



中国农业银行

AGRICULTURAL BANK OF CHINA

2008 Annual Report

Agricultural Bank of China Limited



Profile of Agricultural Bank of China

The Agricultural Bank of China (hereafter referred to as ABC or the Bank) is the first commercial bank established in the People's Republic of China in 1951 and the State's first specialized bank set up after the reform and opening-up of the country in February 1979. Ever since its establishment, the Bank has been playing an important role in China's rural economic sector. In 1994, the Agricultural Development Bank was separated from ABC. In 1996, the Rural Credit Cooperatives, once an affiliated financial institution to the Bank, were also detached. After this, ABC started its transformation into a wholly state-owned commercial bank. On January 15th, 2009, the Bank changed the registration with the Industrial and Commercial Bureau and was transformed in its entirety to a joint-stock company, i.e., Agricultural Bank of China Limited.

The year of 2008 witnessed a rapid growth of ABC with enhanced operational efficiency and improved asset quality. ABC's net profits in 2008 increased to RMB51,453 million. Meanwhile, the total assets stood at RMB7,014,351 million with total deposits of RMB6,097,428 million and outstanding loans at RMB3,100,159 million. Underscoring ABC's prudential operating approach and commitment to sustainable franchise development, ABC's non-performing loan (NPL) ratio is 4.32% and capital adequacy ratio is 9.41%. With the largest network across China and an advanced IT system, the Bank is able to provide convenient, efficient financial services to over 350 million clients. Currently, ABC has 24,064 branches, sub-branches and outlets, 30,089 ATMs and has established correspondent banking relationships with 1,171 banks worldwide.

In 2008, ABC took the 223rd place in the Fortune Global 500 and was rated A1/Stable by the Moody's.

ABC is committed to serving agro-related sectors and dedicated to providing first-class financial services to both urban and rural clients. With full international capabilities, an innovated business model and prudential operations, the Bank provides tailored services to communities both at home and abroad. Based on its large physical and electronic network and diversified products, ABC is striving to build itself into a modern universal bank with a sustainable development outlook.

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Important Notice

The Board of Directors of Agricultural Bank of China confirms that the information stated in this report contains no false record, misleading statement or material omission, and assume joint and several liability as to the authenticity, accuracy and completeness of the content.

The First Board of Directors of the Bank in its 4th meeting reviewed and adopted the Annual Report 2008 and its abstract. All directors attended the meeting.

The 2008 financial statements of the Bank therein are prepared in accordance with the *Accounting Standard for Business Enterprises* issued in 2006 by Ministry of Finance and with other relevant regulations. They have been audited by Deloitte Touche Tohmatsu based on China's Auditing Standards. A standardized unqualified opinion report has been provided by the Auditor. Due to different accounting standards used, the comparative data for 2007 in the 2008 financial statements is not comparable to the original financial statements in 2007.

The Bank, previously exclusively state-owned, was restructured in its entirety into a joint-stock company in January 2009 and will standardize its operation in accordance with the requirements of modern corporate governance. Therefore, this Report will focus on the status quo of the Bank after the reporting period in such chapters related to the shareholders, the General Meeting of Shareholders, directors, supervisors, senior management personnel and corporate governance.

Board of Directors of Agricultural Bank of China Limited

25 April 2009

Mr. Xiang Junbo, the legal representative of the Bank, Mr. Pan Gongsheng, Executive Vice President in charge of the finance and accounting work of the Bank, and Mr. Shao Jianrong, General Manager of the Finance and Accounting Department, declare and guarantee the authenticity and completeness of the financial statements in the 2008 Annual Report.

Corporate Information

Legal name in Chinese and abbreviation	中国农业银行股份有限公司 中国农业银行
Legal name in English and abbreviation	AGRICULTURAL BANK OF CHINA LIMITED AGRICULTURAL BANK OF CHINA (ABC)
Legal representative	Xiang Junbo (项俊波)
Board Secretary	Li Zhenjiang Address: No. 69, Jianguomen Nei Avenue, Dongcheng District, Beijing, P.R. China, 100005 Tel: 86-10-85109619 Fax: 86-10-85108557 E-mail: ir@abchina.com
Registered office address	No. 69, Jianguomen Nei Avenue, Dongcheng District, Beijing, P.R. China, 100005
Internet website	www.abchina.com
Designated newspaper for information disclosure	Financial Times, Shanghai Securities News
Annual Report Location	Office of the Board of Directors, Agricultural Bank of China Limited
Date of registration modification and registration authority	15 January 2009 State Administration for Industry and Commerce, PRC
Business license registration No.	100000000005472
Organization code	10000547-4
Financial license registration No.	B0002H111000001
Tax registration No.	Jing Shui Zheng Zi 110108100005474
External auditor and address	Deloitte Touche Tohmatsu Building 30, No. 222, Yan An Dong Lu, Shanghai

Financial Highlights

Financial data and indicators in this Annual Report are prepared in accordance with China Accounting Standards (CASs) and denominated in Renminbi (RMB).

The annual comprehensive financial information of the Bank (including the Bank and its subsidiaries) as of the end of 31 December is as follows:

Financial Data

	2008	2007
BALANCE SHEET ITEMS (in RMB millions)		
Total assets	7,014,351	5,305,506
Total loans and net advances to customers	3,014,984	2,709,192
Total liabilities	6,723,810	6,033,111
Deposits	6,097,428	5,287,194
PROFIT AND LOSS ITEMS (in RMB millions)		
Net interest income	193,845	157,465
Net fee and commission income	23,798	22,995
Net profit	51,453	43,787
Net profit attributable to equity owners of the parent company	51,474	43,787
PROFITABILITY (%)		
Return on average total assets ¹	0.84	0.88
Fully diluted return on net assets ²	17.72	Not Applicable (NA)
Net interest margin ³	3.03	2.82
Net interest spread ⁴	2.93	2.73
Cost-to-income ratio ⁵	44.71	33.52
Adjusted cost-to-income ratio ⁶	40.43	36.22
ASSET QUALITY* (%)		
Non-performing loans ("NPL") ratio ⁷	4.32	23.57
Allowance to NPL ⁸	63.53	93.42
Allowance to total loan ratio ⁹	2.75	22.02
CAPITAL ADEQUACY (%)		
Core capital adequacy ratio ¹⁰	8.04	NA
Capital adequacy ratio ¹⁰	9.41	NA
Total equity to total assets ratio	4.14	NA

- Note:
1. Calculated by dividing net profit by the average amount of total assets at the beginning and end of the year.
 2. Calculated in accordance with the "Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No. 9 — Computation and Disclosure of Return on Net Assets and Earnings per Share" issued by CSRC.
 3. Calculated by dividing net interest income by average balance of interest-generating assets.
 4. Calculated by the spread between yield of return on average interest-generating assets and average cost on interest-bearing liabilities.
 5. Calculated by dividing operating and management expenses by operating income.
 6. Calculated by dividing operating and management expenses by operating income after eliminating accurately estimated welfare expenses of retired staff.
 7. Calculated by dividing the balance of NPL by total amount of loans and advances to customers.
 8. Calculated by dividing allowance for impairment losses on loans by total balance of NPL.
 9. Calculated by dividing allowance for impairment losses on loans by total amount of loans and advances to customers.
 10. Calculated in accordance with the relevant regulations of CBRC.
- * In 2008, NPL ratio, allowance to NPL ratio, allowance to total loan ratio and other asset quality indicators changed due to the significant changes in total assets and structure after financial restructuring.

Regulatory Indicators

		Regulatory Standard	2008	2007
Liquidity ratio (%) ¹	RMB	≥ 25	44.79	37.04
	Foreign Currency	≥ 25	205.54	123.39
Loan-to-deposit Ratio (%) ²	RMB and Foreign Currency	≤ 75	50.84	65.71
Borrowing and Lending Ratio (%)	RMB Borrowing Ratio ³	≤ 4	0.25	0.17
	RMB Lending Ratio ⁴	≤ 8	0.33	0.26
Percentage of loans to the largest customer (%)		≤ 10	6.04	NA
Percentage of loans to top ten customers (%)			33.96	NA

Note: 1. Calculated by dividing current assets by current liabilities in accordance with the relevant regulations of People's Bank of China and CBRC.

2. Calculated by dividing loan balance by deposit balance.

3. Calculated by dividing RMB placements to banks and other financial institutions by RMB deposit balance.

4. Calculated by dividing RMB placements with banks and other financial institutions by RMB deposit balance.

Message from the Chairman



Xiang Junbo

Chairman

In 2008, Agricultural Bank of China maintained stable business growth and made a major step towards becoming a globally leading commercial bank. This was achieved by actively responding to the changes in economic and financial conditions within and beyond China, as well as following the macro control policies of the country and fulfilling its social responsibility. The Bank successfully accomplished the shareholding reform with detail-focused management in all aspects while accelerating the transformation of business operations.

Major breakthroughs were made in the shareholding reform of the Bank in 2008. With guidance and assistance from the ABC Reform Task Force, we actively cooperated with competent authorities and significantly demonstrated and carried out the shareholding reform plan. We made good preparations for financial restructuring, enhanced corporate governance, developed “a bank of process” and deepened reforms in human resources, financial management, credit management, risk management, internal audit and product R&D. This significant progress laid a solid foundation for the establishment of the joint stock company. On 21 October 2008, the State Council formally approved the overall plan for implementing the ABC shareholding reform. A range of reform tasks were completed in a short period of time. On 15 January 2009, Agricultural Bank of China Limited was officially incorporated, marking its transformation from an exclusively stated-owned commercial bank to a joint stock commercial entity.

In 2008, the Bank made continuous improvements in financial services while strengthening support for priority areas and vulnerable sectors of the national economy. ABC endeavoured to better serve social and economic development and achieved a systematic link between business transformation and the efforts to advance domestic demand. We devised plans and strategies for the coming three years, five years and ten years respectively (the “3510” development strategy). Aiming at optimizing operational structure, sharpening competitive edges and enhancing value-making capability, the Bank stepped up efforts to create new operational modes of corporate banking, retail banking and agro-related business. These operational modes will be on a project-driven, well-focused test program basis, with an emphasis on outlet transformation and differentiated marketing and services. Stable and rapid growth was made in all business lines while accelerating business transformation. Profitability was improved remarkably and the financial foundation was further enhanced. In the reporting year, net profit stood at RMB51.453 billion, up by 17.51% over the previous year, with return on average assets and fully diluted return on net assets being 0.84% and 17.72% respectively. The business was scaled up progressively, with total assets, net deposits and net loans increasing by RMB1,708.85 billion, RMB810.23 billion and RMB305.79 billion respectively (up by 32.21%, 15.32% and 11.29% respectively). Benefiting from operation improvements and financial restructuring, the Bank met all regulatory requirements, and made distinct improvements in operating results, asset quality and indicators of prudential operation.

Message from the Chairman

In 2008, the Bank defined its core competitiveness by strengthening process reengineering and improving systems and mechanisms. The Bank implemented and accelerated detail-focused management under the fundamental principles of “optimal process, standard operation, accurate management and continuous improvement” with a focus on counter business, credit business and technical operation. The operation management system was improved to promote centralization of back-office activities and advance operation management quality and efficiency. Efforts were taken to upgrade the integrated accounting system, optimize counter business process and improve efficiency of outlet services. The new generation core banking system was launched with a focus on detail-oriented management of technical operation. The Bank introduced industry-specific credit policies, prepared operation guides for credit business, and reinforced the execution of rules and regulations. Improvements were made to risk management capability, investigating present risks, improving risk management mechanism, and creating a comprehensive risk management system of modern commercial banks. A risk management department was set up to intensify the planning, coordination, measurement and control of risks within the Bank. The Bank sought to build a risk management framework encompassing customer admission, credit approval, credit extension, post-lending management and asset disposal. It also endeavors to perfect risk management policies and regulations and promote the internal based rating approach project. Meanwhile, much attention was paid to different aspects of corporate culture. Such new cultural elements as compliance, detail-orientation, innovation and dedication were incorporated to inspire employees’ value-making ability and to develop this unique culture into the Bank’s core competitiveness.

In 2008, following its market positioning of serving agriculture, rural areas and farmers (“agro-related sectors”), the Bank preliminarily established a specialized agro-related financial service system. ABC took agro-related services as an eternal theme for its reform and development and defined the development strategies for agro-related operations and county-level “blue ocean” markets. The Bank also created a complete business segment for agro-related sectors, developed and implemented the overall plan for serving agro-related sectors, and carried out an experimental project regarding agro-related financial services. The Bank devised innovative means for agro-related loans, focused on grassroots operations, diversified guarantee modes, and endeavoured to make agro-related loans more accessible. The Farmers’ Benefit Kins Card was developed and promoted to provide convenient and efficient modern financial services. We introduced an ABC-specific new approach to “agro-related” services that is based on leading enterprises in agricultural industrialization and agricultural product bases. With a main focus on farmers, this approach takes the farmers’ benefit card as a useful instrument and considers small farmer loans as a breakthrough in this regard. Backed by the organizational assurance of the Agro-Finance Banking Department, the new approach can provide satisfactory services, risk control and development sustainability. It has reinforced institutional assurance for agro-related services and drove the agro-related financial services to a new stage of growth.

Establishment of the joint-stock company resembles a milestone in the reform of the Bank as if we have turned a new page in our development. We are fully aware that the incorporation of the joint-stock company is not an end to the reform, but rather a start of an arduous journey for the Bank to build itself into a modern commercial bank with new goals and ambition. We are determined to uphold the philosophy of “customer-orientation”, adhere to the “3510” development strategy, focus on the establishment of modern financial institution system and serve the agro-related sectors. We will step up efforts in corporate governance, deepen the business transformation, improve detail-focused management, enhance risk management, and make a stronger work team. We will spare no effort in building a modern commercial bank which satisfies the State, the shareholders, the customers, the society and the employees, and continuously delivers more for the whole society.



Chairman: Xiang Junbo

25 April 2009

Message from the President



Zhang Yun
President

For ABC, 2008 was extraordinary in its reform and development history. In this year, the Bank actively responded to challenges and difficulties from both inside and outside China, and successfully fulfilled tasks planned at the beginning of the year. It implemented the “3510” development strategy and pushed forward business transformation, including detail-focused management. In addition, the Bank intensified agro-related services, expanded county-level “blue ocean markets” and strictly managed operational risk. The Bank laid a solid foundation for the reform and development following the incorporation of the joint stock company.

Operating results were improved. In 2008, the Bank registered a net profit of RMB51.45 billion, up by 17.51%, with return on average assets and fully diluted return on net assets of 0.84% and 17.72% respectively. In 2008, operating income increased by 17.83% to RMB211.19 billion, net interest income grew by 23.10% to RMB193.85 billion, and net fee and commission income rose by 3.49% to RMB23.80 billion.

Credit business made steady growth. In 2008, the Bank reasonably adjusted its credit supply in accordance with currency and credit policies of the State. The net outstanding loans were RMB3,014.98 billion at the end of the year, up by 11.29% from the previous year. Meanwhile, the variety mix, industrial distribution and regional allocation were further optimized for credit assets.

Achievements were made in agro-related services. In 2008, the Bank fulfilled the requirements of “better services to agro-related sectors and commercialized operation” and expanded county-level “blue ocean markets”. In 2008, the Bank extended RMB766.70 billion of agro-related loans, with outstanding loans amounting to RMB933.00 billion as of 31 December 2008. The number of Farmers’ Benefit Kins Card issued was 8.1 million, 96% of which were activated cards. A credit line of RMB6.59 billion was granted to 292,000 customers and outstanding loans stood at RMB4.66 billion.

Risk management was improved. As of 31 December 2008, the Bank had a capital adequacy ratio of 9.41%, an NPL ratio dropping to 4.32% and provision coverage ratio of 63.53%. The Bank seized the opportunity of improving corporate governance. It enhanced basic systems focusing on risk management, established and improved a sustained risk management mechanism and carried forward risk management practices, to establish a comprehensive risk management system of modern commercial banks.

Customer services were improved. The Bank exerted every effort to provide better services for its extensive clientele. By expanding service channels, reengineering service processes, stepping up product innovation, and constantly evaluating and improving service modes, the Bank better satisfied its customers with their banking experiences.

Human resources reform was advanced. The Bank designed and implemented the human resources organizational reform. It preliminarily established a clear position management system with distinct position categories, and defined appropriate authorities and responsibilities. The compensation management system was reengineered, based on the value of the positions and the market. A comprehensive performance management system and a strict accountability system were also established.

A new generation core banking system program was launched. The Bank developed an overall plan for business and technical architectures while advancing the integration of business, application, data and infrastructure architecture. It also strengthened technological support for corporate governance, internal management and business operation.

The year 2009 will be the first year following the establishment of the joint-stock company. In the face of new challenges and opportunities, the Bank will continue to implement the new corporate governance structure and carry out its operational strategy. We will be completely focused on operation, growth and risk management to completely fulfil the tasks and meet the various objectives set by the Board of Directors.

Agro-related services and the county-level “blue ocean market” development strategy were implemented. Agro-related services improved in all aspects, including Farmers’ Benefit Kins Cards, small farmer loans, agro-related corporate banking, and so on. Multi-divisional reform of the county-level agro-related services was launched on an experimental basis in 100 selected county-level sub-branches. Required by the increasingly integrated rural and urban economic development, the Bank will make full use of its advantages to better coordinate its rural and urban business.

Business transformation was advanced to upgrade urban business. The Bank integrated resources and improved marketing mechanisms. Strategic cooperation agreements between ABC Head Office and governments at all levels will be put into effect. Market share and competitiveness of our urban corporate banking business will be continuously improved, and the percentage of capital-intensive and cost-effective business enlarged. Efforts were also made to build a customer-oriented marketing system for the Bank’s retail banking business, accelerate the transformation of retail outlets, and improve e-banking.

Financial market business was successfully developed. Effective measures were taken to strengthen liquidity management throughout the Bank. Investment portfolio, decision-making systems, value-making capability and risk management of the business was improved.

“Technology-oriented bank” strategy was implemented. The Bank’s new generation of core banking system is a major step in developing a highly responsive, efficient and coordinated innovation mechanism for products and technology, improving data and information management throughout the Bank, and enhancing its productivity.

Risk management and business development were maintained. This year comprehensive risk management system was greatly improved while risk management instruments were created. The Bank has consistently reformed the credit approval system to strengthen internal control, implement detail-focused management, and strengthen back-office center development.

The principle of putting efficiency first was upheld to facilitate treasury and accounting work. The Bank strengthened capital regulation, established an internal funds transfer pricing mechanism and a financial reporting system under the new accounting principles. It also centralized resource allocation giving preference to branches with handsome profits and strategic-business- and key-projects-intensive areas. These moves were taken to improve the Bank’s profitability and maximize returns for its shareholders.

This year marks a new start for the Bank. We shall make our best efforts to build the Bank into a large modern commercial bank, a bank that plays a major role in serving agro-related sectors, a bank with diversified business lines covering both urban and rural markets, a bank fully emerged with the international markets, a bank that operates comprehensively, and a bank that provides high quality financial services to the largest customer base.



President: Zhang Yun
25 April 2009

Independent Opinion of the Board of Supervisors on Financial Statements



Che Yingxin

Chairman of the Board of Supervisors

Independent Opinion of the Board of Supervisors on Financial Statements

The financial statements for the year ending on 31 December 2008 truthfully and fairly present the financial position and operating results of the Bank.



Chairman of the Board of Supervisors: Che Yingxin

25 April 2009

Overview of Joint-Stock Reform

The State Council reviewed and approved in principle the overall plan for the joint-stock reform of the Bank on 21 October 2008. After that, capital injection from the government, removal of bad assets and other major financial reorganizations were completed. The financial reorganization resulted in substantial improvements in asset quality, profitability, capital strength and financial foundation of the Bank. On 15 January 2009, the Bank modified its registration with the Industrial and Commercial Administration Authority, and transformed from an exclusively state-owned commercial bank to a joint stock company, renaming itself “Agricultural Bank of China Limited”.

Capital Injection from the Government

On 29 October 2008, Central Huijin Investment Ltd. injected into the Bank assets in foreign exchange equivalent to RMB130,000 million. The Ministry of Finance retained its RMB130,000 million equity in the former Agricultural Bank of China as the capital contributed as of the reference date of reform.

Removal of Bad Assets

On 21 November 2008, the Bank removed RMB815,695 million of bad assets at face value as on 31 December 2007 upon the approval by the Ministry of Finance, including RMB217,323 million doubtful loans, RMB549,445 million loss loans and RMB48,927 million non-credit assets. These assets were exchanged in equal value with PBOC’s interest-free refinancing of RMB150,602 million to the Bank, issued by on 31 December 2007 and the remaining RMB665,093 million was converted to receivables from the Ministry of Finance that began to gain interest on 1 January 2008 at an annual rate of 3.3%.

The Bank and the Ministry of Finance (MOF) set up the “Co-managed Fund” for repaying the principal receivable by the Bank from the Ministry of Finance in 15 years and paying accrued interest. The funding sources of the Co-managed Fund are (1) cash dividend distributed by the Bank to the Ministry of Finance, (2) corporate income tax paid to the central government, (3) proceeds from the disposal of bad assets deducting recovery cost, and (4) earnings from the sale of shares held by the Ministry of Finance. The Ministry of Finance holds all rights and assumes all risks in relation to the asset transfer. The MOF authorized the Bank to set up a separate asset disposal body to perform the collection.

Establishment of the Joint-Stock Company

In accordance with such laws and regulations as the *Company Law*, the Bank drafted and made the Articles of Association of the joint-stock company, the procedural rules for the General Meeting of Shareholders, the Board of Directors and the Board of Supervisors and other legal instruments. This laid a system foundation for building a modern corporate governance structure. On 9 January 2009, the Bank held the incorporation meeting of Agricultural Bank of China Limited and the first General Meeting of Shareholders, which elected the first Board of Directors and the first Board of Supervisors as well as appointed the Senior Management personnel. On 15 January 2009, the Bank registered changes with Industrial and Commercial Administration Authority, and was renamed “Agricultural Bank of China Limited”. The Bank held the inauguration meeting of Agricultural Bank of China Limited on 16 January 2009.

Initiated by the Ministry of Finance and Central Huijin Investment, the joint-stock company fully assumed all the assets, liabilities and business of the former Agricultural Bank of China. The joint-stock company has a registered capital of RMB260,000 million, divided into 260,000 million shares, each having a par value of RMB1.

Shareholders and the General Meeting of Shareholders

Shareholders

Since the establishment of the joint-stock company, the Bank has two initial shareholders and they are the Ministry of Finance (MOF) and the Central Huijin Investments Ltd.

Equity Structure of the Bank

Name of shareholder	Type of shares	Number of shares	Percentage
		(100 million shares)	(%)
MOF	State shares	1,300	50
Huijin	State shares	1,300	50
Total		2,600	100

MOF

The Ministry of Finance (MOF), established in October 1949, is a macro-control department under the State Council, responsible for China's fiscal revenue and expenditure, fiscal and taxation policies, and the management of state-owned capital.

MOF currently holds 130,000 million shares of ABC, accounting for 50% of the shares issued by the Bank. The shares of the Bank held by MOF are not pledged and are without disputes.

Central Huijin Investments Ltd.

Huijin is an exclusively state-owned company with limited liability, which was incorporated in accordance with the Company Law on 16 December 2003. It has a registered capital of RMB552,117 million and its legal representative is Mr. Lou Jiwei. Authorized by the State, Huijin exercises equity investment in the important state-owned financial enterprises.

Huijin currently holds 130,000 million shares of ABC, accounting for 50% of the shares issued by the Bank. The shares of the Bank held by Huijin are not pledged and are without disputes.

In addition to ABC, Huijin has also invested in such financial institutions as China Construction Bank Limited, Bank of China Limited, Industrial and Commercial Bank of China Limited and China Development Bank Limited.

General Meeting of Shareholders

According to the Articles of Association of the Bank, the responsibilities of the General Meeting of Shareholders, an organ of power, include but are not limited to as follows:

- To decide the operation policy and investment plan of the Bank;
- To elect, replace and dismiss directors, external supervisors and supervisor of shareholder representatives;
- To decide the remuneration of directors and supervisors;
- To review and approve the reports of the Board of Directors and the Board of Supervisors;
- To review and approve the annual budgets, financial accounting, profit distribution plans and loss recovery plans of the Bank;
- To review and approve the plans on registered capital increase or decrease, plans on merger, split-off, dissolution, liquidation or change of corporation type, issue of corporation bonds or other securities, and reports on going public and repurchasing stocks;
- To amend the Articles of Association of the Bank, the Procedural Rules of the General Meeting of Shareholders, the Procedural Rules of the Board of Directors and the Procedural Rules of the Board of Supervisors.

On 9 January 2009, the Bank held the incorporation meeting of Agricultural Bank of China Limited and the first General Meeting of Shareholders, which reviewed and approved 11 proposals on the incorporation of Agricultural Bank of China Limited and contributions of the promoters. It also reviewed and approved the Articles of Association, the Procedural Rules of the General Meeting of Shareholders, the Board of Directors and the Board of Supervisors, the engagement of auditors, the preparation for founding the joint-stock company and responding expenses. During the meeting, the first Board of Directors and Board of Supervisors of Agricultural Bank of China were elected and all the proposals were approved by unanimous vote. The founding meeting was attested by lawyers who issued legal opinions.

On 13 April 2009, the Bank held its second extraordinary general meeting of shareholders, which reviewed and approved one proposal on the authorization to the Board of Directors by the General Meeting of Shareholders. The proposal was approved by unanimous vote. The meeting was attested by lawyers who issued legal opinions.

Overview of Directors, Supervisors and Senior Management

Directors

Name	Position	Gender	Age	Term
Xiang Junbo	Chairman, Executive Director	Male	51	January 2009– January 2012
Zhang Yun	Vice Chairman, Executive Director, President	Male	49	January 2009– January 2012
Yang Kun	Executive Director, Executive Vice President	Male	50	January 2009– January 2012
Luo Xi	Executive Director, Executive Vice President	Male	48	January 2009– January 2012
Zhang Guoming	Non-executive Director	Male	53	January 2009– January 2012
Xin Baorong	Non-executive Director	Female	57	January 2009– January 2012
Shen Bingxi	Non-executive Director	Male	56	January 2009– January 2012
Lin Damao	Non-executive Director	Male	54	January 2009– January 2012
Yuan Linjiang	Non-executive Director	Male	45	January 2009– January 2012
Cheng Fengchao	Non-executive Director	Male	49	January 2009– January 2012
Lan Dezhang (John Dexter Langlois)	Independent Non-executive Director	Male	66	January 2009– January 2012
Hu Dingxu (Anthony Wu Ting-yuk)	Independent Non-executive Director	Male	54	January 2009– January 2012
Qiu Dong	Independent Non-executive Director	Male	51	January 2009– January 2012

Xiang Junbo, Chairman and Executive Director

Mr. Xiang Junbo has served as Chairman of the Board of Directors and Executive Director of Agricultural Bank of China Limited since January 2009. He joined ABC in June 2007, and was appointed as President of the Agricultural Bank of China Head Office. In October the same year, he was elected Alternate Member of the Seventeenth CPC Central Committee. Mr. Xiang previously served successively as Vice Principal of Nanjing Audit University; Deputy Director of the Audit Management Department of National Audit Office of the People's Republic of China; Commissioner of the Special Commissioner's Office for Beijing, Tianjin and Hebei, National Audit Office; and Director of the Personnel and Education Department of National Audit Office. He was appointed as Member of the Leading Party Group of and Director of the Personnel Department of National Audit Office in 2000, Deputy Auditor General of the National Audit Office in February 2002, and Deputy Governor of the People's Bank of China (PBOC) in July 2004 (also Director of Shanghai Head Office of PBOC from August 2005 to June 2007). He received a Ph.D in Law from Peking University and is a Research Fellow now.



Zhang Yun, Vice Chairman, Executive Director and President

Mr. Zhang Yun has served as Vice Chairman, Executive Director and President of Agricultural Bank of China Limited since January 2009. He previously served successively as Deputy President of ABC Shenzhen Branch, Deputy President of ABC Guangdong Branch, and President of ABC Guangxi Zhuang Autonomous Region Branch. He was appointed as Executive Assistant President and General Manager of Personnel Department of ABC Head Office in March 2001, and Executive Vice President of ABC Head Office in December 2001. He received a Ph.D in Economics from Wuhan University and is a Senior Economist now.



Yang Kun, Executive Director and Executive Vice President

Mr. Yang Kun has served as Executive Director and Executive Vice President of Agricultural Bank of China Limited since January 2009. He previously served successively in ABC Head Office as Deputy General Manager of the Personnel and Education Department, Deputy General Manager of the Agency Business Department, and General Manager of the Market Development Department. He also once served as President of ABC Anhui Branch. He had served concurrently as Executive Assistant President of ABC Head Office and the President of ABC Anhui Branch since January 2002. Then in November 2003 he had served as Executive Assistant President of ABC Head Office, and was appointed as Executive Vice President of ABC Head Office in March 2004. Mr. Yang received a Master degree in Economics from Nankai University and is Senior Economist now.





Luo Xi, Executive Director and Executive Vice President

Mr. Luo Xi has served as Executive Director and Executive Vice President of Agricultural Bank of China Limited since January 2009. He previously served successively as Assistant President of ABC Hainan Branch, Deputy President of ABC Hainan Branch, Deputy President of ABC Fujian Branch, General Manager of the Asset Preservation Department of ABC Head Office, General Manager of the Asset Protection Department of ABC Head Office, and General Manager of the International Department of ABC Head Office. He had served concurrently as Executive Assistant President of ABC Head Office and General Manager of the International Department since January 2002. Then since January 2004 he had served as Executive Assistant President of ABC Head Office, and was appointed as Executive Vice President of ABC Head Office in March 2004. Mr. Luo received a Master degree in Economics from the Graduate School of People's Bank of China and is Senior Economist now.



