making the repayment for the debtor;
- (iii) Cash inflow from an explicit refinancing plan of the debtor;
- (iv) Disposition of collateral and repossessed assets; Valuation of repossessed assets and collateral can be provided by appraisals by an international reputable valuer, an intermediate with similar qualification legitimately incorporated in PRC, by the Bank based on market price and the estimated realisable value. Evaluation of recoverable amount from disposal of repossessed assets and collateral takes into consideration of the conditions of the title, market price, the net book value of the collateral, depreciation, difficulties on disposal, disposal costs, etc; and
- (v) Sale of the loan in a secondary market.

The Bank assesses the collective impairment allowance on loans and advances to natural persons (including loans and advances to sole proprietors) and corporate loans and discounted bills classified as pass and special mention:

- For loans to natural persons, the Bank uses a flow rate methodology to assess impairment on a collective basis. This methodology utilises a statistical analysis of historical trends of probability of default and loss history.
- For loans to corporate loans classified as pass and special mention, the Bank classifies the loans into portfolios of similar credit risk characteristics. The collective impairment allowance is assessed after taking into account the following factors:
 - (i) the flow rate analysis utilises data from previous years;
 - (ii) an appropriate emergency period correlated to the similar credit risk characteristics of that loan portfolio, which shall not be less than 12 months; and
 - (iii) the Bank management's assessment of inherent loss of the loan portfolio that based on current domestic and global economic and credit environment, but not yet reflected in historical experience, including consideration of factors in the regulatory environment.

Financial Statements

12 Loans and advances to customers (continued)

(5) Movements of allowance for impairment losses

	2010			Total
	Allowances for impairment losses which are collectively assessed	Allowances for impaired loans and advances		
		which are collectively assessed	which are individually assessed	
Opening balance	(9,367,569)	(1,209,934)	(3,662,247)	(14,239,750)
Charge for the year	(1,473,932)	(153,172)	(1,894,671)	(3,521,775)
Release during the year	-	-	627,023	627,023
Unwinding of discount	-	-	237,616	237,616
Recoveries	-	(46,800)	(30,459)	(77,259)
Write-offs	-	565,092	1,022,332	1,587,424
Closing balance	(10,841,501)	(844,814)	(3,700,406)	(15,386,721)

	2009			Total
	Allowances for impairment losses which are collectively assessed	Allowances for impaired loans and advances		
		which are collectively assessed	which are individually assessed	
Opening balance	(8,575,918)	(1,037,835)	(3,746,516)	(13,360,269)
Charge for the year	(791,651)	(344,779)	(1,622,603)	(2,759,033)
Release during the year	-	-	1,297,611	1,297,611
Unwinding of discount	-	-	127,001	127,001
Recoveries	-	-	(102,476)	(102,476)
Write-offs	-	172,680	384,736	557,416
Closing balance	(9,367,569)	(1,209,934)	(3,662,247)	(14,239,750)

13 Available-for-sale financial assets

Debt securities investments, measured by fair value

Analysed by type of debt securities and geographical location

	2010	2009
<i>Unlisted</i>		
Issued by entities in mainland China		
- Government	2,137,211	1,580,001
- PBOC	6,645,057	19,060,111
- Policy banks	2,905,972	8,068,663
- Banks and non-bank financial institutions	3,385,967	10,952,557
- Corporate	2,959,260	452,703
Issued by entities outside mainland China		
- Central bank	-	25,646
- Banks and non-bank financial institutions	24,088	-
- Corporate	183,469	387,300
<i>Listed</i>		
Issued by entities outside mainland China		
- Corporate	182,114	159,255
Total debt securities investments (i)	18,423,138	40,686,236
Equity investments		
<i>Unlisted equity investments</i>		
- Measured by cost (ii)	91,539	91,545
- Measured by fair value	44,232	55,132
Total equity investments	135,771	146,677
Total	18,558,909	40,832,913

- (i) When impairment of an available-for-sale investment measured at fair value occurs, any impairment loss recognised is recorded in the carrying amount directly. As at 31 December 2010, the carrying amount of available-for-sale investments measured at fair value includes financial instruments which are individually assessed to be impaired amounting to RMB 22.02 million (2009: RMB 27.63 million), and impairment loss amounted to RMB 4.77 million was recognised in the profit and loss account (2009: Nil).
- (ii) Certain available-for-sale 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.

Financial Statements

14 Held-to-maturity investments

Analysed by type of debt securities and geographical location

	2010	2009
<i>Unlisted</i>		
Issued by entities in mainland China		
- Government	4,854,153	5,968,506
- PBOC bills	2,769,772	-
- Policy banks	11,392,338	13,441,289
- Banks and non-bank financial institutions	17,985,497	19,935,277
- Corporate	3,953,460	2,004,598
Issued by entities outside mainland China		
- Policy bank	40,962	42,962
Subtotal	40,996,182	41,392,632
<i>Listed</i>		
Issued by entities outside mainland China		
- Corporate	56,930	22,111
Total	41,053,112	41,414,743

15 Debt securities classified as receivables

Analysed by type of debt securities and geographical location

	2010	2009
<i>Unlisted</i>		
Issued by entities in mainland China		
- Government	2,532,230	2,379,136
- PBOC	-	2,999,964
- Non-bank financial institutions	49,996	-
Total	2,582,226	5,379,100

16 Equity investments in subsidiary

	2010	2009
Equity investments in unlisted subsidiary	4,100	4,100

A subsidiary is a company in which the Bank has the power, directly or indirectly, to control the financial and operating policies, so as to obtain benefits from their activities. As the financial position and operating results of the subsidiary do not have a significant impact on the financial statements of the Bank, they are not consolidated but are stated as long-term equity investments using the cost method and stated at cost less allowances for impairment losses at year-end in the Bank's statement of financial position.

The principal subsidiary of the Bank as at 31 December 2010 and 31 December 2009 are as follows:

Name of company	Enterprise code	Place of incorporation	Principal activities	Registered share capital	Closing balance of actual investment made by the Bank	Closing balance of substantial form of net investment	% of ownership directly and indirectly held by the Bank	% of direct and indirect voting right of the Bank
Guangdong Guangfa International Financial & Consulting Co., Ltd	61743591-X	China	Credit card and related advisory services	RMB 10,000,000	RMB 4,100,000	RMB 4,100,000	41%	41%

The financial information of the subsidiary at balance sheet date is as follows:

	2010	2009
Operating income	321,178	260,869
Net loss	(141)	(101)

Net carrying values of assets and liabilities are as follows:

	2010	2009
Total assets	8,316	7,587
Total liabilities	4,053	3,184
Total shareholders' equity	4,263	4,403

Financial Statements

17 Fixed assets

	Properties and buildings	Electronic equipment	Transportation and other equipment	Total
Costs:				
1 January 2010	3,522,520	1,890,548	433,177	5,846,245
Additions	88,673	428,037	89,940	606,650
Transfer-in from CIP (Note 18)	723,829	-	-	723,829
Transfer-in from repossessed assets (Note 21(i))	35,375	-	-	35,375
Disposals	(145,799)	(164,241)	(112,700)	(422,740)
31 December 2010	4,224,598	2,154,344	410,417	6,789,359
Less: Accumulated depreciation				
1 January 2010	(893,067)	(1,054,100)	(294,489)	(2,241,656)
Charge for the year	(110,186)	(233,811)	(44,433)	(388,430)
Disposals	50,697	141,310	105,185	297,192
31 December 2010	(952,556)	(1,146,601)	(233,737)	(2,332,894)
Less: Allowances for impairment				
1 January 2010	(303,498)	-	-	(303,498)
Charge for the year	(1,000)	-	-	(1,000)
Disposals	28,353	-	-	28,353
31 December 2010	(276,145)	-	-	(276,145)
Net carrying value:				
31 December 2010	2,995,897	1,007,743	176,680	4,180,320
31 December 2009	2,325,955	836,448	138,688	3,301,091

17 Fixed assets (continued)

	Properties and buildings	Electronic equipment	Transportation and other equipment	Total
Costs:				
1 January 2009	3,459,758	1,561,081	432,325	5,453,164
Additions	192,835	463,277	59,302	715,414
Transfer-in from CIP (Note 18)	50,547	-	-	50,547
Disposals	(180,620)	(133,810)	(58,450)	(372,880)
31 December 2009	3,522,520	1,890,548	433,177	5,846,245
Less: Accumulated depreciation				
1 January 2009	(859,501)	(1,010,089)	(297,623)	(2,167,213)
Charge for the year	(102,182)	(173,018)	(36,765)	(311,965)
Disposals	68,616	129,007	39,899	237,522
31 December 2009	(893,067)	(1,054,100)	(294,489)	(2,241,656)
Less: Allowances for impairment				
1 January 2009	(316,043)	-	-	(316,043)
Charge for the year	(12,437)	-	-	(12,437)
Disposals	24,982	-	-	24,982
31 December 2009	(303,498)	-	-	(303,498)
Net carrying value:				
31 December 2009	2,325,955	836,448	138,688	3,301,091
31 December 2008	2,284,214	550,992	134,702	2,969,908

- (i) As at 31 December 2010, the Bank was in the process of completing the ownership documentation of certain properties and buildings with a net carrying value of approximately RMB 841 million (2009: RMB 598 million). The management are of the opinion that the Bank is entitled to legally and effectively occupy or use the above-mentioned properties and buildings.
- (ii) As at 31 December 2010, the Bank assessed the recoverable amount of certain properties and buildings and construction in progress that are considered to be impaired. Based on the assessment, the value of such assets was reduced by RMB 276 million (2009: RMB 303 million). The estimated recoverable amounts were determined based on the fair values of the properties and buildings and construction in progress less disposal costs, with reference to the recent observable market prices for similar properties and buildings and construction in progress within the same area.
- (iii) As at 31 December 2010, the net carrying value of properties and buildings under operating lease amounted to RMB 251 million (2009: RMB 234 million).

Financial Statements

18 Construction in progress

	2010	2009
Cost:		
At 1 January 2010	814,928	55,576
Additions	151,142	810,744
Disposals	(500)	(845)
Transfer to fixed assets (Note 17)	(723,829)	(50,547)
At 31 December 2010	241,741	814,928
Less: Allowance for impairment		
At 1 January 2010	(500)	(673)
Charge for the year	-	(250)
Disposals	500	423
At 31 December 2010	-	(500)
Net carrying value:		
At 31 December 2010	241,741	814,428
At 31 December 2009	814,428	54,903

As at 31 December 2010, the Bank was in the process of completing the ownership documentation of certain construction in progress with a net carrying value of approximately RMB 192 million (2009: RMB 578 million). The management are of the opinion that the Bank is entitled to legally and effectively occupy or use the above-mentioned land use rights.

19 Intangible assets

	Land use rights	Software	Others	Total
Cost:				
1 January 2010	281,705	392,030	44,664	718,399
Additions	152,441	131,963	110	284,514
Disposals	(6,326)	(92)	(11,601)	(18,019)
31 December 2010	427,820	523,901	33,173	984,894
Less: Accumulated amortisation				
1 January 2010	(36,124)	(226,693)	(43,328)	(306,145)
Charge for the year	(11,238)	(66,397)	(418)	(78,053)
Disposals	578	48	10,725	11,351
31 December 2010	(46,784)	(293,042)	(33,021)	(372,847)
Less: Allowance for impairment				
1 January 2010	(6,481)	-	-	(6,481)
Charge for the year	-	-	-	-
Disposals	1,111	-	-	1,111
31 December 2010	(5,370)	-	-	(5,370)
Net carrying value:				
31 December 2010	375,666	230,859	152	606,677
31 December 2009	239,100	165,337	1,336	405,773

As at 31 December 2010, the Bank was in the process of completing the ownership documentation of certain land use rights with a net carrying value of approximately RMB 6.61 million (2009: RMB 7 million). The management are of the opinion that the Bank is entitled to legally and effectively occupy or use the above-mentioned land use rights.

Financial Statements

19 Intangible asset (continued)

	Land use rights	Software	Others	Total
Cost:				
1 January 2009	218,686	304,905	44,664	568,255
Additions	78,626	87,664	-	166,290
Disposals	(15,607)	(539)	-	(16,146)
31 December 2009	281,705	392,030	44,664	718,399
Less: Accumulated amortisation				
1 January 2009	(31,680)	(176,599)	(42,070)	(250,349)
Charge for the year	(8,272)	(50,921)	(1,258)	(60,451)
Disposals	3,828	827	-	4,655
31 December 2009	(36,124)	(226,693)	(43,328)	(306,145)
Less: Allowance for impairment				
1 January 2009	(6,930)	-	-	(6,930)
Charge for the year	(2,644)	-	-	(2,644)
Disposals	3,093	-	-	3,093
31 December 2009	(6,481)	-	-	(6,481)
Net carrying value:				
31 December 2009	239,100	165,337	1,336	405,773
31 December 2008	180,076	128,306	2,594	310,976

20 Deferred tax

(1) Analysed by nature

	2010	2009
Deferred tax assets	3,144,234	2,669,352
Deferred tax liabilities	-	(57,434)
Net balance	3,144,234	2,611,918

20 Deferred tax (continued)

(2) Movements of deferred tax

	2010			
	As at 1 January	Recognised in income statement	Recognised in equity	As at 31 December
Deferred tax asset				
- Allowances for impairment of loans and advances to customers	2,308,377	183,062	-	2,491,439
- Allowances for impairment of other assets	158,996	(51,750)	-	107,246
- Fair value change of investments and financial derivative instruments	(24,622)	45,784	77,680	98,842
- Provision for Litigation	14,410	13,716	-	28,126
- Deferred interest income of discounted bills	101,086	1,487	-	102,573
- Accrued salary	7,959	274,320	-	282,279
- Others	45,712	(11,983)	-	33,729
Net balance	2,611,918	454,636	77,680	3,144,234

	2009			
	As at 1 January	Recognised in income statement	Recognised in equity	As at 31 December
Deferred tax asset				
- Allowances for impairment of loans and advances to customers	2,584,003	(275,626)	-	2,308,377
- Allowances for impairment of other assets	68,514	90,482	-	158,996
- Fair value change of investments and financial derivative instruments	(92,048)	(24,321)	91,747	(24,622)
- Provision for litigation	18,772	(4,362)	-	14,410
- Deferred interest income of discounted bills	-	101,086	-	101,086
- Accrued salary	4,185	3,774	-	7,959
- Others	28,387	17,325	-	45,712
Net balance	2,611,813	(91,642)	91,747	2,611,918

Financial Statements

20 Deferred tax (continued)

(2) Movements of deferred tax (continued)

- (a) The above deferred tax assets represent the tax effect of the difference between accounting profit before tax and taxable income, which the management believes may bring future tax benefits to the Bank. In forming this view, the Bank's management considered the current tax legislation and actual situation, as well as prudent accounting principles.

Based on the above principles, the Bank recognises the difference between deferred tax assets at the balance sheet date of each accounting period and those at the prior balance sheet date in the current year income tax expenses.

- (b) As at 31 December 2010 and 31 December 2009, the Bank had no significant amount of deductible temporary differences or deductible tax losses. The Bank also had no unrecognised deferred tax liabilities arising from taxable temporary differences which were related to the Bank's investments in subsidiaries.

21 Other assets

	Note	2010	2009
Repossessed assets	(i)	262,079	295,520
Lease improvement		460,067	417,712
Receivables on transfer of non-performing assets	(ii)	4,629,014	6,548,469
Advances for wealth management products	(iii)	-	489,219
Prepaid rental		32,773	41,016
Prepayment for purchase of fixed assets		46,400	45,626
Unamortised issuing costs of subordinated bonds (Note 32(iv))		8,491	11,377
Suspense account for clearing	(iv)	2,796,645	480,871
Wealth management product receivables		12,309	108,690
Others		807,862	875,991
Total		9,055,640	9,314,491
Less: Allowances for impairment losses (Note 22)		(192,002)	(292,157)
Net balances		8,863,638	9,022,334

21 Other assets (continued)

(i) Repossessed assets

Analysed by type

	2010	2009
Land	17,263	20,764
Properties and buildings	230,448	268,294
Others	14,368	6,462
Gross balance	262,079	295,520
Less: Allowances for impairment losses	(45,098)	(26,430)
Net balance	216,981	269,090

Repossessed assets amounted to RMB 35.38 million was transferred to fixed asset during the year 2010 (2009: Nil). During the year, the Bank disposed repossessed assets amounted to RMB 9.17 million (2009: RMB 0.53 million).