Zhang Guoming, Non-Executive Director

Mr. Zhang Guoming has served as Non-Executive Director of Agricultural Bank of China Limited since January 2009. He previously served successively as Officer of Agriculture Department, Ministry of Finance; Deputy Director of Business Division, Agriculture Department, Ministry of Finance; Director of Business Division, Agriculture Department, Ministry of Finance; and Director of Forestry Division, Agriculture Department, Ministry of Finance. He was appointed as Vice Counsel, Agriculture Department, Ministry of Finance in April 2006. Mr. Zhang holds a Bachelor's Degree and is an Accountant now.



Xin Baorong, Non-Executive Director

Ms. Xin Baorong has served as Non-Executive Director of Agricultural Bank of China Limited since January 2009. She previously served as Deputy Director, Office of Assessment Center, State Administration of Stated-owned Assets; Office Director, China Appraisal Society; Director of Human Resources Department, Chinese Institute of Certified Public Accountants; and Vice Secretary of the Party Committee, China Appraisal Society. She was appointed as Full-time Vice Secretary of the Party Committee, China Appraisal Society in September 2004, and Advisor of China Appraisal Society in November 2006. She is now also serving as Executive Member of China Appraisal Society and Director of Work Committee for Female Appraisers. Ms. Xin holds a Bachelor's Degree and is a Senior Engineer, Certified Public Accountant and Certified Asset Appraiser now.

Shen Bingxi, Non-Executive Director

Mr. Shen Bingxi has served as Non-Executive Director of Agricultural Bank of China Limited since January 2009. He previously served as Deputy Director of Financial Market Division, Financial System Reform Department, People's Bank of China (PBOC); Director of System Reform Division and Currency Research Division, Policy Research Office, PBOC; Director of Currency Policy Division, Research Department, PBOC; and Chief Representative of Tokyo Representative Office, PBOC (counsellor at the director level since July 2000, counsellor at the deputy bureau level since November 2001). He was appointed as Deputy Chief of Financial Market Department, PBOC in November 2003; and Vice Council of Financial Market Department, PBOC in January 2009. He was a Guest Research Fellow at University of Tokyo, and is now Supervisor of master students at the Graduate School of People's Bank of China and Adjunct Professor of Xiamen University. Mr. Shen received a Ph.D in Economics from Renmin University of China and is a Research Fellow now.



Lin Damao, Non-Executive Director

Mr. Lin Damao has served as Non-Executive Director of Agricultural Bank of China Limited since January 2009. He previously served as Deputy Director of Foreign Economic Division, Foreign Currency and Foreign Affairs Department, Ministry of Finance; Deputy Director of Foreign Economic Cooperation Division, Foreign Currency and Foreign Affairs Department, Ministry of Finance; Director of Foreign Economic Cooperation Division, Foreign Currency and Foreign Affairs Department, Ministry of Finance; Director of Foreign Economic Division, Foreign Affairs Department, Ministry of Finance; and Director of Foreign Affairs Division, Department of Policies and Legislation, Ministry of Finance. He was appointed as Vice Counsel, Department of Policies and Legislation, Ministry of Finance in May 2001. Mr. Lin holds a Bachelor's Degree and is an Accountant now.



Yuan Linjiang, Non-Executive Director

Mr. Yuan Linjiang has served as Non-Executive Director of Agricultural bank of China Limited since January 2009. He previously served as Assistant General Manager, Credit Management Department of China Everbright Bank; Deputy General Manager, Credit Management Department of China Everbright Bank; and Acting General Manager, Risk Management Department of China Everbright Bank. He was appointed as Deputy President and Chief Risk Officer of China Everbright Bank Beijing Branch in August 2005, and President of China Everbright Bank Chongqing Branch in December 2007. Mr. Yuan received an EMBA degree from Renmin University of China and is an Economist now.





Cheng Fengchao, Non-Executive Director

Mr. Cheng Fengchao has served as Non-Executive Director of Agricultural Bank of China Limited since January 2009. He previously served as Vice Director General, Financial Bureau of Pingquan County, Hebei Province; Acting Director, Administrative Office of Financial Department of Hebei Province; Head of Hebei Accounting Firm; Vice President and Secretary-General, Hebei Institute of Certified Public Accountants; and Deputy General Manager, China Great Wall Asset Management Corporation, Shijiazhuang Office. He was appointed as General Manager, Valuation Management Department, China Great Wall Asset Management Corporation in January 2001; General Manager, China Great Wall Asset Management Corporation, Tianjin Office in January 2006; and General Manager, Development Research Department, China Great Wall Asset Management Corporation in August 2008. He is now also serving as a Guest Professor of Peking University, Guest Professor of Beijing Technology and Business University, Member of Committee for Restructuring of Listed Companies, China Securities Regulatory Commission, Executive Member of China Appraisal Society and Independent Director of Tsinghua Tongfang Limited. Mr. Cheng received a PhD in management from Hunan University and is a Senior Accountant, Certified Public Accountant and Certified Asset Appraiser now.



Lan Dezhong (John Dexter Langlois), Independent Non-Executive Director

Mr. John Dexter Langlois has served as Independent Non-Executive Director of Agricultural Bank of China Limited since January 2009. He previously served successively as Associate Professor and Dean of History Department, Bolton University, Bransford, Maine, USA; Vice President of JP Morgan Bank; Chairman and Managing Director of Investment Banking Department in Real Estate Asia Pacific, J.P. Morgan; Chairman of Investment Banking Department China, J.P. Morgan; Chief Representative of Beijing Representative Office, J.P. Morgan; and Visiting Professor at East Asia Studies, Princeton University. He was appointed as Chairman of Morgan Stanley Properties (China) Co., Ltd in September 2002, Managing Director of Countrywide Capital Markets Asia Limited in April 2006, and Chairman of Lanming (Beijing) Investment Consulting Co., Ltd in March 2008. Also, he was Director of Bank of Shanghai from 2000 to 2004; Director of Nanjing City Commercial Bank from 2003 to 2004; Non-Executive Chairman of the Board of Directors and Director of Shenzhen Development Bank from January 2005 to June 2006; and Independent Director of China CITIC Bank Corporation Limited from January 2007 to September 2008. He received a Ph.D in East Asia Studies from Princeton University.



Hu Dingxu (Anthony Wu Ting-yuk), Independent Non-Executive Director

Mr. Hu Dingxu (Anthony Wu Ting-yuk) has served as Independent Non-Executive Director of Agricultural Bank of China Limited since January 2009. He used to serve as Chairman of Far East and China, former Ernst & Young PLLC, and Chairman of Hong Kong Hospital Authority since October 2004. Now, He is serving as Chairman of Bauhinia Foundation Research Center, Hong Kong; Executive Vice Chairman of Hong Kong General Chamber of Commerce; Chief Adviser of Greater China, Bank of Tokyo-Mitsubishi; Senior Advisor of Hong Kong and China, Ernst & Young PLL; Member of Hong Kong Commission on Strategic Development; Member of Hong Kong Health and Medical Development Advisory Committee; Member of Committee for Pearl River Delta Project; Member of Board of Directors, United Nations Association of the People's Republic of China; and Honorable Treasurer and Member of Foundation of Oxford University. He was appointed as Justice of the Peace in 2004 and received Gold Bauhinia Star awarded by the Government of Hong Kong Special Administrative Region in 2008. Mr. Hu Dingxu (Anthony Wu Ting-yuk) is an Accountant and member of the Ninth, Tenth and Eleventh CPPCC National Committee.

Qiu Dong, Independent Non-Executive Director

Mr. Qiu Dong has served as Independent Non-Executive Director of Agricultural Bank of China Limited since January 2009. He served as Principal of Northeast Finance and Economics University; and Secretary of the Party Committee, Central University of Finance and Economics from February 2005 to March 2009. Now, He is serving as Vice President of China Statistics Association; Vice President of China National Conditions Research Association; Vice President of China Association of Market Information and Research; Vice President of Statistical Education Society of China; Vice President of China National Accounting Society; Member of the Appraisal Group of Philosophy, Social Science and Planning; Member of the Disciplines Evaluation Panel of the Academic Degrees Committee of the State Council (Applied Economics); Member of Economics Teaching Steering Committee for Universities and Colleges, Ministry of Education; Member of National Statistical Teaching Material Editing and Censoring Committee; Member of Selection Committee for Science and Technology Progress Award on Statistics of China; Member of Academic Committee, Center for Applied Statistics, Renmin University of China; Invited Research Fellow of School of Statistics, Xi'an Statistic Research Institute; Ph.D Supervisor at Tianjin University of Finance and Economics; Adjunct Professor of Southwestern University of Finance and Economics; Adjunct Professor of Shanxi University of Finance and Economics; and Member of Editorial Board of Statistical Research. Mr. Qiu received a Ph.D in Economics from Northeast Finance and Economics University and is a Professor, a Ph.D supervisor and an Expert Entitled to Government Special Allowance by the State Council now. He is also a Representative of the Tenth National People's Congress.



Supervisors

Name	Position	Gender	Age	Term
Che Yingxin	Chairman of the Board of Supervisors	Male	54	January 2009– January 2012
Pan Xiaojiang	Supervisor representing Shareholders	Male	56	January 2009– January 2012
Wang Yurui	Supervisor representing Employees	Male	53	January 2009– January 2012
Wang Xingchun	Supervisor representing Employees	Male	44	January 2009– January 2012
Jia Xiangsen	Supervisor representing Employees	Male	53	January 2009– January 2012



Che Yingxin, Chairman of the Board of Supervisors

Mr. Che Yingxin has served as Chairman of the Board of Supervisors of ABC since January 2009. He previously served as Governor of Lushi Sub-Branch of People's Bank of China (PBOC); Deputy Governor of Luoyang Branch of PBOC; Governor of San Menxia Branch, PBOC; President of Xinyang Branch; Vice President of Henan Provincial Branch; Deputy Director of the Inspection Bureau of PBOC; Deputy Secretary of the Commission for Discipline Inspection and Director of the Inspection Bureau of PBOC; Deputy Secretary of CPC Central Commission for Financial Discipline Inspection; Director of Financial Inspection Bureau of Ministry of Supervision; and General Manager of Supervision Department of CBRC. He was appointed as Assistant to Chairman of CBRC in February 2005, and Chairman of the Board of Supervisors of Key State-owned Financial Institutions in December 2005. Mr. Che holds a Bachelor Degree.



Pan Xiaojiang, Supervisor Representing Shareholders

Mr. Pan Xiaojiang has served as Supervisor Representing Shareholders of Agricultural Bank of China Limited since January 2009. He previously served successively as Deputy Director of the Accounting Management Division of MOF; Deputy Director of Chinese Institute of Certified Public Accountants; Deputy Director, Director and Deputy Director-General of the World Bank Department of MOF; and Director of the International Department of MOF. He was appointed as full-time supervisor (at the deputy bureau level) and deputy director dispatched by State Council to the Board of Supervisors of Bank of China in July 2000; Full-Time Supervisor (at the bureau level) and Director dispatched by State Council to the Board of Supervisors of Bank of China in November 2001; and Full-Time Supervisor (at the bureau level) and director dispatched by State Council to ABC Board of Supervisors in July 2003. Mr. Pan received a Ph.D in Management from Tsinghua University and is a Senior Economist and Certified Public Accountant now.

Wang Yurui, Supervisor Representing Employees

Mr. Wang Yurui has served as Supervisor Representing Employees of Agricultural Bank of China Limited since April 2009. He joined ABC in August 2004, and was appointed as Full-Time supervisor (at the director level) dispatched by State Council to the Board of Supervisors of ABC then; Full-Time Supervisor (at the deputy bureau level) dispatched by State Council to the Board of Supervisors of ABC in April 2008; and Supervisor Representing Shareholders of Agricultural Bank of China Limited in January 2009. He previously served successively as Deputy Director of the Construction and Finance Division of the Science and Education Department, PBOC; Deputy Director of the Plan and Finance Division of the Education Department, PBOC; Deputy Governor of PBOC Weihai Branch; and Acting Director of the Integrated Services Division of the Accounting and Treasury Department, PBOC. He was appointed as Deputy Director dispatched by State Council to the Board of Supervisors of China Galaxy Securities Company in July 2000, and Supervisor (at the director level) dispatched by State Council to the Board of Supervisors of Bank of Communications in August 2003. Mr. Wang holds a Bachelor Degree and is a Senior Engineer now. He is a Member of the 7th and the 8th All-China Youth Federation and a Member of the 10th CPPCC Standing Committee of Xicheng District, Beijing City.



Wang Xingchun, Supervisor Representing Employees

Mr. Wang Xingchun has served as Supervisor Representing Employees of Agricultural Bank of China Limited since April 2009. He previously served successively in ABC Head Office as Deputy Chief of the Policy Research Division of the Research Office, Chief of the Policy Research Division of the Development Planning Department, Assistant to the General Manager of the Development Planning Department, and Assistant to the General Manager of the Market Development Department. He was appointed to several positions in ABC Head Office, including Deputy General Manager of the Market Development Department in May 1998, Acting General Manager of the Training Department of in December 2000, Vice President of Tianjin Training Institute of ABC in February 2002; General Manager of the Legal Affairs Department in November 2003; General Manager of the Legal and Compliance Department in June 2006; and General Manager of the Legal Affairs Department in July 2008. Mr. Wang received a Master's degree from the Graduate School of the People's Bank of China and is a Senior Economist now.



Jia Xiangsen, Supervisor Representing Employees

Mr. Jia Xiangsen has served as Supervisor Representing Employees of Agricultural Bank of China Limited since April 2009. He previously served successively as Deputy Section Chief of PBOC Beijing Branch, and Deputy Director of PBOC Fengtai District Office. Then he served in several positions in ABC, including Vice President of Fengtai Sub-branch, Deputy Secretary of the Party Committee of Beijing Branch, Deputy Chief of the Education Division of Beijing Branch, Deputy Director of the Credit Cooperation Management Department of Beijing Branch and Deputy Chief of the Science and Technology Division of Beijing Branch. He also once served as President of ABC Dongcheng Sub-Branch and Assistant to the President of ABC Beijing Branch. He was appointed as President of ABC Beijing Branch in November 1994, General Manager of the Corporate Banking Department of ABC Head Office in December 2000, President of ABC Guangdong Branch in November 2003, and General Manager (at the bureau level) of the Audit Department of ABC Head Office in April 2008. Mr. Jia graduated from a Master program in Money and Banking of the Chinese Academy of Social Sciences and is a Senior Economist now.



Senior Management

Name	Position	Gender	Age	Term
Zhang Yun	President	Male	49	January 2009–
Yang Kun	Executive Vice President	Male	50	January 2009–
Luo Xi	Executive Vice President	Male	48	January 2009–
Zhu Hongbo	Secretary of Party Discipline Committee	Male	46	January 2009–
Guo Haoda	Executive Vice President	Male	51	January 2009–
Pan Gongsheng	Executive Vice President	Male	45	January 2009–
Li Zhenjiang	Secretary to the Board of Directors	Male	38	January 2009–

For detailed resumes of Zhang Yun, Yang Kun and Luo Xi, please refer to the section 9.1 headed “Directors”. The resumes of other senior management personnel are as follows:



Zhu Hongbo, Secretary of Party Discipline Committee

Mr. Zhu Hongbo has served as Secretary of Party Discipline Committee of Agricultural Bank of China Limited since January 2009. He previously served successively as Deputy General Manager and General Manager of the Executive Office of ABC Head Office; and President of ABC Hainan Branch, Jiangsu Branch and Beijing Branch. He was appointed as Member of the ABC Party Committee and President of ABC Beijing Branch in June 2006; and Secretary of ABC Party Discipline Committee in April 2008. Mr. Zhu received a Ph.D in Management from Nanjing University and is a Senior Economist now.



Guo Haoda, Executive Vice President

Mr. Guo Haoda has served as Executive Vice President of the Head Office of Agricultural Bank of China Limited and President of Beijing Branch of Agricultural Bank of China Limited since January 2009. He previously served successively as Vice President and President (at the deputy bureau level) of Suzhou Branch in Jiangsu Province; President of Shenzhen Branch; and President of Jiangsu Branch. He was appointed as Executive Vice President of ABC Head Office and President of ABC Beijing Branch in April 2008. Mr. Guo holds a Bachelor Degree and is a Senior Economist now. He received National May 1st Labor Medal in 2003.

Pan Gongsheng, Executive Vice President

Mr. Pan Gongsheng has served as Executive Vice President of Agricultural Bank of China Limited since January 2009. He joined ABC in April 2008, and was appointed as Executive Vice President. He previously served several positions successively in Industrial and Commercial Bank of China (ICBC), including Deputy General Manager of the Human Resources Department, Head Office; Deputy General Manager of the Financial Planning Department, Head Office; Vice President of Shenzhen Branch; General Manager of the Financial Planning Department, Head Office; and Managing Director of the Restructuring Office, Head Office. He was appointed as ICBC Board Secretary, Managing Director of ICBC Restructuring Office and General Manager of ICBC Financial Planning Department in October 2005; Board Secretary, Managing Director of ICBC Restructuring Office and Managing Director of the Office of ICBC Board of Directors in February 2006; and Board Secretary and General Manager of ICBC Strategic Management and Investor Relationship Department in March 2007. Mr. Pan received a Ph.D in Economics from Renmin University of China and is a Research Fellow now.



Li Zhenjiang, Secretary to the Board of Directors

Mr. Li Zhenjiang has served as Secretary to the Board of Directors, Managing Director of the Office of Board of Directors and Deputy Executive Director of the Restructuring Office of Agricultural Bank of China Limited since January 2009. He previously served successively as Chief of Policy Research Division of PBOC General Administration Department and Vice Director of the Integrated Management Department of PBOC Shanghai Head Office. He was appointed as Deputy Director of ABC Restructuring Office in August 2007, Director of ABC Research Office in January 2008, and General Manager of ABC Strategic Management Department in October 2008. Mr. Li received a Ph.D in economics from Nankai University and is a Senior Economist now.



Appointment and Removal

In April 2008, Mr. Zhu Hongbo was appointed as Secretary of Party Discipline Committee of the Bank; Mr. Guo Haoda and Mr. Pan Gongsheng were appointed as Executive Vice President of the Bank; Mr. Tang Jianbang, former Executive Vice President, retired.

In December 2008, Mr. Han Zhongqi, former Executive Vice President, retired.

On 9 January 2009 when the first session of the Board of Directors was held, Mr. Zhang Yun was appointed as President of the Bank; Mr. Yang Kun, Mr. Luo Xi, Mr. Guo Haoda and Mr. Pan Gongsheng as Executive Vice Presidents of the Bank; and Mr. Li Zhenjiang as Secretary to the Board of Directors of the Bank.

Annual Remuneration

To promote sustainable value growth of the Bank, ABC followed a fair and open performance evaluation of senior management personnel. An incentive mechanism linking remuneration to business performance was established in which risks, current compensation, and specific position responsibility were taken into consideration.

Remuneration of key senior management personnel

Name	Total remuneration (RMB10,000)
Xiang Junbo	136.47
Han Zhongqi	123.85
Zhang Yun	115.17
Yang Kun	115.20
Luo Xi	114.84
Zhu Hongbo	114.82
Guo Haoda ¹	78.76
Pan Gongsheng ¹	41.94
Total	841.05

Note: 1. After they became Executive Vice Presidents of the Bank.

During the reporting period, the key senior management personnel received a total remuneration of RMB8.41 million from the Bank. The average remuneration per person was 10% lower than the previous year. But as the number of the key senior management personnel increased, the total remuneration witnessed a year-on-year increase of RMB405,000.

Employees and Institutions

Basic Information on Employees

At the end of 2008, the Bank had 441,883 employees. (In addition there are 33,757 dispatched employees from other staffing agencies), down by 5,636 from the previous year. Of the 441,883 employees, 73 are working in major domestic holding companies and 187 are local employees working in overseas institutions.

Education background of employees

	31 December 2008	
	Staff (persons)	Percentage (%)
Doctor	155	0.04
Master	6,193	1.40
Undergraduate	114,354	25.88
Vocational College and Technical School	175,979	39.82
Below Technical School	145,202	32.86
Total	441,883	100.00

Business structure of the employees

	31 December 2008	
	Staff (persons)	Percentage (%)
Corporate banking	51,979	11.76
Personal banking	177,656	40.20
Treasury	4,334	0.98
Finance and accounting	75,258	17.03
Management personnel	14,958	3.39
Risk management, internal control and legal compliance	41,733	9.44
Information technology	11,459	2.59
Others	64,506	14.61
Total	441,883	100.00

Basic Information on Institutions

Domestic Institutions

At the end of 2008, the Bank had 24,064 domestic institutions, including the Head Office, 32 tier-1 branches, 5 branches directly managed by the Head Office, 307 tier-2 branches, 3,506 tier-1 sub-branches, 20,142 outlets, 71 other institutions including training schools.

Geographic distribution of domestic institutions of the Bank

	31 December 2008	
	Domestic Institutions	Percentage (%)
Head Office ¹	4	0.02
Yangtze River Delta	3,162	13.14
Pearl River Delta	2,661	11.06
Bohai Rim	3,490	14.50
Central China	5,288	21.97
Northeastern China	2,311	9.60
Western China	7,148	29.71
Total	24,064	100.00

Note: 1. Including the Head Office, Commercial Paper Department, VIP Corporate Customer Department and Credit Card Center.

Overseas Institutions

At the end of 2008, the Bank had two overseas branches and three overseas representative offices, namely Hong Kong and Singapore branches and New York, London, Tokyo representative offices.

Major holding companies

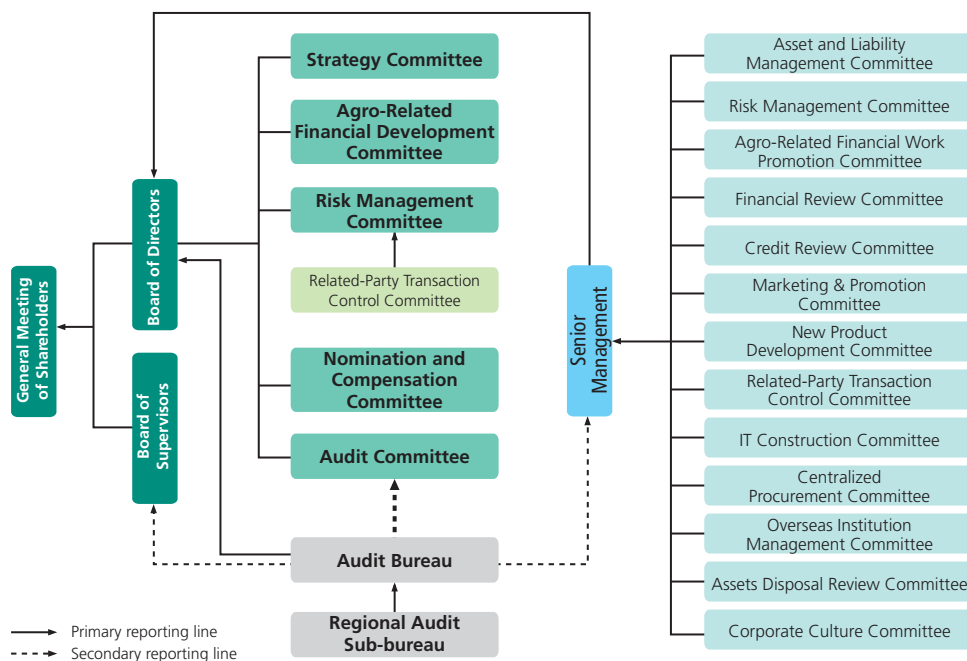
At the end of 2008, the major domestic holding companies of the Bank were ABC-CA Fund Management Co., Ltd., ABC-Hubei Hanchuan Rural Bank Limited and ABC Ke Shi Ke Teng Rural Bank Limited. Please refer to "Major Domestic Holding Companies" for more information.

China Agricultural Finance Co., Ltd. registered in Hong Kong is the overseas holding company of the Bank.

Outline of Corporate Governance

As an important step of the joint-stock reform, the Bank set up the General Meeting of Shareholders, the Board of Directors and the Board of Supervisors while also appointing the Senior Management. This was done in accordance with the Company Law and other laws and regulations along with the decisions of the State Council on the joint-stock reform of commercial banks, and with full reference to the successful practice of corporate governance of internationally leading banks. After the incorporation of the joint-stock company, the General Meeting of Shareholders, the Board of Directors, the Board of Supervisors and the Senior Management have improved the corporate governance system and related working rules of the Bank. They've also defined powers, functions and authorities of main corporate governance bodies, and guaranteed fulfilment of responsibilities and diligent performance by all sides in strict compliance with applicable laws and regulations of the Articles of Association of the Bank. They have shaped step-by-step a successful modern corporate governance system of a modern commercial bank, a system characterized by independent operation, close cooperation, mutual check and balance, and effective supervision.

Corporate Governance Structure of the Bank



Board of Directors and Special Committees

Composition of the Board of Directors

The Board of Directors of the Bank consists of 13 directors, including four executive directors, namely Mr. Xiang Junbo, Mr. Zhang Yun, Mr. Yang Kun and Mr. Luo Xi, six non-executive directors, namely Mr. Zhang Guoming, Ms. Xin Baorong, Mr. Shen Bingxi, Mr. Lin Damao, Mr. Yuan Linjiang and Mr. Cheng Fengchao, and three independent non-executive directors, namely Mr. John Dexter Langlois, Mr. Anthony Wu Ting-yuk and Mr. Qiu Dong.

Powers and Duties of the Board of Directors

Main powers and duties of the Board of Directors of the Bank include but are not limited to:

- convening the General Meeting of Shareholders and presenting reports thereto;
- implementing resolutions adopted by the General Meeting of Shareholders;
- determining the development strategies of the Bank (including those for the agro-related businesses);
- determining business plans and investment plans of the Bank;
- determining the risk capital allotment plans of the Bank;
- formulating the annual budget and final accounting of the Bank;
- formulating the profit distribution plan and the deficit coverage plan of the Bank;
- formulating plans for the increase or decrease in registered capital of the Bank;
- formulating plans for the issuance of bonds and other securities, and the listing of the Bank;
- developing basic management procedures (including those for the agro-related businesses), risk management and internal control policies of the Bank, while supervising the implementation of these procedures and policies;
- reviewing and approving comprehensive risk management reports presented by the Senior Management, and improving risk management by assessing its effectiveness; and
- acting on other powers and duties delegated by the General Meeting of Shareholders or set out in the Articles of Association of the Bank.

Meetings of the Board of Directors

From January to March 2009, the Bank convened a total of three board meetings. The attendance of directors and the brief information on the meetings are introduced below:

Directors	Number of actual attendance/ meeting s requiring attendance	Attendance rate (%)
Xiang Junbo	3/3	100
Zhang Yun	3/3	100
Yang Kun	3/3	100
Luo Xi	3/3	100
Zhang Guoming	3/3	100
Xin Baorong	3/3	100
Shen Bingxi	3/3	100
Lin Damao	3/3	100
Yuan Linjiang	3/3	100
Cheng Fengchao	3/3	100
John Dexter Langlois	3/3	100
Anthony Wu Ting-yuk	3/3	100
Qiu Dong	3/3	100

- ***The First Meeting of the First Board of Directors of Agricultural Bank of China Limited***

On 9 January 2009, the First Meeting of the First Board of Directors of Agricultural Bank of China Limited was convened in Beijing. All 13 directors were present at the meeting, which reviewed and approved the proposal on electing the Chairman and Vice Chairmen of the joint-stock company and the proposal on confirming President, Executive Vice Presidents and the Board Secretary of the Bank.

- ***The Second Meeting of the First Board of Directors of Agricultural Bank of China Limited***

On 16 January 2009, the Second Meeting of the First Board of Directors of Agricultural Bank of China Limited was convened in Beijing. All 13 directors were present, which was in compliance with related rules in the Articles of Association of the Bank and the Procedural Rules of the Board of Directors of Agricultural Bank of China Limited. The meeting reviewed and approved the Proposal on the Business Plan of Agricultural Bank of China Limited for 2009.

- ***The Third Meeting of the First Board of Directors of Agricultural Bank of China Limited***

On 4 March 2009, the Third Meeting of the First Board of Directors of Agricultural Bank of China Limited was convened in Beijing. All 13 directors were present, which was in compliance with related rules in the Articles of Association of the Bank and the Procedural Rules of the Board of Directors of Agricultural Bank of China Limited. The meeting reviewed and approved the following proposals: (1) the Proposal on the Plan of Delegation of Authority by the General Meeting of Shareholders to the Board of Directors of Agricultural Bank of China Limited (Draft), (2) the Proposal on the Plan of Delegation of Authority by the Board of Directors to the President of Agricultural Bank of China Limited (Draft), (3) the Proposal on the Working Rules of President of Agricultural Bank of China Limited (Draft), (4) the proposal on the working rules of special committees of the Board of Directors, (5) the proposal on the election of chairmen and members of special committees of the Board of Directors and (6) the proposal on the engagement of Director of the Audit Department.

Implementation of Resolutions of the General Meeting of Shareholders by the Board of Directors

In accordance with the Proposal on the Articles of Association of Agricultural Bank of China Limited (Draft), the Proposal on the Procedural Rules of the General Meeting of Shareholders of Agricultural Bank of China Limited (Draft), the Proposal on the Procedural Rules of the Board of Directors of Agricultural Bank of China Limited (Draft) and the Proposal on the Procedural Rules of the Board of Supervisors of Agricultural Bank of China Limited (Draft), which were reviewed and approved at the Incorporation Meeting and during the First General Meeting of Shareholders of the Bank, the above articles of association of the Bank and the procedural rules have taken effect and been implemented.

In accordance with the Proposal on the Election of Members of the First Board of Directors of Agricultural Bank of China Limited, which was reviewed and approved at the Incorporation Meeting and also at the First General Meeting of Shareholders of the Bank, and with the reply of the CBRC, the First Board of Directors of the Bank has been fulfilling its powers and duties according to laws and regulations.

In accordance with the Proposal on the Engagement of Auditor of Agricultural Bank of China Limited, which was reviewed and approved at the Incorporation Meeting and during the First General Meeting of Shareholders of the Bank, the Board of Directors of the Bank has renewed and approved the appointment of Deloitte as the auditor of the Bank for performing audit related works of the Bank.

In accordance with the Proposal on the Delegation of Authority to the Board of Directors to Handle Business Registration Procedures and Related Matters, which was reviewed and approved at the Incorporation Meeting and during the First General Meeting of Shareholders of the Bank, the Board of Directors of the Bank has submitted related documents to the State Administration for Industry & Commerce and other regulators at home and abroad to review business registration and related matters after the incorporation of the joint-stock company. All these matters were in line with applicable laws and regulations and regulatory requirements.

In accordance with the Proposal on the Plan of Delegation of Authority by the General Meeting of Shareholders to the Board of Directors of Agricultural Bank of China Limited (Draft), which was reviewed and approved at the Second Extraordinary General Meeting of Shareholders of the Bank, the Board of Directors of the Bank formulated the Plan of Delegation of Authority by the Board of Directors to the President of Agricultural Bank of China Limited, which was reviewed and approved at the Third Meeting of the First Board of Directors.

The Independence of and Performance of Duties of Independent Non-executive Directors

To effectively assure their independence, the Bank's independent non-executive directors have no business or financial interests in the Bank or its subsidiaries, and have not assumed any managerial post in the Bank. The Bank has received and confirmed the commitment letter from each independent non-executive director on these matters.

The Bank's independent non-executive directors attended the meetings of the Board of Directors and special committees, and strengthened communications with the Management by various means. They put forth pertinent suggestions concerning business operation and major decision-makings, thus fulfilling their obligation to honestly and diligently promote the sound decision-making of the Board of Directors.

Special Committees of the Board of Directors

The Board of Directors consists of the Strategy Committee, the Agro-Related Financial Development Committee, the Nomination and Remuneration Committee, the Audit Committee and the Risk Management Committee (under which, the Related-Party Transaction Control Committee is set up).

The composition of each special committee is as follows:

Strategy Committee

The Strategy Committee consists of 11 directors, including Mr. Xiang Junbo (Chairman of the Bank), Mr. Zhang Yun (Vice Chairman of the Bank), Mr. Yang Kun, Mr. Luo Xi, Mr. Zhang Guoming, Ms. Xin Baorong, Mr. Shen Bingxi, Mr. Yuan Linjiang, Mr. Cheng Fengchao, Mr. John Dexter Langlois and Mr. Anthony Wu Ting-yuk. Mr. Xiang Junbo assumes the role of Chairman of the Strategy Committee. The Committee is responsible for reviewing the Bank's overall strategic development plan, special strategic development plans, major investment and financing plans, M & A plans and other major matters critical to the development of the Bank. The committee is also responsible for advising the Board of Directors.

Agro-Related Financial Development Committee

The Agro-Related Financial Development Committee consists of six directors, including Mr. Zhang Yun (Vice Chairman of the Bank), Mr. Luo Xi, Mr. Zhang Guoming, Ms. Xin Baorong, Mr. Shen Bingxi and Mr. Qiu Dong. Mr. Zhang Yun assumes the role of Chairman of the Agro-Related Financial Development Committee. The Committee is responsible for reviewing the Bank's strategic development plan for the agro-related business, agro-related business policies and basic management procedures. Responsibilities also include strategic plans for the risk management of agro-related business and other major matters in relation to agro-related business. The Committee also oversees the fulfilment of the Bank's strategic development plan for the agro-related business, agro-related business policies and basic management procedures, and assesses the results of serving agro-related sectors. The Committee is also advises the Board of Directors.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee consists of six directors, including Mr. Zhang Yun (Vice Chairman of the Bank), Mr. Shen Bingxi, Mr. Lin Damao, Mr. John Dexter Langlois, Mr. Anthony Wu Ting-yuk and Mr. Qiu Dong. Mr. Qiu Dong assumes the role of Chairman of the Nomination and Remuneration Committee. The Committee is responsible for reviewing and supervising the implementation of the Bank's remuneration and performance assessment plans, advising the Board of Directors concerning the selection procedures, qualifications, remuneration systems and incentive plans of the Bank's directors, supervisors and senior management members, and assessing the performance and behaviours of directors and the senior management.

Audit Committee

The Audit Committee of the Board of Directors of the Bank consists of five directors, including Ms. Xin Baorong, Mr. Lin Damao, Mr. John Dexter Langlois, Mr. Anthony Wu Ting-yuk and Mr. Qiu Dong. Mr. Anthony Wu Ting-yuk assumes the role of Chairman of the Audit Committee. The Committee is responsible for supervising, inspecting and assessing the Bank's internal control, financial information and internal audit, etc. The Committee is also responsible for advising the Board of Directors.

Risk Management Committee

The Risk Management Committee consists of seven directors, including Mr. Luo Xi, Mr. Zhang Guoming, Mr. Lin Damao, Mr. Yuan Linjiang, Mr. Cheng Fengchao, Mr. John Dexter Langlois and Mr. Qiu Dong. Mr. John Dexter Langlois assumes the role of Chairman of the Risk Management Committee. The Committee is responsible for reviewing the Bank's risk strategy, risk management policies, procedures and internal control process. In addition, the Committee supervises and assesses the works of related senior management members and risk management departments in respect of risk management. The Committee also advises the Board of Directors.

Related-Party Transaction Control Committee

The Related-Party Transaction Control Committee consists of three directors, including Mr. Yuan Linjiang, Mr. John Dexter Langlois and Mr. Qiu Dong. Mr. John Dexter Langlois assumes the role of Chairman of the Related-Party Transaction Control Committee. The Committee is responsible for identifying related parties of the Bank, reviewing basic management procedures of related-party transactions, reviewing and filing related-party transactions. The Committee is also responsible for advising the Board of Directors.

Board of Supervisors

Composition of the Board of Supervisors

In 2008, the Board of Supervisors of the Bank were assigned by the State Council and shall be responsible to the State Council. On behalf of the State, it supervised the Bank's asset quality and the preservation and appreciation of state-owned assets. Mr. Che Yingxin, Chairman of the Board of Supervisors, was appointed by the State Council. The five full-time members, three part-time members and staff of the Board of Supervisors were appointed by the CBRC.

On 9 January 2009, the Incorporation Meeting of the Bank approved the Proposal on Electing the Members of the First Board of Supervisors of Agricultural Bank of China Limited, and elected Mr. Che Yingxin, Mr. Pan Xiaojiang and Mr. Wang Yurui to be the members of the Board of Supervisors of the joint-stock company. On 10 April 2009, the First Workers' Congress of the Bank elected Mr. Wang Yurui, Mr. Wang Xingchun and Mr. Jia Xiangsen to be supervisors representing employees of the joint-stock company.

Powers, Duties and Operation of the Board of Supervisors of the Joint-stock Company

Main powers and duties of the Board of Supervisors of the Bank include but are not limited to:

- supervising the fulfilment of responsibilities of the Board of Directors and the Senior Management, inquiring due diligence of directors and senior management personnel, and requiring senior management personnel to rectify their activities that infringe upon interests of the Bank;
- proposing the dismissal of or file a lawsuit against any director or senior management personnel who violates laws, administrative regulations, the Articles of Association of the Bank or resolutions of the General Meeting of Shareholders;
- conducting the audit on directors and senior management personnel at their departure;
- supervising the financial activities, business decision-making, risk management and internal control of the Bank, and guiding the work of internal audit departments of the Bank;

- supervising the implementation of strategic development plans, policies and basic management of the agro-related business;
- presenting proposals to the General Meeting of Shareholders;
- nominating the supervisors representing shareholders, external supervisors and independent directors;
- formulating the amendments to the procedural rules of the Board of Supervisors; and
- acting on other powers and duties as provided by applicable laws, administrative regulations, government department rules and the Articles of Association of the Bank and as granted by the General Meeting of Shareholders.

Discussions by the Board of Supervisors take the form of the meetings of the Board of Supervisors. The meetings of the Board of Supervisors may be either regular or extraordinary. Four regular meetings of the Board of Supervisors are required as a minimum for each year.

The Board of Supervisors establishes an administrative office (the “Supervisors’ Office”) as its working body in charge of the arrangement, documents preparation, minutes and other daily affairs relating to the meeting of the Board of Supervisors.

Meetings of the Board of Supervisors

In 2008, the Board of Supervisors of the Bank convened altogether one meeting, in which they reviewed and approved the Report on the Inspection upon the Financial Status and Operational Management of Agricultural Bank of China in 2007, and held many plenary sessions of the Board of Supervisors to study and implement related documents of the CPC Central Committee and the State Council. The meeting included discussions about better implementation plans of supervision and inspection, supporting the joint-stock reform of the Bank and improving services to agriculture, rural areas and farmers.

From January to February 2009, the Board of Supervisors of the joint-stock company convened a total of two meetings.

- ***The First Meeting of the First Board of Supervisors of Agricultural Bank of China Limited***

On 9 January, the First Meeting of the First Board of Supervisors of Agricultural Bank of China Limited was convened in Beijing. All three supervisors attended the meeting, which reviewed and approved the proposal on electing Chairman of the Board of Supervisors of the joint-stock company, and which elected Mr. Che Yingxin to be Chairman of the Board of Supervisors.

- ***The Second Meeting of the First Board of Supervisors of Agricultural Bank of China Limited***

On 27 February, the Second Meeting of the First Board of Supervisors of Agricultural Bank of China Limited was convened in Beijing. All three supervisors attended the meeting, which reviewed the Report on the Investigation and Research upon the Service of the Bank to Agriculture, Rural Areas and Farmers, the Report on the Investigation and Research upon Special Treatment of Cases of the Bank and the Report on the Analysis of VIP Customer related Business Development of the Bank of the Board of Supervisors in 2008. The meeting also formed the resolutions of the Second Meeting of the Board of Supervisors.

Attendance of Members of the Board of Supervisors of the Joint-stock Company in the Meetings of the Board of Supervisors

Supervisors	Number of actual attendance/ meetings requiring attendance	Attendance rate (%)
Che Yingxin	2/2	100
Pan Xiaojiang	2/2	100
Wang Yurui	2/2	100

Work Performance of the Board of Supervisors

In 2008, the Board of Supervisors assigned by the State Council to the Bank exercised its powers and performed its duties according to laws and regulations and followed closely the domestic and overseas macro-economic movements, as the joint-stock reform of the Bank advanced. It carried out supervision and inspection, enhanced the Bank's corporate governance, strengthened its operational management, and maintained its fast and steady business development.

The Board of Supervisors reinforced its supervision on the operational legal compliance, facilitated the improvement of risk management and internal control, so as to reduce the number of incompliant cases. It launched an investigation in regards to these matters and (1) reviewed the reports of internal related departments on case handling and internal control assessment, (2) verified and re-examined some of the major cases, (3) prepared the Report on the Investigation and Research upon Special Treatment of Cases of the Bank, and (4) put forward suggestions on strengthening case treatment. The Bank made timely rectification of the problems presented by the Board of Supervisors.

The Board of Supervisors strengthened its supervision on the service to agriculture, rural areas and farmers, facilitating the implementation of CPC Central Committee and the State Council's requirement of the Bank to better serve agro-related sectors. It carried out investigations and research of the agro-related services of 15 provincial branches and reviewed the reports of internal related departments on the Bank's service to agro-related sectors. The Board also prepared and made recommendations on the Report on the Investigation and Research upon the Service of the Bank to Agriculture, Rural Areas and Farmers.

The Board of Supervisors intensified supervision on financial management and assets quality, warned the Bank against the risks triggered by the global financial crisis, and advised the Bank on adopting timely risk prevention measures. It analyzed risks related to foreign currency-denominated bonds investment, wealth management and lending to real estate developers and VIP customers through offsite inspection. The Board also prepared the Report on the Analysis of VIP Customer related Business Development of the Bank, and issued prompt risk warning to the Senior Management in the form of annual inspection reports, circulars and resolutions of the Board of Supervisors.

Following the incorporation of the joint-stock company, the Board of Supervisors strengthened self-construction, reviewed and passed the Procedural Rules of the Board of Supervisors of Agricultural Bank of China Limited in line with the Articles of Association of the Bank, promulgated the Work Rules of the Office of the Board of Supervisors of Agricultural Bank of China Limited, and began to study and prepare a series of rules and regulations. These include the operational procedures of the Board of Supervisors which are in compliance with the corporate governance requirements and the joint-stock company.

The Board of Supervisors also strengthened its supervision on the fulfilment of duties by the Board of Directors, the Senior Management and their members, and facilitated the Bank to improve decision-making capacity and efficiency as required by the Outlook on Scientific Development. It focused on the Board of Directors, the Senior Management and their members' compliance with laws, regulations and the Articles of Association of the Bank. Its supervision on the fulfilment of duties by the members of the Board of Directors and the Senior Management was carried out in the form of participating in meetings as non-voting attendees and listening to reports, investigation, and other related communications.

Chairman of the Board of Directors and President

The Articles of Association of the Bank provides that one person shall not be appointed as both the Chairman and the President of the Bank. The Office of the Chairman shall not be held concurrently by the legal representative or persons in charge of the controlling shareholders.

Mr. Xiang Junbo serves as the Chairman and legal representative of the Bank, and takes charge of organizing the Board of Directors to study and determine bank-wide operation development strategies, risk management, internal control and other major matters.

Mr. Zhang Yun serves as the President of the Bank and is responsible for daily management and business operation of the Bank. The President shall be assigned by and report to the Board of Directors. He shall fulfil his duties in accordance with the Articles of Association of the Bank and authorization by the Board of Directors.

Term of Directors

The Bank strictly observes the Articles of Association of the Bank in which its directors shall be appointed, replaced or dismissed by election at the General Meeting of Shareholders and serve a term of three years. The term of a director shall be counted from the date of approval by the CBRC. A director may serve consecutive terms if reelected upon the expiration of his/her term.

Senior Management

As the executive body of the Bank, the Senior Management consists of the President, Executive Vice Presidents, Secretary to the Board of Directors and other senior management personnel selected by the Board of Directors. The President of the Bank shall report to the Board of Directors and accept supervision from the Board of Supervisors. The Executive Vice Presidents and other senior management members shall assist the President in responsibilities and take charge of specific areas as provided by the Articles of Association of the Bank and authorized by the President. The division of authorities between the Senior Management and the Board of Directors is made in strict accordance with the Articles of Association of the Bank and other corporate governance documents.

The President shall exercise the following powers and perform the following duties in accordance with the Articles of Association of the Bank:

- taking charge of the business management of the Bank and organizing the implementation of resolutions of the Board of Directors;
- authorizing Executive Vice Presidents, other senior management members, persons in charge of internal functional departments, overseas and domestic tier-1 branches, and branches and other affiliates directly managed by the Head Office, to carry out daily management and business operation within the authority delegated by the Board of Directors;
- developing specific rules and regulations (excluding those for internal audit) of the Bank;
- developing business plans and investment plans of the Bank and organizing the implementation thereof after approval by the Board of Directors; developing policies and basic management procedures of the Bank, and advising the Board of Directors in these matters;
- developing annual budgets and final accounting, risk capital allocation plans, profit distribution and loss recovery plans, registered capital increase or decrease plans, bond and other securities issuance plans, public listing plans and share repurchase plans, as well as advising the Board of Directors;

Corporate Governance

- drafting the plans for the setup of internal functional departments, domestic and overseas tier-1 branches and branches and other affiliates directly managed by the Head Office, and making suggestions in that respect to the Board of Directors; and
- acting on other powers and duties as conferred and imposed by laws, administrative regulations, government department rules, the Articles of Association of the Bank, the General Meeting of Shareholders and the Board of Directors.

Internal Control

The Bank endeavors to set up an internal control system which is in line with the requirements of modern commercial banks. It will do this on the basis of modern corporate governance and advanced internal control culture and with the precondition of accurate risk identification and complete monitoring and assessment system. With a high-quality internal control system and strict control measures as the core, rigorous inspection and supervision and objective assessment system as the guaranty, the system will rely on a strong IT system and smooth communication channel. The Risk Management Committee, the Audit Committee, the Agro-Related Financial Development Committee and the other decision-making bodies under the Board of Directors, can facilitate the decision-making of the Bank. Specialized risk management, internal control and compliance departments were established, as well as an internal audit structure of “two-tiered dispatchment and relative independence”. An internal control management framework with components of control decision-making level, the construction execution level and the supervision execution level was shaped through continuous organizational adjustments.

See the “Self-assessment Report on Internal Control” for detailed information on internal control.

Internal Audit

In 2008, the Bank’s audit system, independent from business operation departments, adopted a “two-tiered dispatchment and audit” in which the Audit Department was established in the Head Office to dispatch and station audit commissioners’ offices in tier-1 branches, and that audit divisions were also established in tier-1 branches to dispatch and station audit offices in tier-2 branches. The audit commissioners’ offices, audit divisions and audit office of each branch are led by the Audit Department and report to their superiors.

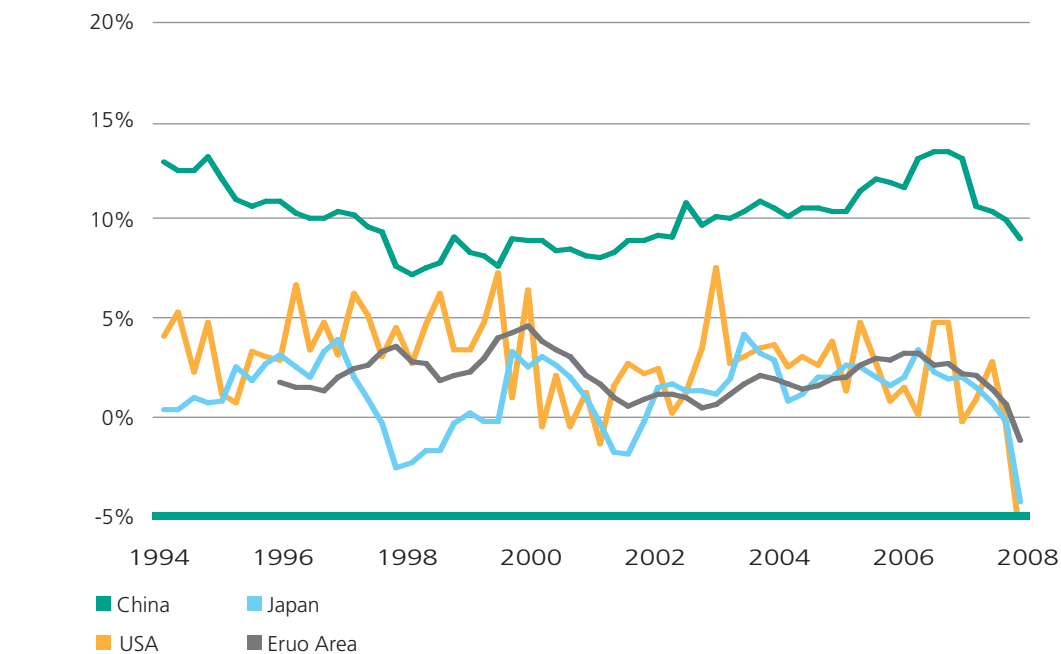
In 2008, preventing against operational and managerial risks was a high Bank priority. The Bank performed a comprehensive inspection and assessment upon the operation and management of 10 tier-1 branches. In addition, audit departments at all levels completed various assignments including assisting in the joint-stock reform, collective audit, internal control assessment and routine audit. All fulfilled their supervisory and service duties successfully.

After the incorporation of the joint-stock company, the Bank built up a vertical management system of internal audit led by the Board of Directors and the Audit Committee. This system will further enhance the independence, objectivity and authority of the audit work. As the major responsible department of bank-wide audit, the Audit Department is led directly by the Board of Directors, and undertakes the audit on the operation and management throughout the Bank. It also guides and manages bank-wide audit bodies. Ten audit sub-departments are established in different regions within the entire bank, carrying out audit duties on tier-1 branches on behalf of the Head Office.

Macroeconomy and Regulatory Environments

Amid the backdrop of economic globalization and an imbalanced global economy, the subprime mortgage crisis resulting from the U.S. domestic demand bubble burst escalated into an international financial crisis in 2008. As the financial crisis spread, developed countries sunk into recession one after another. In 2008, the U.S. GDP grew by 1.1%, down 0.9 percentage point from the previous year, the worst since 2001. Euro area reported a GDP growth of 0.9%, down 2 percentage points from the previous year. The GDP growth of Japan was -0.6%, the first negative growth since 1999. Major emerging market economies and developing economies slowed down markedly, reporting a GDP growth of 6.3% in 2008, down 2 percentage points from the previous year.

Economic Growths of Major Countries and Regions (Quarter-on-Quarter)

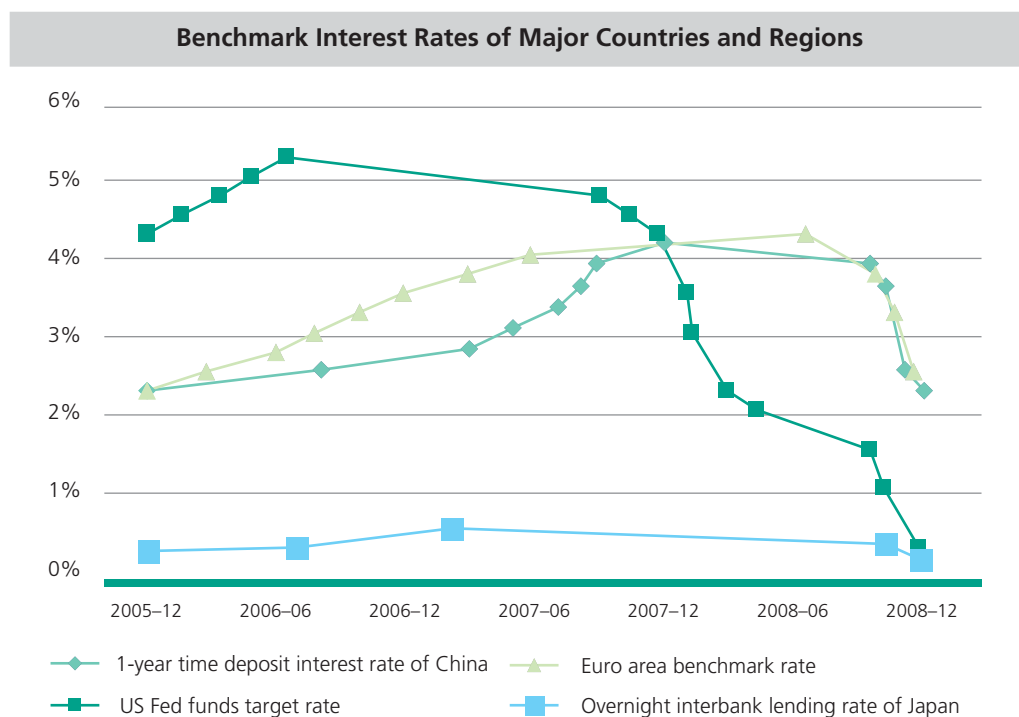


Data Source: WIND Information, IMF

In 2008, major stock indicators slumped across the world. In particular, the Dow Jones industrial average registered its worst annual performance since 1931. As demand for liquidity and hedge in U.S. dollars grew as a result of de-leveraging, the U.S. dollar appreciated by a large margin against the Euro and other major currencies. The Japanese yen remained strong due to carry-trade closing and inflow of overseas capital. Dragged down by weakening global demand, oil prices dropped 60% from the mid-year peak, and bulk commodities experienced a sharp fluctuation of prices. In addition, many large overseas financial institutions experienced serious financial difficulties, filed for bankruptcy and were acquired by others or compelled to accept government bailout.

Discussion and Analysis

As the financial crisis became increasingly worse, governments and central banks launched massive economic stimulus and market stabilization policies, seeking to bail out troubled financial institutions and curb economic downturn by capital injection, government guarantee and large interest cut. Benchmark interest rates of major economies fell to extremely low levels.



In 2008, the Chinese economy remained generally on the track of rapid growth, showing stabilizing prices, optimized industrial structure and improved well-being of its citizens. During 2008, the GDP amounted to RMB30.07 trillion, up 9.0% from the previous year; fixed assets investment, total retail sales of consumer goods and total imports and exports increased by 25.5%, 21.6% and 17.8% respectively. Agricultural production grew steadily to report the fifth consecutive year of increase in grain output. Moreover, industrial production grew at a slower pace and profit growth of enterprises fell back. Prices increased rapidly early in the year but later slowed. The consumer price index rose 5.9% or 1.1 percentage points from the previous year. Due to outside shocks and a superimposed economic cycle, economic growth reversed in the third quarter and slipped down to 6.8% in the fourth quarter.

In the first half of 2008, in response to price hikes and excess liquidity, PBOC announced five rises in RMB deposit reserve ratio up to 17.5%, the highest since 1985 when the unified required deposit reserve ratio was introduced. As the tight monetary policy became moderately easy, PBOC adjusted the open market operation strategy by means of four cuts in required reserve ratio and five cuts in benchmark interest rates for RMB deposits and loans. As of 31 December 2008, the required reserve ratio of large banks was brought down to 15.5%, and the 1-year RMB deposit interest rate dropped to 2.25% from 4.14% at the beginning of the year. RMB exchange rates stabilized at a reasonable rate. The central parity rate of RMB against the U.S. dollar was 1: 6.8346 at the end of the year, up 6.88% in value in 2008.

The broad money supply (M2) grew at a faster pace, and many more loans were issued. M2 grew by 17.8%, 1.1 percentage points higher than the growth rate of the previous year; narrow money supply (M1) grew by

9.1%, 12.0 percentage points lower than the growth rate of the previous year; currency in circulation (M0) grew by 12.7%, 0.6 percentage point faster. Outstanding RMB loans of financial institutions totaled RMB30.34 trillion and the balance of deposits stood at RMB46.62 trillion, representing an increase of RMB4.91 trillion and RMB7.69 trillion. There was a RMB1.28 trillion and RMB2.3 trillion more increase than the original plan. The money market was strong in trading activity and interbank lending, bond repo volumes increased rapidly. The bond market yield curve showed an early rise followed by a drop later. Amid economic slowdown, declining market performance and liquidity pressure, A-share market slumped in fluctuations and major stock indicators dropped by over 60%. Reporting marked a fall in total capitalization, amount of funds raised, trading volume and net asset value of mutual funds. Demand in the insurance market expanded continuously and premium income grew faster, while the growth rate of total assets in the insurance industry dropped from the previous year.

To combat worsening external conditions and to curb the economic slowdown, the Chinese government defined guidelines of “assuring growth, strengthening domestic demand and adjusting economic structure”. The government (1) adjusted the direction of macroeconomic controls, (2) adopted the proactive fiscal policy and the moderately easy monetary policy (3) introduced a detailed economic policy for domestic demand expansion which includes a substantial increase in government spending to boost domestic demand, (4) implemented industrial restructuring and a rejuvenation program on a large scale, (5) promoted technological advancement and innovation and (6) heightened social security levels. The economic stimulus policy aimed at combating recession and assuring growth. The policies helped ease the downside pressure on economy, and the government-led industry chain boosted domestic demand in the sector, which will become a new powerhouse for economic growth. Economic growth is expected to stay around 8% in 2009. Given the decline of domestic and foreign demands, CPI is projected to stay at low levels in 2009.

In general, the banking industry will face a difficult external environment in 2009. Developed economies are predicted to enter full-blown recession, and domestic overcapacity will worsen as a result of dropping export demand and revival of trade protectionism. In this context, commercial banks will be under a high pressure to maintain profit growth. As slowing economic growth will squeeze credit demand and asymmetric interest rate cuts will further narrow interest spread, net interest income and non-interest income of banks tend to decrease. Profitability of some industries may worsen amid the downside cycle while difficulties in credit cost control may mount up for banks. How to tackle the complicated external environment will be a major challenge for the Chinese banking industry in 2009.

However, the moderately easy monetary policy will provide sufficient liquidity for the banking system. The massive investment plan aiming at boosting domestic demand will stimulate credit supply. These developments are both favorable for banks to scale up the size of interest-bearing assets. Thanks to the reform and development effort, these past years have witnessed dramatic improvement in corporate governance, heightened risk management ability, and optimized operation structure and profit pattern in the Chinese banking industry. Therefore, Chinese banks can withstand shocks from the international financial risk and cyclic economic fluctuations. We are fully confident in the future outlook of the Chinese banking industry.

Development Strategy

In 2008, the Bank defined the strategic vision of building up ABC into a modernized universal bank that plays a key role in serving agro-related sectors. ABC has diversified business lines covering both urban and rural markets, and the largest distribution and cross-selling network across the world. We will strive to provide high quality financial services to the largest clientele base. The Bank introduced the new “3510” development strategy aimed at making significant changes in three years, attaining fundamental changes in five years, and emerging as a globally leading bank in ten years. The Bank also mapped out the policies and strategies for the next ten years.

- In the next three years, the Bank will explore an effective business model that combines commercial operation and rural area operation. In these three years, we will strive for business transformation, comprehensive operation and internationalization. In addition, corporate governance structure and banking process framework will be established. Core financial indicators will be up to regulatory standards. A large publicly owned bank with excellent profit growth will be set up with adequate capital, strict internal control, quality operations and service, as well as strong innovative capability and competitiveness.
- In the upcoming five years ending in 2012, efforts will be made to improve the Bank’s performance while continuously strengthening its main role in rural financial system. In these five years, the Bank will reach the top tier among domestic banks in terms of main business lines. Our management system and banking process framework will be reinforced. Core financial indicators will be further improved with a complete and well-established comprehensive risk management system. We strive to make ABC an internationally well-known commercial bank that is capable of meeting the requirements of the country, shareholders, employees and society.
- In the following ten years, efforts will be made to offer rural markets all-around financial services. In addition, we will build up corporate governance to an internationally advanced level and shape unique enterprise culture and risk management methodology. We will keep our key business at the mainstream position in the market with core business indicators in line with world famous banks. By 2017, ABC will have transformed itself into a worldwide well-renowned modern commercial bank with global operation and solid local operations in both urban and rural areas.