The Bank intends to dispose of repossessed assets remaining on 31 December 2010 through various methods including auction, competitive bidding and transfer, etc.

(ii) Receivables on transfer of non-performing assets

Receivables on transfer of non-performing assets of RMB 10 billion will be settled by the refund of the Bank's income tax payments over a period of five years from 2007 to 2011. In 2006, the Office of Finance of Guangdong Province deposited a 5-year fixed term of RMB 6 billion with the Bank to serve as the security deposit of the receivables.

According to Notice on the Policy of Refund after Imposture for Guangdong Development Bank's Enterprise Income Tax, and Collective Tax Filing by Head Office [Caishui(2008)73] issued by the MOF and the State Administration of Taxation, the MOF and the Government of Guangdong Province ("GGP") set up a co-managing fund for the refundable income tax, and deposit the co-managing fund at a bank account in Guangdong Development Bank to collect and utilize this co-managing fund. The fund will be deposited for five years between 1 January 2007 and 31 December 2011. Before the maturity date of the fund, if the fund accumulates to RMB 10 billion, the policy on income tax refund will be ceased; if the fund does not accumulate to RMB 10 billion as a result of the Bank's operation, the difference between 10 billion and the fund will be paid by the GGP; if the fund does not accumulate to RMB 10 billion as a result of the adjustment on State's tax policy, the MOF and the GGP will propose alternative arrangement for approval by the State Council before implementation.

The Bank has received RMB 1.92 billion refund of 2009's income tax from the co-managing account in 2010 (2009: RMB 2.18 billion)

Financial Statements

21 Other assets (continued)

(iii) Advances for wealth management products

The advance payments of RMB 0.49 billion for the wealth management products outstanding as at 31 December 2009 has been fully recovered during the year. The corresponding allowance for impairment loss amounted to RMB 0.14 billion was written back.

(iv) Suspense account for clearing

Suspense account for clearing includes import bills pending for settlement amounted to RMB 2.48 billion (2009: RMB 0.41 billion).

22 Movements of allowances for impairment losses

	Note	2010					As at 31 December
		As at 1 January	Charge for the year	Write back for the year	Unwinding of discount	Write-offs	
Placements with banks and non-bank financial institutions	6	(1,000)	-	-	-	-	(1,000)
Loans and advances to customers	12	(14,239,750)	(3,521,775)	627,023	237,616	1,510,165	(15,386,721)
Property and equipment	17	(303,498)	(1,000)	-	-	28,353	(276,145)
Construction in progress	18	(500)	-	-	-	500	-
Intangible assets	19	(6,481)	-	-	-	1,111	(5,370)
Other assets and repossessed assets	21	(292,157)	(71,027)	163,761	-	7,421	(192,002)
Total		(14,843,386)	(3,593,802)	790,784	237,616	1,547,550	(15,861,238)

	Note	2009					As at 31 December
		As at 1 January	Charge for the year	Write back for the year	Unwinding of discount	Write-offs	
Placements with banks and non-bank financial institutions	6	(10,685)	-	-	-	9,685	(1,000)
Loans and advances to customers	12	(13,360,269)	(2,759,033)	1,297,611	127,001	454,940	(14,239,750)
Property and equipment	17	(316,043)	(12,437)	-	-	24,982	(303,498)
Construction in progress	18	(673)	(250)	-	-	423	(500)
Intangible assets	19	(6,930)	(2,644)	-	-	3,093	(6,481)
Other assets and repossessed assets	21	(317,498)	(25,306)	36,939	-	13,708	(292,157)
Total		(14,012,098)	(2,799,670)	1,334,550	127,001	506,831	(14,843,386)

23 Deposits from banks and non-bank financial institutions

Analysed by type of financial institutions and geographical location

	2010	2009
Banks operating in mainland China	31,336,002	28,230,244
Non-bank financial institutions operating in mainland China	24,203,434	22,589,404
Total	55,539,436	50,819,648

24 Placements from banks and non-bank financial institutions

Analysed by type of financial institutions and geographical location

	2010	2009
Banks operating in mainland China	12,744,330	2,575,589
Non-bank financial institutions operating in mainland China	-	1,000
Subtotal	12,744,330	2,576,589
Banks operating in overseas	1,194,284	-
Total	13,938,614	2,576,589

25 Financial liabilities designated at fair value through profit or loss

	2010	2009
Structured deposits	237,778	-

Financial Statements

26 Financial assets sold under repurchase agreements

Analysed by pledged security held

	2010	2009
Debt securities		
- Government bonds	1,650,374	153,000
- PBOC bills	5,507,920	1,500,000
- Policy banks bonds	7,692,000	3,699,500
- Corporate bonds	196,000	-
- Commercial banks bonds	7,355,100	4,394,000
Bills	31,746,031	23,027,370
Total	54,147,425	32,773,870

Analysed by counterparties

	2010	2009
Banks	50,484,701	29,520,390
Non-bank financial institutions	3,662,724	3,253,480
Total	54,147,425	32,773,870

27 Deposits from customers

	2010	2009
Demand deposits		
- Corporate customers	213,021,322	191,902,126
- Personal customers	45,363,681	34,456,605
	258,385,003	226,358,731
Time deposits (include notice deposits)		
- Corporate customers	199,051,466	170,483,565
- Personal customers	62,433,903	54,980,640
	261,485,369	225,464,205
Structured deposits	560,150	-
Pledged deposits (i)	93,490,710	80,335,702
Fiscal deposits	14,084,095	11,171,425
Outward and inward remittance	852,585	560,336
Total	628,857,912	543,890,399

27 Deposits from customers (continued)

	2010	2009
(i) Pledged deposits for		
- Acceptances	77,959,812	62,384,288
- Guarantee	2,063,835	3,222,064
- Letters of credit	2,156,699	1,596,840
- Others	11,310,364	13,132,510
	93,490,710	80,335,702

28 Accrued staff costs

	2010			
	As at 1 January	Accrued during the year	Payments made	As at 31 December
Salaries, bonuses and allowances	935,549	3,152,517	(2,923,090)	1,164,976
Basic retirement insurance and annuity	161,690	331,601	(491,732)	1,559
Social insurance and welfare	3,744	267,163	(268,129)	2,778
Housing fund	484	257,719	(252,757)	5,446
Labour union expenses and employee education expenses	13,629	113,108	(110,615)	16,122
Early retirement benefits	102,554	(6,133)	(21,126)	75,295
Staff termination costs	-	885	(885)	-
Outsourcing expenses	51,283	738,632	(723,805)	66,110
Total	1,268,933	4,855,492	(4,792,139)	1,332,286

	2009			
	As at 1 January	Accrued during the year	Payments made	As at 31 December
Salaries, bonuses and allowances	801,343	2,482,559	(2,348,353)	935,549
Basic retirement insurance and annuity	383	288,734	(127,427)	161,690
Social insurance and welfare	23,971	363,582	(383,809)	3,744
Housing fund	19,073	209,242	(227,831)	484
Labour union expenses and employee education expenses	37,090	65,443	(88,904)	13,629
Early retirement benefits	113,764	9,615	(20,825)	102,554
Staff termination costs	-	2,343	(2,343)	-
Outsourcing expenses	57,959	518,533	(525,209)	51,283
Total	1,053,583	3,940,051	(3,724,701)	1,268,933

Financial Statements

28 Accrued staff costs (continued)

(i) Social insurance

Social insurance includes basic retirement insurance, basic medical insurance, childbirth insurance, work injury insurance, unemployment insurance and housing fund. Pursuant to the relevant city and provincial laws and regulations in the PRC governing labour and social security, the bank pay the required insurances on behalf of the employees. The bank is required to make contributions based on defined ratios of the salaries, bonuses and certain allowances of the employees to the statutory retirement plan under the administration of the government.

(ii) Annuity scheme

In addition to the basic retirement insurance, the bank has set up an annuity scheme for those qualified employees. The annuity is managed by China Life Pension Company Limited. The bank has made annuity contributions at no more than 8% of its qualified employee's total salaries. In 2010, the bank made annuity contribution amounted to RMB 151 million (2009: RMB 147 million).

29 Taxes payable

	2010	2009
Income tax	1,677,411	644,522
Business tax and surcharges	580,030	468,479
Housing property tax	61,804	49,159
Others	50,930	20,361
Total	2,370,175	1,182,521

30 Interest payable

Analysed by type of financial liabilities

	2010	2009
Deposits from customers	4,332,571	3,640,996
Deposits from banks and non-bank financial institutions	199,433	179,799
Subordinated bonds issued	98,563	104,254
Placements from banks and non-bank financial institutions	50,094	432
Financial assets sold under repurchase agreements	70,803	2,313
Others	5,745	2,161
Total	4,757,209	3,929,955

31 Provisions

Movement of provisions for litigation

	2010	2009
Opening balance	45,632	47,059
Charge for the year	49,169	8,891
Release during the year	(4,620)	(979)
Payments made during the year	(5,927)	(9,339)
Closing balance	84,254	45,632

As at 31 December 2010, the Bank was the defendant in certain pending litigations, with gross claims of RMB 288 million (2009: RMB 190 million). Based on the opinions of the Bank's internal and external lawyers, provision has been made for the estimated losses of these litigations and disputes. Management of the Bank are of the view that the provision made is reasonable and adequate.

32 Subordinated bonds

	2010	2009
Subordinated fixed interest rate bonds (Note (i))	4,300,000	4,300,000
Subordinated floating interest rate bonds (Note (ii))	700,000	700,000
Total	5,000,000	5,000,000

- (i) The Bank issued 10-year subordinated fixed interest rate bonds with face value of RMB 1.6 billion on 25 July 2008. The coupon interest rate per annum is 6.3%. The Bank has an option to redeem the bonds at the end of the fifth year. If the Bank does not exercise the option of redemption, the interest rate of the bonds will increase to 9.3% per annum from the sixth year for the next five years till maturity. The Bank issued 10-year subordinated fixed interest rate bonds with face value of RMB 2.7 billion on 23 September 2008. The coupon interest rate per annum is 5.85%. The Bank has an option to redeem the bonds at the end of the fifth year. If the Bank does not exercise the option of redemption, the interest rate of the bonds will increase to 8.85% per annum from the sixth year for the next five years till maturity.
- (ii) The Bank issued 10-year subordinated floating interest rate bonds with face value RMB 0.7 billion on 25 July 2008. The coupon interest rate per annum is the one-year fixed deposit rate set by the PBOC on the annual interest re-set date, plus an interest margin of 2%. The Bank has an option to redeem the bonds at the end of the fifth year. If the Bank does not exercise the option of redemption, the interest margin of the bonds will increase by 3% per annum from the sixth year for the next five years till maturity.
- (iii) The bank does not issue any subordinated bonds during 2010 and 2009.
- (iv) The issuing costs of the subordinated bonds amounted to RMB 15 million. The unamortised balance of RMB 8.49 million as at 31 December 2010 (2009: RMB 11.38 million) is recorded in other assets (Note 21).

Financial Statements

33 Other liabilities

	2010	2009
Deferred interest income on discounted bills	410,290	404,343
Accrued expenses	465,872	254,166
Payables arising from the transferred non-performing assets (i)	20,341	116,549
Dormant accounts of deposits from customers	141,560	138,113
Inward Remittance	6,464	58,597
Payables for purchase of fixed assets	260,135	293,488
Payables for fund subscription	7,608	2,256
Loan repayments pending settlement	12,875	14,887
Payable to wealth management product	12,309	108,690
Deferred commission income	201,566	140,993
Suspense account for clearing (ii)	2,973,552	662,406
Dividend payable	27,576	38,757
Others	417,317	501,394
Total	4,957,465	2,734,639

- (i) According to the non-performing assets transfer agreement with GFIHL, the risk and rewards associated with the non-performing assets were transferred to GFIHL after the transfer reference date. As at 31 December 2010, the amounts collected on behalf of GFIHL that have not yet been paid to GFIHL and recognised in other liabilities amounted to RMB 20 million (2009: RMB 117 million).
- (ii) Suspense account for clearing includes import bills pending for settlement amounted to RMB 2.74 billion (2009: RMB 0.41 billion).

34 Share capital

	No. of share	Amount '000
Registered and paid-in share capital (Ordinary shares with par value RMB 1 each)		
At 1 January 2010	11,978,844	11,978,844
Shares issued	3,423,553	3,423,553
At 31 December 2009	15,402,397	15,402,397
At 1 January 2009	11,408,423	11,408,423
Transferred from retained profits	570,421	570,421
At 31 December 2009	11,978,844	11,978,844

34 Share capital (continued)

According to the resolution “2010 Shares issue Proposal” passed by the Board of Directors meeting and Shareholders meeting on 23 March 2010 and 8 April 2010 respectively, the Bank issued additional 3.424 billion ordinary shares capital with par value RMB 1 each. At the same time, the Board of Directors meeting and Shareholders meeting also passed the “Resolution of Increasing registered capital and revising related terms in the Bank’s Article of Association”, which approved the Bank to change its registered capital.

Guangzhou Tongyi Certified Public Accountants have verified the share capital increase, and issued related capital verification report on 30 July 2010, numbered 020201007008675. The paid-in capital of RMB 15,402,397,264 was verified. The China Banking Regulatory Commission has approved the proposal of increase of share capital on 5 July 2010.

35 Capital Reserve

The capital reserve consists of shares premium and investment revaluation reserve. Shares premium was the amount arising from the issue of shares at prices in excess of their par value. Investment revaluation reserve has been accounted for in accordance with the accounting policies adopted for the measurement of the available-for-sale financial assets at fair value, net of deferred tax.

	2010	2009
Investment revaluation reserve	236,378	694,524
Shares premium	11,550,819	-
Total	11,787,197	694,524

Movement of capital reserve

	Share premium	Investment revaluation reserve	Total
At 1 January 2010	-	694,524	694,524
- Other comprehensive income	-	(458,146)	(458,146)
- Shares issued for existed shareholders	11,550,819	-	11,550,819
At 31 December 2010	11,550,819	236,378	11,787,197

	Share premium	Investment revaluation reserve	Total
At 1 January 2009	-	1,208,504	1,208,504
- Other comprehensive income	-	(513,980)	(513,980)
At 31 December 2009	-	694,524	694,524

Financial Statements

36 Surplus reserve

Statutory surplus reserve

The Bank is required to appropriate 10% of its net profit, as determined under the China Accounting Standards for Business Enterprises (2006) and other relevant regulations issued by the MOF, to the statutory surplus reserve until the balance reaches 50% of the registered capital. After making the appropriation to the statutory surplus reserve, the Bank may also appropriate its net profit to the discretionary surplus reserve upon approval by shareholders in a general meeting.

Subject to the approval of shareholders, statutory surplus reserves may be used to make good prior year losses, if any, and may be converted into capital, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital.

Discretionary surplus reserve

After making the appropriation to the statutory surplus reserve, the Bank may also appropriate its net profit to the discretionary surplus reserve upon approval by shareholders in a general meeting. Subject to the approval of shareholders, discretionary surplus reserves may be used to make good prior year losses, if any, and may be converted into capital.

37 Statutory general reserve

Pursuant to relevant regulations issued by MOF, the Bank is required to set aside a general reserve through appropriations of profit after tax according to a certain provision ratio of the ending balance of gross risk-bearing assets to cover potential losses at the end of the year. In principle, the general reserve balance should not be lower than 1% of the ending balance of gross risk-bearing.

38 Appropriation of profits and retained earnings at the end of the year

(1) Appropriation to surplus reserve

Surplus reserve consists of statutory surplus reserve and discretionary surplus reserve.

The Bank appropriates 10% of 2010 net profit, which amounted to RMB 619 million (2009: RMB 339 million) to the statutory surplus reserve until the balance reaches 50% of the registered capital. After making the appropriation to the statutory surplus reserve, the Bank may also appropriate its net profit to the discretionary surplus reserve upon approval by shareholders in a general meeting.