To meet the above strategic objectives, the Bank will improve corporate governance structure and transform operation strategy, as well as introduce financial innovation and management reform. The Bank will regard effective risk control as a precondition based on employee competency and IT capability, and thus improve operation management and market competitiveness in all aspects in hopes of creating a unique corporate culture and brand image. This maximizes the value for shareholders, customers, employees and society.

In 2008, under the new development strategy, the Bank accelerated the joint-stock reform, created a new corporate governance structure, proactively performed its responsibilities of serving agro-related sectors and advanced business transformation. It also implemented detail-oriented management, endeavored to build the total risk management system, carried out in-depth special violation correction programs and stepped up efforts to foster employee teams. With this hard work, the Bank gained momentum in all business segments and made continuous improvements in internal control management, representing a significant step towards the “3510” strategic goal.

Financial Statements Analysis

Income Statement Analysis

In 2008, the Bank achieved a net profit of RMB51,453 million, representing an increase of RMB7,666 million or 17.51% over the previous year. This was due to the steady growth of business, the rapid increase in net interest income and the large decrease in income tax expense.

Changes of Key Income Statement Items

In RMB millions, except for percentages

Item	2008	2007	Increase/ (decrease)	Growth rate (%)
Net interest income	193,845	157,465	36,380	23.10
Net fee and commission income	23,798	22,995	803	3.49
Other non-interest income	(6,454)	(1,223)	(5,231)	—
Operating income	211,189	179,237	31,952	17.83
Less: Operating and administrative expenses	94,417	60,076	34,341	57.16
Business taxes and surcharges	13,223	11,140	2,083	18.70
Provisions for impairment losses	51,478	30,574	20,904	68.37
Operating profit	52,071	77,447	(25,376)	-32.77
Plus: Net non-operating income	278	810	(532)	-65.68
Profit before tax	52,349	78,257	(25,908)	-33.11
Less: Income tax	896	34,470	(33,574)	-97.40
Net profit	51,453	43,787	7,666	17.51
Attributable to: Equity holders of the parent company	51,474	43,787	7,687	17.56
Minority interests	(21)	—	(21)	—

Net Interest Income

Net interest income is the major component of the Bank's operating income. In 2008, the Bank achieved a net interest income of RMB193,845 million, representing an increase of RMB36,380 million or 23.10% over the previous year. This accounts for 91.79% of the operating income. Interest income amounted to RMB315,697 million, of which interest income (1) from loans and advances to customers, (2) from bonds investment and (3) other interest income accounted for 68.52%, 23.07% and 8.41% respectively.

The table below sets out the average balance, interest income/expenses and average yield/cost of interest-earning assets and interest-bearing liabilities.

In RMB millions, except for percentages

Item	2008			2007		
	Average balance	Interest income/expenses	Average yield/cost (%)	Average balance	Interest income/expenses	Average yield/cost (%)
Assets						
Loans and advances to customers	3,023,505	216,320	7.15	3,362,330	184,393	5.48
Bonds investment ¹	2,098,327	72,821	3.47	1,303,575	40,338	3.09
Non-restructuring related bonds	1,339,934	50,332	3.76	1,303,575	40,338	3.09
Restructuring related bonds ²	758,393	22,489	2.97	—	—	—
Deposits with central banks	1,036,069	18,683	1.80	708,826	12,274	1.73
Deposits and lending with banks and non-bank financial institutions ³	234,170	7,873	3.36	214,838	6,312	2.94
Total interest-earning assets	6,392,071	315,697	4.94	5,589,569	243,317	4.35
Provisions for impairment losses	(425,484)			(760,483)		
Non-interest-earning assets	256,827			208,439		
Total assets	6,223,414			5,037,525		
Liabilities						
Deposits from customers	5,658,171	111,815	1.98	4,938,359	77,564	1.57
Deposits and lending from banks and non-bank financial institutions ³	380,000	9,589	2.52	355,110	7,691	2.17
Other interest-bearing liabilities	21,235	448	2.11	18,071	597	3.30
Total interest-bearing liabilities	6,059,406	121,852	2.01	5,311,540	85,852	1.62
Non-interest-bearing liabilities	319,501			356,403		
Total liabilities	6,378,907			5,667,943		
Net interest income		193,845			157,465	
Net interest spread			2.93			2.73
Net interest margin			3.03			2.82

Notes: 1. Bonds investment includes trading bonds investment, available-for-sale bonds investment, held-to-maturity investment and investment classified as receivables.
2. Restructuring related bonds include MOF receivables and special government bonds.
3. Deposit and lending with banks and other financial institutions include financial assets held under reverse repurchase agreements, and deposits and lending from banks and non-bank financial institutions including financial assets held under repurchase agreements.

The table below sets out the changes in net interest income brought by changes in volume and interest rate.

In RMB millions

	Increase/(decrease) due to		Net increase/ (decrease)
	Volume	Interest rate	
Assets			
Loans and advances to customers	(24,242)	56,169	31,927
Bonds investment	27,581	4,902	32,483
Deposits with central banks	5,901	508	6,409
Deposits and lending with banks and non-bank financial institutions	650	911	1,561
Changes in interest income	9,890	62,490	72,380
Liabilities			
Deposits from customers	14,225	20,026	34,251
Deposits and lending from banks and non-bank financial institutions	628	1,270	1,898
Other interest-bearing liabilities	67	(216)	(149)
Changes in interest expenses	14,920	21,080	36,000
Change in net interest income	(5,030)	41,410	36,380

Note: Changes resulted from the combination of volume and interest rate have been allocated to the changes in volume.

Net Interest Margin and Net Interest Spread

In 2008, the net interest margin increased by 21 basis points to 3.03%, and the net interest spread increased by 20 basis points to 2.93%. Reasons for the increases include: (1) ABC seized opportunities to improve the assets allocation, and enhanced the bargaining power in loan transactions and structure management of securities investment portfolio; (2) the assets quality improved significantly and the percentage of effective interest-earning assets increased after the separation of non-performing assets; and (3) ABC adjusted assets and liabilities structure, implemented proactive liabilities strategy and focused on cost control. As a result, the growth of average cost of interest-bearing liabilities was lower than that of average yield of interest-earning assets.

Interest Income

The Bank achieved an interest income of RMB315,697 million in 2008, representing an increase of RMB72,380 million or 29.75% over the previous year. The growth of interest income was principally due to the increase in average yield of loans and advances to customers and the increase in average balance and average yield of bonds investment.

Interest Income from Loans and Advances to Customers

Interest income from loans and advances to customers increased by RMB31,927 million or 17.31% to RMB216,320 million. The growth of interest income was due to the increase of 167 basis points in average yield of loans to 7.15%, of which average yields of corporate loans, discounted bills and personal loans increased by 167,173 and 161 basis points as compared to the previous year. Reasons for the large increase in average yield include: (1) the PBOC raised the benchmark interest rates of

Discussion and Analysis

loans for six consecutive times since 2007, therefore some existing loans were re-priced as based on the higher benchmark interest rates from 1 January 2008 on, and the effective interest rates for loans granted in the first three quarters of 2008 remained at a high level; (2) ABC improved its bargaining power over interest rates, strengthened loans pricing management, and strictly controlled the customer groups where the reduced interest rates applied; and (3) the Bank proactively adjusted the allocation of credit assets, and enlarged the scale of high-yield corporate loans and personal loans.

In 2008, the Bank maintained a steady growth of loan extension, but the average balance of loans decreased by RMB338,825 million as compared to 2007 due to the disposal of non-performing loans in the financial restructuring.

The table below sets out the average balance, interest income and average yield of parts of loans and advances to customers.

In RMB millions, except for percentages

Item	2008			2007		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans	2,355,370	171,825	7.30	2,625,127	147,905	5.63
Discounted bills	189,005	10,693	5.66	279,681	10,978	3.93
Personal loans	460,676	33,220	7.21	441,005	24,692	5.60
Overseas and others	18,454	582	3.15	16,517	818	4.95
Total loans and advances to customers	3,023,505	216,320	7.15	3,362,330	184,393	5.48

Interest income from corporate loans increased by RMB23,920 million or 16.17% to RMB171,825 million, due to the average yield of corporate loans increasing by 167 basis points to 7.30%. Reasons for the growth of average yield of corporate loans include: (1) re-pricing of some existing loans; (2) relatively high interest rate of loans granted in the first quarters of 2008; and (3) improvement in bargaining power over interest rates and management.

Interest income from discounted bills decreased by RMB285 million to RMB10,693 million, which was due to the decrease in average balance of discounted bills. However the effect of such decrease was partially offset by the growth of average yield from 3.93% to 5.66%. Reasons for the growth of average yield include: (1) the overall interest rate at money market remained at a high level in the first quarters, and the return of bills was high during the year; (2) the Bank strengthened bills pricing management based on SHIBOR; and (3) the Bank enhanced treasury operation at bills market, accelerating the circulation of discounting fund, and facilitated the improvement of discounting business. The average balance of discounted bills decreased by RMB90,676 million to RMB189,005 million, which was due to the Bank's proactive reduction of discounted bills during the first three quarters to meet the credit demand of key projects and quality customers.

Interest income from personal loans increased by RMB8,528 million or 34.54% to RMB33,220 million, which was due to the growth of 161 basis points in average yield of personal loans to 7.21%. Reasons for the growth of average yield include: (1) repricing of existing loans, and personal residential mortgage loans were re-priced on 1 January of the next year, thus interest rate maintained a high level during the year; and (2) the interest rates for loans granted during the first three quarters maintained a high level.

Interest income from overseas and other loans decreased by RMB236 million to RMB582 million, which was due to the decrease in average yield from 4.95% in 2007 to 3.15% as a result of the continuous drop of USD benchmark interest rates. Yet the effect of such decrease was partially offset by the increase of RMB1,937 million in average balance.

Interest Income from Bonds Investment

Interest income from bonds investment, the second largest component of the Bank's interest income, accounted for 23.07% of interest income, representing an increase of 6.49 percentage points from 2007. In 2008, interest income from bonds investment increased by RMB32,483 million or 80.53% to RMB72,821 million, which was due to the increase of RMB7947552 million in the average balance of bonds investment and was also due to the the increase of 38 basis points in the average yield to 3.47%.

Interest income from restructuring related bonds investment amounted to RMB22,489 million, which was due to the interest income rising from MOF receivables recognized during the financial restructuring of the Bank.

Interest income from non-restructuring related bonds investment increased by RMB9,994 million to RMB50,332 million. The average yield increased from 3.09% in 2007 to 3.76%, which was contributable to the Bank's increasing investment in RMB medium- and long-term bonds and improvement on the maturity structure of the bonds portfolio in the context of high interest rates during the first half of 2008.

Interest Income from Deposits with Central Banks

Interest income from deposits with central banks increased by RMB6,409 million or 52.22% to RMB18,683 million in 2008. Reasons for such increase include: (1) the average balance of deposits with central banks increased by RMB327,243 million or 46.17% due to significant increase in deposits and the several raises of statutory deposit reserve ratio by PBOC in 2007 and 2008; and (2) the increase of average yield by 7 basis points to 1.80% due to the Bank's efforts to enhance the efficiency of fund utilization and management and reduce the percentage of excess reserve.

Interest Income from Deposits and lending with Banks and Non-bank Financial Institutions

In 2008, interest income from deposits and lending with banks and non-bank financial institutions increased by RMB1,561 million to RMB7,873 million, which was due to the increase of 42 basis points in average yield to 3.36% and the increase of RMB19,332 million in the average balance. During the first three quarters when interest rates went up in inter-bank lending market, the Bank strengthened the operation of reverse-REPO business, and proactively increased the high-yield contractual lending. Moreover the average yield maintained a high level during the year.

Interest Expenses

Interest expenses increased by RMB36,000 million or 41.93% to RMB121,852 million. Reasons for such increase include: (1) the interest-bearing liabilities grew rapidly, and the average balance of interest-bearing liabilities increased by RMB747,866 million or 14.08% as compared to 2007; and (2) the average cost of interest-bearing liabilities increased from 1.62% in 2007 to 2.01% due to the accumulative effects of interest raise policy in 2007 and the growing preference towards time deposits.

Discussion and Analysis

Interest Expenses on Deposits from Customers

Interest expenses on deposits from customers increased by RMB34,251 million or 44.16% to RMB111,815 million due to the increases in the average balance and average yield of deposits from customers in 2008. The average balance of deposits increased by RMB719.812 million or 14.58% as a result of the slump in capital market, deduction of interest tax, and growth of saving deposits. The average cost of deposits increased by 41 basis points to 1.98%, which was due to: (1) the accumulative effects of PBOC's six raises of benchmark interest rates for deposits in 2007; and (2) the growing preference towards time deposits, with the share of time deposits increasing by 3.96 percentage points to 42.92% in terms of average balance.

Analysis of Average Cost of Deposits by Product

In RMB millions, except for percentages

Item	2008			2007		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Corporate deposits						
Time	539,556	20,575	3.81	373,797	12,934	3.46
Demand	1,723,486	16,488	0.96	1,627,356	15,261	0.94
Sub-total	2,263,042	37,063	1.64	2,001,153	28,195	1.41
Personal deposits						
Time	1,888,934	64,587	3.42	1,550,076	37,756	2.44
Demand	1,506,195	10,165	0.67	1,387,130	11,613	0.84
Sub-total	3,395,129	74,752	2.20	2,937,206	49,369	1.68
Total deposits from customers	5,658,171	111,815	1.98	4,938,359	77,564	1.57

Note: Corporate deposits include overseas deposits.

Interest Expenses on Deposits and Lending from Banks and Non-bank Financial Institutions

Interest expenses on deposits and lending from banks and non-bank financial institutions increased by RMB1,898 million or 24.68% to RMB9,589 million due to the increase of RMB24,890 million in the average balance and the increase of 35 basis points in the average cost to 2.52%. The hike in average cost is a result of the growing shares of high-cost cooperative deposits from banks and non-bank financial institutions.

Net Fee and Commission Income

The Bank sets the development of intermediary businesses as a priority and has improved relevant incentives and supporting measures to this end. Capitalizing on the edge of outlet network, the Bank expanded new intermediary businesses while maintaining the advantage of traditional businesses such as settlement, clearing and insurance agency business. In addition, the Bank actively responded to adverse impact of capital market volatility. During the year, the Bank achieved a net fee and commission income of RMB23,798 million, representing an increase of RMB803 million or 3.49% from 2007. The fee and commission income amounted to RMB23,499 million, an increase of RMB5,460 million or 30.27% from 2007. The figure has been adjusted for the drop in fee-based funds sales income given the capital market volatility.

Composition of Fee-based Income and Commission

In RMB millions, except for percentages

Item	2008	2007	Increase/ (Decrease)	Growth rate (%)
Settlement and clearing fee	10,757	8,997	1,760	19.56
Agency service fee	5,484	8,536	(3,052)	-35.75
Bank card fee	3,824	3,083	741	24.04
Consultancy and advisory fee	1,573	396	1,177	297.22
Commitment fee	829	577	252	43.67
E-banking income	728	360	368	102.22
Commission on trust and fiduciary activities	632	690	(58)	-8.41
Others	967	1,282	(315)	-24.57
Fee and commission income	24,794	23,921	873	3.65
Less: Fee and commission expenses	996	926	70	7.56
Net fee based income and commission	23,798	22,995	803	3.49

Settlement and clearing fee income increased by RMB1,760 million or 19.56% to RMB10,757 million due to the rapid development of cash management services and the significant increase in the volume of settlement transactions.

Agency service fee income decreased by RMB3,052 million to RMB5,484 million due to the large decrease in income from funds sales. Among the total, income from funds sales decreased by RMB4,587 million or 77.98% to RMB1,295 million, income from insurance agency service increased by RMB1,107 million or 82.30% to RMB2,452 million, and income from agency service for financial institutions increased by RMB158 million or 151.92% to RMB262 million. With the drop in funds sales income caused by capital market volatility, the agency service fee income still increased and amounted to RMB4,189 million, an increase of RMB1,535 million or 57.84% from 2007.

Bank card fee income increased by RMB741 million or 24.04% to RMB3,824 million, contributable to the Bank's continuous improvement of the bankcard product line, expansion of product functions and services and targeted marketing efforts. In terms of the number of issued cards and bankcard consumption, the Bank takes the lead among domestic banks.

Discussion and Analysis

Consultancy and advisory fees increased by RMB1,177 million or 297.22% to RMB1,573 million attributable to the interactive growth of investment banking with development of traditional business models. In addition, the rapid growth of regular financial advisory, short-term financing bills and corporate bonds issuance advisor services also contributed to the increase.

Commitment fee income increased by RMB252 million or 43.67% to RMB829 million, due to the rapid growth of commitment services.

E-banking income increased by RMB368 million or 102.22% to RMB728 million, contributable to the Bank's targeted marketing of e-banking services, accelerated system improvement and product research and development. The continuous and rapid increase in the number of e-banking customers and volume of fund transactions also increased the e-banking income.

Commission on trust and fiduciary activities decreased by RMB58 million to RMB632 million, due to a decrease in income from fiduciary services related to the capital market.

Other Non-interest Income

In 2008, other non-interest income amounted to RMB-6,454 million, due to the RMB8,648 million loss on fair value changes.

Composition of Other Non-interest Income

In RMB millions, except for percentages

Item	2008	2007	Increase/ (Decrease)	Growth rate (%)
Investment income	4,641	1,169	3,472	297.01
Gain on fair value changes	(8,648)	590	(9,238)	—
Foreign exchange loss	(2,913)	(3,786)	873	—
Other operating income	466	804	(338)	-42.04
Total	(6,454)	(1,223)	(5,231)	—

The Bank achieved an investment income of RMB4,641 million, as most of the RMB/USD currency interest rate swaps (CCRS) matured in 2008 that were entered by the the Bank between the Bank and PBOC. The accumulative changes of fair value affected the transfer-out and relevant investment income. Loss on fair value changes was due to the effect of accumulative changes in fair value on transfer-out when the investment income of above-mentioned CCRS was recognized. In addition, in consideration of the increasing volatility in fair value of some agency derivatives and the credit risk of customers, the Bank made timely adjustments during the valuation of relevant products.

Operating and Administrative Expenses

In 2008, operating and administrative expenses increased by RMB34,341 million or 57.16% to RMB94,417 million. Reasons for this increase include: (1) supplementary benefit expenses of retired and early retired employees increased by RMB13,887 million from 2007; (2) salaries and bonuses of employees increased by RMB7,347 million under a competitive remuneration plan to retain talents; and (3) the Bank pushed forward operating strategy transformation and increased investment in agro-related financial services. The above-mentioned supplementary benefits to the retired employees will not be recognized in financial statements of 2009. Excluding this factor, operating and administrative expenses increased by RMB23,691 million or 36.80% in 2008.

Composition of Operating and Administrative Expenses

In RMB millions, except for percentages

Item	2008	2007	Increase/ (Decrease)	Growth rate (%)
Remuneration and benefits of employees	57,776	31,171	26,605	85.35
Of which: Salaries and bonuses	31,648	24,301	7,347	30.23
Supplementary benefit expenses of retired and early retired employees	9,035	(4,852)	13,887	—
Others	17,093	11,722	5,371	45.82
Operating expenses	25,218	21,090	4,128	19.57
Depreciation and amortization	11,423	7,815	3,608	46.17
Total	94,417	60,076	34,341	57.16

Remuneration and benefits of employees increased by RMB26,605 million or 85.35%, which was due to an increase of RMB7,347 million in salaries and bonuses as well as an increase of RMB13,887 million in accrued benefit expenses of retired and early retired employees. This was a result of the low interest rate and decline of actuarial discount rate of benefit liabilities.

Operating expenses increased by RMB4,128 million or 19.57%, as the Bank increased investment in operating strategy transformation to support the integrated development of agro-related and urban financial services. The Bank also allocated more funds for marketing activities and business expansion.

Depreciation and amortization increased by RMB3,608 million or 46.17%. This was because the base of depreciation and amortization increased due to the appreciation of assets evaluated at the financial restructuring.

Provisions for Impairment Losses

In 2008, provisions for impairment losses of the Bank increased by RMB20,904 million to RMB51,478 million, of which provisions for impairment losses on loans and on investments amounted to RMB39,858 million and RMB9,988 million respectively.

2008 witnessed a disastrous earthquake in China. With a large number of operations in the quake-affected area, the Bank suffered the heaviest losses among domestic banks, and set aside RMB8,619 million of provisions for loans impairment losses caused by the earthquake. In addition, the Bank set aside provisions for loans impairment losses in a careful manner to respond to the international financial crisis and domestic economic downturn. Excluding the earthquake factor, provisions for loans impairment losses amounted to RMB31,239 million, representing an increase of RMB10,124 million from the previous year.

Income tax

In 2008, income tax decreased by RMB33,574 million to RMB896 million. Reasons for such decrease include: (1) income tax of the Bank was partially exempted according to the joint-stock reform plan; and (2) as regulated in the new income tax law, the statutory tax rate applicable to domestic operations of the Bank has been cut from 33% to 25% since 1 January 2008.

Segment Reporting

The table below sets out operating income of the Bank by geographical segments.

In RMB millions, except for percentages

Item	2008		2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	40,400	19.13	8,292	4.63
Yangtze River Delta	44,581	21.11	40,963	22.85
Pearl River Delta	26,124	12.37	26,757	14.93
Bohai Rim	27,918	13.22	29,672	16.55
Central China	23,359	11.06	23,864	13.31
Western China	41,830	19.81	40,124	22.39
Northeastern China	6,581	3.11	8,488	4.74
Overseas and others	396	0.19	1,077	0.60
Total operating income	211,189	100.00	179,237	100.00

Note: Please refer to "Note 11 to Financial Statements: Segment Information" for the definition of geographic segments.

The table below sets out profit of the Bank by geographical segments.

In RMB millions, except for percentages

Item	2008		2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office ¹	17,692	33.80	5,359	6.85
Yangtze River Delta	18,920	36.14	24,257	31.00
Pearl River Delta	4,899	9.36	16,342	20.88
Bohai Rim	6,222	11.89	12,116	15.48
Central China	2,690	5.14	5,369	6.86
Western China	6,759	12.91	15,247	19.48
Northeastern China	(4,925)	-9.41	(1,225)	-1.56
Overseas and others	92	0.17	792	1.01
Total profit	52,349	100.00	78,257	100.00

Note: 1. The large change of the profit of the Head Office in 2008 as compared to 2007 was due to the recognition of the Head Office's role as a body eligible for the interest income arising from MOF receivables and gain/loss on actuarial benefits.

Following the trend of integrated development of urban and rural economies, the Bank fully exerted its advantages of distribution channels and customer resources, and made an overall arrangement for the development of urban and rural financial services. The Bank gave priority to the expanding markets of Yangtze River Delta, Pearl River Delta and Bohai Rim, and provided more financial support to the economic and social development of central and western regions. In 2008, operating income from Yangtze River Delta, Pearl River Delta and Bohai Rim totaled RMB98,623 million, accounting for 46.70% of total operating income. Profit of above-mentioned segments totaled RMB30,041 million, accounting for 57.39% of total profits.

Balance Sheet Analysis

Assets

At the end of 2008, total assets of the Bank amounted to RMB7,014,351 million, representing an increase of RMB1,708,845 million or 32.21% as compared to the end of 2007. Among the assets, net loans and advances to customers increased by RMB305,792 million or 11.29%. Net investments increased by RMB999,918 million or 76.39%, cash and deposits with central banks increased by RMB208,870 million or 22.29%, deposits and lending with banks and non-bank financial institutions increased by RMB38,217 million or 55.44%, financial assets held under reverse repurchase agreements increased by RMB101,522 million or 70.09%, and other assets increased by RMB54,526 million or 39.93%.

Key Items of Assets

In RMB millions, except for percentages

Item	31 December 2008		31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Total loans and advances to customers	3,100,159	—	3,474,174	—
Less: Provisions for impairment losses on loans	85,175	—	764,982	—
Net loans and advances to customers	3,014,984	42.98	2,709,192	51.06
Net investments	2,308,885	32.92	1,308,967	24.67
Cash and deposits with central banks	1,145,884	16.34	937,014	17.66
Deposits and lending with banks and non-bank financial institutions	107,147	1.53	68,930	1.30
Financial assets held under reverse repurchase agreement	246,370	3.51	144,848	2.73
Others	191,081	2.72	136,555	2.58
Total assets	7,014,351	100.00	5,305,506	100.00

Loans and Advances to Customers

At the end of 2008, the balance of loans and advances to customers amounted to RMB3,100,59 million, representing a decrease of RMB374,015 million as compared to the end of 2007. Excluding the disposal of NPL factor, the balance increased by RMB392,753 million, maintaining steady growth. Please refer to "Overview of Joint-Stock Reform" for details of financial restructuring of the Bank.

In terms of product type, subtotal of corporate loans and discounted bills, personal loans, and overseas and other loans amounted to RMB2,616,460 million, RMB464,465 million, RMB19,234 million, accounting for 84.40%, 14.98% and 0.62%, respectively.

Distribution of Loans by Product

In RMB millions, except for percentages

Item	31 December 2008		31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Loans granted by domestic branches	3,080,925	99.38	3,456,469	99.49
Corporate loans	2,359,297	76.10	2,761,157	79.47
Discounted bills	257,163	8.30	204,127	5.88
Personal loans	464,465	14.98	491,185	14.14
Overseas and others	19,234	0.62	17,705	0.51
Total	3,100,159	100.00	3,474,174	100.00

Distribution of Loans by Geographic Region

In RMB millions, except for percentages

Item	31 December 2008		31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	140,987	4.55	107,636	3.10
Yangtze River Delta	896,746	28.93	838,870	24.15
Pearl River Delta	448,109	14.45	463,114	13.33
Bohai Rim	504,630	16.28	577,176	16.61
Central China	341,843	11.03	515,191	14.83
Northeastern China	90,408	2.92	205,351	5.91
Western China	658,202	21.23	749,131	21.56
Overseas and others	19,234	0.61	17,705	0.51
Total	3,100,159	100.00	3,474,174	100.00

The Bank continued improvements regarding the regional distribution of credit assets and focused on the developed eastern region while facilitating coordinated development of loans to different regions. The sub-total of loans to Yangtze River Delta, Pearl River Delta and Bohai Rim made up 59.66% of total loans as compared to 54.09% at the end of 2007.

Distribution of Corporate Loans by Maturity

In RMB millions, except for percentages

Item	31 December 2008		31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Short-term corporate loans	1,112,197	47.14	1,439,103	52.12
Medium and long-term corporate loans	1,247,100	52.86	1,322,054	47.88
Total	2,359,297	100.00	2,761,157	100.00

Distribution of Corporate Loans by Industry

In RMB millions, except for percentages

Item	31 December 2008		31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Manufacturing	763,257	32.35	945,753	34.25
Production and supply of electric power, gas and water	382,845	16.23	341,501	12.37
Real estate	336,037	14.24	347,185	12.57
Transportation, storage and postal services	200,129	8.48	159,151	5.76
Wholesale and retail trade	165,247	7.00	306,353	11.10
Water, environment and public utility management	90,973	3.86	77,230	2.80
Construction	82,453	3.50	81,433	2.95
Mining	66,173	2.80	67,119	2.43
Leasing and commercial services	64,288	2.73	111,004	4.02
Telecommunications, computer services and software	37,998	1.61	30,751	1.11
Others	169,897	7.20	293,677	10.64
Total	2,359,297	100.00	2,761,157	100.00

In 2008, the Bank strengthened credit guidelines to some key industries. The Bank actively supported loans to such industries as transportation, production and supply of electric power, gas and water. The Bank also effectively controlled loans to industries with large energy consumption, high pollution and overcapacity, thereby continuously improving the industrial structure. Excluding the strip-off factor, (1) manufacturing, production and supply of electric power, (2) gas and water, and (3) transportation, storage and postal services were the top three industries in terms of incremental corporate loans. Based on a general control of loan extensions, the Bank strengthened credit assessment of customers and loans management. The credit fund was granted to premium customers based on their credibility and ability to pay back the funds.

Distribution of Personal Loans by Product

In RMB millions, except for percentages

Item	31 December 2008		31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Personal housing loans	319,498	68.79	298,846	60.84
Overdraft of personal cards	7,901	1.70	4,417	0.90
Others	137,066	29.51	187,922	38.26
Total	464,465	100.00	491,185	100.00

Investments

At the end of 2008, the net investments amounted to RMB2,308,885 million, representing an increase of RMB999,918 million or 76.39%.

Distribution of Investments by Instrument

In RMB millions, except for percentages

Item	31 December 2008		31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Non-restructuring related bonds	1,533,867	66.43	1,304,981	99.69
Restructuring related bonds	758,393	32.85	—	—
Equity instruments	366	0.02	1,117	0.09
Others ¹	16,259	0.70	2,869	0.22
Total	2,308,885	100.00	1,308,967	100.00

Note: 1. Include trust and other wealth management products held by the Bank.

At the end of 2008, non-restructuring related bonds investment amounted to RMB1,533,867 million, representing an increase of RMB228,886 million or 17.54%. During the reporting period, the Bank paid close attention to bond market movements, took advantages of opportunities to improve maturity structure of portfolio, and increased investment in RMB medium and long-term bonds when the interest rate reached a high level.

Restructuring related bonds investment amounted to RMB758,393 million, which took up 32.85% of net investments. The bonds are mainly comprised of MOF receivables recognized in the financial restructuring.

Distribution of Investments by Holding Purpose

In RMB millions, except for percentages

Item	31 December 2008		31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Trading financial assets	40,017	1.73	17,205	1.31
Available-for-sale financial assets	800,013	34.65	529,203	40.43
Held-to-maturity investments	576,323	24.96	532,816	40.71
Investments classified as receivables	892,532	38.66	229,743	17.55
Total	2,308,885	100.00	1,308,967	100.00

At the end of 2008, trading financial assets increased by RMB22,812 million or 132.59%, available-for-sale financial assets increased by RMB270,810 million or 51.17%, held-to-maturity investments increased by RMB43,507 million or 8.17%, and investments classified as receivables, mostly comprised of MOF receivables related to the financial restructuring, increased by RMB662,789 million or 288.49%.

Distribution of Non-restructuring Bonds Investment by Issuer

In RMB millions, except for percentages

Item	31 December 2008		31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Government bonds	1,057,373	68.94	869,001	66.59
Bonds issued by public entities and quasi-government agencies	388,922	25.36	349,910	26.81
Bonds issued by financial institutions	53,900	3.51	66,308	5.08
Corporate bonds	33,672	2.19	19,762	1.52
Total	1,533,867	100.00	1,304,981	100.00

The Bank made timely adjustments to its investment portfolio in response to market risk changes. In terms of issuer of non-restructuring bonds, the government bonds increased by RMB188.37 million from the end of 2007 and took up 68.94%, representing an increase of 2.35 percentage points. Bonds issued by public entities and quasi-government agencies increased by RMB39,012 million and took up 25.36%; bonds issued by financial institutions decreased by RMB12,408 million and took up 3.51%, representing a decrease of 1.57 percentage points. Corporate bonds increased by RMB13,910 million and took up 2.19%.

Distribution of Non-restructuring Bonds Investment by Remaining Maturity*In RMB millions, except for percentages*

Remaining maturity	31 December 2008		31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Overdue	9	0.00	616	0.05
Less than 3 months	213,533	13.92	187,579	14.38
3–12 months	257,234	16.77	180,661	13.84
1–5 years	739,332	48.20	540,282	41.40
More than 5 years	323,759	21.11	395,843	30.33
Total	1,533,867	100.00	1,304,981	100.00

Investments in Foreign Currency Bonds**Distribution of Non-restructuring Bonds Investment by Currency***In RMB millions, except for percentages*

Item	31 December 2008		31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
RMB	1,399,315	91.23	1,207,103	92.50
USD	127,935	8.34	90,238	6.91
Other foreign currencies	6,617	0.43	7,640	0.59
Total	1,533,867	100.00	1,304,981	100.00

Investments in foreign currency bonds amounted to RMB134,552 million at the end of 2008, representing an increase of RMB36,674 million or 37.47% from the previous year. Such increase was contributable to the Bank's investment in U.S. treasury bonds and high-rating commercial papers after the capital injection from the State.

At the end of 2008, the Bank held USD2,937 million of Alt-A mortgage-backed securities, USD488 million of U.S. sub-prime residential mortgage-backed securities and USD313 million of residential mortgage-related collateralized debt obligations (CDO) in terms of nominal value. The aggregate nominal value of the above-mentioned bonds was USD3,738 million, representing 0.36% of the Bank's total assets. The Bank has set aside provisions of USD2,292 million based on the market valuation results of the above-mentioned assets.

The Bank held USD176 million of bonds related to Lehman Brothers in terms of nominal value, representing 0.02% of the total assets. Full provisions for such bonds had been set aside and relevant losses have been recognized.

The Bank held USD823 million of bonds related to Freddie Mac and Fannie Mae, U.S. mortgage agencies, representing 0.08% of the total assets. Provisions of USD15 million for the above mentioned bonds have been set aside. The principal repayment and interest payment of these bonds is considered normal at present.

The Bank believes that provisions for impairment losses on the above-mentioned assets have covered the impact of the observable market conditions at the end of the reporting period. The Bank will keep close watch on the future development of the market, and continue to implement the policy of cautious provisions to maintain full coverage of bonds impairment risk.

Liabilities

Liabilities of the Bank amounted to RMB6,723,810 million, representing an increase of RMB690,699 million or 11.45% from the end of 2007. Among the liabilities, deposits from customers increased by RMB810,234 million or 15.32%, deposits and lending from banks and non-bank financial institutions decreased by RMB3,090 million to RMB323,903 million. Financial assets held under repurchase agreement decreased by RMB38,301 million to RMB35,090 million due to falling demands for temporary positions under improved liquidity management. Other liabilities decreased by RMB78,144 million to RMB267,389 million due to the decrease of RMB150,602 million in central banks lending during the financial restructuring.

Key Items of Liabilities

In RMB millions, except for percentages

Item	31 December 2008		31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Deposits from customers	6,097,428	90.68	5,287,194	87.64
Deposits and lending from banks and non-bank financial institutions	323,903	4.82	326,993	5.42
Financial assets held under repurchase agreements	35,090	0.52	73,391	1.22
Other liabilities	267,389	3.98	345,533	5.72
Total liabilities	6,723,810	100.00	6,033,111	100.00

Deposits from Customers

The deposit balances from customers amounted to RMB6,097,428 million at the end of 2008, representing an increase of RMB810,234 million or 15.32% from the end of 2007. In terms of clients groups, personal loans and corporate loans increased by RMB755,481 million or 25.34% and RMB53,032 million or 2.51% respectively. In terms of maturities, the percentage of time deposits increased by 3.79 percentage points to 43.18%, and demand deposits decreased by 3.32 percentage points to 53.60%.

In the context of the volatile capital market and a real estate market slump, customers were less willing to invest, but preferred deposits as a means of preventing risks. Taking advantage of the market environment that is favourable for accepting deposits, the Bank strengthened marketing efforts, exerted its network and customer advantage, and enriched the deposit products. Therefore the Bank consolidated its leading position in the deposits-taking market.

Distribution of Deposits by business line

In RMB millions, except for percentages

Item	31 December 2008		31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Domestic deposits	6,088,059	99.85	5,276,646	99.80
Corporate deposits	2,163,874	35.49	2,110,842	39.92
Time	524,673	8.61	464,581	8.79
Demand	1,639,201	26.88	1,646,261	31.13
Personal deposits	3,736,918	61.29	2,981,437	56.39
Time	2,108,105	34.57	1,617,890	30.60
Demand	1,628,813	26.72	1,363,547	25.79
Others ¹	187,267	3.07	184,367	3.49
Overseas deposits	9,369	0.15	10,548	0.20
Total	6,097,428	100.00	5,287,194	100.00

Note: 1. Include margin deposits, remittance payables and outward remittance.

Distribution of Deposits from Customers by Geographic Region

In RMB millions, except for percentages

Item	31 December 2008		31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	34,031	0.56	55,394	1.05
Yangtze River Delta	1,399,197	22.95	1,217,521	23.03
Pearl River Delta	1,102,485	18.08	969,092	18.33
Bohai Rim	1,069,927	17.55	946,560	17.90
Central China	1,143,229	18.75	955,921	18.08
Northeastern China	399,872	6.56	344,631	6.52
Western China	939,318	15.41	787,527	14.89
Overseas	9,369	0.14	10,548	0.20
Total	6,097,428	100.00	5,287,194	100.00

Distribution of Deposits by Remaining Maturity

In RMB millions, except for percentages

Item	31 December 2008		31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Demand	3,348,589	54.92	3,083,863	58.33
Less than 3 months	923,203	15.14	770,076	14.56
3–12 months	1,372,789	22.51	1,063,698	20.12
1–5 years	447,400	7.34	366,334	6.93
More than 5 years	5,447	0.09	3,223	0.06
Total	6,097,428	100.00	5,287,194	100.00

Equity

In 2008, the Bank carried out financial restructuring and significantly improved its capital base thanks to the capital injection from the State and the separation of non-performing assets. At the end of 2008, Bank equity amounted to RMB290,541 million.

The table below sets out the Bank's equity as at 31 December 2008.

In RMB millions, except for percentages

Item	Amount	Percentage (%)
Paid-up capital/share capital	260,000	89.49
Capital reserve	17,292	5.95
Excess reserve	1,187	0.41
General reserve	64	0.02
Retained profit	12,022	4.14
Foreign currency translation difference	(120)	(0.04)
Equity attributable to equity holders of the parent company	290,445	99.97
Minority interests	96	0.03
Total equity	290,541	100.00

Off-Balance-Sheet Items

Off-balance-sheet items of the Bank include contingent events and commitments, such as credit commitments, capital commitments, operating lease commitments, bonds underwriting and redemption commitments and legal proceedings. Credit commitment was a major component of off-balance-sheet items and was comprised of loan commitments, letters of credit, letters of guarantee and acceptances.

Composition of Credit Commitments

In RMB millions, except for percentages

Item	31 December 2008		31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Loan commitment	403,839	51.67	338,283	46.71
Acceptance Bills	189,126	24.20	204,695	28.27
Letters of guarantee	149,837	19.17	129,214	17.84
Letters of credit	38,780	4.96	51,983	7.18
Total	781,582	100.00	724,175	100.00

Business Review

Corporate Banking

In 2008, following the “3510” strategy and implementing a differential competition strategy, the Bank put all its efforts into the advantages of its extensive reach in urban and rural areas and the interaction of corporate banking and investment banking on one hand, and the extension to the high-end customers and the “Blue Ocean” strategy on the other. It established a direct marketing system where classified customer segmentation was integrated. Furthermore, it created a competitive corporate banking product system with the unique characteristics of ABC and strived to foster a core proficiency, in an effort to support the Bank’s business performance, promote business transformation and drive business innovation by corporate banking.

The Bank designed three key strategies for its corporate banking:

- Key regions are the three economic bands (i.e. Yangtze River Delta, Pearl River Delta and Bohai Rim), provincial capitals and regional center cities, and comprehensive reform pilot areas of Chengdu, Chongqing, Wuhan, Changsha-Zhuzhou-Xiangtan where corporate banking demands are considerable.
- Key customers are enterprises under the control of the central government, sector-leading enterprises, enterprises invested by the Fortune Global 500 companies, high-quality listed companies, key enterprises under the control of the State-Owned Assets Supervision and Administration Committee, provincial-level investment and financing enterprises, key customers who play an important role in expanding domestic demand and stimulating consumption, and key projects relating to the China western development, revitalization of the Northeast Old Industrial Base and rise of the central region.
- A key point to business is to continuously improve traditional business, promote investment banking, accelerate product and business innovation, and develop highly value-added intermediary business with market competitiveness and business update proficiency.

Corporate Deposit and Loan Business

By the end of 2008, domestic corporate loans and bill discounting totalled RMB2,616,460 million, accounting for 84.4% of total loans. In 2008, the Bank’s loans further flowed to competitive regions. Corporate loans and bill discounting made to Yangtze River Delta, Pearl River Delta and Bohai Rim amounted to RMB1,530,920 million, representing 58.51% of total domestic corporate loans and bill discounting.

The balance of domestic corporate deposits reached RMB2,163,870 million, an increase of RMB53,032 million or 2.51% from the end of the previous year.

Small Enterprise Business

In 2008, as a move to continuously improve the small enterprise financial service system, the Bank developed the guidelines and issued measures for further deepening financial services for small enterprises. It established and improved a specialized credit business management system, lessened the focus of operation, and reasonably arranged for the loan approval authority. The Bank also launched online processing of credit business, standardized the business process for daily business products, and further improved the efficiency of financial services to small enterprises. In expediting the building of a small enterprise financial product system, the Bank perfected universal small enterprise products, including simple and quick loans and self-service revolving loans. It launched six series of small enterprise financial products, including: (1) financing and credit facility, (2) wealth management, (3) payment and settlement, (4) e-banking, (5) agency business and (6) comprehensive service. The Bank innovated in small enterprise-themed products and strengthened brand build-up to enhance its market influence in terms of small enterprise business to better meet the financing demands of small enterprises. At the end of 2008, outstanding loans to domestic small and medium-sized enterprises¹ reached RMB1,311,250 million, of which RMB334,560 million was to small enterprises.

1. Small and medium-sized enterprises mentioned herein refer to those specified in the Circular on Printing and Issuing the Interim Provisions on Small and Medium-sized Enterprise Standards promulgated by the former State Economic and Trade Commission, State Development Planning Commission, MOF, and the National Bureau of Statistics.

Institutional Banking

The Bank accelerated financial innovation in institutional banking, achieved substantial progress in related marketing, and continued to improve its business operation. Also, the role of diversified operation platform was further enhanced. Leveraging its branch network, the Bank strengthened the cooperation with domestic peers, established a broad relationship with domestic correspondent banks, and extended its business reach. In 2008, the number of domestic correspondent banks increased to 45. The Bank continued to deepen cooperation with securities and futures companies, and provided third-party depository services to 90 securities companies, with 7.56 million online customers. For example, it has established partnership with the top three commodities and futures exchanges of China and China Financial Futures Exchange, and carried out futures margin depository business with more than 150 futures companies. The number of online futures companies of the Bank's futures transfer system reached 69. The Bank actively promoted bank-insurance business. It established cooperation with 54 domestic insurance companies and secured agency insurance premium income of RMB112,681 million, including RMB78,616 million from new insurance policies. As the Bank deepened cooperation with trust, finance and leasing companies, business income increased steadily. The Bank successfully won a bid for the agency bank collecting non-tax fiscal income for the central government. It also smoothly promoted commercial cards for central budget units, and doubled the scale of agency business authorized by the central government from the previous year.

Settlement and Cash Management

Payment and Settlement

The Bank provides customers with a large variety of convenient payment and settlement services via counter services, bank-enterprise customer terminal services and such electronic channels as e-banking, telephone banking, ATM and POS. While continuing to consolidate traditional settlement services, the Bank actively pushed forward electronic processing-based payment and settlement means and instruments. It established a uniform comprehensive business processing system, a bank draft system and a promissory note system within the Bank. It integrated and improved settlement vouchers and optimized settlement business process in support of risk control systems such as electronic payment password system and electronic seal verification system. The Bank has thus enhanced the convenience business efficiency and added value to payment and settlement services. The Bank's corporate RMB settlement volume reached RMB158.02 trillion in 2008. Corporate RMB settlement accounts reached 3.3 million at the end of the same year.

Cash Management

In 2008, the Bank established the Settlement and Cash Management Department to handle cash management. Through development of cash management and enhancement of bank-enterprise cooperation, the Bank improved the customer and income structures, promoted operation transformation and drove the development of asset and liability-related business. At the end of 2008, the number of cash management customers reached 34,133, an increase of 27% from the end of the previous year.

Trade Finance and International Settlement

The Bank made great efforts to develop international settlement and trade finance by innovation in foreign exchange products, effective customer segmentation, build-up of its foreign exchange product family, and adjustment of foreign exchange business structure. In 2008, domestic branches recorded international settlement of USD374,545 million, with an increase of 15.04%, yielding a business income of RMB818 million. The Bank provided trade finance of USD20,218 million, up 14.07%, yielding an income of RMB104 million.

In order to improve professional processing of international settlements, the Bank developed a global trade service product (GTS) to meet the diversified integrated and structured financing demands of customers. The Bank launched three trade finance series, i.e. import financing, export financing and settlement express, and integrated various trade finance products.

Investment Banking

The Bank has strengthened its exploration of core business primarily focusing on regular financial advisory, debt financing instrument issuance advisory and corporate wealth management. It successfully handled its first across-bridge loan before its initial public offering, and launched new services such as carbon emission trading in line with the development trend of the financial market. The Bank has 16,759 regulatory financial advisory customers, generating a yearly financial advisory income of RMB1,110 million. It underwrote RMB30,160 million worth of debt financing instruments as a lead underwriter, with handling charge of RMB216 million. It also designed customized wealth management plans for dozens of enterprises directly under the control of the central government and reputable listed companies.

Asset Custody Service

In 2008, the volume of assets under custody reached RMB390.407 million, contributing direct custodian fee income of RMB702 million for the Bank. The average daily balance of deposits of each custodian product stood at RMB52,108 million. During 2008, the number of securities investment funds reached 63, an increase of 9, with assets of RMB215,632 million under management. Three new products of designated account wealth management custodian were launched. Insurance fund custody business developed rapidly, and the number of investment portfolios increased by 24, with total assets of RMB138,868 million under management. As a result, the Bank has become one of the leading insurance fund custodian banks in China. The Bank also managed four QFII products and three QDII products as a custodian. Collective wealth management custody business developed steadily, and a trust program custody business was carried out smoothly, achieving a growth in both the number and scale.

Pension Business

In 2008, the Bank was permitted to operate pension business. During 2008, the pension business size amounted to RMB15.72 million. It has gradually formed a pattern of diversified development of enterprise annuity, farmer pension and various social security funds.

Corporate Wealth Management

In 2008, the Bank's corporate wealth management business developed steadily. All of its flexible and careful structured deposits denominated in RMB have met the expected yield. The Bank issued legal person RMB wealth management products of RMB575,615 million, including Bond Market Express of RMB496,945 million, and corporate RMB wealth management products of RMB78,670 million. The volume of corporate foreign exchange structured deposits reached USD151 million, a year-on-year increase of more than 30%.

Personal Banking

In 2008, the Bank improved a multi-level marketing service system with a focus on raising integrated marketing capability and service quality of personal banking. It has achieved sustained and steady progress in this area. The Bank's personal deposits grew rapidly, continuing to maintain a leading position in the industry in 2008. Personal loan structure and quality were improved. Sales of treasury bonds and gold were steady and higher than the previous year. The ABC-CA Fund Management Industrial Growth Fund was issued despite the severe situations, and 6,843 million funds were sold, making it the largest equity investment fund in 2008 in terms of raised money. The construction of VIP customer value-added service system was expedited, and customer management and maintenance capability was further developed.

Personal Loans

With an emphasis on personal housing loans, the Bank continued with system improvement and process reengineering for personal housing loans, promoted customer-centered portfolio marketing and provided diversified value-added services. In economically developed regions, the Bank popularized comprehensive credits for personal customers, achieved cross selling and interaction of corporate and private banking, and made the comprehensive credits for personal customers a new growth source of personal loan business. Other personal loan services were developed and the structure of personal loans was adjusted and improved. To meet the diverse credit needs of personal customers, new products such as personal self-service revolving loans, automatic prepayment, separate repayment of principal and interest, and balloon loans, were developed, with more convenient and high-quality personal credit services. At the 2008 China International Exhibition on Financial Banking Technology & Equipment, the Bank's "personal self-service revolving loan" won the "Outstanding Financial Product Award" for its leading business system functions convenient way of self-service borrowing and repayment. At the end of 2008, the balance of domestic personal loans reached RMB464,465 million, including personal housing loans of RMB319,498 million, accounting for 68.79% of the total.

Personal Deposits

In 2008, in response to the volatile and declined capital market and the increasing desire of residents to deposit, the Bank seized the market opportunities to retain and develop quality customers, promote a joint business development of savings and wealth management, and guide customers to reasonably allocate personal financial assets. The Bank also enhanced the market competitiveness of savings business, and optimized the structure of personal deposits to keep ahead of its peers. Beijing value creation-oriented, the Bank carried out various comprehensive marketing to improve its comprehensive marketing capability and quality services.

At the end of 2008, the balance of domestic and foreign currency personal deposits was RMB3,736,918 million, an increase of RMB755,481 million from the end of the previous year. According to the PBOC, the Bank's balance of personal deposits accounted for 16.87% of all financial institutions. The amount of increase occupies 17.3% of the total increase. Both of these increases rank second in the industry.

Bankcards

In 2008, the Bank maintained its first position among domestic banks in terms of the number of cards issued, bankcard consumption, and bankcard deposit balance. The number of cards issued was 346 million, an increase of 9%; bankcard consumption reached RMB842,715 million; and bankcard-handling charge stood at RMB3,824 million, up 24.04%. At the end of 2008, the number of chartered merchants was 152,329, an increase of 92.73%. The Bank maintained a leading position among domestic banks in terms of the international card acquiring system EMV migration (from magnetic strip card to chip card). Its volume of transactions handled via the EMV terminals accounted for 86% of the total transaction volume of acquired international cards.

Debit Kins Card

The Bank established a debit card system to improve product and service quality, while continuing to maintain a leading position in the number of cards issued, bankcard consumption and income from bankcard services. At the end of 2008, the number of debit cards issued was 334 million, with annual consumption of RMB775,271 million.

Credit Kins Card

The Bank further improved its credit card system and product functions and services. More than 50 new credit card products, such as environmental protection card, Xcar card, central budget unit commercial card, personal commercial card, Ruyi card and platinum card have been launched. Asset business exploration has been strengthened. Such value-added services as collection and payment agency services and 516 consumption installment payment services were also launched. Through project interaction, targeted marketing and exploration of preferential merchants, the Bank has gradually changed the situations of over dependence on outlets, an undiversified marketing channel, driving a rapid growth of credit card market share. At the end of 2008, the number of credit cards issued reached 9,277,000, an increase of 185.28%; credit card consumption amounted to RMB52,372 million, up 229%. Consumption handling charge of credit cards grew by 273% to RMB250 million.

Quasi Credit Kins Card

The Bank has upgraded the quasi credit card system and optimized product functions. It has actively developed Farmers-Favored Kinscard products. At the end of 2008, the number of quasi credit cards issued was 2,715,900, with annual consumption of RMB15,072 million.

Item	31 December 2008	31 December 2007	Growth rate (%)
Debit cards issued (unit: 10,000)	33,411.54	31,043.79	7.63
Credit cards issued (unit: 10,000)	927.70	325.19	185.28
	2008	2007	Growth rate (%)
Annual consumption volume of debit cards (RMB100 million)	7,752.71	6,742.00	14.99
Annual consumption volume of credit cards (RMB100 million)	523.72	159.18	229.00

Personal Wealth Management

In response to the strong rebound of the bond market, the Bank launched “Ben Li Feng-An Xin De Li” (means “Rest Assured Benefits”) series of wealth management products, and overachieved its expected rate of return. Through close cooperation with a large number of outstanding trust companies, the Bank has offered various trust and wealth management products. The Bank also designed “Gold Key-Cai Fu Bao”(means “Fortune Pro”) sub-brand for high-end personal customers, as an initial attempt to develop private banking business. “Hui-Li-Feng-Jin-Tu-Di No.1” (means “Golden Farmland”), a farm produce-linked structured deposits, was awarded the “Best Private Wealth Management Product in China” in the selection of “2008 China Private Wealth Management ‘Treasure Bowl’ Award” jointly sponsored by the Organizing Committee for China International Finance Forum and the Money Weekly. The Bank was also named as the “Best Foreign Currency Wealth Management Bank of the Year” in the “Best Chinese Financial Institutions Ranking in 2008” released by the Financial Times and the Institute of Finance & Banking of Chinese Academy of Social Sciences.

Fund Custody

In 2008, the Bank strived to create a fund sales “Fund Supermarket” brand. It distributed 265 investment funds worth RMB139,484 million on behalf of 44 fund companies, yielding sales income of RMB1,295 million. In response to the downturn of the capital market, the Bank strengthened the development of funds with a fixed term and amount, and launched 188 such funds, with total subscription amount of RMB2,098 million, an increase of 123% from the previous year.

Treasury Bond Transactions

In 2008, the Bank underwrote five series of savings (bearer) bonds with a total amount of RMB15,600 million. The Bank also redeemed three series of (bearer) savings bonds for a total of RMB12,000 million. Three series of (electronic) saving bonds were underwritten for RMB3,145 million. During the year, the Bank distributed 14 series of counter registered treasury bonds for RMB38,929,000. The cumulative transaction volume of listed counter registered treasury bonds and special treasury bonds reached RMB394 million. In 2008, the Bank won the “Merit Award for Underwriting of Bearer Treasury Bonds in 2008” from the MOF and PBOC.

Insurance Agency Business

The Bank broadened the cooperation of insurance products, and gained agency insurance premiums of RMB112,681 million, an increase of RMB45,119 million or 66.78%. The Bank actively widened the business scope of the insurance agency, and promoted such business as “Fixed-Amount SME Insurance” and “New and Simple Life Insurance”. “State Subsidized Student Loan Credit Insurance” was created for rural areas in order to meet agro-related needs.

Treasury Operations

In respect to the treasury business, the Bank aims to seek liquidity safety and a balance between return and risk of investment portfolios. The Bank will work in line with market developments and macro-economic movements, as well as provide agency treasury services.

The Bank strengthened the study and analysis of domestic and foreign financial situations, in an effort to accurately understand the movement of interest rate yield. At the time of high interest rates, the Bank increased long and medium-term bond investment, while improving various services and actively developing low-risk wealth management products. In 2008, the Bank won the annual most outstanding market maker, largest market maker in terms of transaction volume, the largest market maker in terms of market making transactions, the best transaction standard award, merit award for transactions, merit award for derivative transactions, from China National Foreign Exchange Centre.

Money Market Transactions

The Bank ensured its liquidity by monitoring and studying foresighted arrangements. When the Bank's liquidity was strained in the first half of 2008, the Bank explored various ways, including fund raising, to ensure its liquidity safety and provided fund guarantee for its bond investment at the time of high interest rates. When the money policy was eased in the second half of the year, the Bank took the lead in adjusting financing strategy and customer structure, expanding market share of lending, and continued to maintain the first position in terms of fund lending in the fourth quarter of 2008. In 2008, RMB borrowing and lending totaled RMB4,921,300 million, of which lending was RMB4,055,600 million, and borrowing was RMB865,700 million.

Management of Investment Portfolio

Trading Book Business

The Bank strengthened portfolio management of RMB trading business, and maintained the accounts with high coupon and short duration during the interest rate upward cycle and increased the position in long-term bonds during the interest rate downward cycle. With regard to foreign currency trading, the Bank adjusted its trading policy in a timely manner and adopted a well-thought out operation in response to the unstable market.

In respect to foreign currency investment portfolio management, the Bank reduced at risk bond assets and increased sovereign and quasi-sovereign bonds in a timely manner. With respect to the management of index portfolio, the Bank continued to pursue a cautious credit allocation strategy. The Bank strengthened the market making of inter-bank RMB vs. foreign exchange swap business and the management of foreign currency vs. foreign currency swap business. The Bank developed foreign exchange trading and enhanced the management of foreign exchange rate quotation.

In 2008, the Bank's transaction volume of RMB bonds was RMB400,900 million. The volume of inter-bank foreign exchange settlement and sales transactions was USD350,800 million, and the volume of foreign exchange transactions was USD38,119 million.

Banking Book Business

In response to the drastic fluctuation and downward economic trend of 2008, the Bank strengthened detailed-focused and portfolio responsive management, adjusted bond investment strategy in line with the changes in macro-economic environment and interest rates. We also heightened the understanding of bond investment and designed the investment categories. Through formulation of reasonable duration strategy and credit strategy, the Bank further developed the structure of its investment portfolio, which effectively controlled interest rate risk and credit risk and improved the investment yield.

When the interest rate was high prior to September 2008, the Bank increased investment in long and medium-term RMB bonds, and extended the duration of bond portfolio. This remarkably improved the return on investment. Since September, the interest rate of the bond market has declined; therefore the market value of the Bank's bond portfolio increased rapidly, contributing greatly to the Bank's return on investment.

Following a foreign exchange investment strategy, the Bank allocated most funds to the short-term money market for the time being, with a focus on short-term investment. In respect of product structure, the Bank suspended investment in unsecured products with high risks, in order to hedge credit risk. It also increased investment in sovereign and quasi-sovereign bonds and optimized the credit structure of the investment portfolio.

Agency Treasury Operations

While enhancing the service capability of domestic and foreign currency agency treasury operations, the Bank improved the categories of treasury operations and provided customers with diversified and individualized services. The Bank also provided RMB and foreign exchange structured deposit products such as "Ben Li Feng — An Xin De Li" (a RMB wealth management product) and "Hui Li Feng" (a foreign exchange investment product). In respect of foreign exchange agency derivative transactions, the Bank, by actively reducing the position of agency derivatives, narrowed the risk exposure of both the Bank and the customer. We also lowered the leverage of derivative transactions and focused on the investigation of VIP corporate and institutional customers to reduce risk exposure of the Bank and customers. In 2008, the transaction volume of agency foreign exchange treasury operations of the Bank reached USD248,295 million.

Gold Business

In 2008, the Bank's self-trading gold business focused on risk study and control, with profit-making mode gradually shifting to low-risk business. The self-trading volume of gold reached 60 tons, a year-on-year increase of 136.9%. The Bank successfully launched overseas gold transactions and further developed the categories of gold transactions.

Agency gold transactions developed steadily, with a transaction volume of 31 tons, up 31% from the previous year. The fund clearing on behalf of the Shanghai Gold Exchange and the warehousing business of designated delivery warehouse operated smoothly. In 2008, the Bank independently developed the "Chuan Shi Zhi Bao" gold sales business, with sales volume of 393.65 kg. Sales reached a value of RMB85,766,300. The cumulative agency sales volume of physical gold reached 1,852.92 kg, an increase of 89%.

Distribution Channels

Physical Outlets

In 2008, following the general arrangements and requirements of the business development strategy, the Bank further adjusted the management functions of institutional outlets, added specialized groups and adopted uniform and standardized management of outlet construction.

The Bank increased resource input and optimized outlet structure and layout. Based on the principle of “integration of county outlets and optimization of city outlets”, the Bank focused on the development of urban outlets and building of Gold Key Wealth Management Center. Infrastructure input in county outlets was strengthened and outlet service functions improved. Great efforts were made to promote the functional transformation and standardization of operating outlets with focus on the improvement of outlet image. To achieve this end, visual identity, service standards and segmentation standards of the outlets were enhanced and the Bank’s “Green Project” was introduced. As a result, the service functions, distribution capability and service quality of the outlets greatly improved. At the end of 2008, the Bank had a total of 24,064 domestic branches and outlets, including more than 3,000 wealth management centers. To adjust and improve outlet layout, the Bank dissolved 519 inefficient operating outlets. At the same time, the Bank accelerated the building of self-service banking outlets. It had 6,016 self-service outlets by the end of 2008, an increase of 80.94%.