Subject to the approval of shareholders, statutory and discretionary surplus reserves may be used to make good prior year losses, if any, and may be converted into capital, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital.

(2) Dividends of ordinary shares declared during the year

No cash dividend was declared to the Company's ordinary shareholders (2009: RMB 278 million).

38 Appropriation of profits and retained earnings at the end of the year (continued)

(3) Appropriation to statutory general reserve

Pursuant to a notice, Cai Jin [2005] No.49, issued by the MOF on 17 May 2005 and which became effective on 1 July 2005, banks and certain non-bank financial institutions (including the Bank) in mainland China are required to set aside a statutory general reserve (in addition to allowances for impairment) to cover potential losses against their assets. The statutory general reserve is in principle not less than 1% of the aggregate amount of risk-bearing assets, before allowances for impairment, at the balance sheet date. The statutory general reserve forms part of the equity of the financial institution, and transfers to it are made through appropriations of profit after tax.

The MOF issued another notice, Cai Jin [2005] No. 90 on 5 September 2005. This notice requires financial institutions to set aside the statutory general reserve within a transitional period of approximately three years, but not more than five years, from 1 July 2005.

The Bank had fulfilled the requirement in accordance with the above notices and appropriated to the statutory general reserve equivalent to 1% of aggregate amount of risk-bearing assets, before allowances for impairment, at 31 December 2010, which amounted to RMB 1,522 million (2009: RMB 938 million).

39 Net interest income

	2010	2009
Interest income arising from		
Deposits with central banks	1,231,452	879,284
Deposits with banks and non-bank financial institutions	380,820	62,702
Placements with banks and non-bank financial institutions	179,124	333,455
Financial assets held for trading	62,921	72,945
Financial assets held under resale agreement	2,782,609	944,311
Loans and advances to customers		
- Corporate loans and advances	18,077,938	12,344,909
- Personal loans and advances	5,444,196	3,545,821
- Discounted bills	416,168	2,227,817
Investment securities (ii)	2,337,016	2,757,912
Total interest income	30,912,244	23,169,156
Interest expense arising from		
Deposits from banks and non-bank financial institutions	(1,449,471)	(1,463,650)
Placements from banks and non-bank financial institutions	(187,905)	(134,697)
Financial assets sold under repurchase agreement	(1,308,763)	(351,717)
Deposits from customers	(8,318,088)	(7,816,922)
Subordinated bond issued	(285,695)	(304,444)
Total interest expense	(11,549,922)	(10,071,430)
Net interest income	19,362,322	13,097,726

Financial Statements

39 Net interest income (continued)

(i) Interest income from impaired financial assets is listed as follows:

	2010	2009
Interest income arising from impaired loans and advances	268,122	314,236
Interest income arising from impaired available for sale financial assets	3,974	5,376

(ii) Investment securities represent interest income from debt securities which are not at fair value through profit or loss. Investment securities include securities classified as held-to-maturity investments, available-for-sale financial assets and debt securities classified as receivables. The interest income from investment securities is mainly derived from unlisted debt securities.

40 Net fee and commission income

	2010	2009
Fee and commission income:		
Bank card fees	1,827,948	1,337,228
Agency service fees	225,182	231,432
Remittance and settlement fees	534,216	389,685
Others	356,312	262,023
Total	2,943,658	2,220,368
Fee and commission expense:		
Credit card transaction fees	(375,934)	(266,177)
Remittance and settlement fees	(96,162)	(98,448)
Agency expenses	(21,394)	(11,442)
Others	(83,867)	(97,951)
Total	(577,357)	(474,018)
Net fee and commission income	2,366,301	1,746,350

41 Investment (loss) / income

	2010	2009
Net gain and loss on trade of debt securities		
- Trading debt investments	(45,802)	45,511
- Available-for-sale securities investments	20,963	2,531
Dividend income	5,314	2,966
Total	(19,525)	51,008

42 Loss arising from changes in fair value

	2010	2009
Financial instruments designated at fair value through profit or loss		
- Financial assets	10,948	-
- Financial liabilities	(10,948)	-
Trading financial instruments	(11,898)	(65,211)
Derivative financial instruments	(116,140)	24,342
Total	(128,038)	(40,869)

43 Operating and administrative expenses

	2010	2009
Staff costs		
- Salaries, bonuses, allowances and subsidies (i)	3,152,517	2,482,559
- Defined contribution retirement schemes	331,601	288,734
- Other social insurance and welfare	267,163	363,582
- Housing funds	257,719	209,242
- Union running costs and employee education costs	113,108	65,443
- Early retirement benefits	(6,133)	9,615
- Compensation to employees for termination of employment relationship	885	2,343
- Outsourcing expenses	738,632	518,533
	4,855,492	3,940,051
Premises and equipment expenses		
- Depreciation charges	388,430	311,965
- Rent and property management expenses	655,249	544,656
- Maintenance	531,177	430,255
	1,574,856	1,286,876
Amortisation expenses	217,591	211,119
Others	2,411,719	1,888,259
Total	9,059,658	7,326,305

- (i) The amount includes the aggregate of accrued emoluments for Directors, Supervisors and Senior Management for the year ended 31 December 2010, which amounted to RMB 21 million (2009: RMB 25 million). None of the Directors, Supervisors and Senior Management received any inducements, or compensation for loss of office, or waived any emoluments during the years ended 31 December 2010 and 31 December 2009.

Financial Statements

44 Allowances for asset impairment

	2010	2009
Loans and advances to customers	2,894,752	1,461,422
Available-for-sales investment securities	4,765	-
Fixed assets	1,000	12,437
Construction in progress	-	250
Intangible assets	-	2,644
Repossessed assets	20,532	7,012
Other assets	(113,266)	(18,645)
Total	2,807,783	1,465,120

45 Non-operating income

	2010	2009
Release of litigation provision	4,620	979
Gain on disposal of intangible assets	4,000	19,551
Gain on disposal of fixed assets	85,320	54,416
Gain on disposal of repossessed assets	1,768	3,015
Write back of long-term payables	76,251	25,543
Others	91,515	62,299
Total	263,474	165,803

46 Non-operating expenses

	2010	2009
Charge of litigation provision	49,169	8,891
Loss on disposal of fixed assets	8,875	9,358
Loss on disposal of repossessed assets	1,123	297
Others	90,765	156,792
Total	149,932	175,338

47 Income tax expense

	2010	2009
Income tax for the year		
- Mainland China	2,865,697	1,532,382
- Macau, PRC	3,842	407
Sub-total	2,869,539	1,532,789
Deferred tax (Note 20)	(454,636)	91,642
Income tax expense	2,414,903	1,624,431

Reconciliation between income tax expense and income tax calculated at statutory tax rate:

	2010	2009
Profit before tax	8,603,517	5,011,562
Expected income tax expense at statutory tax rate of 25% (2009: 25%)	2,150,879	1,252,891
Non-deductible expenses (i)	381,438	299,374
Income tax adjustment for non-taxable income (ii)	(83,989)	(65,501)
Effect of different tax rate applicable to profit of particular location of operation (iii)	(12,504)	(8,897)
Non-recognised tax deductions in the prior years	(6,691)	(33,984)
Others	(14,230)	180,548
Income tax expense	2,414,903	1,624,431

- (i) The amount for 2010 primarily represents staff cost in excess of the statutory deductible threshold, non-deductible entertainment expenses and assets impairment loss not approved by Tax Bureau.
- (ii) These amounts primarily represent interest income from China government bonds.
- (iii) According to tax legislations and detailed rules of implementation in the relevant operating location, income taxes on profits generated in different locations are payable at different tax rates and tax basis. The income tax rate for Shenzhen Special Economic Zone is 22% for the year (2009: 20%).

Financial Statements

48 Other comprehensive income

	2010	2009
Changes in fair value of available-for-sale financial assets:		
- Fair value changes recognized in other comprehensive income	(312,423)	(388,332)
- Amortisation arising from reclassification to held-to-maturity	(184,139)	(216,387)
- Transfer to profit and loss on disposal	(39,264)	(1,008)
Subtotal	(535,826)	(605,727)
Income tax relating to components of other comprehensive income	77,680	91,747
Foreign currency translation differences	(13,274)	(6,469)
Total	(471,420)	(520,449)

49 Notes to the cash flow statement

(1) Reconciliation of net profit and cash flow from operating activities:

	2010	2009
Net profit	6,188,614	3,387,131
Add: Provision for asset impairment losses	2,807,783	1,465,120
Unwinding of discount on impairment allowance for impaired loans	(237,616)	(127,001)
Depreciation of fixed assets and amortisation of intangible assets and long-term deferred expenses	606,021	523,084
Net gain on disposal of fixed assets and other long-term assets	(80,445)	(64,609)
Interest income from debt securities	(2,399,937)	(2,830,857)
Investment loss / (income)	19,525	(51,008)
Net loss on fair value movement	128,038	40,869
Net gain arising from foreign currency dealing	(111,963)	(9,640)
Interest expenses on issued subordinated bonds	285,695	304,444
Net (increase) /decrease of deferred tax asset	(454,636)	91,642
Increase in operating receivables	(119,734,917)	(77,152,796)
Increase in operating payables	127,848,903	117,721,570
Net cash flow from operating activities	14,865,065	43,297,949

49 Notes to the cash flow statement (continued)

(2) Net increase in cash and cash equivalents:

	2010	2009
Cash balance at the end of the year	3,257,877	2,282,017
Less: Cash balance at the beginning of the year	(2,282,017)	(2,249,273)
Add: Cash equivalents at the end of the year	133,745,193	76,550,009
Less: Cash equivalents at the beginning of the year	(76,550,009)	(40,144,725)
Net increase in cash and cash equivalents	58,171,044	36,438,028

(3) Analysis of cash and cash equivalents

	2010	2009
Cash	3,257,877	2,282,017
Surplus deposit reserve with central banks	22,335,481	16,997,018
With original maturity with or within 3 months:		
- Deposits with banks and non-bank financial institutions	9,280,111	4,410,331
- Placements with banks and non-bank financial institutions	14,372,010	7,132,101
- Financial assets under resale agreements	87,757,591	48,010,559
Total	137,003,070	78,832,026

50 Commitments and contingent liabilities

(1) Credit commitments

Credit commitments take the form of approved loans with signed contracts and credit card limits. The contractual amounts of loans and credit card commitments represent the amounts should the contracts be fully drawn upon. As credit limit provided by the Bank can be withdrawn, the Bank does not expose to the credit risk from credit limit of facilities without being drawn upon, which is not included in the credit commitment.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. The Bank assesses and makes allowance for any probable losses on credit commitment periodically. The amounts of guarantees and letters of credit represent the maximum potential loss that would be recognised if counterparties failed completely to perform as contracted. Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from the customers.

Financial Statements

50 Commitments and contingent liabilities (continued)

(1) Credit commitments (continued)

As the facilities may expire without being drawn upon, the total of the contractual amounts set out in the following table is not representative of expected future cash outflows.

	2010	2009
Loan commitments (with an original maturity of one year or over)	9,154,865	8,708,725
Credit card unused overdraft limit	42,406,215	29,130,743
Sub-total	51,561,080	37,839,468
Bank acceptances	173,722,721	126,199,257
Letters of credit	12,688,480	9,741,993
Financing guarantees	711,267	1,061,036
Non-financing guarantees	8,972,462	4,420,360
Sub-total	196,094,930	141,422,646
Total contract value	247,656,010	179,262,114

(2) Capital commitments

The Bank had the following authorised capital commitments for purchasing fixed assets and intangible assets, and making leasehold improvements at the balance sheet date:

	2010	2009
Contracted for	211,786	155,560
Authorised but not contracted for	865,249	423,147
Total	1,077,035	578,707

(3) Operating lease commitments

The Bank leases certain properties, vehicles and electronic equipment under operating lease, which typically run for an initial period of one to five years and may include an option to renew the lease when all terms are renegotiated. At the balance sheet date, the Bank's future minimum lease payments under non-cancellable operating leases for properties, vehicles and electronic equipment were as follows:

	2010	2009
Within one year	549,523	466,164
After one year but within two years	470,315	395,660
After two years but within three years	400,598	336,927
After three years but within five years	531,923	472,254
After five years	626,454	537,671
Total	2,578,813	2,208,676

50 Commitments and contingent liabilities (continued)

(4) Litigations and disputes

Note 31 sets out the gross amount of claims on the Bank and the related to litigation provision at the balance sheet date, arising from litigations whereby the Bank acted as defendants.

(5) Securities Redemption obligations

As an underwriting agent of PRC government bonds, the Bank has the responsibility to buy back those bonds should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded in the markets at the redemption date.

The redemption obligations below represent the nominal value of PRC government bonds underwritten and sold by the Bank but not yet matured at the balance sheet date:

	2010	2009
Redemption obligations	4,930,278	5,538,119

(6) Provision against contingent liabilities

The Bank has assessed and made provision for any probable outflow of economic benefits in relation to the above commitments and contingent liabilities in accordance with their accounting policies (Note 3(12)).

51 Pledged assets

(1) Assets pledged as security

Certain assets of the Bank have been pledged as security for the repurchase agreements (Note 26). As at 31 December 2010, the book value of the repurchase agreements amounted to RMB 54.1 billion (2009: RMB 32.8 billion). All repurchased agreements are matured within 12 months from the date of transaction. The carrying value of the pledged assets is as follow:

(a) Carrying value of pledged assets analysed by asset type

	2010	2009
Government bonds	1,650,374	153,000
PBOC bills	5,507,920	1,500,000
Debt securities issued by policy banks	7,692,000	3,699,500
Corporate bonds	196,000	-
Debt securities issued by financial institutions	7,355,100	4,394,000
Discounted bills	31,746,031	23,027,370
Total	54,147,425	32,773,870

Financial Statements

51 Pledged assets (continued)

(1) Assets pledged as security (continued)

(b) Carrying value of pledged assets analysed by balance sheet classification

	2010	2009
Available-for-sale financial assets	15,045,767	3,699,500
Held-to-maturity investments	7,355,627	6,047,000
Loans and advances to customers	31,746,031	23,027,370
Total	54,147,425	32,773,870

These transactions are conducted under usual and customary terms of placements.

(2) Collateral accepted as securities for assets

The Bank conducts resale agreements under usual and customary terms of placements, and holds collateral for these transactions. For the carrying amount of the financial assets held under resale agreements, please see Note 10. As at 31 December 2010, the Bank holds collaterals for resale agreements which it was permitted to sell or repledge in the absence of default for the transactions, its fair value amounted to RMB 112.8 billion (2009: RMB 58.6 billion). The Bank is obligated to return the collaterals on the promissory resale date. As at 31 December 2010, bills with carrying amount of RMB 31.7 billion (2009: RMB 22 billion) is pledged as securities under repurchase agreements. The Bank has the obligation to return the bills on maturity.

52 Entrusted loan business

The Bank provides entrusted lending business services to government agencies and corporations. All entrusted loans are made under the instruction or at the direction of these entities and are funded by entrusted funds from them. Income related to these services is included in the income statement as fee income.

Entrust assets and the corresponding liabilities are not assets and liabilities of the Bank and are not recognised in the balance sheet. However, if the amount of the entrusted loan funds is greater than that of the entrusted loans, the relevant surplus funding is accounted for as deposits from customers.

At the balance sheet date, the entrusted assets and liabilities were as follows:

	2010	2009
Entrusted loans	20,708,002	15,387,922
Entrusted loan funds	(20,708,002)	(15,387,922)

53 Operating segments

The Bank has presented the operating segments in a manner consistent with the way in which information is reported internally to the Bank's chief operating decision maker for the purposes of resource allocation and performance assessment.

Measurement of segment assets and liabilities and segment income and results is based on the Bank's accounting policies.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income / expense". Interest income and expense earned from third parties are referred to as "external net interest income / expense".

Segment revenues, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, results, assets, and liabilities are determined before intra-Bank balances and intra-Bank transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the period to acquire fixed assets, intangible assets and other long-term assets.

Geographical segment

The Bank operates principally in Mainland China. Except for the Head Office, it has 29 branches in Beijing, Shanghai, Dalian, Shenyang, Zhengzhou, Nanjing, Hangzhou, Kunming, Guangzhou, Shenzhen, Dongguan, Zhuhai, Shantou, Meizhou, Huizhou, Shaoguan, Qingyuan, Zhongshan, Foshan, Jiangmen, Zhaoqing, Yangjiang, Zhanjiang, Wuhan, Maoming, Heyuan, Changsha, Tianjin and Macau respectively. In addition, the Bank has representative offices in Beijing and Hong Kong.

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branches and subsidiaries that generate in the income. Segment assets and capital expenditure are allocated based on the geographical location of the underlying assets.

Operating segments of the Bank, as defined for management reporting purposes, are defined as follows:

- "Yangtze River Delta" refers to the following areas serviced by branches of the Bank: Shanghai Municipality, Jiangsu Province and Zhejiang Province;
- "Pearl River Delta" refers to the following areas serviced by the branches of the Bank: Guangdong Province;
- "Bohai Rim" refers to the following areas serviced by branches of the Bank: Beijing Municipality, Tianjin Municipality, Liaoning Province and Heilongjiang Province;
- "Central and Western" region refers to the following areas serviced by branches of the Bank: Henan Province, Hubei Province, Hunan Province, and Yunnan Province;
- Head Office; and
- Overseas.

Financial Statements

53 Operating segments (continued)

Geographical segment (continued)

	2010						Total
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central and Western	Head Office	Overseas	
External net interest income	3,607,411	3,737,342	2,926,173	2,317,584	6,702,980	70,832	19,362,322
Internal net interest income / (expense)	732,750	2,279,608	358,890	310,973	(3,696,570)	14,349	-
Net interest income	4,340,161	6,016,950	3,285,063	2,628,557	3,006,410	85,181	19,362,322
Net fee and commission income	237,730	375,318	125,967	178,360	1,437,768	11,158	2,366,301
Investment loss	-	-	-	-	(17,403)	(2,122)	(19,525)
(Loss) / gain arising from changes in fair value	1,570	3,598	1,040	1,111	(135,357)	-	(128,038)
Foreign exchange gain	47,650	163,840	77,257	12,888	33,188	10,765	345,588
Other operating income	15	25,660	1,648	2,400	985	511	31,219
Operating income	4,627,126	6,585,366	3,490,975	2,823,316	4,325,591	105,493	21,957,867
Business taxes and surcharges	(405,004)	(426,044)	(277,175)	(206,062)	(278,843)	-	(1,593,128)
Operating and administrative expenses	(1,532,435)	(2,891,976)	(1,285,001)	(904,812)	(2,396,770)	(48,664)	(9,059,658)
Allowances for asset impairment	(187,675)	(92,090)	(62,510)	(7,192)	(2,434,227)	(24,089)	(2,807,783)
Other operating cost	(6)	(5,787)	-	(351)	(1,179)	-	(7,323)
Operating expenses	(2,125,120)	(3,415,897)	(1,624,686)	(1,118,417)	(5,111,019)	(72,753)	(13,467,892)
Operating profit	2,502,006	3,169,469	1,866,289	1,704,899	(785,428)	32,740	8,489,975
Add: Non-operating income	9,792	134,867	2,464	25,750	90,415	186	263,474
Less: Non-operating expenses	(23,687)	(53,240)	(17,314)	(6,357)	(49,111)	(223)	(149,932)
Gross profit	2,488,111	3,251,096	1,851,439	1,724,292	(744,124)	32,703	8,603,517
Capital expenditure	214,313	269,731	87,988	92,977	557,711	2,136	1,224,856
Depreciation and amortisation	62,163	220,188	89,309	39,414	191,812	3,135	606,021

53 Operating segments (continued)

Geographical segment (continued)

	2009						
	Yangtze	Pearl	Bohai Rim	Central	Head Office	Overseas	Total
	River Delta	River Delta		and Western			
External net interest income	2,144,195	2,315,759	1,003,561	1,453,435	6,148,526	32,250	13,097,726
Internal net interest income / (expense)	1,109,414	1,826,608	855,337	313,394	(4,108,578)	3,825	-
Net interest income	3,253,609	4,142,367	1,858,898	1,766,829	2,039,948	36,075	13,097,726
Net fee and commission income	224,963	257,279	102,883	112,750	1,038,625	9,850	1,746,350
Investment income	-	-	-	-	49,284	1,724	51,008
(Loss) / gain arising from changes in fair value	1,224	(374)	628	(101)	(42,246)	-	(40,869)
Foreign exchange gain / (loss)	38,542	129,042	56,089	10,175	(644)	2,040	235,244
Other operating income	1,430	20,329	2,449	396	301	351	25,256
Operating income	3,519,768	4,548,643	2,020,947	1,890,049	3,085,268	50,040	15,114,715
Business taxes and surcharges	(312,385)	(310,385)	(181,646)	(151,457)	(324,024)	-	(1,279,897)
Operating and administrative expenses	(1,258,691)	(2,601,778)	(1,045,270)	(732,846)	(1,649,768)	(37,952)	(7,326,305)
Allowances for asset impairment	(382,519)	1,094,156	335,870	74,392	(2,587,019)	-	(1,465,120)
Other operating cost	(482)	(442)	(9,260)	(209)	(530)	(11,373)	(22,296)
Operating expenses	(1,954,077)	(1,818,449)	(900,306)	(810,120)	(4,561,341)	(49,325)	(10,093,618)
Operating profit	1,565,691	2,730,194	1,120,641	1,079,929	(1,476,073)	715	5,021,097
Add: Non-operating income	3,765	134,352	3,021	1,447	19,103	4,115	165,803
Less: Non-operating expenses	(15,233)	(62,396)	(25,464)	(5,522)	(66,596)	(127)	(175,338)
Gross profit	1,554,223	2,802,150	1,098,198	1,075,854	(1,523,566)	4,703	5,011,562
Capital expenditure	323,752	654,436	198,205	213,056	15,717	496,240	1,901,406
Depreciation and amortisation	51,950	216,177	71,877	39,413	143,382	285	523,084

Financial Statements

53 Operating segments (continued)

Geographical segment (continued)

	2010						Total
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central and Western	Head Office	Overseas	
Segment assets	194,252,500	266,124,222	145,172,326	101,941,666	332,168,497	5,773,860	1,045,433,071
Elimination							(231,043,049)
Total assets							814,390,022
Segment liabilities	(189,627,271)	(260,937,703)	(141,986,580)	(98,476,227)	(306,298,246)	(5,225,447)	(1,002,551,474)
Elimination							231,043,049
Total liabilities							(771,508,425)

	2009						Total
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central and Western	Head Office	Overseas	
Segment assets	172,171,339	215,132,447	118,934,697	87,460,136	279,667,131	3,869,798	877,235,548
Elimination							(210,748,924)
Total assets							666,486,624
Segment liabilities	(168,905,327)	(209,909,973)	(116,563,940)	(84,686,129)	(271,241,608)	(3,738,540)	(855,045,517)
Elimination							210,748,924
Total liabilities							(644,296,593)

54 Risk management

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- market risk
- liquidity risk
- operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

54 Risk management (continued)

Risk management framework

The board of directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The board of directors has established the Risk Management and Related Party Transaction Management Committee, which is responsible for supervision on work of the Bank's senior management personnel in managing credit risk, market risk and operational risk; conducting periodic assessments of risk management of the Bank and risk tolerance; reviewing the Bank's internal control system, and providing their opinions in relation to further improvements to the risk management and internal control; evaluating working procedure and impression of internal audit department; reviewing the financial report and disclosure of accounting information; reviewing material related party transactions; managing related party transactions and risk control.

To identify, evaluate, monitor and manage risk, the Bank has designed a comprehensive governance framework, internal control policies and procedures. The Chief Risk Officer is responsible for the Bank's overall risk management. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and standardised and procedural management, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank defined the responsibilities of internal departments for monitoring financial risks as follow: the Risk Management Department ("the RMD") and Credit Approval Department ("the CAD") responsible for monitoring credit risk, the Market Risk Departments are responsible for monitoring market risk; the RMD and Finance Department is responsible for liquidity risk of the Bank. The board of directors authorised to set up the Risk Management Committee under the management, to enhance monitoring on market risk. The Head Office has established the Internal Control and Compliance Committee of Head Office to coordinate with all departments to manage operational risk, in connection with this the Legal and Compliance Department taking the role as leading department. The RMD of the Head Office is ultimately responsible for building a comprehensive risk management framework, summarising and reporting the result of credit risk, market risk and operational risk assessment of the Bank to Chief Risk Officer directly.

54 Risk management (continued)

(1) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor to meet its obligation or commitment to the Bank. It arises primarily from the Bank's credit asset portfolios.

The Bank classifies the loans into five categories based on their credit risk, which are pass, special mention, substandard, doubtful and loss, and loans in the substandard, doubtful and loss categories are considered as NPLs. The definitions of these five categories are as follows:

Pass:	The debtors can honour their obligations under the loan contract. There is no reason to doubt their ability to repay the principal and interest in full on a timely basis.
Special mention:	The debtors are able to service their loans currently. However there are adverse factors by which repayment may be adversely affected.
Substandard:	The debtors' abilities to service their loans are in question, and they are unable to repay the principal and interest in full with the operating income generated from the normal course of business. Losses may incur even when the guarantees are invoked.
Doubtful:	The debtors cannot repay the principal and interest in full and significant losses will incur even when the guarantees are invoked.
Loss:	Only a small portion of or none of the principal and interest can be recovered even after taking all possible measures and exhausting all legal remedies.

To classify the categories of loans, the following factors will generally be considered:

- Basic information, including usage of loans, sources of repayment, turnover of assets, and records of repayment;
- Repayment ability of debtor, including cash flow of debtors and financial position analysis;
- Guarantee for loans; and
- Other non-financial factors affecting the possibility of repayment, such as willing of debtor's repayment, legislation of loan repayment and conditioning of credit management.

To classify loans as NPLs, the following factors will generally be considered:

- Misappropriation of the source of planned repayment of the loan; delay to repay the principle amount and loan interests; fail to repay restructured loan; fail to repay the judgement debt or significant default in repayment of loan interests; no significant improvement of repayment conditions;
- The debtor experiences significant financial difficulties, such as material cash flow problems; significant difficulties in liquidity, operation and acquiring new capital; the debtor's normal income from its business is lower than prospective prediction; the financial position deteriorated or in a deteriorating trend, substantial decline in repayment ability; debt continues to grow, and can not be repaid on schedule;

54 Risk management (continued)

(1) Credit risk (continued)

- The debtor has to repay from realising pledge or collateral due to the normal income from debtor's business is impossible to repay the principle and interest of loan; the debtor is unable to repay the principal or interest and other related costs after realised pledges, loss might incur even when the guarantee invoked; the guarantor is unable to repay the loans; collateral procedure might incur a legal dispute, which results in large losses; and
- Internal management problem of debtor is not resolved or involved in economic dispute litigations; corporation representative or management have been prosecuted, arrested, or wanted by police which may cause losses of the business; the debtor is unable to repay judgement debt and impede the repayment on time; the debtor deceives loans through inappropriate approaches such as hiding the facts; the debtor fails to repay loans or reach an agreement with the Bank during the courses of, merger, separation, contracting, leasing, restructuring to joint-venture.

Concentration of credit risk: when a certain number of customers conduct the same operating activities, or are situated in the same geographical location or their industries have similar economic characteristics, their ability to honour their contracts would be influenced by the same economic change. Concentration of credit risk reflects the sensitivity of the Bank's results to a specific industry or geographical location. In 2010, the Bank establishes the target of credit assets limit management by industrial and credit limits regarding to the principle of credit assets portfolio management. The principal place of business of the Bank is the PRC. However, as the PRC is with a vast territory, the level of economic development differs among regions (e.g. some regions are designated by the central government as special economic zones to attract investment). As a result, the risks among regions differ.

To identify, evaluate, monitor and manage credit risk, the Bank designs reporting structure, credit policies and processes required for effective credit risk management and implements systematic control procedures. As approved by the Board of Directors, the Bank optimises its credit approval process, in which both management and control of credit risks are reinforced while function and responsibilities of credit approval section are further specified. Chief Risk Officer is responsible for all the operations regarding the Bank's risk management, and also leading the Credit Approval Committee to formulate the credit policies, management framework and marketing strategies from time to time, to analyse the development of lending businesses and the level of risk management, and to approve loans with amounts not exceeding the authorised limit in accordance with relevant rules, regulations and monetary policies in the PRC and the Bank's business strategy. To mitigate risk, the Bank may obtain collaterals and guarantees from customers where appropriate.

With respect to daily operations, the CMD is responsible for the management of risk controls of the overall credit policies, operation and management of credit businesses, establishment of credit system and authorisation to subordinated units. Being a standing body of the Head Office's Credit Policy Committee, the Credit Review Department reviews and approves various credit businesses applied, reported to and filed within authority granted by the Bank.

54 Risk management (continued)

(1) Credit risk (continued)

With respect to the credit risk management of corporate and institutional business, the Bank refines the industry-specific guideline and credit policy baseline for credit approval, improving policies of credit client acceptance and decline, and optimizing its economic capital management and credit risk limit management, which leading to the improvement in asset quality. The Bank manages credit risk throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring.

With respect to the personal credit business, the Bank relies on credit assessment of applicants as the basis for loan approval. Assessment on the income level, credit history, and repayment ability of the applicant is required. The Bank monitors borrowers' repayment ability, the status of collateral and any changes to collateral's status and value. Once a loan becomes overdue, the Bank starts the recovery process according to standard personal loan recovery procedures.

To mitigate risks, where appropriate, the Bank requests customers to provide collateral and guarantees. It also sets guidelines as to the use and suitability of specific types of collateral. Collateral structures and legal covenants are regularly reviewed to ensure that they still serve their intended purposes and conform to market practices.

In respect of the loan portfolio, the Bank adopts a risk based loan classification methodology. The Bank classifies the loans into five categories, with more detailed classification on performing loans. The loans and advances for which objective evidence of impairment exists based on a loss event or several events and which bear significant impairment losses are classified as impaired loans and advances. The allowances for impairment losses for the impaired loans and advances are assessed collectively or individually as appropriate.

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans.