E-banking Business

Depending on the centralized business processing and data platform, the Bank established an e-banking trading system, which is composed of e-banking, telephone banking, mobile-phone banking and self-service banking. The e-banking service system is composed of customer service center, operating portal and information service platform in an effort to provide customers with a full spectrum of quality online financial services. The Bank’s e-banking brand “Jin-e-Shun” received wide-scale recognition from customers, won China electronic finance “Jin-Jue Award” and was honored as the satisfactory electronic financial service brand. At the end of 2008, the number of e-banking customers exceeded 30 million, an increase of 265%. The number of electronic transactions amounted to more than 7860 million, an increase of 78%, with the amount of RMB52.3 trillion, up 28%, accounting for 42.77% of total, up 8.1 percentage points on a year-on year base.

On-line Banking

The functions and business process of on-line banking products continued to improve during this year. The market competitiveness of personal on-line banking products such as online account transfer and payment, investment and wealth management, third-party depository, and Wai-Hui-Bao “Foreign Exchange Pro”, was greatly improved. The version 3.5 of corporate on-line banking was successfully launched, which has increasingly easy to use features and tighter security control. At the end of 2008, the number of the Bank’s on-line banking customers reached 12,326,000, of which registered personal customers numbered 12,008,000, with an annual growth of more than 100% for three consecutive years. Registered corporate customers numbered 318,000, with an annual growth of over 50% over the same period. The total transaction volume of on-line banking stood at RMB30.57 trillion. The services of the portal site are strengthening, with annual visits of 1,890 million. In 2008, the Bank’s on-line banking business won the “Best Business Exploration Award for National Commercial Banks” from China Financial Certification Authority.

Telephone Banking

The Bank provides customers with round-the-clock telephone banking services via the hotline “95599” available to domestic customers. The centralization of Head Office telephone banking system continuously improved, channel resources were effectively integrated, and customer experience was enhanced remarkably. The construction of “95599” integrated customer service center has achieved significant progress which has bettered our customer experience. The service coverage of (Tianjin) customer service center has extended to 13 branches. In 2008, the Bank’s customer service representatives answered 20.32 million calls. The customer service centers of Shanghai and Shenzhen branches were honored with the “Award for 2008 Best Call Center in China”. At the end of 2008, the number of the Bank’s telephone banking customers reached 7,974,000, of which personal customers numbered 7,667,000, and corporate customers numbered 307,000. The transaction volume of telephone banking amounted to RMB0.38 trillion.

Mobile Banking

The mobile banking business has been expanding rapidly and the number of registered customers of mobile banking has been considerable. We promoted the Head Office of Mobile Banking throughout the Bank to provide customers with real time account transfer, agency fee payment, repayment of debit card and non-local remittance. In 2008, 22 branches of the Bank launched SMS business, with 8,893,700 contracted personal customers and 55,900 contracted corporate customers. A total of 530 million SMS were sent this year.

Self-service Banking

The input of self-service equipment was accelerated this year and operating efficiency of such equipment increasingly improved. The Bank actively pushed forward the fine management of self-service equipment and expedited the centralized monitoring of such equipment to build a uniform platform. We promoted inter-bank transaction centralized exchange projects and actively developed new business functions. Some branches made available to customers the functions of card-free or passbook-free deposit, agency fee payment and inquiry about detailed transactions. At the end of 2008, the Bank had 30,089 ATMs and 5,098 cashless trading terminals. The number of self-service equipment increased by 35.9% from the previous year. The transaction volume of self-service equipment was 3,415 million, with a transaction value of RMB2.34 trillion.

E-commerce

The Bank's e-commerce payment platform maintained a leading position among domestic banks. To date, the Bank has formed the e-payment product line with rich features and multiple functions, such as B2C, B2B and credit payment platform, and has gradually established a unique e-commerce mode represented by online direct marketing of funds. At the end of 2008, the Bank had 401 chartered e-commerce merchants, including 54 fund online direct marketing merchants. The transaction numbers of e-commerce trading was 126 million and had a transaction value of RMB60,500 million, including online direct marketing of bonds of RMB13,310 million.

Domestic Major Controlling Shareholders

- ***ABC-CA Fund Management Co., Ltd***

ABC-CA Fund Management Co., Ltd was jointly established by the Bank, Crédit Agricole Asset Management and CHALCO in March 2008. The Bank, Crédit Agricole Asset Management and CHALCO hold a 51.67%, 33.33% and 15% stakes in the joint venture respectively. ABC-CA Fund Management Co., Ltd was registered in Shanghai with a registered capital of RMB200,000,001.

- ***Hubei Hanchuan ABC Rural Bank Co., Ltd***

Hubei Hanchuan ABC Rural Bank was established in Xinhe Town, Hanchuan County, Xiaogan City, Hubei Province on 18 August 2008, with a registered capital of RMB20 million. It was sponsored by the Bank and five other legal entities. The Bank invested RMB10 million for a 50% stake.

- ***Hexigten ABC Rural Bank Co., Ltd***

Hexigten ABC Rural Bank was established in Jingpeng Town, Hexigten, Chifeng City, and Inner Mongolia Autonomous Region on 18 August 2008, with a registered capital of RMB19.6 million. It was sponsored by the Bank and six other legal entities. The Bank invested RMB10 million for a 51.02% stake.

Overseas Business

In 2008, the Bank remained focused on practical operations and high-quality business structure, while strengthening comprehensive risk management and achieving steady and healthy development of various business lines. Maintaining a moderate growth of total assets, the Hong Kong Branch adjusted the structure of loans, trade finance and investment business, and improved risk control capability and profitability. While ensuring liquidity, the Singapore Branch met domestic branches needs and local high-end customers, and also maintained profit growth through risk control and structure optimization. As subsidiaries of China Agricultural Finance Co., Ltd, Hong Kong, China Agricultural Securities Co., Ltd, Hong Kong achieved steady development in stock broking and enterprise financing. China Agricultural International Insurance Co., Ltd, Hong Kong continued to explore domestic sub-insurance business and strengthened the joint marketing of international marine insurance. The New York, London and Tokyo representative offices continued to enhance marketing and risk monitoring of regional correspondent banks.

ABC's Hong Kong Branch, Singapore Branch and China Agricultural Finance Co., Ltd had total assets of RMB38,623 million at the end of 2008, with net profits of RMB220 million.

Information Technology

The Bank implemented the "technology-oriented" strategy, which helps to improve our technical capability, while also guaranteeing the stability and security of our information system.

Organizational Framework Optimised

In 2008, the Bank adjusted the setup of technical institutions based on the principles of "highlighting strategic focus, effectively controlling risks, improving resource use efficiency and strengthening professional division of responsibility". It formed a framework wherein IT Management Department heads up the operations, and Software Development Center, Data Center, Resource Management Department, Information Center, Backup and Test Center act in line with their respective responsibility. The department will gradually establish a technical work system that accommodates the national data integration. With such a strong innovative capability, the Bank's IT is becoming more intensive and professional.

A new Generation of Core Banking System Launched

The Bank completed the national data integration in 2006 and achieved the goal of "One Network Nationwide". The new generation of comprehensive business system with independent intellectual property rights unified the core business application of front and back offices and the accounting system of the Bank. This provided a relatively stable IT infrastructure. Based on the system, the Bank initiated a new generation of core banking system construction in 2008. Within three to five years the Bank aims (1) to upgrade and integrate the existing system, (2) improve application, basic, data and IT governance frameworks, and (3) to realize logical concentration of application and data while ensuring continuous operation and smooth transition of the system. According to the requirements of "being customer-centered, designing in line with process and accommodating to the future corporate governance structure and overall risk management needs".

Application Product R&D and Innovation Promoted

In 2008, the Bank successively developed and put into operation the following systems: overseas branch treasury business, revolving loan business, quasi-credit card risk monitoring, margin trading and short selling business. It also researched and developed agro-related telephone banking, Farmer-Favored Kinscard and other distinctive products serving agriculture, rural areas and farmers. The Bank upgraded various products and channels such as cash management platform, open-ended fund agency sales, integrated customer service centers and e-banking. It also launched the research and development of key products, including back office centers, outlet integration processing system, and the new-generation e-banking system. The technical support of core business, fee-based business, channel business and emerging business was further enhanced, while the agro-related financial products were further diversified.

Management Information System Upgraded

In 2008, the Bank successively completed the development and upgrade of many management information systems, such as asset and liability management, basic data platform, non-retail customer rating, multi-tier classification of legal person customer credit assets, operational risk reporting, relationship management with corporate and personal customers, and accounting files. The Bank preliminarily structured a basic framework for enterprise data warehouse, initiated internal ratings-based system development, improved analysis and decision-making capability, as well as risk control and management decisions.

Information System Performance

The Bank successfully accomplished the task of providing safe information system services for the Beijing 2008 Olympic Games. Furthermore the quality and business consistency of information system is constantly improving. By use of two highly available technologies, i.e. parallel coupling and remote backup, the Bank greatly improved the system availability as well as and business processing capability. The average daily transaction volume of the product system increased by 17.5% from the previous year, and the maximum daily transaction volume grew by 20%. The availability ratio of annual core production system reached 99.96%. The production and operation monitoring means were further developed and automatic and standardized management continued to improve. The Bank introduced information security level protection and improved emergency management systems. In addition, we launched the construction of disaster recovery center and improved the information security and risk management system.

Human Resources Management

Human Resources Development

In order to build up the Bank with talented and professional people, the Bank mapped out a blueprint for human resources development. The Bank strengthened management training, and increased strategic transition, risk management and training on scientific development capability. The Bank promoted the training and cultivation of high-calibre people with global vision, and selected and dispatched outstanding graduates and valued staff to overseas operations for practice and post rotation. The Bank also strengthened the training of frontline employees, and effectively improved their comprehensive quality, skills, competence and service quality by qualification examination for such posts or professions. These include: customer relationship managers, risk managers, independent approval officers for credit, accounting supervisors, lobby managers, comprehensive tellers, treasury management, credit and personal wealth management. The Bank reinforced training of the employees of sub-branches at county level and organized agro-related training courses. Farmer-Favored Kinscard training courses were implemented to improve the competence and skills of frontline employees of these sub-branches in serving agriculture, rural areas and farmers. The Bank also selected talented persons for key business posts, actively provided training on international authoritative certification courses (such as Certified Financial Planners, Financial Risk Managers, and ICRBB), and successfully retained expert reserve. The Bank improved the development of training resources such as teaching materials and Internet-based training. We improved the database of employee training cases and put extra effort into the remote training system. By making the training resources accessible to all, the Bank provided employees with convenient training channels. The Bank held about 44,000 training courses in 2008, which trained approximately 1.8 million employees.

Human Resources Management and Incentive & Restriction Mechanism

The Bank actively promoted human resources reform and gradually shifted to the modern human resources management. This management focused on organizational framework, post management, performance management and compensation management.

The Bank preliminarily established a post management system focusing on both rankings and responsibilities. It also transformed the single administrative post management system to a multi-level system and further broadened the career development for employees. The Bank also improved the

performance management system aiming at value maximization, as well as cultivated performance-oriented management culture. The Bank reshaped the post value-based and market-oriented remuneration management system, and established a remuneration distribution mechanism in its place. In this system salaries are subject to post while competence and rewards are subject to performance. The Bank established the enterprise annuity, social insurance and supplementary medical insurance system, while also achieving the internal equity of remuneration distribution and external competitiveness of remuneration incentive. More importantly, the Bank effectively attracted, encouraged and retained capable people and maintained and enhanced the Bank's core competence.

Head Office and Branches Reform

In line with its business strategy transformation, the Bank pushed forward the reorganization of workflow management and simplified institutional structure. The Bank also further optimized internal organizational framework by centering on customers and performance and focusing on risk control. Risk control was a high priority based on the reengineering of business procedure. The Bank facilitated the improvement and integration of internal business process and created seven business modules: (1) agro-related business, (2) corporate banking, (3) personal banking, (4) risk management, (5) treasury and accounting, (6) technology and product, and (7) administrative support. It also implemented professional line management. Agro-related business took the lead in test reform of the business unit system and introduced process management, unit operation, and focused on local-level institutions and independent accounting. The Bank established a comprehensive, centralized and vertical risk management organization system and strengthened the functions of risk management departments in respect to general planning, coordination, measurement and control of the Bank's risks. In addition, the Bank created a risk management organization framework for customer access, credit review and approval, credit administration, post-lending management and asset disposal. The Bank also intensified the intensive reform of middle and back offices and gradually put centralized processing of back office business in line with the "Grand Back Office" operation management reform, in order to improve concentrated and thorough management.

Agro-related Financial Business

Agro-related financial business is the Bank's traditional business. After several years of reform and development, the Bank has accumulated fund, network, profession and brand advantages in the field of agro-related business. It has established a multi-layer and far-reaching agro-related financial service system and formed a unique market pattern where operations in urban and rural areas are linked with each other and managed on a consolidated basis.

In 2008, the Bank devised the agro-related and county "blue ocean market" development strategy. It also developed the long and medium-term agro-related business development plan and the agro-related service implementation plan. The agro-related financial department reform test project and agro-related financial service plans in counties of different types was also introduced. The Bank also clarified the objectives, areas, measures and steps of the Bank's services for agriculture, rural areas and farmers.

Development of Agro-related Financial Business

The Bank studied the State's policies and measures on the stimulation of domestic demand, the industrial structure adjustment and growth promotion. We tracked major investments arrangements in construction projects for agriculture and rural areas made by the central and local governments, and supported a number of infrastructure projects such as farmland, water conservancy, water supply, electricity, gas, road, telecommunication and clean energy. The Bank also gave support to selected small and medium-sized enterprises in counties to cultivate county key industries. According to the post-disaster reconstruction plan, the Bank increased the credit limits and actively provided financial support in the disaster-hit areas for the recovery of housing, infrastructure and enterprises. In 2008, the Bank granted agro-related loans of RMB766,700 million, increasing the balance to RMB933,000 million by the end of the year. Of all the loans, RMB998,000 million was granted to 802,717 farmers, RMB630,400 million was granted to 30,876 rural enterprises and organizations, and RMB202,800 million was granted to 1,998 urban enterprises and organizations.

By accurately identifying the market position of agro-related business, the Bank explored high-end agro-related customers owning esteemed or well-established businesses and regulated management with an aim to improving their professionalism and level of production intensity. With a focus on leading agricultural industrialization enterprises and rural economic cooperative organizations, the Bank actively supported the agricultural modernization, and made enormous efforts to fund the State's top 1,000 towns for their urbanization. Through supporting construction and development projects of road, water, electricity, gas, heating, housing as well as their circulation markets, the Bank played a crucial role in agricultural finance. During 2006–2008, the Bank's loans to state-level leading industrialization enterprises grew by an average of 22.61% annually. Among 892 of those enterprises, 592 have business relationship with the Bank, accounting for 66.37% of total; 376 have outstanding loans, with a balance of RMB37,279 million, accounting for 42.15%. Also 341 enterprises chose the Bank to be their main account bank, accounting for 38.22%. During the three-year period, the average annual growth of the Bank's loans to rural urbanization exceeded 12%.

The Bank paid great attention to the development and popularization of foreign exchange business at county-level and maintained a leading position in this regard. It has established a border trade financial service system, providing border trade settlement, bankcard, e-banking and trade finance. It also has recorded a border trade settlement volume of USD6,988 million for 2008, a year-on-year increase of 15%.

To meet the requirements on the diversified financial service needs of agro-related customers, the Bank, through the issuance of Farmer's Benefit cards and providing of micro-finance to farmers, created a unique multi-level, cost-effective and extensively-reached agro-related financial product line. The Bank started the research and development of various products, with loans for chemical fertilizer reserve in the off season as an example, registered the trademark of "Green Home Loan", created the brand "Jin-Yi-Nong" ("Benefiting the Farmers"), and further implemented the agro-related financial service brand family. Moreover, the Bank also launched a series of distinctive products and services such as "Company + Farmers" guaranteed loans, working capital loans for farmer's specialized cooperatives, seasonal loans for leading agricultural enterprises, "Six-Party Cooperation + Insurance" loans, and cross-guaranteed farmer loans. Kins Payment Express and Farmers' Insurance Express services were also created.

Discussion and Analysis

In April 2008, the Bank launched the Farmer's Benefit Kins Card, which benefited a large number of farmers. The card combines the functions of self-service loans, revolving loans, fund remittance, fee payment agency service and agro-related subsidy payment. By the end of 2008, the Bank had issued 8.1 million Farmer's Benefit cards, 96% of which were activated, with outstanding credits of RMB6,590 million and outstanding loans of RMB4,660 million, 292,000 card holders were provided with credit lines. In October 2008, Farmer's Benefit card telephone banking was available in 16 provincial branches. Following the Farmer's Benefit debit card, the Bank also developed and launched Farmer's Benefit credit card which was designed for high-end customers, such as farm produce wholesalers, individually-owned businesses, small-sized processing, transportation and distribution businesses, and planters and breeders, to meet their needs for temporary, small-value and frequent working capital.

On 18 August, 2008, two rural banks set up by the Bank went into operation simultaneously in Hubei and Inner Mongolia, making the Bank the first ever domestic large-sized commercial bank to established such banks. These bank establishments will help further improve the rural financial environment, enhance the provision of rural financial services and at the same time create a new agro-related service platform for the Bank.

Testing Financial Services for Agriculture, Rural Areas and Farmers

By the end of June 2008, the Bank had completed the first phase test of financial services to agriculture, rural areas and farmers in 123 county-level sub-branches in 17 regions of eight provinces (municipalities and autonomous regions), i.e. Jilin, Anhui, Fujian, Hunan, Guangxi, Sichuan, Gansu and Chongqing. During this period, the agro-related loans increased significantly. The experimental sub-branches granted loans of RMB41,500 million, a year-on-year increase of RMB11,100 million. Newly added loans reached RMB33,300 million, up by RMB7,700 million. Meanwhile, through continuous credit system reform, financial product innovation, agro-related risk management and operation efficiency improvement, the experimental sub-branches preliminarily made a way for a large commercial bank as ABC to serve agriculture, rural areas and farmers.

In August 2008, the Bank carried out the test projects further to 1,027 county-level sub-branches, accounting for more than half of the Bank's total. The reason for this is to demonstrate the feasibility of the Bank's reform concept, development plan and policy arrangement for agro-related services in more branches. This also laid a solid foundation for fully popularizing the project, and further developing agro-related business in 2009. The test projects went ahead smoothly and achieved significant progress, facilitating the continuous improvement of various means for agro-related business.

Reform of Agro-related Financial Department and Test Projects

Recognizing the dual economic structure of the urban and rural economy, the Bank played an active role in these two markets and gradually pushed forward the multi-divisional reform of county level businesses. In respect to organizational systems, the Bank set up three departments and six Centres in the Head Office, incorporated county-level sub-branches as a whole into the management framework of multi-divisional system, and pooled energies and resources to serve agro-related and county-level economy. In regards to the management system, the Bank made a "five independent" arrangements for the multi-divisional business units, namely, (1) independent business plans, (2) independent economic capital, (3) independent credit scale, (4) independent expense allocation and (5) independent fixed asset input. It also drew up plans for the test reform of agro-related financial department, and formulated a series of supporting systems and measures regarding plan management, resource allocation, financial management, performance evaluation and organizational adjustment.

Since March 2008, the Bank has implemented the test project of multi-divisional system reform in 81 tier-2 branches and 503 county-level sub-branches in provinces such as Sichuan, Fujian, Guangxi, Gansu, Zhejiang, Shandong and Chongqing. In August 2008, the Bank worked out plans on extending the test reform to other areas within the above-mentioned provinces. So far the project has achieved significant progress. The organizational framework of multi-divisional system has taken shape in the testing branches, and various operating mechanisms have been preliminarily established. This has laid a solid foundation for the progression of reform throughout the Bank.

Outlook for Agro-related Financial Business

At present, the county-level industrial structure is experiencing an extensive change. Nevertheless, the county level economy is playing an increasingly important role in the national economy. The State's policies, which are strengthening agriculture as a foundation of the economy, accelerate rural development and increase farmers' incomes. Therefore the county level economy, with rural areas as its development potentials, is playing a key role in driving domestic demand and ensuring total economic growth. Along with the steady process of urbanization, the gradual growth of private enterprises and the faster exchange of various products, the agro-related financial business will grow with them. Besides, the State is increasing the investment for agricultural infrastructure and improving rural social welfare system by increasing the government's transfer payment for agriculture, rural areas and farmers. The development of agro-related financial business is enjoying a healthy external environment.

Given these circumstances, the Bank will keep its commitment to serving agriculture, rural areas and farmers. We will implement the development strategy for exploring the agro-related and county-level blue ocean market in line with the "3510" development objective. The Bank will implement the management system of the agro-related financial departments under the sole legal entity system, continuously increase the input into the agro-related services and improve its efficiency and quality. We will take effective measures to enhance the risk control and sustainable development capability of agro-related business, as well as achieve complete commercial operation of the agro-related business.

The Bank will strive to develop agro-related financial business into its strategic main business, further maintain its leading position in rural financial market, and achieve sustainable development to these ends, thereby providing agro-related customers with a full spectrum of quality financial services.

Risk Management

Comprehensive Risk Management System

Comprehensive risk management is the timely identification, measurement and control of potential and existing risks in business operation. By combining risk management strategies, policies, organizations, tools and teams, we have ensured effective operation of the Bank's risk management in decision making, implementation and supervision.

The objective of the Bank's comprehensive risk management is as follows:

- To specify the risk management strategies;
- To enhance its organizational structure;
- To improve its policies and regulations;
- To create its techniques and approaches;
- To intensify its performance assessment;
- To strengthen its team building;
- To develop a risk management culture for all staff.

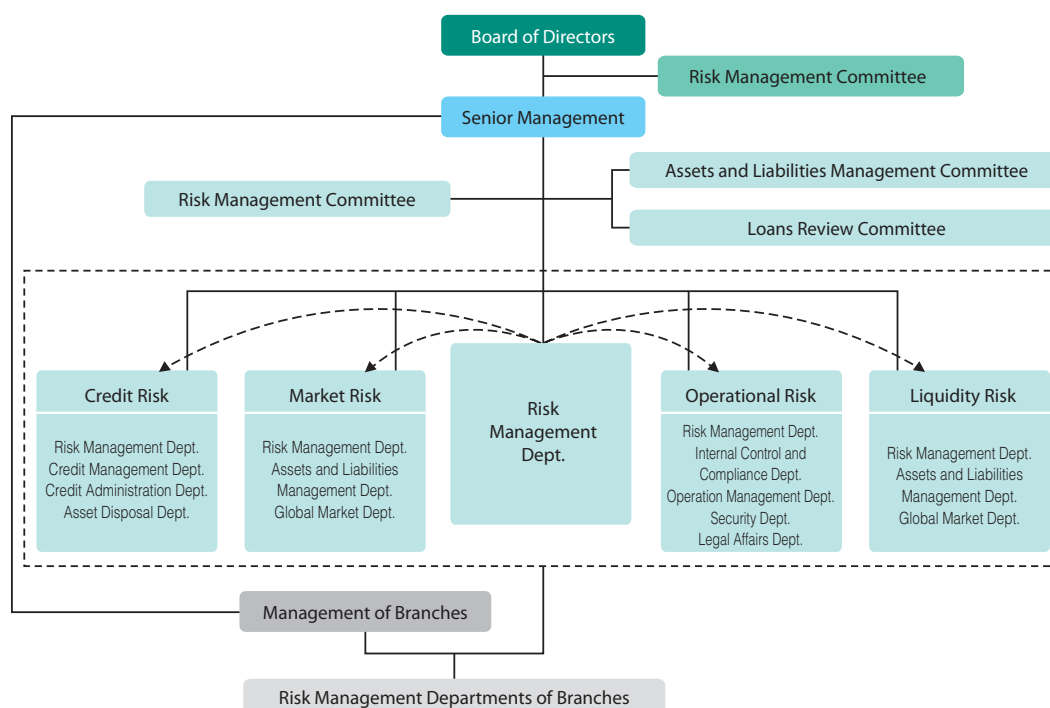
The main goal is to build a comprehensive risk management system to coincide with the Bank's development strategy, market positioning and business operation process. These goals will help achieve remarkable improvement in risk management that controls the overall risk level of the Bank.

In 2008, the Bank initiated the project of comprehensive risk management system planning, formulated the outlines in accordance with the regulatory requirements, and researched the experiences of other domestic and international banks in order to further develop the Bank's risk management.

Organizational Structure of Risk Management

The Bank continued to adjust and enhance the organizational structure of risk management and improve the division of risk management responsibilities. By establishing the Risk Management Committee under the Board of Directors, the Credit Administration Department, the Internal Control and Compliance Department, the Assets and Liabilities Management Department, the Asset Disposal Department at the Head Office and the Risk Management Department in tier-one branches, the Bank has preliminarily set up a comprehensive risk management system with features of "integrated management and control, matrix-based distribution, full coverage and all-staff participation". Moreover the Bank has provided effective guarantees for comprehensive risk management.

Organizational Structure of Risk Management



Risk Management Committee

The Risk Management Committee of the Board of Directors is responsible for reviewing the Bank's risk management strategies, policies, procedures and internal control processes. They also supervise and evaluate the work of senior management members and the Risk Management Department and advise the Board of Directors in these aspects.

Composed of Senior Management and other department heads, the Risk Management Committee of the Senior Management includes three special committees, that is, (1) the Credit Risk Management Committee, (2) the Market Risk Management Committee and (3) the Operational Risk Management Committee. During the reporting period, the Risk Management Committee and other special committees held several meetings to discuss risk management policies and measures, in consideration of the economic and financial situations in and out of China and the overall risk profile of the Bank. The Committee also reviews risk management systems, measures and significant risk management events, and guides risk management of the Bank.

Risk Management Regulations System

In 2008, the Bank continued to strengthen the construction of risk management regulations and proposed a framework of risk management regulations comprised of risk management policies and procedures. The Bank drafted a risk management policy outline, which systematically set out fundamental issues including risk preference, risk management objectives and operating mechanisms. It also established the basic policies on credit risk, market risk and operational risk management, which specified responsibilities, working mechanisms, administrative measures, information system construction and their corresponding requirements. The Bank formulated and amended a number of regulations and operational procedures on corporate customer credit rating, asset risk classification, stress testing, treasury operation and investment management, in an effort to facilitate the timeliness and applicability of credit policies and to further regulate all aspects of risk management.

Basel II Implementation Plan and Construction of Internal Rating System

Basel II Implementation Plan

In 2008, the Bank made a detailed diagnosis and exposure analysis of risk management, and formulated the Plan for Basel II Implementation, which specified the objectives, principles, contents, project planning and road map of Basel II implementation and reported to CBRC for filing. The Bank set up a steering team headed by the President to coordinate Basel II implementation and ensure the orderly and smooth implementation of the plan.

Construction of Internal Rating System

The Bank accelerated the construction of an internal rating system to improve credit risk measurement under the guidance of Basel II and regulatory requirements. The Hong Kong branch has completed the project of IRB foundation approach for non-retail exposures and is putting it into action. The Head Office achieved preliminary progress in the IRB foundation approach for non-retail exposures, enhanced the former rating system and implemented these measures throughout the entire bank. Meanwhile, the project of IRB approach for retail exposures was initiated.

Risk Analysis Report

In 2008, the Bank's risk reports were further expanded in depth and width. By establishing risk reporting methods, the Bank regulated the format, content, route and implementation of risk reports and preliminarily formed a risk-reporting network. The Bank kept a close eye on the macro-economic changes and the State's economic and financial policies, analyzed and evaluated the risk profile of the Bank, so as to provide a basis for adjusting risk management policies. The Bank also established a risk reporting and warning platform to timely report and disclose significant risk events. Nine risk monitoring liaisons were established across the Bank in 2008 to reinforce the monitoring and reporting of industrial and regional risks.

Credit Risk

Credit risk is a risk that may cause loss resulting from default of a debtor or counterpart, or downgrade his or her credit rating or performance ability. The credit risks of the Bank are from loans, investments, guarantees and commitments, including other credit risk exposures on and off-balance-sheet.

Credit Risk Management

In 2008, the Bank continued to improve the policies and regulations of credit risk management, and pushed forward credit risk portfolio management. It also strengthened credit risk management and control and proactively adjusted the credit assets structure. The Bank emphasized the construction of an information system for credit risk management and upgraded the software of Credit Management System (CMS) which made it more specialized and refined.

Risk Management of Corporate Banking

The Bank implemented credit policies to facilitate industrial credit structure adjustment and to mitigate systematic risks according to different industries. In addition, the Bank managed customers based on a customer name list. The Bank carried out these policies for such industries as real estate, iron and steel, coal and textiles. The customer list based management adopts different credit management strategies for various customers to improve customer structure and achieve accuracy and detail focused credit management.

Credit portfolio risk management was emphasized and credit limits were set by different industries with their degree of concentration. For certain industries with high risk exposure that could be greatly affected by macro-economic adjustment and credit regulatory policies, the Bank issued a management guideline of credit limits to those industries, explicitly defining the targets, principles and methods of industry credit limits, and the regulations on limit-exceeding processing procedures. The Bank further enhanced the system of industrial concentration risk control and reinforced the credit management with a risk warning of credits granted to a single customer or a single group. It also established the proportion of credit assets allocated among industries in strong, medium and weak cycles to achieve the best credit asset portfolio in balancing risk and return.

The Bank enhanced the customer rating system. The credit rating model for corporate customers was fully obtained and put into operation. The Bank adjusted the rating process, approval authority, upgrading and downgrading conditions for corporate customers, and set up a comprehensive risk assessment framework from three dimensions in customer, industry and geographical region.

The Bank has consistently reformed the credit approval system. The Bank initiated the reform of the credit approval system under the principle of a “unified policy, multi-layer management, and separated review from the extension of loans, professional examination, positional approval and online operation”. The Bank also established the Credit Examination and Approval Centre and deployed independent approval officers. It gradually developed a multi-layer approval system, formed a credit approval approach by integrating meeting-based, collective and direct approval, reformed the rules on loan review, and adopted the signed ballot system. The Bank also initiated online credit approval.