54 Risk management (continued)

(1) Credit risk (continued)

(a) Maximum exposure

Maximum exposure to credit risk at the balance sheet date without taking consideration of any collateral held or other credit enhancements is represented by the carrying amount of each financial assets in the balance sheet after deducting any impairment allowance. A summary of the maximum exposure is as follows:

	2010	2009
Deposits with central banks	103,524,626	80,308,299
Deposits with banks and non-bank financial institutions	21,804,665	10,458,671
Placements with banks and non-bank financial institutions	14,372,263	8,818,421
Trading financial assets	1,478,034	1,564,846
Financial assets designated at fair value through profit or loss	237,778	-
Derivative assets held for trading	200,111	104,787
Financial assets held under resale agreements	136,597,172	90,113,168
Interest receivable	2,230,458	2,414,746
Loans and advances to customers	451,452,081	366,635,269
Available-for-sale debt securities	18,423,138	40,686,236
Held-to-maturity investments	41,053,112	41,414,743
Debt securities classified as receivables	2,582,226	5,379,100
Others	7,704,406	7,992,173
Sub-total	801,660,070	655,890,459
Loan commitments and other credit related commitments	51,561,080	37,839,468
Financial guarantees and other credit related contingent liabilities	196,094,930	141,422,646
Sub-total	247,656,010	179,262,114
Maximum exposure to credit risk	1,049,316,080	835,152,573

Financial Statements

54 Risk management (continued)

(1) Credit risk (continued)

(b) Analysis of loans and advances by credit quality

	2010							
	Impaired loans and advances for which allowances for impairment losses are individually assessed	Impaired loans and advances for which allowances for impairment losses are collectively assessed	Overdue but not impaired				Not overdue and not impaired	Total
			Less than 90 days	90-180 days	180 days -1 year	Over 1 year		
Gross balances	6,483,973	896,394	3,436,943	40,000	19,702	-	455,961,790	466,838,802
Less: Allowances for impairment losses	(3,700,406)	(844,814)	(307,278)	(3,576)	(1,761)	-	(10,528,886)	(15,386,721)
Net balances	2,783,567	51,580	3,129,665	36,424	17,941	-	445,432,904	451,452,081

	2009							
	Impaired loans and advances for which allowances for impairment losses are individually assessed	Impaired loans and advances for which allowances for impairment losses are collectively assessed	Overdue but not impaired				Not overdue and not impaired	Total
			Less than 90 days	90-180 days	180 days -1 year	Over 1 year		
Gross balances	7,833,696	1,289,780	3,611,127	121,663	64,263	-	367,954,490	380,875,019
Less: Allowances for impairment losses	(3,662,247)	(1,209,934)	(224,239)	(7,272)	(3,699)	-	(9,132,359)	(14,239,750)
Net balances	4,171,449	79,846	3,386,888	114,391	60,564	-	358,822,131	366,635,269

The fair values of collaterals for impaired corporate loans, and overdue but not impaired corporate loans at the balance sheet date are as follows:

54 Risk management (continued)

(1) Credit risk (continued)

Fair values of collaterals for impaired corporate loans as at balance sheet date:

	2010	2009
Land, properties and buildings	1,081,171	2,128,955
Other assets	1,052,906	1,024,440
Total	2,134,077	3,153,395

Fair values of collaterals for overdue but not impaired corporate loans as at balance sheet date:

	2010	2009
Land, properties and buildings	220,338	890,310
Other assets	179,799	77,938
Total	400,137	968,248

(c) Analysis of loans and advances by business sector

	2010			2009		
	Gross balance	%	Collateralised loans as a % of gross loan balances	Gross balance	%	Collateralised loans as a % of gross loan balances
Corporate loans						
- Manufacturing	102,204,752	21.89	33	80,624,208	21.17	32
- Wholesale and retail	72,074,964	15.44	32	53,220,534	13.97	32
- Energy and raw materials	59,739,286	12.80	13	49,539,478	13.01	15
- Transportation	27,208,162	5.83	9	19,048,232	5.00	7
- Property	46,474,257	9.96	74	27,687,751	7.27	65
- Tourism and service sector	18,772,046	4.02	25	14,730,888	3.87	16
- Construction and installation	16,372,177	3.51	30	12,466,043	3.27	28
- Securities and investment management	2,738,143	0.59	14	5,952,307	1.56	3
- Postal and telecommunication services	2,424,474	0.52	31	2,993,118	0.79	34
- Others	9,025,878	1.92	15	15,528,389	4.08	29
Total corporate loans	357,034,139	76.48	32	281,790,948	73.99	29
Total personal loans	105,649,299	22.63	67	71,530,758	18.78	74
Sub-total	462,683,438	99.11	40	353,321,706	92.77	38
Discounted bills	4,155,364	0.89	-	27,553,313	7.23	-
Gross balances of loans and advances	466,838,802	100.00	40	380,875,019	100.00	35
Less: Allowances for impairment	(15,386,721)			(14,239,750)		
Net balances of loans and advances	451,452,081			366,635,269		

Financial Statements

54 Risk management (continued)

(1) Credit risk (continued)

(d) Analysis by geographical sector

	2010			2009		
	Gross balance	%	Collateralised loans as a % of gross loan balances	Gross balance	%	Collateralised loans as a % of gross loan balances
Guangzhou	69,214,998	14.83	24	51,954,157	13.64	25
Beijing	60,903,985	13.05	30	50,197,958	13.18	22
Hangzhou	51,818,075	11.10	45	44,708,246	11.74	39
Nanjing	41,829,330	8.96	34	36,399,393	9.56	33
Zhengzhou	32,189,252	6.90	28	28,617,608	7.51	25
Shanghai	31,506,060	6.75	39	28,098,897	7.38	35
Dongguan	22,615,434	4.84	56	19,946,702	5.24	59
Shenzhen	19,069,914	4.08	56	17,026,068	4.47	49
Foshan	21,279,832	4.56	42	16,735,900	4.39	32
Shenyang	19,738,395	4.23	48	15,091,100	3.96	44
Kunming	17,449,968	3.74	24	14,603,072	3.83	21
Others	79,223,559	16.96	57	57,495,918	15.10	48
Gross balances of loans and advances	466,838,802	100.00	40	380,875,019	100.00	35
Less: Allowances for impairment	(15,386,721)			(14,239,750)		
Net balances of loans and advances	451,452,081			366,635,269		

54 Risk management (continued)

(1) Credit risk (continued)

(e) Analysis of deposits with banks and financial institutions, money market placements, and balance under resale agreements by credit quality

	2010					Total
	Impaired assets for which allowances for impairment losses are individually assessed	Not overdue and not impaired			Balances under resale agreements	
		Money market placements	Deposits with banks and financial institutions	Money market placements		
Gross balances	1,000	21,804,665	14,372,263	136,597,172	172,775,100	
Less: Allowance for impairment losses	(1,000)	-	-	-	(1,000)	
Net balances	-	21,804,665	14,372,263	136,597,172	172,774,100	

	2009					Total
	Impaired assets for which allowances for impairment losses are individually assessed	Not overdue and not impaired			Balances under resale agreements	
		Money market placements	Deposits with banks and financial institutions	Money market placements		
Gross balances	1,000	10,458,671	8,818,421	90,113,168	109,391,260	
Less: Allowance for impairment losses	(1,000)	-	-	-	(1,000)	
Net balances	-	10,458,671	8,818,421	90,113,168	109,390,260	

Financial Statements

54 Risk management (continued)

(1) Credit risk (continued)

(f) Analysis of debt securities investment by credit quality

At the balance sheet date, the credit quality of debt investments analysed by designation of external credit assessment institution, Standard & Poors, is as follows:

	2010	2009
Individually assessed and impaired gross amount	66,227	68,282
Allowances for impairment losses	(44,203)	(40,657)
Book value Sub-total	22,024	27,625
Not overdue and not impaired		
- AAA	58,170,473	87,307,889
- AA- to AA+	650,787	694,219
- A- to A+	4,369,784	655,518
- lower than A-	31,862	18,250
	63,222,906	88,675,876
Unrated	291,580	341,424
Total	63,536,510	89,044,925

(2) Market risk

Market risk is the risk of potential loss for the Bank arising from adverse movements of market price (such as interest rates, foreign exchange rates, commodity price, stock price and other price). The market risk of the Bank primarily arises from interest risk of various assets and liabilities related business and products with the Bank's participation in market activities.

The Bank has established a market risk management system framework according to the "Commercial Bank Market Risk Management Guidance" issued by the CBRC. With the approval of the Board of Directors, the Bank has established Risk Management Committee and Related Parties Transaction Committee to lead the market risk management of the Bank. The Bank nominates a Chief Risk Officer to establish, periodically review and monitor policies, procedures and detailed operational regulations of credit management and evaluate comprehensive market risk management. The department of market risk management is responsible for managing and monitoring market risk, and reporting to senior management and Risk Management Committee independently.

54 Risk management (continued)

(2) Market risk (continued)

The Bank's risk control methods includes, to identify, measure and monitor market risk through a long period of monitoring, exposure analysis, sensitivity analysis, and scenario analysis; to set up market risk limiting system in trading department, which mainly consists of interest sensitivity indicators, and to monitor the usage status of market risk limits. By performing deliberation procedures on new products and complicated transactional business, the Bank will ensure that market risks of new business will be identified and assessed as early as possible. The Bank executed the pressure test for market risk in accordance with CBRC's requirements under prudent condition. The Bank has applied new asset-liability management information system in order to manage the items on the assets and liabilities, including bank accounts and trading accounts.

(a) Interest rate risk management

Interest rate risk is the likelihood of loss that may arise from movements in market interest rate. The Bank predicts interest rate risk exposure by studying future interest rate movements with various macro economic indicators, and predicts future funding movements and trends within the Bank by referring to the Bank's funding costs, capital adequacy ratios, growth of loans and deposits and other factors, so as to study the interest rate risk appetite of the Bank.

The Bank mainly manages interest rate risks with asset portfolio. Asset portfolio aims at diversifying risks and improves profitability with diversification of assets.

At present the RMB interest rate risk mainly represents risk arising from interest rate policy fluctuations and interest sensitive assets and liabilities mismatch. Interest rate risk control focuses on treasury business. The Bank's main RMB interest rate risk management are:

- (i) Interest rate trend expectation. The Bank closely reviews the interest rate policies to identify the interest rate risks in order to justify interest rate risk limit and the control of risk exposure;
- (ii) Constraint of investment trade by risk benchmark. This is followed by regular reassessment;
- (iii) Modification of investment portfolio and financing structure on the market expectation;
- (iv) Establishment of authorisation limit on RMB deposit and loan interest rate system; and
- (v) Establishment of assets and liabilities management and internal transfer pricing system and control interest rate risk exposure by various financial tools. In the respect of foreign currency, the funding rate has been basically market oriented, with various tools of interest rate risk management.

Financial Statements

54 Risk management (continued)

(2) Market risk (continued)

(a) Interest rate risk management (continued)

The interest rate risk management of the Bank mainly includes:

- (i) Interest rate risk measurement. Currently, the Bank has realized the precise measurement of interest rate risk for Head Office treasury and investment. The independent middle process of market risk management has commenced timely monitoring on open interest rate risk. The interest rate risk management system for deposit and loans accounts, i.e. Asset-Liability Management System is in already used.
- (ii) Ascertaining the interest rate risk quota, i.e. adopting the appropriate open interest rate according to the transaction development and affordability of the Bank; and
- (iii) The judgment of staffs that are responsible for operation on the trend of interest rate of international major currencies is reflected in Head Office's treasury and investment portfolio. The long term foreign currency loan balance of the Bank is small. The increased foreign currency loan business mainly consists of trade finance, and the terms do not exceed 1 year, which is nearly equivalent with the period of foreign currency capital.

The Bank uses sensitivity analysis to measure the potential effect of changes in interest rates on the Bank's net profit and equity. The following table sets forth the results of the Bank's interest rate sensitivity analysis on the assets and liabilities with an assumption that all other variables held constant.

	Sensitivity of net profit		Sensitivity of equity	
	2010	2009	2010	2009
Change in basis points				
+100 basis points	(263,650)	(287,894)	(169,541)	(142,644)
- 100 basis points	263,650	287,894	169,541	142,644

This sensitivity analysis is based on a static interest rate risk profile of assets and liabilities. The analysis measures only the impact of changes in the interest rates within a year, as reflected by the repricing of the Bank's assets and liabilities within a year, on annualised net profit and equity. The analysis is based on the following assumptions:

- (i) All assets and liabilities that reprice are due within one year reprice or are due at the beginning of the respective periods;
- (ii) There is a parallel shift in the yield curve and in interest rates; and
- (iii) There are no other changes to the portfolio.

54 Risk management (continued)

(2) Market risk (continued)

(a) Interest rate risk management (continued)

Actual changes in the Bank's net interest income resulting from increase or decrease in interest rates may differ from the results of this sensitivity analysis.

The sensitivity of the net profit is the effect of the assumed changes in interest rates on the net interest income, based on the financial assets and financial liabilities held at year end subject to re-pricing within the coming year and the fair value change on fixed income trading securities.

The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at year end for the effects of the assumed changes in interest rates.

The interest rate sensitivities set out in the tables above are for illustration only and are based on simplified scenarios. The figures represent the effect of the pro forma movements in net profit and equity based on the projected yield curve scenarios and the Bank's current interest rate risk profile. This effect, however, does not incorporate actions that would be taken by management to mitigate the impact of this interest rate risk. The projections above also assume that interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on net profit and equity of some rates changing while others remain unchanged.

The following tables indicate the effective interest rates for the respective year, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities as at the end of the reporting period.

	2010						Total
	(i) Effective interest rate	Non-interest bearing	Within 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	
Assets							
Cash and balances with central banks	1.46%	3,760,242	103,022,261	-	-	-	106,782,503
Amounts due from banks and financial institutions	1.94%	-	35,291,874	885,054	-	-	36,176,928
Financial assets held under resale agreements	2.96%	-	133,905,362	2,637,210	54,600	-	136,597,172
Loans and advances to customers	5.52%	-	188,022,253	263,429,828	-	-	451,452,081
Investments	3.15%	139,870	10,430,487	26,798,161	17,824,262	8,483,601	63,676,381
Others	N/A	12,354,779	2,354,504	4,995,674	-	-	19,704,957
Total assets		16,254,891	473,026,741	298,745,927	17,878,862	8,483,601	814,390,022

Financial Statements

54 Risk management (continued)

(2) Market risk (continued)

(a) Interest rate risk management (continued)

	2010						Total
	(i) Effective interest rate	Non-interest bearing	Within 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	
Liabilities							
Amounts due to banks and financial institutions	2.45%	-	(49,920,052)	(8,557,998)	(11,000,000)	-	(69,478,050)
Financial assets sold under repurchase agreements	2.76%	-	(52,418,883)	(1,728,542)	-	-	(54,147,425)
Deposits of customers	1.47%	(852,585)	(429,357,195)	(149,079,396)	(44,462,414)	(5,106,322)	(628,857,912)
Subordinated bonds	5.84%	-	-	(700,000)	(4,300,000)	-	(5,000,000)
Others	N/A	(11,051,725)	(2,590,285)	(383,028)	-	-	(14,025,038)
Total liabilities		(11,904,310)	(534,286,415)	(160,448,964)	(59,762,414)	(5,106,322)	(771,508,425)
Liquidity gap		4,350,581	(61,259,674)	138,296,963	(41,883,552)	3,377,279	42,881,597

	2009						Total
	(i) Effective interest rate	Non-interest bearing	Within 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	
Assets							
Cash and balances with central banks	1.45%	2,621,638	79,968,678	-	-	-	82,590,316
Amounts due from banks and financial institutions	1.79%	-	16,450,712	2,758,098	68,282	-	19,277,092
Financial assets held under resale agreements	1.77%	-	60,600,148	29,513,020	-	-	90,113,168
Loans and advances to customers	5.21%	-	138,934,270	227,689,972	11,027	-	366,635,269
Investments	2.99%	150,777	15,630,707	35,985,699	33,826,037	3,602,482	89,195,702
Others	N/A	11,715,098	196,779	214,728	6,548,472	-	18,675,077
Total assets		14,487,513	311,781,294	296,161,517	40,453,818	3,602,482	666,486,624

54 Risk management (continued)

(2) Market risk (continued)

(a) Interest rate risk management (continued)

	2009						Total
	(i) Effective interest rate	Non-interest bearing	Within 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	
Liabilities							
Amounts due to banks and financial institutions	2.36%	-	(41,596,237)	-	(11,800,000)	-	(53,396,237)
Financial assets sold under repurchase agreements	1.23%	-	(24,227,713)	(8,546,157)	-	-	(32,773,870)
Deposits of customers	1.66%	(560,336)	(330,068,276)	(150,276,241)	(59,239,300)	(3,746,246)	(543,890,399)
Subordinated bonds	6.11%	-	-	(700,000)	(4,300,000)	-	(5,000,000)
Others	N/A	(8,719,026)	(302,336)	(214,725)	-	-	(9,236,087)
Total liabilities		(9,279,362)	(396,194,562)	(159,737,123)	(75,339,300)	(3,746,246)	(644,296,593)
Liquidity gap		5,208,151	(84,413,268)	136,424,394	(34,885,482)	(143,764)	22,190,031

(i) Effective interest rate represents the ratio of interest income / expense to average interest bearing assets / liabilities.

(b) Foreign exchange risk

The Bank's reporting currency is the Renminbi. Some transactions involve the U.S. dollar and Hong Kong dollar and few of other currency transactions. The Bank's currency risk comprises exposures that arise from foreign currency portfolio originated from daily treasury business and loan and advance to customer, balance from financial institutions, investment and deposits from customers.

The currency risks of the trading book include the risks arising from foreign currency transactions on behalf of the customers and the corresponding squared transactions, as well as proprietary short term foreign exchange transactions. The Bank manages the currency risk mainly by imposing quota on the transaction (including the quota on the exposure and stop loss). The Bank evaluates the currency risk with quarterly pressure test. The retail foreign exchange businesses are operated on an automated trading system. The Bank can monitor the exposure timely. The treatment of transactions and risk management system in the Head office of the Bank are able to measure and monitor the currency position created by various transactions timely. Besides, the Bank manages its currency risk through matching the spot and forward transaction in foreign currency of financial assets and paired liabilities, and manages its foreign currency assets liabilities portfolio and structured position with using derivative appropriately such as FX swap contracts and FX interest rate swap.