Risk Management of Personal Banking

The Bank streamlined and amended regulations in response to market changes to bring business risk under effective control. The Bank carried out centralized operation of personal loans on a test basis to promote specialized and centralized operation of personal loans. The Bank also actively conducted onsite inspections on specific personal loan businesses including collateral warranty, personal pledged loans, and comprehensive credit loans for personal customers. In addition, the Bank went on a special check upon the implementation of the housing loan policy for “the second house”.

Risk Management of Credit Card Service

The Bank intensified credit card authorization management, established different credit standards as per the risk characteristics of target customers, and imposed strict requirements for customer access to bring risks under effective control. The Bank strengthened data analysis and scoring model building, and timely adjusted risk management policies. By adopting the risk warning system, the Bank strengthened the investigation and management of illegal cash withdrawal from credit cards. The Bank also improved the risk monitoring system to achieve real-time monitoring and handling of risks.

Credit Risk Management of Treasure Operation

The Bank enhanced the credit risk management system for treasury operation, intensified risk examination, improved follow-up monitoring, and pushed forward risk limit management. The Bank improved risk identification, paid close attention to risk profiles of relevant industries, and conducted in-depth research and predictions on the credit product market and the Bank’s investment portfolios. Trading management systems were upgraded and credit risk management module improved.

Risk Management of Agro-related Business

The Head Office established the Agro-related Risk Management Centre and the Agro-related Credit Examination and Approval Centre to be responsible for the risk management and control of agro-related businesses. The Bank formulated the outlines for agro-related business risk management and a number of rules and regulations, such as risk managers positioned for agro-related businesses, credit rating of agro-related customers, loan granting, guarantee, risk classification, and provisions for impairment losses. This was done to facilitate regulated and systematic agro-related risk management.

The Bank greatly improved the credit process for agro-related businesses, innovated in customer screening systems, and strengthened loan maturity management. We also diversified the guarantee tools for loans, and continuously reinforced credit risk management for agro-related businesses through the following measures: (1) set limits to newly added NPL ratio and total NPL ratio for different credit products; (2) specified the principles, standards and requirements for credit maturities according to the characteristics of various products; (3) set different maturities for different customers according to production and operation cycle indicators, estimated cash flow and the customer’s credit rating; (4) adopt a number of guarantee instruments such as mortgage, collateral, joint guarantee by multi-households, secured guarantee by “Company + Farmer” loans and guarantee by farmers’ professional cooperatives; (5) properly approved the guarantee line of guarantors, establishing a regular verification arrangement, and (6) conduct special inspections on farmers’ micro-finance to regulate such business operation.

Loan Risks Classification

According to the Guidance on Loan Risk Classification issued by CBRC, the Bank formulated relevant regulations on it and implemented five-category loan classification. Based on the degree of risks, loans were classified into five categories: pass, special mention, sub-standard, doubtful and loss, of which the latter three are regarded as non-performing loans.

The Bank assessed the risk of corporate loans according to the possibility of repayment and collection of principal and interests, and classified the loans accordingly. The factors taken into consideration included the borrowers' repayment ability, records, and willingness, profitability of the loan-funded project, collaterals and legal responsibilities on repayment.

Since 2008, the Bank has carried out a 12-category classification of corporate loans on a trial basis, specified the classification levels and improved the risk identification sensitivity to reflect loan risks more accurately. The classification system reflects loans quality and improves sophisticated risk management.

The risks of personal loans were automatically classified by the Credit Management System (CMS) according to the overdue days of the principal and interest and the means of guarantee. Meanwhile, the Customer Relationship Department and the Risk Management Department may adjust the risk classification based on the information acquired in loan monitoring to reflect risks on a comprehensive and objective basis.

Collection and Disposal of Non-performing Loans

In 2008, the Bank collected and disposed of non-performing loans with various methods including cash collection, restructuring, asset repossession and litigation. The Bank enhanced the incentives and assessment system, regulated internal accounting, improved management environment, and collected non-performing loans in a well-arranged priorities. The Bank strengthened the management of NPLs of large scale by means of dynamic monitoring and real-time reporting, and put into place plans and responsibilities of NPL collection and disposal. The Bank also accelerated the disposal of such special assets as repossessed ones and other investments in proprietary entities.

Credit Risk Analysis

The Bank's maximum exposure to credit risk (unadjusted for any collateral and other credit enhancements) is as follows:

Maximum Exposure to Credit Risk

In RMB millions

Item	31 December 2008	31 December 2007
Due from banks and other financial institutions	62,668	16,432
Balance with central bank	1,101,716	893,515
Placements with banks and other financial institutions	44,479	52,498
Financial assets held for trading	40,017	17,205
Available-for-sale financial assets	799,647	528,086
Held-to-maturity investments	576,323	532,816
Investments classified as receivables	892,532	229,743
Derivative financial assets	7,151	10,207
Financial assets held under reverse repurchase agreements	246,370	144,848
Loans and advances to customers	3,014,984	2,709,192
Other assets	32,936	27,538
Total on-balance-sheet items	6,818,823	5,162,080
Credit commitments	781,582	724,175
Total	7,600,405	5,886,255

Distribution of Loans by Collateral

In RMB millions, except percentages

Item	31 December 2008		31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Loans secured by mortgages	1,187,838	38.32	1,353,587	38.96
Collateral loans	506,899	16.35	442,538	12.74
Guaranteed loans	655,051	21.13	982,602	28.28
Unsecured loans	750,371	24.20	695,447	20.02
Total	3,100,159	100.00	3,474,174	100.00

Distribution of Overdue Loans by Period Overdue*In RMB millions, except percentages*

Item	31 December 2008		31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
90 days overdue	40,315	1.30	46,782	1.35
90–360 days overdue	30,991	1.00	42,815	1.23
360 days–3 years overdue	14,754	0.48	119,566	3.44
Over 3 years overdue	778	0.02	594,401	17.11
Total	86,838	2.80	803,564	23.13

Renegotiated Loans*In RMB millions, except percentages*

Item	31 December 2008		31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Renegotiated loans and advances to customers	11,197	0.36	32,271	0.93

Loan Concentration*In RMB millions, except percentages*

Top 10 single borrowers	Industry	Amount	Percentage (%)
Borrower A	Telecommunications, computer services and software	19,295	0.62
Borrower B	Production and supply of electricity, gas and water	13,964	0.45
Borrower C	Manufacturing	12,890	0.42
Borrower D	Finance	12,752	0.41
Borrower E	Production and supply of electric power, gas and water	9,753	0.32
Borrower F	Production and supply of electric power, gas and water	8,680	0.28
Borrower G	Manufacturing	8,189	0.26
Borrower H	Production and supply of electric power, gas and water	7,716	0.25
Borrower I	Construction	7,689	0.25
Borrower J	Production and supply of electric power, gas and water	7,566	0.24
Total		108,494	3.50

In 2008, the loans granted to the largest single borrower accounted for 6.04% of the Bank's net capital and the loans granted to the top 10 customers accounted for 33.96% of its net capital, both in compliance with regulatory requirements.

Distribution of Loans by Five-category Classification

In RMB millions, except percentages

Item	31 December 2008		31 December 2007	
	Amount	Percentage (%)	Amount	Percentage (%)
Pass	2,568,164	82.84	2,386,505	68.69
Special mention	397,928	12.84	268,816	7.74
Non-performing loans	134,067	4.32	818,853	23.57
Sub-standard	87,104	2.80	51,341	1.47
Doubtful	43,968	1.42	217,721	6.27
Loss	2,995	0.10	549,791	15.83
Total	3,100,159	100.00	3,474,174	100.00

In 2008, the quality of the Bank's credit assets improved remarkably. The Bank's loans totaled RMB3,100,159 million at the end of 2008, representing a decrease of RMB374,015 million from 2007. The balance of non-performing loans decreased by RMB684.79 billion to RMB134,067 million, and the non-performing loan ratio dropped by 19.25 percentage points to 4.32%. Excluding the financial restructuring factor, the balances of both special-mentioned and non-performing loans climbed over the previous year due to the May 12th Wenchuan earthquake and the snow disaster in south China. Another reason is the Bank implemented stricter and more cautious standards on loan classification in response to the international financial crisis and domestic economic slowdown.

Changes in Provisions for Impairment Losses on Loans

In RMB millions

Item	Individually assessed	Collectively assessed	Total
Balance at the beginning of the year	668,130	96,852	764,982
Charge for the year	32,783	7,075	39,858
Write-offs	(29)	—	(29)
Transfer-in/out during the year			
— Transfer-in due to recovery of charged-off loans and advances	13	9	22
— Transfer-in due to rising discount of loans and advances	(1,901)	(159)	(2,060)
— Transfer-in of provisions arising from non-performing loans strip-off	(655,825)	(61,706)	(717,531)
— Transfer to foreclosed assets	(4)	(3)	(7)
— Exchange rate changes	(26)	(34)	(60)
Balance at the end of the year	43,141	42,034	85,175

At the end of 2008, provisions for impairment losses on loans stood at RMB85,175 million, representing a decrease of RMB679,807 million from the end of 2007, which was due to the release and transfer of disposed NPL provisions.

Liquidity Risk

Liquidity Risk refers to the risk caused by commercial banks unable to acquire sufficient funds or failing to acquire sufficient funds at a reasonable cost to fulfill payment obligations and honor payment commitment. The Bank's liquidity risk lies in concentrated cash withdrawal, deferred payment by debtors, mismatch of assets and liabilities durations and the difficulties of cashing assets.

The objective of the Bank's liquidity risk management is to maintain sufficient and moderate liquidity at low costs and to meet customers' payment needs at all times, to honor its commitment of granting loans to its customers, and to uphold positive market reputation and balance the security, liquidity and efficiency of treasury operation.

The Bank gave great attention to the combination of liquidity risk and return, made an in-depth analysis on the laws of fund flow and market changes, continued to improve the liquidity management of assets and liabilities to maximize the return on assets while ensuring effective payment and stabilizing liabilities.

Liquidity Risk Management

The Bank implemented integrated liquidity risk management for domestic and foreign currencies through organizational adjustment. Liquidity management was implemented at levels from the top to the bottom, each having delegated responsibilities. The Assets and Liabilities Management Department monitored liquidity changes on a real-time basis, making timely adjustments to ensure the proper level of reserve of the Bank.

Based on the scientific prediction of liquidity demands, the Bank analyzed the macro-economic situation, financial and monetary policies and changes on the capital market, and actively adopted measures to strengthen liquidity management. These measures include: (1) emphasizing the stability of liabilities by increasing the proportion of core deposits; (2) taking various marketing measures to expand the aggregate amount of deposits, maintaining market financing capabilities, and increasing deposits to supplement liquidity; (3) diversifying assets, improving the asset liquidity, controlling the proportions of medium- and long-term assets and building the proper amount of highly-liquid asset portfolios; and (4) formulating annual reserve plans to ensure sufficient amounts at all branches while at the same time reducing the portion of low-interest or interest-free funds to achieve efficient fund operation.

Liquidity Risk Analysis

In 2008, the central bank took proactive measures to cope with the changes in economic and financial situations and made frequent adjustments to the deposit reserve ratio. Cash positions fluctuated largely as a result of the adjustments to monetary policy.

The Bank adopted the following measures to cope with liquidity risk caused by redirection of monetary policy: (1) strengthening forward-looking prediction and sophisticated management of liquidity, (2) making daily predictions, weekly alert, monthly analysis and quarterly reports on bank-wide liquidity indicators; (3) strengthening the management of liquidity indicators and positions, adjusting liquidity reserves at various levels and keeping appropriate cash positions; (4) conducting regular analysis on liquidity positions, and (5) arranging for stress-testing under normal circumstances or contingencies according to the requirements of internal management and the Guidelines for the Stress Testing of Commercial Banks issued by CBRC.

Liquidity Gap Analysis

The table below sets out net liquidity of non-derivative financial assets and financial liabilities as at the end of 2008 and 2007.

In RMB millions

	Immediate repayment	Within 1 month	1-3 months	3 months-1 year	1-5 years	Over 5 years	Overdue/open	Total
31 December 2008	(3,369,825)	(33,107)	(87,685)	(1,777)	807,341	1,772,682	1,003,686	91,315
31 December 2007	(3,203,905)	(109,044)	(132,673)	54,818	706,152	978,595	860,001	(846,056)

Note: Please refer to "Note 14.4 to Financial Statements: Liquidity Risk" for details.

Market Risk Management

Market risk is the risk of loss, in respect to the Bank's on- and off-balance-sheet activities, arising from adverse movements in market prices including interest rates, foreign exchange rates, stock prices and commodity prices. The Bank's market risk includes interest rate risk and exchange rate risk.

The Bank's market risk management refers to the entire process of identifying, measuring, monitoring and controlling market risks to maximize the return and enhance corporate value within an acceptable degree of market risk through specifying market risk preference.

In 2008, the Bank continued to enhance the market risk management system, formulated basic policies on market risk management, and specified responsibilities and processes on limit management, monitoring, reporting and account division. The Bank conducted unified management for domestic and foreign currency treasury operation, and continued to enhance the risk management framework of treasury operation to reflect market risk management independence. The Bank implemented limit management and authorization management for relevant departments and branches exposed to market risks. The Bank also dedicated to advancing the computerization of market risk management and implementation of internal model approach for market risk, promoting the construction of Domestic Asset Management System (DAMS) and the optimizing of the SUMMIT system for foreign currency trading.

Trading Book and Banking Book

To exercise pertinent market risk management and accurately measure regulatory capital requirements of market risk, the Bank categorized on and off-balance-sheet assets and liabilities into trading book and banking book. The trading book includes the positions of financial instruments and commodities held by the Bank for the purpose of trading or for mitigating risks of other items on the trading book. Positions other than the above-mentioned ones were included in the banking book.

Trading Book Market Risk Management

The Bank is dedicated to building a unified market risk management information system for centralized monitoring, measurement and management of market risk in the trading book. The Bank has taken various measures to manage market risks in the trading book, including limit management, sensitivity analysis, duration, stress testing and VaR analysis.

Banking Book Market Risk Management

The Bank managed the interest and exchange rate risks of the banking book by adopting such technical approaches as limit management, stress testing, scenario analysis and gap analysis.

Interest Rate Risk Management

Interest rate risk is the uncertainty that may cause loss to the Bank's income or economic value arising from adverse movements of statutory or market interest rate. The banking book interest rate risk management of the Bank is targeted at risks that may cause adverse changes in its income or economic value due to re-pricing or the maturity mismatch of on- and off-balance-sheet businesses.

The objective of the Bank's interest rate risk management is to reduce interest rate risk to a tolerable extent by adopting interest rate risk management methods. The general strategy of interest rate risk management is to identify interest rate risk, timely adjust pricing strategies for assets and liabilities and control the interest rate sensitive exposure within the limit. This is done through analyzing assets and liabilities structure, interest rate trends and customers' conduct.

In 2008, the Bank formulated the Measures on Interest Rate Risk Management, enhanced the interest rate risk pricing model, improved interest rate estimation technologies, and made regular analysis on interest rate sensitivity. The Bank also established a scientific and effective pricing system for internal fund transfer to achieve centralized interest rate risk management.

Exchange Rate Risk Management

Exchange rate risk refers to the risk of currency mismatch between assets and liabilities, as well as the exposure changes, which is generated from foreign exchange derivative trading, in an unfavorable direction as a result of exchange rate changes. Exchange rate risk includes the trading exchange rate risks that could be hedged, and the exchange rate risk caused by structured asset and liability (the "structured exchange rate risk"), which could hardly be avoided in operation. At present, exchange rate risk of the Bank is primarily the structured exchange rate risk arising from foreign exchange capital injection.

The objective of the Bank's exchange rate risk management is to reduce the probability of loss arising from exchange rate movements to an acceptable degree by adopting exchange rate risk management approaches. The general strategy of exchange rate risk management is to reduce net exposure to exchange rate risk. The Bank has carried out limit management and currency structure management of assets and liabilities to reduce the unfavorable impact of exchange rate changes.

In 2008, the Bank conducted regular monitoring on foreign exchange risk exposure, controlled the scale of foreign exchange trading, and adjusted the currency structure of assets and liabilities through foreign exchange swaps, forwards and options. It also hedged structured exchange rate risk and exercised bank wide unified exchange rate risk management.

Interest Rate Risk Analysis

At the end of 2008, the accumulative negative gap sensitive to interest rate due within one year totaled RMB822,561 million, representing a decrease of RMB116,561 million from the end of 2007.

Interest Rate Risk Exposure

In RMB millions

	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
31 December 2008	(1,292,760)	284,641	185,558	137,223	1,011,060	(86,038)	239,684
31 December 2007	(1,512,431)	327,031	246,278	100,680	288,551	(179,927)	(729,818)

Note: Please refer to "Note 14.5 to Financial Statements: Market Risk" for details.

Interest Rate Sensitivity Analysis

In RMB millions

	31 December 2008		31 December 2007	
	Movements in net interest income	Movements in equity	Movements in net interest income	Movements in equity
Movements in base points				
Increase of 100 basis points	(9,315)	(17,431)	(10,842)	(12,764)
Decrease of 100 basis points	9,315	18,714	10,842	13,743

The above interest rate sensitivity analysis shows the movements in net interest income and equity under different interest rates. Such analysis is based on the condition that the interest rates of all durations change by the same margin and takes no consideration of the action that the Management may take to reduce interest rate risk.

Exchange Rate Risk Analysis

The exchange rate risk of the Bank is the exposure risk arising from the exchange rate of USD against RMB. RMB showed a momentum of accelerating appreciation in the first half of 2008 and a moderate depreciation in the second half of the year. RMB exchange rate was up by 6.88% in the year.

At the end of 2008, net foreign exchange exposure of the Bank amounted to USD24,388 million, representing an increase of USD11,090 million. Foreign exchange exposure decreased by USD7,939 million from last year excluding the increase USD19,029 million in foreign exchange exposure arising from foreign exchange capital injection. Meanwhile, the Bank prepared a risk mitigation plan for the foreign exchange capital injection.

Discussion and Analysis

Foreign Exchange Exposure

In RMB (USD) millions

	31 December 2008		31 December 2007	
	RMB	USD equivalent	RMB	USD equivalent
Net foreign exchange exposure of domestic financial assets/liabilities	162,398	23,761	91,131	12,476
Net foreign exchange exposure of overseas financial assets/liabilities	4,287	627	6,004	822
Net foreign exchange exposure of domestic and overseas financial assets/liabilities	166,685	24,388	97,135	13,298

Note: Please refer to "Note 14.5 to Financial Statements: Market Risk" for details.

Based on the Bank's exchange rate exposure as at the end of the reporting period, profit before tax will increase (or decrease) by RMB1,650 million if the exchange rate of USD against RMB rises (or declines) by 1%. This analysis is on the condition that the exchange rate remains unchanged and takes no consideration to Management's actions to cope with exchange rate risk.

Exchange Rate Sensitivity Analysis

In RMB millions

Currency	Increase/decrease in exchange rate of foreign currency against RMB	Impact on profit before tax		Impact on equity	
		31 December 2008	31 December 2007	31 December 2008	31 December 2007
USD	+1%	1,650	937	38	78
	-1%	(1,650)	(937)	(38)	(78)
HKD	+1%	(31)	(33)	(7)	(27)
	-1%	31	33	7	27

Operational Risk Management and Anti-Money Laundering

Operational Risk Management

Operational risk represents the risk of loss due to flawed internal processes, personnel and information system, or external events, including legal risk but not including strategy risk or reputation risk. The operational risk of the Bank includes internal fraud, external fraud, employment system and work safety, customers, products and business activities, damage of tangible assets, IT system accidents, and implementation, delivery and process management.

The objective of the Bank's operational risk management is to reduce the uncertainties of operational risk, effectively minimize losses that operational risk may cause, and keep operational risk under control. The Bank also establishes a contingency mechanism to lessen the impact of contingencies, promotes changes in business philosophy and achieves balance of risk and return.

During the reporting period, the Bank achieved great progress in reporting, streamlining and measuring operational risk. The Bank formulated the Administrative Measures on Operational Risk Reporting, and developed the applied operational risk reporting system. The Bank streamlined the operational risk points of various businesses and management activities, and enhanced the system for operational risk monitoring, evaluation and control. The Bank also measured the economic capital of operational risk based on the IRB foundation approach and established a loss database to prepare for adopting the IRB advanced approach.

Anti-Money Laundering

During the reporting period, the Bank greatly improved anti-money laundering regulations and work processes and effectively controlled the money laundering risk. The Bank established a rigorous internal control system on anti-money laundering, strictly carried out customer due diligence, and kept customer information and transaction records according to relevant regulations. The Bank intensified supervision and inspection, and pushed forward the compliance of regulations concerning anti-money laundering. The Bank provided various education and training programs to make the employees more aware of and skilful in anti-money laundering. The Bank performed its reporting obligation in accordance with applicable laws and timely reported large-value and suspicious transactions to the regulators. The Bank also assisted regulatory and justice authorities in anti-money laundering investigations, paid close attention customer identity examination, customer information and transaction records of large-value and suspicious transactions reporting. In addition, the Bank continued to improve the anti-money laundering technology to strengthen its efficiency and risk control.

Capital Management

Objective and Strategy

The Bank set up a unified capital management framework to implement comprehensive capital management through coordinated operation of book capital, regulatory capital and economic capital. The objective of capital management is: (1) to maintain a sound capital adequacy ratio and continuously meet regulatory requirements; (2) to establish a value management system centered on economic capital and optimize resource allocation mechanism and business management system, cover all types of risks, improve current and long-term return, and maximize the return on shareholders; (3) to utilize various capital instruments to ensure capital supply and reduce financing costs.

To fulfill the above objectives, the Bank took the following measures: (1) formulated and enhanced the relevant regulations and measures on capital management; (2) strengthened capital management, incorporated annual capital management plan into comprehensive business plan, and established a mechanism to coordinate and manage the aggregate and structure of book capital, supervisory capital and economic capital; and (3) specified and standardized the decision-making and the reporting process for capital management, including capital planning, allocation, operation, monitoring, evaluation and assessment.

Economic Capital Allocation and Management

In 2008, the Bank improved the measurement of economic capital based on the risk measurement of internal historical data and expanded the coverage of measurement from credit risk to market risk, operational risk and other risks, and from domestic branches to overseas branches and institutions. The Bank strengthened the aggregated restriction and structure guidance for economic capital, and established a system to balance the economic capital with the regulatory capital and the book capital, as well as the supply of economic capital with its demand. The Bank enhanced the economic capital allocation mechanism, highlighted the combination of commercial allocation and strategic allocation, separately allocated economic capital for agro-related businesses, and further integrated the economic capital plan with the assets-liabilities plan, financial plan and risk plan. The Bank also strengthened the construction of capital management module in the assets-liabilities information system to build a unified platform of economic capital monitoring, analysis and application.

Capital Adequacy Ratio

Due to financial restructuring, optimized asset portfolios and sustained profitability, the Bank's capital strength improved remarkably and capital adequacy ratio significantly increased this year. According to the Administrative Measures for the Capital Adequacy Ratio of Commercial Banks issued by CBRC and other such related regulatory requirements, at the end of 2008, net capital of the Bank amounted to RMB319,483 million, risk-weighted assets and market risk capital adjustment amounted to RMB3,396,301 million, core capital adequacy ratio was 8.04%, and capital adequacy ratio stood at 9.41%.

Capital Adequacy Ratio*In RMB millions, except for percentages*

Item	31 December 2008
Core capital	
Paid-up capital/share capital	260,000
Surplus reserve and general reserve	1,251
Retained profit	12,022
Minority interests	96
Total core capital	273,369
Supplementary capital	
General reserve for doubtful debts	37,815
Reserve for change in the fair value of available-for-sale investments	8,646
Total supplementary capital	46,461
Total capital before deduction	319,830
Deduction:	
Unconsolidated equity investments	347
Net capital base	319,483
Net core capital	273,195
Risk weighted assets and market risk capital adjustment	3,396,301
Core capital adequacy ratio (%)	8.04%
Capital adequacy ratio (%)	9.41%

Corporate Social Responsibility

As a large-scale state-owned commercial bank, ABC is always willing to accept its social responsibility and its role in the larger community. While actively exploring effective methods to combine agro-related services with commercial operation, the Bank sets higher requirements for itself on better performing its social responsibilities, as to improve its financial service to customers, provide more opportunities to its staff, and contribute more to the society.

ABC issued its first Corporate Social Responsibility Report in 2008 as a commitment to the country and the society. The report reviewed its fulfillment of social responsibility, as well as the practice and exploration of previous years. The report's aim was to communicate effectively with all sectors of the society regarding the Bank's value focus and social commitment.

In 2008, the Bank fulfilled its corporate social responsibility and integrated social responsibility with self-development to create more value for the nation, community, customers and its staff.

Support for Agro-Related Sectors

Better service to agriculture industries, rural areas and farmers is the celebrated mission given by the nation, and is the theme of ABC's social responsibility. The Bank continuously attached high importance to agro-related services. While accelerating its own reform and development in 2008, the Bank continuously adhered to agro-related services to promote social and economic development of rural China. On the *"New Countryside Summit & Memory of the 30th Anniversary of Reform and Opening-up"* hosted by the Online Centre of People's Daily Press, the Bank was honored as the "Best Performer of Corporate Social Responsibility in Supporting Agriculture, Rural Areas and Farmers".

Agro-related Financial Service Improved

In 2008, ABC intensified its market positioning and social responsibility of better serving agro-related sectors, advanced test programs in agro-related services, and actively explored effective methods for agro-related services. The Bank carried out development strategies for agro-related operations and county-level "blue ocean" markets and made new breakthroughs in the agro-related service. In addition, a new service pattern for large-scale commercial bank to better serve agro-related sectors was initially worked out.

In 2008, ABC adopted effective measures to increase agro-related credit, solving problems in difficult application and insufficient guarantee for agro-related loans. The Bank now has the largest balance, most extensive coverage and largest clientele for agro-related loan business in China. We continue to be the only large-scale commercial bank owning a specialized operational management system for agro-related credit.

ABC currently has a presence in almost all the counties and county-level cities of China. 50 percent of its outlets and 40 percent of its assets and staff were distributed in county-level administrative areas. The Bank took responsibility for providing financial services in ethnic minority areas and border or remote areas such as Tibet, Qinghai and Xinjiang, and areas with extreme weather conditions, such as desertified areas, rocky desertified areas and alpine areas, as well as 592 counties covered by the state's key poverty alleviation projects. These services offered by the Bank greatly improved the financial welfare of farmers and herdsmen in those special and underdeveloped areas.

The Bank focused on solidifying and developing county-level outlets, keeping a stable total quantity, gradually intensifying the outlet distribution, and strengthening its outlet reach and service functions. As for those counties without Bank outlets, ABC managed to offer mobile financial services by mobile client manager teams, which also expanded the service coverage. ABC Quanzhou Branch in Fujian Province set up account transfer phone call service in Huiyu Island, which opened for the first time financial service to this island.

The Bank created financial products and services to meet diversified demands from agriculture, rural areas and farmers. The Farmer's Benefit Kins Card was specifically designed for farmers, making loans more accessible to rural households and offering four preferential treatments, including (1) free charge for small service, (2) free charge for the principal card and bankbook, (3) half charge of the annual fee for the master card, and (4) favorable policies regulated by PBOC when withdrawing at rural cooperatives. Besides the Farmer's Benefit Kins Card, the Bank promoted more mature financial products in rural areas. More facilities and equipments were invested in counties to improve e-channels of agro-related services. The construction of the General Centre (Chengdu) for Agro-related Customer Services was launched in 2008.

In 2008, ABC established the first pension management Centre in China for migrant workers. With the advantage of its extensive network covering both urban and rural areas, the Bank established migrant workers' personal pension accounts and developed an operation system coordinating local social insurance organizations to better serve migrant workers. This offered the option for a social insurance transfer for hundred millions of migrant workers. At the end of the year, nearly RMB1 billion farmers' pension was under the Bank's management.

ABC also offered special card services for migrant workers. Six million transactions were made during the year, accounting for 58.8% of the total volume of the same category. The connection between urban and rural areas becomes closer while migrant workers experience more convenient financial services.

Poverty Alleviation Projects

The Bank actively implemented credit services to help poverty-stricken areas. In 2008, the loans issued to the key poverty alleviation counties designated by the nation or provinces amounted to RMB175,593 million, which increased the income of 9.60 million farmer households, nearly RMB1,000 increase for every household on average. At the end of 2008, the loans issued to the key poverty alleviation counties, excluding the non-performing loans, had reached RMB397,058 million, which was a strong incentive for local economic development.

Based on the advantages of information, capital and personnel, the Bank carried out poverty alleviation work in targeted areas. In 2008, the Bank organized 413 poverty alleviation projects, helping 27,464 persons in total, with an input of RMB7,335,100.

Sponsorship for Rural Area Recreational Programs

The Bank actively promoted cultural and ethical development in rural areas. From May to July in 2008, the Bank provided RMB4.50 million to sponsor over 10,000 digital movie shows in rural areas around China. We also held a "Digital Movie Show" week in 10,000 rural digital cinemas with 20,000 shows.

To support rural sports activities, the Bank sponsored the 6th National Farmer Sports Meeting and providing RMB8.00 million of support funds. It was held in Quanzhou of Fujian Province in October 2008. More than 6,000 farmer players from 32 provinces, municipalities and autonomous regions, including Taiwan, participated.

Earthquake Disaster Relief

The year of 2008 was a challenging one for China as the nation experienced severe natural disasters. At the beginning of the year, south China suffered heavy snowstorms and ice storms. The Wenchuan Earthquake in Sichuan Province on 12 May was a most devastating one, affecting the largest areas and causing the most difficulties in relief work ever since the founding of New China. The Bank suffered great losses from both disasters, especially Wenchuan earthquake which caused severe casualties and asset loss for the Bank.