Financial Statements

54 Risk management (continued)

(2) Market risk (continued)

(b) Foreign exchange risk (continued)

The Bank uses sensitivity analysis to measure the potential effect of changes in foreign currency exchange rates on the Bank's net profit and loss and equity. The following table sets forth, as at balance sheet date, the results of the Bank's exchange rates sensitivity analysis on the assets and liabilities at the same date with an assumption that all other variables held constant.

	Sensitivity of net profit		Sensitivity of equity	
	2010	2009	2010	2009
Change in foreign currency exchange rate				
Appreciation against RMB by 1%	15,383	18,800	4,456	4,419
Depreciation against RMB by 1%	(15,383)	(18,800)	(4,456)	(4,419)

The analysis is based on the following assumptions:

- (i) the foreign exchange sensitivity is the gain and loss recognised as a result of 100 basis points fluctuation in the foreign currency exchange rates against RMB at the reporting date;
- (ii) the exchange rates against RMB for all foreign currencies change in the same direction simultaneously; and
- (iii) the foreign exchange exposures calculated include both spot foreign exchange exposures, forward foreign exchange exposures and options.

The sensitivity analysis on net profit illustrates the potential impact of an appreciation of RMB against other foreign currencies based on the net foreign exchange exposure and the fair value change on RMB foreign exchange derivative.

The effects on equity are based on the exchange differences of off-shore financial statement booked by foreign currency convert to RMB and the exchange differences of non-monetary available-for-sale equity convert to RMB.

Sensitivity analysis is based on the static structure of exchange rate of assets and liabilities as above, but it is not taken into account that the Bank might adopt strategies of eliminating negative effects on profits from foreign currency position. Therefore, the estimation of above may be different with the actual situation.

54 Risk management (continued)

(2) Market risk (continued)

(b) Foreign exchange risk (continued)

The Bank's currency exposure at the balance sheet date was as follows:

	2010				Total
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	
Assets					
Cash and balances with central banks	105,358,524	1,060,863	175,728	187,388	106,782,503
Amounts due from banks and financial institutions	30,376,103	3,884,605	746,886	1,169,334	36,176,928
Financial assets held under resale agreements	136,597,172	-	-	-	136,597,172
Loans and advances to customers	438,042,623	10,376,491	2,101,196	931,771	451,452,081
Investments	62,927,822	748,559	-	-	63,676,381
Others	17,002,033	2,628,109	12,449	62,366	19,704,957
Total assets	790,304,277	18,698,627	3,036,259	2,350,859	814,390,022
Liabilities					
Amounts due to banks and financial institutions	(64,793,090)	(4,180,134)	(504,820)	(6)	(69,478,050)
Financial assets sold under repurchase agreements	(54,147,425)	-	-	-	(54,147,425)
Deposits from customers	(608,009,360)	(17,679,109)	(2,293,279)	(876,164)	(628,857,912)
Subordinated bonds	(5,000,000)	-	-	-	(5,000,000)
Others	(11,057,381)	(2,830,115)	(45,163)	(92,379)	(14,025,038)
Total liabilities	(743,007,256)	(24,689,358)	(2,843,262)	(968,549)	(771,508,425)
Net position of assets / (liabilities)	47,297,021	(5,990,731)	192,997	1,382,310	42,881,597
Notional amount of exchange rate derivatives					
Forward purchase	6,603,419	13,935,553	1,419,130	1,292,403	23,250,505
Forward sale	(13,151,130)	(8,022,219)	(216,343)	(1,934,386)	(23,324,078)
	(6,547,711)	5,913,334	1,202,787	(641,983)	(73,573)

Financial Statements

54 Risk management (continued)

(2) Market risk (continued)

(b) Foreign exchange risk (continued)

The Bank's currency exposure at the balance sheet date was as follows:

	2009				Total
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	
Assets					
Cash and balances with central banks	81,851,783	457,103	167,088	114,342	82,590,316
Amounts due from banks and financial institutions	12,925,225	3,945,101	1,531,296	875,470	19,277,092
Financial assets held under resale agreements	90,113,168	-	-	-	90,113,168
Loans and advances to customers	357,117,868	6,855,881	2,198,020	463,500	366,635,269
Investments	88,254,925	915,131	-	25,646	89,195,702
Others	18,046,534	475,329	12,164	141,050	18,675,077
Total assets	648,309,503	12,648,545	3,908,568	1,620,008	666,486,624
Liabilities					
Amounts due to banks and financial institutions	(52,357,483)	(634,296)	(404,458)	-	(53,396,237)
Financial assets sold under repurchase agreements	(32,773,870)	-	-	-	(32,773,870)
Deposits from customers	(528,502,086)	(9,880,215)	(4,151,402)	(1,356,696)	(543,890,399)
Subordinated bonds	(5,000,000)	-	-	-	(5,000,000)
Others	(8,432,673)	(466,283)	(154,182)	(182,949)	(9,236,087)
Total liabilities	(627,066,112)	(10,980,794)	(4,710,042)	(1,539,645)	(644,296,593)
Net position of assets / (liabilities)	21,243,391	1,667,751	(801,474)	80,363	22,190,031
Notional amount of exchange rate derivatives					
Forward purchase	3,158,643	4,897,292	1,126,539	716,745	9,899,219
Forward sale	(4,591,019)	(4,047,676)	(392,955)	(837,794)	(9,869,444)
	(1,432,376)	849,616	733,584	(121,049)	29,775

(3) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulties with reasonable cost in meeting demands associated with its due payables, new granted loans and reasonable financing that can be settled by financial assets.

54 Risk management (continued)

(3) Liquidity risk (continued)

The Bank carries out the juridical person management principle on liquidity risk management. The Head Office supervises the liquidity risk of the whole bank, and the management is carried out from top to down and on a hierarchy management sequence. At the Head Office level, liquidity is managed and coordinated by the Assets and Liabilities Management Committee. The Assets and Liabilities Management Committee is responsible for formulation of liquidity policies in accordance with the regulatory requirements and monthly supervision of the liquidity risk ratio. The Finance department monitoring the liquidity according to the specified policies and liquidity risk ratio monthly. In order to ensure the liquidity of the Bank, the Treasury Department is responsible for day to day executing the liquidity management through reasonable assets and liabilities matching and inter-bank market placement. The Risk Management Department is responsible for managing then Bank's liquidity as a whole.

The liquidity policies for the Bank include: projecting the fund inflow and outflows according to the market to maintain adequacy of the fund; supervising the liquidity ratio such as the proportion of fund and the changed structure of cash and other interest generating assets to fulfil the need of future liquidity requirement; establishing the multi-layer liquidity barrier; establishing sound foundation of liability business, increasing the proportion of core deposit to maintain the good financing ability; building sound credit risk management; establishing the liquidity risk warning system and emergency plan; execute periodic pressure test of liquidity risk to identify the indicators which might bring up liquidity risk.

(a) Maturity analysis

The following tables provide an analysis of the assets and liabilities of the Bank based on the remaining periods to repayment at the balance sheet date:

	2010								Total
	Undated	Overdue/ repayable on demand	Within 1 month	After	After	After	More than 5 years		
				1 month but within 3 months	3 months but within 1 year	1 year but within 5 years			
Assets:									
Cash and deposits with central bank	81,189,145	25,593,358	-	-	-	-	-	-	106,782,503
Due from banks and financial institutions	-	2,724,111	27,528,263	5,039,500	885,054	-	-	-	36,176,928
Financial assets held under resale agreements	-	-	96,356,349	37,549,013	2,637,210	54,600	-	-	136,597,172
Loans and advances to customer (i)	1,737,526	30,887,597	14,611,558	43,815,382	174,968,449	92,407,762	93,023,807	-	451,452,081
Investments									
- Trading debt securities	-	-	-	20,365	746,054	517,473	194,142	-	1,478,034
- Available-for-sale financial assets	135,770	-	492,039	1,696,247	7,733,172	8,084,705	416,976	-	18,558,909
- Held-to-maturity investments	-	-	1,000,367	985,557	10,126,344	18,102,350	10,838,494	-	41,053,112
- Debt securities classified as receivables	-	-	-	268,697	1,077,611	1,185,922	49,996	-	2,582,226
- Investments in subsidiaries	4,100	-	-	-	-	-	-	-	4,100
Other assets	8,172,972	1,635,346	2,074,415	2,139,969	5,556,131	125,780	344	-	19,704,957
Total assets	91,239,513	60,840,412	142,062,991	91,514,730	203,730,025	120,478,592	104,523,759	-	814,390,022

(i) "Undated" for loans and advances are the loans of which the principal is overdue for more than 1 month, and it is disclosed with net value measured at cost less impairment losses.

Financial Statements

54 Risk management (continued)

(3) Liquidity risk (continued)

(a) Maturity analysis (continued)

	2010							Total
	Undated	Overdue/ repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	More than 5 years	
Liabilities:								
Due to banks and financial institutions	-	(18,648,451)	(19,757,480)	(11,514,121)	(8,557,998)	(11,000,000)	-	(69,478,050)
Financial assets sold under repurchase agreements	-	-	(31,531,376)	(20,887,507)	(1,728,542)	-	-	(54,147,425)
Deposits from customers	-	(282,408,397)	(83,282,288)	(64,519,095)	(149,079,396)	(44,462,414)	(5,106,322)	(628,857,912)
Subordinated bonds	-	-	-	-	-	(5,000,000)	-	(5,000,000)
Other liabilities	-	(1,684,697)	(2,512,442)	(3,706,157)	(5,033,478)	(1,060,927)	(27,337)	(14,025,038)
Total liabilities	-	(302,741,545)	(137,083,586)	(100,626,880)	(164,399,414)	(61,523,341)	(5,133,659)	(771,508,425)
Long / (short) position	91,239,513	(241,901,133)	4,979,405	(9,112,150)	39,330,611	58,955,251	99,390,100	42,881,597
Notional amounts of derivative								
- Foreign currency contracts	-	-	4,325,830	9,184,182	9,757,130	54,857	-	23,321,999
- Interest rate instruments	-	-	-	-	-	3,500,000	-	3,500,000
- Other derivatives	-	-	-	-	1,120,300	-	-	1,120,300
	-	-	4,325,830	9,184,182	10,877,430	3,554,857	-	27,942,299

	2009							Total
	Undated	Overdue/ repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	More than 5 years	
Assets:								
Cash and deposits with central bank	63,311,280	19,279,036	-	-	-	-	-	82,590,316
Due from banks and financial institutions	-	3,210,986	8,618,409	4,621,317	2,758,098	68,282	-	19,277,092
Financial assets held under resale agreements	-	-	44,354,713	16,245,434	29,513,021	-	-	90,113,168
Loans and advances to customer (i)	2,455,078	16,114,157	13,677,581	41,428,761	151,260,511	74,139,276	67,559,905	366,635,269
Investments								
- Trading debt securities	-	-	-	-	389,673	1,175,173	-	1,564,846
- Available-for-sale financial assets	146,677	-	912,322	5,894,370	17,107,098	15,794,422	978,024	40,832,913
- Held-to-maturity investments	-	-	1,320,534	359,731	5,936,126	28,044,106	5,754,246	41,414,743
- Debt securities classified as receivables	-	-	-	195,563	3,982,326	1,201,211	-	5,379,100
- Investments in subsidiaries	4,100	-	-	-	-	-	-	4,100
Other assets	8,151,994	528,739	227,737	1,431,069	1,577,304	6,757,547	687	18,675,077
Total assets	74,069,129	39,132,918	69,111,296	70,176,245	212,524,157	127,180,017	74,292,862	666,486,624

54 Risk management (continued)

(3) Liquidity risk (continued)

(a) Maturity analysis (continued)

- (i) "Undated" for loans and advances are the loans of which the principal is overdue for more than 1 month, and it is disclosed with net value measured at cost less impairment losses.

	2009							Total
	Undated	Overdue/ repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	More than 5 years	
Liabilities:								
Due to banks and financial institutions	-	(17,656,260)	(16,854,184)	(7,085,793)	-	(11,800,000)	-	(53,396,237)
Financial assets sold under repurchase agreements	-	-	(13,817,087)	(10,410,626)	(8,546,157)	-	-	(32,773,870)
Deposits from customers	-	(247,187,372)	(29,124,772)	(54,316,468)	(150,276,241)	(59,239,300)	(3,746,246)	(543,890,399)
Subordinated bonds	-	-	-	-	-	(5,000,000)	-	(5,000,000)
Other liabilities	-	(829,439)	(322,927)	(5,342,842)	(1,977,986)	(704,719)	(58,174)	(9,236,087)
Total liabilities	-	(265,673,071)	(60,118,970)	(77,155,729)	(160,800,384)	(76,744,019)	(3,804,420)	(644,296,593)
Long / (short) position	74,069,129	(226,540,153)	8,992,326	(6,979,484)	51,723,773	50,435,998	70,488,442	22,190,031
Notional amounts of derivative								
- Foreign currency contracts	-	-	3,085,508	1,721,411	5,104,388	1,036	-	9,912,343

Financial Statements

54 Risk management (continued)

(3) Liquidity risk (continued)

(b) Contractual undiscounted cash flow

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial assets and liabilities of the Bank at the balance sheet date. The Bank's expected cash flows on these instruments may vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stably increasing balance.

	2010								
	Carrying amount	Gross nominal cashinflow/ (outflow)	Undated	Overdue/ repayment on demand	Within 1 months	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	More than 5 years
Non-derivative instrument cash flow:									
Financial assets:									
Cash and balances with central bank	106,782,503	106,782,503	81,189,145	25,593,358	-	-	-	-	-
Deposits and placements with banks and financial institutions	36,176,928	36,251,260	-	2,724,111	27,588,649	5,050,909	887,591	-	-
Financial assets held under resale agreements	136,597,172	136,627,686	-	-	96,380,581	37,549,882	2,639,999	57,224	-
Loans and advances to customer	451,452,081	494,207,121	1,737,526	30,887,597	14,662,722	44,172,668	180,006,952	105,226,034	117,513,622
Investments									
- Trading debt securities	1,478,034	1,615,622	-	-	-	22,876	769,033	603,480	220,233
- Available-for-sale financial assets	18,558,909	19,923,700	135,770	-	502,207	1,764,928	8,286,578	8,783,706	450,511
- Held-to-maturity investments	41,053,112	46,122,253	-	-	1,076,219	1,159,776	11,190,317	20,686,327	12,009,614
- Debt securities classified as receivables	2,582,226	2,783,716	-	-	13,718	294,617	1,169,373	1,243,978	62,030
- Investments in subsidiaries	4,100	4,100	4,100	-	-	-	-	-	-
Other financial assets	10,168,808	10,318,526	-	472,284	2,054,478	2,110,073	5,585,776	95,571	344
Total assets	804,853,873	854,636,487	83,066,541	59,677,350	142,278,574	92,125,729	210,535,619	136,696,320	130,256,354

54 Risk management (continued)

(3) Liquidity risk (continued)

(b) Contractual undiscounted cash flow (continued)

	2010								
	Carrying amount	Gross nominal cashflow/ (outflow) Undated	Overdue/ repayment on demand	Within 1 months	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	More than 5 years	
Non-derivative instrument cash flow:									
Financial liabilities:									
Deposits and placements from banks and financial institutions	(69,478,050)	(70,732,735)	-	(18,648,451)	(19,916,242)	(11,687,444)	(9,025,664)	(11,454,934)	-
Financial assets sold under repurchase agreements	(54,147,425)	(54,155,015)	-	-	(31,538,329)	(20,887,873)	(1,728,813)	-	-
Due to customers	(628,857,912)	(632,597,709)	-	(282,408,397)	(83,384,309)	(64,598,131)	(150,302,029)	(46,423,206)	(5,481,637)
Subordinated bonds	(5,000,000)	(5,865,500)	-	-	-	-	(288,500)	(5,577,000)	-
Other financial liabilities	(13,726,452)	(13,760,860)	-	(1,684,697)	(2,478,664)	(3,600,752)	(4,949,944)	(1,019,466)	(27,337)
Total liabilities	(771,209,839)	(777,111,819)	-	(302,741,545)	(137,317,544)	(100,774,200)	(166,294,950)	(64,474,606)	(5,508,974)
Derivative cash flow:									
Derivative financial instruments settled on gross basis									
of which - Total inflow		23,251,972	-	-	4,316,509	9,159,409	9,721,971	54,083	-
- Total outflow		(23,325,317)	-	-	(4,329,888)	(9,233,289)	(9,708,992)	(53,148)	-
Derivative financial instruments settled on net basis		(12,883)	-	-	-	(1,063)	393	(12,213)	-
		(86,228)	-	-	(13,379)	(74,943)	13,372	(11,278)	-

Financial Statements

54 Risk management (continued)

(3) Liquidity risk (continued)

(b) Contractual undiscounted cash flow (continued)

	2009								
	Carrying amount	Gross nominal cashflow/ (outflow)	Undated	Overdue/ repayment on demand	Within 1 months	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	More than 5 years
Non-derivative cash flow:									
Financial assets:									
Cash and balances with central bank	82,590,316	82,590,316	63,311,280	19,279,036	-	-	-	-	-
Deposits and placements with banks and financial institutions	19,277,092	19,348,349	-	3,210,986	8,619,541	4,658,113	2,790,811	68,898	-
Financial assets held under resale agreements	90,113,168	90,521,001	-	-	44,392,239	16,313,501	29,815,261	-	-
Loans and advances to customer	366,635,269	406,563,231	2,505,435	16,114,164	13,769,915	41,709,704	156,143,554	88,021,236	88,299,223
Investments									
- Trading debt securities	1,564,846	1,634,187	-	-	-	31,565	410,831	1,191,791	-
- Available-for-sale financial assets	40,832,913	42,567,530	146,677	-	16,218	7,143,434	17,914,721	16,258,031	1,088,449
- Held-to-maturity investments	41,414,743	46,878,567	-	-	-	1,891,901	6,730,886	31,822,224	6,433,556
- Debt securities classified as receivables	5,379,100	5,846,007	-	-	46,500	176,513	4,218,583	1,404,411	-
- Investments in subsidiaries	4,100	4,100	4,100	-	-	-	-	-	-
Other financial assets	10,418,296	10,719,367	-	528,739	202,480	1,393,009	1,719,014	6,875,438	687
Total assets	658,229,843	706,672,655	65,967,492	39,132,925	67,046,893	73,317,740	219,743,661	145,642,029	95,821,915

54 Risk management (continued)

(3) Liquidity risk (continued)

(b) Contractual undiscounted cash flow (continued)

	2009								
	Carrying amount	Gross nominal cashinflow/ (outflow)	Undated	Overdue/ repayment on demand	Within 1 months	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	More than 5 years
Non-derivative cash flow:									
Financial liabilities:									
Deposits and placements from banks and financial institutions									
	(53,396,237)	(54,629,845)	-	(17,655,260)	(16,912,162)	(7,166,416)	(340,710)	(12,555,297)	-
Financial assets sold under repurchase agreements									
	(32,773,870)	(32,798,686)	-	-	(13,824,183)	(10,419,468)	(8,555,035)	-	-
Due to customers									
	(543,890,399)	(548,586,535)	-	(247,187,372)	(29,165,333)	(54,392,112)	(151,702,944)	(62,079,493)	(4,059,281)
Subordinated bonds									
	(5,000,000)	(6,206,920)	-	-	-	-	(301,730)	(5,905,190)	-
Other financial liabilities									
	(9,161,680)	(9,166,573)	-	(829,439)	(298,973)	(5,324,616)	(1,950,652)	(704,719)	(58,174)
Total liabilities	(644,222,186)	(651,388,559)	-	(265,672,071)	(60,200,651)	(77,302,612)	(162,851,071)	(81,244,699)	(4,117,455)
Derivative cash flow:									
Derivative financial instruments settled on gross basis									
of which - Total inflow									
		9,898,540	-	-	3,085,943	1,721,653	5,089,908	1,036	-
- Total outflow									
		(9,868,691)	-	-	(3,071,933)	(1,713,838)	(5,081,888)	(1,032)	-
		29,849	-	-	14,010	7,815	8,020	4	-

(c) Analysis of credit commitment by contractual expiry date

Management expects that not all of the commitments will be drawn before the expiry of commitments.

	Repayable on demand	Within 1 month	Between 1 month and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
31 December 2010							
- credit commitments	46,843,926	34,112,085	72,200,083	81,675,565	5,655,391	7,168,960	247,656,010
31 December 2009							
- credit commitments	31,185,616	23,680,471	50,842,185	62,197,835	4,991,527	6,364,480	179,262,114

54 Risk management (continued)

(4) Operational risk

Operational risk includes the risk of direct or indirect loss due to an event or action causing failure of technology, processes, infrastructure and personnel, and other risks having an operational impact.

The Bank manages this risk through an internal control-based environment by establishing a framework of policies and procedures in order to identify, assess, control, manage and report risks. The framework covers all business functions ranging from finance, credit, accounting, settlement, savings, treasury, intermediary business, computer system applications and management, safeguarding of assets and legal affairs. The Bank relies on the above mechanism to identify and monitor the operational risk inherent in all key products, activities, processes and systems.

(5) Valuation of financial instruments

The Bank's accounting policy on fair value measurement is discussed in Note 3(3)(f).

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The difference levels have been defined as follows:

Level 1 - Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2 - Valuation techniques based on observable inputs, either directly (i. e., as prices) or indirectly (i. e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 - Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instruments' valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

54 Risk management (continued)

(5) Valuation of financial instruments (continued)

	Level 1	Level 2	Level 3	Total
31 December 2010				
Available-for-sale financial assets (i)	6,569,296	11,732,518	165,556	18,467,370
Financial assets held for trading	658,076	819,958	-	1,478,034
Financial assets designated at fair value through profit or loss	-	237,778	-	237,778
Derivative financial assets	-	200,111	-	200,111
	7,227,372	12,990,365	165,556	20,383,293
Financial liabilities designated at fair value through profit or loss	-	(237,778)	-	(237,778)
Derivative financial liabilities	-	(285,871)	-	(285,871)
	-	(523,649)	-	(523,649)
31 December 2009				
Available-for-sale financial assets (i)	24,140,130	16,259,814	341,424	40,741,368
Financial assets held for trading	1,471,868	92,978	-	1,564,846
Derivative financial assets	-	104,787	-	104,787
	25,611,998	16,457,579	341,424	42,411,001
Derivative financial liabilities	-	(74,407)	-	(74,407)

(i) Not include available-for-sale equity investment measured at cost.

Reconciliation of Level 3 Items

Available-for-sale debt securities

	2010	2009
At 1 January	341,424	512,576
Redeemed by issuer	(175,868)	(171,152)
At 31 December	165,556	341,424

Financial Statements

54 Risk management (continued)

(6) Fair value information

The Bank's financial assets and liabilities mainly include cash, deposits with central banks, deposits with banks and non-bank financial institutions, placements with banks and non-bank financial institutions, financial assets held under resale agreements, loans and advances to customers, derivative assets held for trading, debt securities investments, non-long-term equity investments, deposits from banks and non-bank financial institutions, placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements, deposits from customers, derivative liabilities held for trading and subordinated bonds.

The notional amount and fair value of debt securities classified as receivables, held-to-maturity investments and subordinated bonds are not recognised or disclosed in fair value are listed as below:

	Book value		Fair value	
	2010	2009	2010	2009
Financial assets				
Debt securities classified as receivables	2,582,226	5,379,100	2,601,629	5,462,034
Held-to-maturity investments	41,053,112	41,414,743	40,598,792	41,378,751
	43,635,338	46,793,843	43,200,421	46,840,785
Financial liabilities				
Subordinated bonds	5,000,000	5,000,000	5,070,511	5,137,696

- (i) The fair value of debt securities classified as receivables is priced by discounted cash flow based on maturity yield in accordance with similar financial instruments.
- (ii) The fair value of held-to-maturity investment and subordinated bond are determined with reference to the available market value or quoted from brokers or agents. If there is no quoted market price in an active market and whose fair value cannot be reliably measured, fair value will be estimated based on pricing model or discounted cash flow, with consideration of yield of products with similar characteristics such as credit risk and maturity.
- (iii) Trading financial assets, derivative assets held for trading, derivative liabilities held for trading and available-for-sale financial assets are disclosed in fair value unless the fair value is unable to be measured. For the financial instruments in active open market, the Bank adopts market price or market rate as the best estimate for their fair value. For the financial instruments without market price or market rate, the Bank determines the fair value of these financial assets and financial liabilities by discounted cash flow or other valuation methods.

54 Risk management (continued)

(6) Fair value information (continued)

- (iv) Financial assets including cash and deposits with central banks, deposits with banks and non-bank financial institutions, placements with banks and non-bank financial institutions, financial assets held under resale agreements, and financial liabilities including deposits from banks and non-bank financial institutions, placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements are mainly short-term financing or floating interest rate instruments. Accordingly, the carrying values approximate the fair value.
- (v) Loans and advances to customers are disclosed with net value measured at cost less impairment losses, and mostly priced at floating rates. Once PBOC's benchmark rate changes, loans and advances to customers will be repriced accordingly. Therefore, their carrying values approximate the fair value.
- (vi) Deposits from customers are mostly current account or saving deposits within one year, priced at floating rates approximating PBOC rates and due within one year. Accordingly, the carrying values approximate the fair value.

(7) Capital management

The Bank's capital management aims to optimise the shareholder's equity through structuring the proper asset management system, and it includes optimisation of asset structure and asset allocation between different business lines, which can be further specified as: (1) Developing schemes for asset supplement and optimising asset structure in order to fulfill the funding needs of different business; (2) Building up concept of asset constraint and allocating assets appropriately in order to enhance operating efficiency of assets; (3) Introducing review system with respect to asset efficiency to constrain the expanding ambition of the branches; (4) Improving risk management system in order to reduce the fund occupancy by risk-bearing assets; (5) Building up advanced enterprise culture and code of conduct including "Optimisation of Shareholder's Equity" and "Risk Covered by Fund".

The Bank calculates capital adequacy ratio in accordance with the guidelines issued by the CBRC. The capital of the Bank is analysed into core capital and supplementary capital. The core capital mainly includes paid-up share capital, capital reserve, surplus reserve and retained earnings, after the deductions of dividend declared after the balance sheet date and 50% of unconsolidated equity investments. Supplementary capital includes collectively assessed impairment allowance for loans and subordinated bonds. According to a notice issued by the CBRC (Amendment to "Regulation Governing Capital Adequacy of Commercial Banks") on 3 July 2007, supplementary capital should include reserves arising from changes in the fair value of available-for-sale debt securities.

The CBRC requires that the capital adequacy ratio and core capital adequacy ratio for commercial banks shall not fall below 8% and 4% respectively. For commercial banks, supplementary capital shall not exceed 100% of core capital while subordinated liabilities included in the supplementary capital shall not exceed 50% of the core capital.

Financial Statements

54 Risk management (continued)

(7) Capital management (continued)

Capital adequacy ratio management is a core issue of capital management. The capital adequacy ratio reflects the Bank's sound operations and risk management capability. The Bank's capital adequacy ratio management objectives are to meet the legal and regulatory requirements and to prudently determine the capital adequacy ratio under realistic exposures with reference to the capital adequacy ratio levels of leading banks in the market and the Bank's operating situations.

The Bank predicts, plans, and manages the capital adequacy ratio by using scenario models and stress tests based on its strategic development plans, business expansion needs, and risk exposure trends.

Capital allocation

Maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular businesses or activities. It's also taken into account the synergies with other businesses and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the board of directors.

The amount of capital allocated to each business or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles. The process of allocating capital to specific businesses and activities is undertaken by the Financial Department.

The Bank's regulatory capital positions calculated in accordance with the guidance issued by the CBRC (CBRC [2007] N0.11) as at 31 December 2010 is as follows:

	2010 (RMB Million)	2009 (RMB Million)
Total capital	56,617	34,284
Including: net core capital	42,636	21,482
Net risk-weighted assets	513,759	381,904
Capital adequacy ratio	11.02%	8.98%
Core capital adequacy ratio	8.30%	5.62%

55 Related parties and transactions

(1) Material related-party information

(i) Major shareholders

Since the Bank does not have controlling shareholders, the following shareholding companies refer to shareholders having 5% or more of the Bank's equity:

Material connected person information

Company name	Registered location	Issued and fully paid capital	Proportion of the bank held by the company	Business	The relationship with the bank	Legal form	Legal representative
CITIGROUP INC.	USA	USD 0.598 billion	20.00%	Financial service	Shareholder	Foreign-capital financial institution	Richard D. Parsons
Chinalife Insurance Company Ltd.	Beijing	RMB 28.265 billion	20.00%	Life, accident insurance, health insurance etc	Shareholder	Limited company	Yang Chao
Yingda International Holding Group Limited	Beijing	RMB 16.000 billion	20.00%	Investment consultant, property management and custody	Shareholder	State-own company	Wang Fenghua
CITIC Trust Co., Ltd.	Beijing	RMB 1.200 billion	20.00%	Funds investment, trust, consultant, bonds underwrite etc.	Shareholder	Limited company	Ju Weimin

As at 31st December 2009, State Grid Corporation of China (SGCC) held 2,395,768,745 shares of the Bank. According to "Approval of China Everbright Bank Co., Ltd. and three other companies for free transfer of state-owned equity"(No.279 of Guo Zi Chan Quan [2008]) issued by State-owned Assets Supervision and Administration Commission of the State Council and "Approval of shareholder's eligibility and capital increase proposal of Guangdong Development Bank" (No.299 of Yinjianfu [2010]) issued by China Banking Regulatory Commission, SGCC transferred its shares of the Bank to its fully owned subsidiary State Grid Asset Management Co., Ltd which on 6 June 2010. On 8 December 2010, State Grid Asset Management Co., Ltd changed its name to Yingda International Holding Company Ltd. with the approval of the State Administration for Industry & Commerce (SAIC) of the People's Republic of China.

Financial Statements

55 Related parties and transactions (continued)

(1) Material related-party information (continued)

(i) Major shareholders (continued)

The change of proportion of the bank held by the shareholders

	Chinalife Insurance Company Ltd		Yingda International Holding Group Ltd (Formerly State Grid Assets Management Co Ltd)		State Grid Corporation of China		CITIC Trust Co. Ltd		CITIGROUP INC.	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	Rmb	%	Rmb	%	Rmb	%	Rmb	%	Rmb	%
At 1 January 2010	2,395,768,745	20	-	-	2,395,768,745	20	2,395,768,745	20	2,395,768,745	20
Shares transfer	-	-	2,395,768,745	20	(2,395,768,745)	20	-	-	-	-
Shares issued	684,710,707	20	684,710,707	20	-	-	684,710,707	20	684,710,707	20
At 31 December 2010	3,080,479,452	20	3,080,479,452	20	-	-	3,080,479,452	20	3,080,479,452	20

(ii) Except the above related-parties, 3 companies are controlled by the directors and supervisors.

(iii) Guangdong Guangfa International Finance & Consulting Co., Ltd. is the only entity that controlled or jointly controlled, but not consolidated by the Bank.

(2) Transaction terms and conditions

The directors are of opinion that the bank's material related-party transactions were all entered into on normal commercial terms.

(3) Balance of material related-party transactions as at year ended

(i) Account balance with related parties (subsidiary excluded)

(a) Deposits with banks and other financial institutions

Connected person	2010		2009	
	Amount	Ratio to similar transaction %	Amount	Ratio to similar transaction %
Shareholder and its parent company and companies controlled by shareholder	189,484	0.87	438,169	4.19

55 Related parties and transactions (continued)

(3) Balance of material related-party transactions as at year ended

(1) Material related-party information (continued)

(b) Loans and advances to customers

Connected person	2010		2009	
	Amount	Ratio to similar transaction %	Amount	Ratio to similar transaction %
Shareholder and its parent company and companies controlled by shareholder	-	-	154,500	0.04
Controlled by directors and supervisors (above shareholders excluded)	90,000	0.02	90,000	0.02
Total	90,000	0.02	244,500	0.06

At 31 December 2010, no loan was offered to shareholders or company controlled by the shareholders having 5% or more of the Bank's equity (2009: 155 millions). No allowance for impairment was made on loans to companies controlled by directors and supervisors.

(c) Derivatives

Connected person	2010		2009	
	Amount	Ratio to similar transaction %	Amount	Ratio to similar transaction %
Shareholder and its parent company and companies controlled by shareholder				
- Assets	28,040	14.66	5,098	4.87
- Liabilities	(23,386)	8.07	(1,764)	2.37
Total	4,654	22.73	3,334	7.24

Financial Statements

55 Related parties and transactions (continued)

(3) Balance of material related-party transactions as at year ended (continued)

(i) Account balance with related parties (subsidiary excluded) (continued)

(d) Held-to-maturity investments

Connected person	2010		2009	
	Amount	Ratio to similar transaction %	Amount	Ratio to similar transaction %
Shareholder and its parent company and companies controlled by shareholder	1,600,000	3.90	1,600,000	3.86

Held-to-maturity investment is a bond issued by the Bank's shareholder State Grid Corporation of China.

(e) Deposits from banks and non banks financial institutions

Connected person	2010		2009	
	Amount	Ratio to similar transaction %	Amount	Ratio to similar transaction %
Shareholder and its parent company and companies controlled by shareholder	4,388	-	2,641	-

55 Related parties and transactions (continued)

(3) Balance of material related-party transactions as at year ended (continued)

(i) Account balance with related parties (subsidiary excluded) (continued)

(f) Customer deposits

Connected person	2010		2009	
	Amount	Ratio to similar transaction %	Amount	Ratio to similar transaction %
Shareholder and its parent company and companies controlled by shareholder	12,287,520	1.95	7,541,928	1.39
Controlled by directors And supervisors (above shareholders excluded)	10,994	-	855	-
Total	12,298,514	1.95	7,542,783	1.39

(g) Interest payable

Connected person	2010		2009	
	Amount	Ratio to similar transaction %	Amount	Ratio to similar transaction %
Shareholder and its parent company and companies controlled by shareholder	166,155	3.50	99,018	2.52

Financial Statements

55 Related parties and transactions (continued)

(3) Balance of material related-party transactions as at year ended (continued)

(i) Account balance with related parties (subsidiary excluded) (continued)

(h) Other liabilities

Connected person	2010		2009	
	Amount	Ratio to similar transaction %	Amount	Ratio to similar transaction %
Shareholder and its parent company and companies controlled by shareholder	19,690	0.40	22,890	0.84

(ii) Account balance with subsidiary

(a) Customers deposits

Connected person	2010		2009	
	Amount	Ratio to similar transaction %	Amount	Ratio to similar transaction %
Guangdong Guangfa International Finance & Consulting Co., Ltd.	8,075	-	2,649	-

55 Related parties and transactions (continued)

(4) Related-party transactions during the year

(i) Transactions with related parties (subsidiary excluded)

(a) Fee and commission income

Connected person	2010		2009	
	Amount	Ratio to similar transaction %	Amount	Ratio to similar transaction %
Shareholder and its parent company and companies controlled by shareholder	16,202	0.55	19,537	0.88

(b) Interest income

Connected person	2010		2009	
	Amount	Ratio to similar transaction %	Amount	Ratio to similar transaction %
Shareholder and its parent company and companies controlled by shareholder	76,877	0.25	9,406	0.04
Subtotal of companies Controlled by directors And supervisors (above shareholders excluded)	3,668	0.01	2,844	0.01
Total	80,545	0.26	12,250	0.05

Financial Statements

55 Related parties and transactions (continued)

(4) Related-party transactions during the year (continued)

(i) Transaction with related parties (subsidiary excluded) (continued)

(c) Interest expenses

Connected person	2010		2009	
	Amount	Ratio to similar transaction %	Amount	Ratio to similar transaction %
Shareholder and its parent company and companies controlled by shareholder	390,600	3.39	324,533	3.22
Controlled by directors and supervisors (above shareholders excluded)	70	-	115	-
Total	390,670	3.39	324,648	3.22

(d) Operating expenses

Connected person	2010		2009	
	Amount	Ratio to similar transaction %	Amount	Ratio to similar transaction %
Shareholder and its parent company and companies controlled by shareholder	11,560	0.13	13,231	0.18

Operating expenses represented accrued technical assistance fee payable to CITIGROUP INC.

55 Related parties and transactions (continued)

(4) Related-party transactions during the year (continued)

(ii) Transaction with subsidiary

(a) Interest expenses

Connected person	2010		2009	
	Amount	Ratio to similar transaction %	Amount	Ratio to similar transaction %
Guangdong Guangfa International Finance & Consulting Co., Ltd.	14	-	8	-

(b) Operating expenses

Connected person	2010		2009	
	Amount	Ratio to similar transaction %	Amount	Ratio to similar transaction %
Guangdong Guangfa International Finance & Consulting Co., Ltd.	329,975	3.64	260,731	3.56

The operating expenses represented the outsourcing expense paid to Guangdong Guangfa International Finance & Consulting Co., Ltd.

Financial Statements

55 Related parties and transactions (continued)

(5) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including Directors, Supervisors and Senior Management.

The Bank's management is of the opinion that the transactions with key management personnel, their close relatives and the enterprises that they have any control or significant influence over are conducted in the normal course of business, at relevant market rates at the time of transactions and in accordance with normal business procedures. In addition, other than the aggregate emoluments for the key management personnel disclosed in Note 43(i) and loans and advances granted to entities controlled by the directors and supervisors and relevant interest income earned in Note 55(4), the Bank has not disclosed the details of other transactions as the amounts are insignificant.

56 Post balance sheet events

- (1) In accordance with the 2010 profit appropriation proposal as approved by the Board of Directors meeting on 18 March 2011, the Bank has appropriated 10% of its current year net profit to the statutory surplus reserve amounting to RMB 0.619 billion, and made appropriation to the statutory general reserve of RMB 1.522 billion such that the reserve balance is equivalent to 1% of the Bank's aggregate amount of risk-bearing assets as at 31 December 2010.
- (2) The CBRC approved the Bank to change its name to "China Guangfa Bank Co., Ltd." on 27 January 2011.

Directory of Branches and Subsidiaries

◎ China Guangfa Bank Head Office

Address: Guangfa Bank Building, No.713, Dongfengdong Road, Yuexiu District, Guangzhou, Guangdong
Telephone: 020-38322888
Facsimile: 020-87310779
Postcode: 510080
Quantity of Institution: 1
Number of Staff: 1,259
Asset Scale (RMB million): 332,160

◎ Beijing Branch

Address: No.2 Dahua Road, Dongcheng District, Beijing
Telephone: 010-65269966
Facsimile: 010-65266728
Postcode: 100005
Quantity of Institutions: 32
Number of Staff: 1,001
Asset Scale (RMB million): 98,726

◎ Tianjin Branch

Address: Tianjin Mansion, Jiefangnan Road, Hexi District, Tianjin
Telephone: 022-58566111, 58566188
Facsimile: 022-58566229
Postcode: 300042
Quantity of Institution: 1
Number of Staff: 87
Asset Scale (RMB million): 5,149

◎ Shenyang Branch

Address: No.227 Qingnian Street, Shenhe District, Shenyang, Liaoning
Telephone: 024-23985789
Facsimile: 024-31303301
Postcode: 110016
Quantity of Institutions: 14
Number of Staff: 519
Asset Scale (RMB million): 26,168

◎ Dalian Branch

Address: No.3 Zhongshan Plaza, Zhongshan District, Dalian, Liaoning
Telephone: 0411-82553000
Facsimile: 0411-82553258
Postcode: 116001
Quantity of Institutions: 15
Number of Staff: 586
Asset Scale (RMB million): 15,130

◎ Shanghai Branch

Address: No.555 Xujiahui Road, Shanghai
Telephone: 021-63022233
Facsimile: 021-63901929
Postcode: 200023
Quantity of Institutions: 23
Number of Staff: 647
Asset Scale (RMB million): 64,020

◎ Nanjing Branch

Address: No.47 Hunan Road, Gulou District, Nanjing, Jiangsu
Telephone: 025-83305888
Facsimile: 025-83321515
Postcode: 210009
Quantity of Institutions: 21
Number of Staff: 709
Asset Scale (RMB million): 61,854

◎ Hangzhou Branch

Address: No.516 Yan'an Road, Hangzhou, Zhejiang
Telephone: 0571-87019888
Facsimile: 0571-87917852
Postcode: 310006
Quantity of Institutions: 37
Number of Staff: 1,321
Asset Scale (RMB million): 68,379

Directory of Branches and Subsidiaries

◎ Zhengzhou Branch

Address: No.10, Road CBD Waihuan, Zhengdong New District, Zhengzhou, Henan
Telephone: 0371-68599907
Facsimile: 0371-68599908
Postcode: 450046
Quantity of Institutions: 26
Number of Staff: 819
Asset Scale (RMB million): 50,082

◎ Wuhan Branch

Address: Sanxiahuanban Building, No.8 Xinhuxia Road, Jiangnan District, Wuhan, Hubei
Telephone: 027-85354567
Facsimile: 027-85354848
Postcode: 430015
Quantity of Institutions: 11
Number of Staff: 345
Asset Scale (RMB million): 15,428

◎ Changsha Branch

Address: Xinhua Building, No.826, Wuyi Road, Changsha, Hunan
Telephone: 0731-88336789
Facsimile: 0731-88335788
Postcode: 410005
Quantity of Institutions: 2
Number of Staff: 147
Asset Scale (RMB million): 9,573

◎ Guangzhou Branch

Address: Zhonghe Plaza, No.57 Linjiangda Road, Pearl River New Town, Tianhe District, Guangzhou
Telephone: 020-38988903
Facsimile: 020-83503050
Postcode: 510623
Quantity of Institutions: 57
Number of Staff: 1,377
Asset Scale (RMB million): 57,176

◎ Shenzhen Branch

Address: 19-22/F West Block, Shopping Plaza, No.123 Shennan Rd East, Shenzhen
Telephone: 0755-82380048 82380005 82380009
Facsimile: 0755-82380002
Postcode: 518001
Quantity of Institutions: 29
Number of Staff: 929
Asset Scale (RMB million): 44,274

◎ Zhuhai Branch

Address: No. 68 Jingshan Road, Jida, Zhuhai, Guangdong
Telephone: 0756-3250900
Facsimile: 0756-3250700
Postcode: 519015
Quantity of Institutions: 13
Number of Staff: 323
Asset Scale (RMB million): 18,671

◎ Shantou Branch

Address: 1-4/F, Chaoshanxinghe Building, Jinhuan Road, Shantou, Guangdong
Telephone: 0754-88262689
Facsimile: 0754-88262489
Postcode: 515041
Quantity of Institutions: 28
Number of Staff: 606
Asset Scale (RMB million): 10,663

◎ Foshan Branch

Address: GDB Building, No.29 Jihua 5th Road, Foshan, Guangdong
Telephone: 0757-83357698
Facsimile: 0757-83359356
Postcode: 528000
Quantity of Institutions: 36
Number of Staff: 842
Asset Scale (RMB million): 33,606

Directory of Branches and Subsidiaries

◎ Dongguan Branch

Address: No.6 Dongcheng Xi Road, Dongguan,
Guangdong
Telephone: 0769-22477888
Facsimile: 0769-22456654
Postcode: 523008
Quantity of Institutions: 54
Number of Staff: 1,201
Asset Scale (RMB million): 38,171

◎ Zhongshan Branch

Address: No.55 Huabai Road, Shiqi District, Zhongshan,
Guangdong
Telephone: 0760- 88861998
Facsimile: 0760-88861968
Postcode: 528403
Quantity of Institutions: 14
Number of Staff: 302
Asset Scale (RMB million): 9,004

◎ Jiangmen Branch

Address: Block 5, No.49 Jianshe Road, Jiangmen,
Guangdong
Telephone: 0750-3288388
Facsimile: 0750-3354276
Postcode: 529000
Quantity of Institutions: 20
Number of Staff: 470
Asset Scale (RMB million): 8,970

◎ Huizhou Branch

Address: No.19 Xiapu Avenue, Huizhou, Guangdong
Telephone: 0752-2119898
Facsimile: 0752-2119888
Postcode: 516001
Quantity of Institutions: 19
Number of Staff: 393
Asset Scale (RMB million): 12,307

◎ Zhaoqing Branch

Address: No.75 Tianningbei Road, Duanzhou District,
Zhaoqing, Guangdong
Telephone: 0758-2313023
Facsimile: 0758-2313013
Postcode: 526040
Quantity of Institutions: 17
Number of Staff: 322
Asset Scale (RMB million): 8,119

◎ Yangjiang Branch

Address: No.38 Jinghu Building, Dongfengsan Road,
Yangjiang, Guangdong
Telephone: 0662-3367692
Facsimile: 0662-3367627
Postcode: 529500
Quantity of Institutions: 5
Number of Staff: 100
Asset Scale (RMB million): 2,488

◎ Shaoguan Branch

Address: Block 41, Huiminnan Road, Shaoguan,
Guangdong
Telephone: 0751-8177989
Facsimile: 0751-8763208
Postcode: 512025
Quantity of Institutions: 2
Number of Staff: 52
Asset Scale (RMB million): 924

◎ Heyuan Branch

Address: No.19 Youli Building, West Jianshe Avenue,
Heyuan, Guangdong
Telephone: 0762-3168600
Facsimile: 0762-3168604
Postcode: 517000
Quantity of Institutions: 6
Number of Staff: 105
Asset Scale (RMB million): 2,591

Directory of Branches and Subsidiaries

◎ Meizhou Branch

Address: Binfangda Road, Jiangnan, Meizhou,
Guangdong
Telephone: 0753-2242068 2242267
Facsimile: 0753-2243595
Postcode: 514021
Quantity of Institutions: 5
Number of Staff: 149
Asset Scale (RMB million): 3,662

◎ Qingyuan Branch

Address: GDB Building, Beijiangsan Road, Zone 3
Xinchengxi, Qingyuan, Guangdong
Telephone: 0763-3855009
Facsimile: 0763-3855010
Postcode: 511515
Quantity of Institutions: 6
Number of Staff: 111
Asset Scale (RMB million): 3,416

◎ Maoming Branch

Address: No.159 Yingbin Road, Maoming, Guangdong
Telephone: 0668-2880579
Facsimile: 0668-2286313
Postcode: 525000
Quantity of Institutions: 14
Number of Staff: 289
Asset Scale (RMB million): 7,472

◎ Zhanjiang Branch

Address: No.22 Zhongshanyi Road, Chikan, Zhanjiang,
Guangdong
Telephone: 0759-3366558
Facsimile: 0759-3313285
Postcode: 524032
Quantity of Institutions: 13
Number of Staff: 293
Asset Scale (RMB million): 4,609

◎ Kunming Branch

Address: No.2 Dianchi Road, Kunming, Yunnan
Telephone: 0871-4192153
Facsimile: 0871-4177444
Postcode: 650034
Quantity of Institutions: 19
Number of Staff: 534
Asset Scale (RMB million): 26,858

◎ Macau Branch

Address: Alameda Dr.Carlos D' Assumpcao, nos 181 a
187 Centro Comercial do Grupo Brillhantismo,
180 Andar
Telephone: 00853-28750328
Facsimile: 00853-28750728
Quantity of Institutions: 5
Number of Staff: 101
Asset Scale (RMB million): 5,774

◎ Beijing Representative Office

Address: No.2 Dahua Road, Dongcheng District, Beijing
Telephone: 010-65266741
Facsimile: 010-65266742
Postcode: 100005

◎ Hong Kong Representative Office

Address: Room 3002, 9 Queen's Road, Central, Hong
Kong
Telephone: 00852-28101213
Facsimile: 00852-25300123



广发银行
CHINA GUANGFA BANK

Add : No. 713, Dongfengdong Road, Yuexiu District,
Guangzhou, Guangdong Province, P.R. China
Tel: 86-20-38322888 Fax: 86-20-87310779
Post Code: 510080