Hearing the news of earthquake, the management of the Bank made a rapid response. ABC staff at all levels quickly united together and devoted themselves to the earthquake relief. The Bank participated in a relief work that is most rapidly responded, the most widely motivated with the most resources invested in Chinese history. This demonstrated the disaster relief spirit of "being united and persevering and overcoming difficulties in a people-oriented and scientific way". In the belief of mutual help, loving care, dedication and humanitarianism, the Bank not only rescued the employees and assets of the Bank, but also lent a helping hand to the disaster areas and overcame difficulties together with the disaster-hit people.

Plenty of brave and touching stories occurred during the disaster relief work. Jiang Shan, General Manager of Beichuan sub-branch in Sichuan Province, was honored as the "National Earthquake Relief Model" because of his great contribution to the relief work. He was the only one who received this honor in the financial sector.

Response to Disaster Relief and Post-Disaster Reconstruction

Reconstruction was arranged shortly after the heavy snowstorm in southern China in January 2008. Emergency "Green Channels" were opened in disaster areas for special demand and emergency needs relating to credit. The top leaders of the Bank visited disaster-stricken areas in Hunan Province, consoled the people and made directions concerning the recovery of the Bank.

Soon after the devastating earthquake in Sichuan in May 2008, the Bank made its best efforts to restore the financial service and assist earthquake relief by supporting post-disaster construction. The Head Office promptly set up a chief commander office for the emergency, and top leaders of the Bank rushed to the disaster areas to guide the relief work. The Bank released credit policies and special financial service to support post-disaster reconstruction. Emergency measures were taken to ensure the continued business operation of ABC outlets and the availability of credit support.

Rapid Restoration of Financial Services in Earthquake-Stricken Areas

The earthquake destroyed or damaged as many as 300 ABC outlets. The Bank was one of the financial institutions that suffered the heaviest loss in this disaster. To satisfy the financial demand in the earthquake-stricken areas in the shortest amount of time, the Bank sent 2,374 sets of electrical equipments, 12 sets of monitoring equipments, 21 vehicles including armor cash carriers, 60 ATMs and experienced accounting staff to restore business operation in the affected areas.

The "Green Ribbon" program was carried out in disaster areas: 1,000 counters for earthquake relief were opened and 50 mobile banks were set up including motor banks, tent banks and shed banks. Within one week after the earthquake, the Bank managed to ensure at least one outlet back to normal in each county. Through the efforts at all levels, the Bank became the first financial institution that brought the business back to normal in Wenchuan. By 4 June 2008, all the outlets in the Sichuan Province had been recovered.

Proper Transfer of Funds to Ensure Payment

The Bank announced explicitly that the reserve funds of the affected branches would not be limited by previous plans during the earthquake relief. Excess reserves and cash reserves in heavily affected branches were increased so as to meet the needs of timely payment for earthquake relief funds and the customers' cash withdrawals. From 13 May to 11 June, Sichuan Branch alone has transferred and cleared RMB6,948 million to disaster relief.

Disaster Areas: Customers' Interests and Rights

The Bank started the IT Department's 7×24 hour's emergency plan to ensure the safety of funds and customer information. Employees were assigned to the hotline "95599" to answer questions and concerns, comforting customers at the same time. The Bank tried its best to solve various problems for the customers in disaster areas, such as deposit inquiries, frozen accounts, withdrawals and personal loans repayments. Personal financial service guide and the directory of personal financial service sites were released to better serve customers in disaster areas.

Post-Disaster Reconstruction Support

In 2008, the Bank created a more centralized arrangement of credit extension. Loans applied for by customers affected by the disasters were prioritized, in particular the manufacturers, traders, logistic companies, wholesalers and retailers of relief goods, as well as related industries such as electric power, telecommunication, roads and railways. The Bank adjusted credit policies and lowered admittance requirement for several industries, moderated the capital ratio for loans, increased credit limits and extended the credit validity. Meanwhile, in respect to business procedures, authorization management, credit guarantee and credit products, "Green Channels" were opened for customers in disaster areas, with allocation of resources to disaster areas as a priority, and the interest approval right authorized to tier-1 branches in Sichuan province. It was allowed for rural customers in disaster areas to enjoy minimum interests for new loans. To relieve the financial burden of earthquake-stricken customers, the Bank issued mortgage loans at the minimum interest as well. Regulations on housing loans for farmers in disaster areas were adopted, and the grace period was extended and various means for repayment were set. Corporate or personal loan default resulting from the earthquake was not recorded as bad credit history.

In addition, RMB20.30 billion loans out of the RMB57 billion credit limit for reconstruction in disaster areas had been extended by the end of 2008, among which RMB13.46 billion was extended to enterprises in the hardest-hit areas, including Chengdu, Aba, Deyang, Mianyang, Guangyuan and Ya'an, to recover the production. An amount of RMB236 million loans were received by 6,950 households to rebuild their houses, averaging RMB34,000 loan per household.

Donations to Disaster Areas

The Bank's donation to disaster areas amounted to RMB184.04 million in 2008, of which RMB30 million was donated by corporate, RMB96.52 million by individuals, and RMB57.52 million by party members. "Earthquake-aid windows" were opened for the general public to donate for disaster areas. The Bank exempted transfer fees for every donation. In the charity event held by the Bank "Enjoy ABC Service Online: Aid Reconstruction of Disaster Areas", the Bank donated RMB0.1 from every online transaction charge to a charity organization for reconstruction in the disaster areas. The total donation amount was RMB4 million.

Also the Head office donated RMB2 million to snowstorm-stricken areas in Hunan Province.

Beijing Olympic Games Service

During the Olympic Games in Beijing, the Bank made great efforts to offer quality financial services for customers from home and abroad. To welcome the 2008 Beijing Olympics, the Bank strengthened information security and developed emergency plans for possible situations before the opening ceremony. Telephone banking service was enhanced by centralizing customer service in Hebei, Liaoning and Dalian and extended operator service to all Olympic cities. The Bank also improved complaint procedures, and ensured English language service in both telephone banking and customer service Centres. On the Bank's official website, the latest news on Olympics were issued in Chinese and English in the Olympic column "2008, Beijing Welcomes You". English information on the outlets in Olympic cities was also added. To make the payment process easier, the Bank opened ATM withdrawal service for international cards, to satisfy various customer demands during the Games. Through all these efforts, the Bank was honored by PBOC as the "Advanced Group for Payment Construction for Olympics". During the Olympics, the Bank took special measures to ensure the security of production systems and online services. In addition, ABC staff actively participated in the Olympic torch relay to express their support for the 2008 Beijing Olympic Games.

To respond to the call for a "wonderful Olympic Games", the Beijing Branch promoted a "Seven plus 46" Olympic financial service plan, which not only improved the appearance and equipments of outlets, but also opened the Green Channel for the Olympics. More training on business, sign language, English and security was conducted among staff. A Language Support Centre in customer service was opened, both in English and other foreign languages, to eliminate language barriers in financial service. In addition, the Internet Control Equipment was upgraded. To better offer the financial service for the customers abroad, foreign currency exchange service was opened in the outlets located in Olympic key areas.

The Shanghai Branch held a competition to welcome the Olympic Games. Trainings in English, etiquette and service skills were offered to its staff. English counters, wealth management service lines and service Green channels were set up in Olympic key outlets. Various services such as ATM 24-hour emergency service and premium bankcard service were opened. The Liaoning Branch extended the key outlets' working hours to 7 pm from 1 August to 20 August. Thirteen youth model outlets of the Qingdao Branch made great contribution to the sailing competitions during the Olympic Games and Paralympics, which enlisted the voluntary sites for Qingdao.

Charity Work

Education Donation

ABC organized 769 education funding programs in 2008 and donated up to RMB4,189,500 to fund dropout kids and poor students. The Bank was also delegated to transfer the funds of Chinese Youth Development Foundation. In 2008, 5,000 transactions were completed, amounting to over RMB90 million.

Charity Projects

450 charity projects were held by the Bank at all levels in 2008 to improve the quality of life in poverty-stricken areas. The donations amounted to RMB22,478,730.

Volunteer Activities

Employees taking part in various voluntary activities including earthquake relief, Olympic service and community development numbered 199,399. Voluntary blood donation was encouraged among the staff, reaching 28,596 person-times throughout the year.

Financial Knowledge Events

In 2008, to improve its financial service and customer supervision, ABC held 2,872 events to publicize and teach financial knowledge to 520,000 persons. The Bank offered internships to 5,925 college students this year.

Ecological Environment Support

Upholding the philosophy of "Green Credit", the Bank carried out an independent investigation and assessment on the environmental impact of projects applying for loans. Stricter loan access standards were adopted and a one-vote-veto system was established to stop lending to projects with heavy pollution and high energy consumption. In 2008, 167 loan projects were rejected because of environment pollution, involving RMB4.55 billion, while RMB44.20 billion loans were extended to energy-saving and environmental-friendly projects. The "Waste Burning Power Generating Project" in Zhongshan City supported by ABC Guangdong Branch was listed in the "Top Ten Green Credit Loan Projects" in the Green Financial Forum held by Financial Research Centre of 21st Century Institute.

People-Oriented Philosophy

Employees remain valuable resources of the Bank, with their work, time and lives respected as well as their legal rights protected. The Bank believes in the importance of employee's health and safety, tries its best to create a comfortable working environment and career opportunities, and to develop together with its entire staff.

Rights and Interests of Staff and Friendly Labour Relations

Upholding the principle of open administration, the Bank conducted democratic management. The function of Workers' Congress was strengthened and standardized, with better representation and coverage. More activities were held to facilitate friendly labour relations and promote a stable internal environment.

The income distribution system was improved with equal pay for equal work. Scientific compensation mechanism was created, along with a performance evaluation system and incentive system, to fully mobilize the wisdom and creativity of employees. The Bank endeavours to improve employees' quality of life by improving welfare such as medical care, pension, maternity and disability insurances.

The Bank made every effort to help employees in difficulty, which increased the pride and sense of belonging of the staff. In 2008, RMB30.54 million was donated within the Bank to assist 24,279 employees in times of difficulty.

Staff Training and Development

Abiding by the principle of putting people first, the Bank adopted a people-based development strategy. It built four teams: leader team, leader reserves, professional personnel team and key technical personnel team. Oriented towards the joint-stock reform, agro-related services and operational strategy transformation, the Bank made great efforts to train its staff through various channels and job practice. We strive to fully tap potentials and create good conditions for self-improvement.

The Bank will issue its Corporate Social Responsibility Report 2008, specifying its fulfillment of social responsibilities.

Significant Events

Joint-stock Reform

The Bank completed major financial restructuring including governmental capital injection and bad assets removal in 2008. It was reformed in its entirety into a joint-stock company from an exclusively state-owned commercial bank on 15 January 2009. For details, please refer to Section 7, the “Basic Information on the Joint-stock Reform”.

Major Litigation and Arbitration

During the reporting period, there was no major litigation or arbitration with substantial impact on the business operation of the Bank.

As of 31 December 2008, unresolved litigations in which the Bank was a defendant or a third person totaled RMB4,611 million. The Management believes the Bank has set aside estimated liabilities in the full amount for the possible losses out of the said legal proceedings and that they will not exert any material adverse effect on the Bank’s financial position or operational results.

Shares Held by the Bank in Listed Companies and Unlisted Financial Enterprises

Shares Held by the Bank in Listed Companies

Stock code	Stock name for short	Initial investment (RMB)	Shareholding percentage (%)	Book value at end of the period (RMB)	Gain/loss during the reporting period (RMB)	Change in owner's equity during the reporting period (RMB)	Accounting item	Source of shares
600127	GAEA GEM	222,542,880	22.33	154,548,152.21	166,784,748.71	—	Long-term equity investment	Take-over of debt payment equity
000430	ZTDC	11,199,600	6.1	45,470,376.00	—	(78,957,180.00)	Available-for-sale financial assets	Investment of self-owned capital
000652	TEDA STOCK	2,238,184.06	1.2	67,931,574.68	—	(115,161,326.34)	Available-for-sale financial assets	Investment of self-owned capital
000001	SDB	800,000	0.65	191,446,504.04	521,504.15	(409,450,812.76)	Available-for-sale financial assets	Investment of self-owned capital

Shares Held by the Bank in Unlisted Financial Enterprises

Investee Company	Initial investment (RMB)	Shares held (10,000)	Shareholding percentage (%)	Book value at end of the period (RMB)	Gain/loss during the reporting period (RMB)	Change in owner's equity during the reporting period (RMB)	Accounting item	Source of share
China UnionPay Co., Ltd	90,000,000	11250	3.90	146,250,000	1,800,000	—	Long-term equity investment	Investment of self-owned capital
Yantai Evergrowing Bank	2,000,000	200	2	2,000,000	—	—	Long-term equity investment	Investment of self-owned capital
Guangdong Development Bank	29,347,500	1643.82	0.14	39,827,451.34	—	—	Long-term equity investment	Investment of self-owned capital

Significant Events

Material Asset Acquisition, Sale and Merger

During the reporting period, there was no material asset acquisition, sale or merger in the Bank except those relating to the joint-stock reform.

Material Related-Party Transactions

During the reporting period, the Bank has not entered into any material related-party transactions.

Material Contracts and Performance of Obligations thereof

Material Trust, Contract and Lease

During the reporting period, the Bank did not enter into any material trust business, contract or lease arrangement of other corporations' assets, and no other corporation entered into any material trust business, contract or lease arrangement in respect to the Bank's assets.

Material Guarantees

The provision of guarantees is among the recurring off-balance-sheet business of the Bank. During the reporting period, the Bank did not have any material guarantees that need to be disclosed, except for the financial guarantee services within the business scope as approved by PBOC.

Material Events concerning Entrusting Others for Cash Management or Entrusted Loans

During the reporting period, no such matters concerning entrusting others for cash management or entrusted loans occurred in the Bank.

Penalties Imposed by Regulatory and Judicial Authorities during the Reporting Period

During the reporting period, neither the Bank nor any of its directors, supervisors and senior management members was subject to any investigation or administrative penalty imposed by regulatory authorities.

Auditor's Report and Financial Statements



Auditor's Report



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中国上海市延安东路222号
外滩中心30楼
邮政编码：200002

Deloitte Touche Tohmatsu CPA Ltd.
30/F Bund Center
222 Yan An Road East
Shanghai 200002, PRC

De Shi Bao (Shen) Zi (09) P0088

To the Shareholders of Agricultural Bank of China Limited:

We have audited the accompanying financial statements of Agricultural Bank of China Limited (the "Bank") prepared in accordance with the basis of preparation stated in Note III to the financial statements, which comprise the balance sheet of the Bank and consolidated balance sheet as at 31 December 2008, and the income statement of the Bank and consolidated income statement, the statement of changes in owners' equity of the Bank and consolidated statement of changes in owners' equity and the cash flow statement of the Bank and consolidated cash flow statement for the year then ended, and notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Chinese Certified Public Accountants Auditing Standards. 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider the internal control relevant to the 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 internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements of the Bank have been prepared in accordance with the basis of preparation stated in Note III to the financial statements, and present fairly, in all material respects, the Bank's and consolidated financial position as at 31 December 2008, and the Bank's and consolidated results of operations and cash flows for the year then ended.

Deloitte Touche Tohmatsu CPA Ltd.



Shanghai, China

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

Wang Peng Cheng



Liu Ming Hua



25 April 2009

Balance Sheets

As at 31 December 2008
(Amount in millions of Renminbi)

Assets	Note X	Group		Bank	
		As at 31 December		As at 31 December	
		2008	2007 (restated)	2008	2007 (restated)
Cash and deposits with central banks	1	1,145,884	937,014	1,145,726	936,921
Deposits with banks and other financial institutions	2	62,668	16,432	61,853	16,098
Placements with banks and other financial institutions	3	44,479	52,498	44,700	52,498
Financial assets held for trading	4	40,017	17,205	39,952	17,205
Derivative financial assets	5	7,151	10,207	7,151	10,207
Financial assets held under resale agreements	6	246,370	144,848	246,370	144,848
Interest receivable	7	29,950	23,783	29,950	23,783
Loans and advances to customers	8	3,014,984	2,709,192	3,014,951	2,709,192
Available-for-sale financial assets	9	800,013	529,203	800,013	529,203
Held-to-maturity investments	10	576,323	532,816	576,323	532,816
Debt securities classified as receivables	11	892,532	229,743	892,532	229,743
Long-term equity investments	12	347	363	779	550
Fixed assets	13	103,883	76,450	103,715	76,311
Intangible assets	14	27,000	2,115	26,873	2,114
Deferred tax assets	15	17,107	11,524	17,093	11,524
Other assets	16	5,643	12,113	4,460	10,467
Total assets		7,014,351	5,305,506	7,012,441	5,303,480

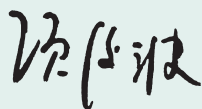
Balance Sheets

As at 31 December 2008
(Amount in millions of Renminbi)

Assets	Note X	Group		Bank	
		As at 31 December		As at 31 December	
		2008	2007 (restated)	2008	2007 (restated)
Borrowings from central banks	18	314	150,867	314	150,867
Deposits from banks and other financial institutions	19	289,772	296,618	289,772	296,619
Placements from banks and other financial institutions	20	34,131	30,375	34,131	30,375
Financial liabilities held for trading	21	22,677	10,488	22,677	10,488
Derivative financial liabilities	5	11,534	7,294	11,534	7,294
Financial assets sold under repurchase agreements	22	35,090	73,391	35,090	73,391
Deposits from customers	23	6,097,428	5,287,194	6,097,373	5,287,194
Accrued staff costs	24	68,144	58,349	68,130	58,347
Taxes payable	25	26,173	32,804	26,172	32,804
Interest payable	26	66,512	44,686	66,515	44,688
Provisions	27	5,784	5,395	5,784	5,395
Certificates of deposit issued	28	5,150	4,154	5,150	4,154
Other liabilities	29	61,101	31,496	60,778	30,950
Total liabilities		6,723,810	6,033,111	6,723,420	6,032,566
Owners' equity					
Paid-in capital/Share capital	30	260,000	121,612	260,000	121,612
Capital reserve	31	17,292	(4,666)	17,292	(4,666)
Surplus reserve	32	1,187	—	1,187	—
General reserve	33	64	57	60	57
Retained earnings	34	12,022	(844,620)	10,677	(846,086)
Currency translation differences		(120)	12	(195)	(3)
Total equity attributable to owners of the Bank		290,445	(727,605)	289,021	(729,086)
Minority interests		96	—	—	—
Total owners' equity		290,541	(727,605)	289,021	(729,086)
Total liabilities and owners' equity		7,014,351	5,305,506	7,012,441	5,303,480

The accompanying notes form part of the financial statements.

The financial statements on pages 110 to 234 were approved by the following:



Legal Representative



Executive Vice President in
Charge of Finance and Accounting



Head of Finance and
Accounting Department

Income Statements

For the year ended 31 December 2008
(Amount in millions of Renminbi)

	Note X	Group		Bank	
		2008	2007 (restated)	2008	2007 (restated)
Operating income		211,189	179,237	211,203	178,775
Net interest income	35	193,845	157,465	193,845	157,390
Interest income		315,697	243,317	315,697	243,317
Interest expense		(121,852)	(85,852)	(121,852)	(85,927)
Net fee and commission income	36	23,798	22,995	23,798	22,995
Fee and commission income		24,794	23,921	24,794	23,921
Fee and commission expense		(996)	(926)	(996)	(926)
Investment income	37	4,641	1,169	4,640	1,169
Net (losses)/gains on fair value changes	38	(8,648)	590	(8,651)	590
Foreign exchange gains/(losses)	39	(2,913)	(3,786)	(2,825)	(3,763)
Other operating income	40	466	804	396	394
Operating expenses		(159,118)	(101,790)	(158,960)	(101,724)
Business taxes and surcharges	41	(13,223)	(11,140)	(13,221)	(11,140)
Operating and administrative expenses	42	(94,417)	(60,076)	(94,261)	(59,907)
Impairment losses	43	(51,478)	(30,574)	(51,478)	(30,677)
Operating profit		52,071	77,447	52,243	77,051
Add: Non-operating income	44	2,813	4,214	2,792	4,205
Less: Non-operating expenses	45	2,535	3,404	2,534	3,404
Profit before tax		52,349	78,257	52,501	77,852
Less: Income tax	46	896	34,470	910	34,469
Net profit		51,453	43,787	51,591	43,383
Attributable to:					
— Shareholders of the Bank		51,474	43,787	51,591	43,383
— Minority interests		(21)	—	—	—

The accompanying notes form part of the financial statements.

Cash Flow Statements

For the year ended 31 December 2008
(Amount in millions of Renminbi)

	Note X	Group		Bank	
		2008	2007 (restated)	2008	2007 (restated)
Cash flows from operating activities					
Net increase in deposits from customers and from banks and other financial institutions		803,705	592,258	803,649	591,970
Net increase in borrowings from central banks		49	—	49	—
Net increase in placements from banks and other financial institutions		4,752	5,481	4,752	5,481
Cash received from interest, fee and commission		267,081	218,564	267,081	218,564
Cash received from other operating activities		48,336	107,438	49,451	107,466
Sub-total of cash inflows from operating activities		1,123,923	923,741	1,124,982	923,481
Net increase in loans and advances to customers		(392,847)	(333,335)	(392,814)	(333,335)
Net increase in deposits with central banks and with banks and other financial institutions		(183,117)	(262,229)	(183,117)	(262,654)
Cash paid for interest, fee and commission		(101,022)	(78,943)	(101,021)	(78,943)
Cash paid to and for employees		(47,981)	(40,812)	(47,949)	(40,800)
Payments of all types of taxes		(35,215)	(16,490)	(35,214)	(16,334)
Cash paid to other operating activities		(78,960)	(47,217)	(80,276)	(47,130)
Sub-total of cash outflows from operating activities		(839,142)	(779,026)	(840,391)	(779,196)
Net cash in flows from operating activities	48	284,781	144,715	284,591	144,285
Cash flows from investing activities					
Cash received from disposal of investments		496,066	780,605	496,066	780,605
Cash received from returns on investments		65,563	34,186	65,562	34,186
Other cash from the investing activities		1,830	6,628	1,807	6,624
Sub-total of cash inflows from investing activities		563,459	821,419	563,435	821,415
Cash paid for acquisition of investments		(783,606)	(913,942)	(783,847)	(913,942)
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(14,909)	(11,739)	(14,883)	(11,731)
Sub-total of cash outflows from investing activities		(798,515)	(925,681)	(798,730)	(925,673)
Net cash outflows from investing activities		(235,056)	(104,262)	(235,295)	(104,258)
Cash flows from financing activities					
Cash received from investors		130,117	—	130,000	—
Including: cash received from minority shareholders of subsidiary		117	—	—	—
Sub-total of cash inflows from financing activities		130,117	—	130,000	—
Net cash inflows from financing activities		130,117	—	130,000	—
Effect of foreign exchange rate changes on cash and cash equivalents		(5,468)	(3,111)	(5,468)	(3,111)
Net increase in cash and cash equivalents		174,374	37,342	173,828	36,916
Add: Opening balances of cash and cash equivalents		314,190	276,848	313,763	276,847
Closing balances of cash and cash equivalents	47	488,564	314,190	487,591	313,763

The accompanying notes form part of the financial statements.

Consolidated Statement of Changes in Owners' Equity

For the year ended 31 December 2008
(Amount in millions of Renminbi)

		Attributable to owners of the Bank							Total
	Note	Pain-in capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	Currency translation differences	Minority interests	
I. As at 31 December 2007	VII	121,612	3,088	—	57	(36,126)	(3)	—	88,628
1. Changes in accounting policies and correction of prior year errors	VII	—	(7,754)	—	—	(808,494)	15	—	(816,233)
II. As at 1 January 2008		121,612	(4,666)	—	57	(844,620)	12	—	(727,605)
III. Changes for the year									
(i) Net profit		—	—	—	—	51,474	—	(21)	51,453
(ii) Gains and losses directly recognised in owners' equity		—	25,058	—	—	—	(132)	—	24,926
1. Net changes in fair value of available-for-sale financial assets		—	33,486	—	—	—	—	—	33,486
Representing: Amounts recognised in owners' equity		—	33,490	—	—	—	—	—	33,490
Amounts realised in income statement		—	(4)	—	—	—	—	—	(4)
2. Income tax implications in relation to items recognised in owners' equity		—	(8,428)	—	—	—	—	—	(8,428)
3. Currency translation differences		—	—	—	—	—	(132)	—	(132)
Subtotal of (I) and (II)		—	25,058	—	—	51,474	(132)	(21)	76,379
(III) Capital injection from owners		130,000	—	—	—	—	—	117	130,117
1. Capital injection from owners	II. 4	130,000	—	—	—	—	—	—	130,000
2. Others		—	—	—	—	—	—	117	117
(iv) Profit distribution		—	—	1,187	7	(1,194)	—	—	—
1. Appropriation to surplus reserve	X. 34	—	—	1,187	—	(1,187)	—	—	—
2. Appropriation to general reserve	X. 33	—	—	—	7	(7)	—	—	—
(v) Financial restructuring		8,395	(3,100)	—	—	806,362	—	—	811,657
1. Disposal of non-performing assets	II. 1	—	760,665	—	—	—	—	—	760,665
2. Surplus on valuation	II. 2	—	50,992	—	—	—	—	—	50,992
3. Replenishment of capital due from the Ministry of Finance	II. 3	—	34,497	—	—	(34,497)	—	—	—
4. Capital restructuring	II. 3	8,395	(849,254)	—	—	840,859	—	—	—
(vi) Transfer to Changcheng Trust	X. 30	(7)	—	—	—	—	—	—	(7)
IV. As at 31 December 2008		260,000	17,292	1,187	64	12,022	(120)	96	290,541

		Attributable to owners of the Bank							Total
	Note	Pain-in capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	Currency translation differences	Minority interests	
I. As at 31 December 2006	VII	121,944	3,092	—	51	(41,448)	3	—	83,642
1. Changes in accounting policies and correction of prior year errors	VII	—	931	—	—	(846,953)	(39)	—	(846,061)
II. As at 1 January 2007		121,944	4,023	—	51	(888,401)	(36)	—	(762,419)
III. Changes for the year									
(i) Net profit		—	—	—	—	43,787	—	—	43,787
(ii) Gains and losses directly recognised in owners' equity		—	(8,689)	—	—	—	48	—	(8,641)
1. Net changes in fair value of available-for-sale financial assets		—	(11,611)	—	—	—	—	—	(11,611)
Representing: Amounts recognised in owners' equity		—	(11,820)	—	—	—	—	—	(11,820)
Amounts realised in income statement		—	209	—	—	—	—	—	209
2. Income tax implications in relation to items recognised in owners' equity		—	2,884	—	—	—	—	—	2,884
3. Currency translation differences		—	—	—	—	—	48	—	48
4. Others		—	38	—	—	—	—	—	38
Subtotal of (I) and (II)		—	(8,689)	—	—	43,787	48	—	35,146
(iii) Capital injection from owners		—	—	—	—	—	—	—	—
(iv) Profit distribution		—	—	—	6	(6)	—	—	—
1. Appropriation to general reserve	X. 33	—	—	—	6	(6)	—	—	—
(v) Transfer to Changcheng Trust	X. 30	(332)	—	—	—	—	—	—	(332)
IV. As at 31 December 2007		121,612	(4,666)	—	57	(844,620)	12	—	(727,605)

The accompanying notes form part of the financial statements.

Statements of Changes in Owners' Equity of the Bank

For the year ended 31 December 2008
(Amount in millions of Renminbi)

	Note	Paid-in capital/ Share capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	Currency translation differences	Total
I. As at 31 December 2007	VII	121,612	3,088	—	57	(36,126)	(3)	88,628
1. Changes in accounting policies and correction of prior year errors	VII	—	(7,754)	—	—	(809,960)	—	(817,714)
II. As at 1 January 2008		121,612	(4,666)	—	57	(846,086)	(3)	(729,086)
III. Changes for the year								
(i) Net profit		—	—	—	—	51,591	—	51,591
(ii) Gains and losses directly recognised in owners' equity		—	25,058	—	—	—	(192)	24,866
1. Net changes in fair value of available-for-sale financial assets		—	33,486	—	—	—	—	33,486
Representing: Amounts recognised in owners' equity		—	33,490	—	—	—	—	33,490
Amounts realised in income statement		—	(4)	—	—	—	—	(4)
2. Income tax implications in relation to items recognised in owners' equity		—	(8,428)	—	—	—	—	(8,428)
3. Currency translation differences		—	—	—	—	—	(192)	(192)
Subtotal of (I) and (II)		—	25,058	—	—	51,591	(192)	76,457
(iii) Capital injection from owners		130,000	—	—	—	—	—	130,000
1. Capital injection from owners	II.4	130,000	—	—	—	—	—	130,000
(iv) Profit distribution		—	—	1,187	3	(1,190)	—	—
1. Appropriation to surplus reserve	X.34	—	—	1,187	—	(1,187)	—	—
2. Appropriation to general reserve	X.33	—	—	—	3	(3)	—	—
(v) Financial restructuring		8,395	(3,100)	—	—	806,362	—	811,657
1. Disposal of non-performing assets	II.1	—	760,665	—	—	—	—	760,665
2. Surplus on valuation	II.2	—	50,992	—	—	—	—	50,992
3. Replenishment of capital due from the Ministry of Finance	II.3	—	34,497	—	—	(34,497)	—	—
4. Capital restructuring	II.3	8,395	(849,254)	—	—	840,859	—	—
(vi) Transfer to Changcheng Trust	X.30	(7)	—	—	—	—	—	(7)
IV. As at 31 December 2008		260,000	17,292	1,187	60	10,677	(195)	289,021

	Note	Paid-in capital/ Share capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	Currency translation differences	Total
I. As at 31 December 2006	VII	121,944	3,092	—	51	(41,448)	3	83,642
1. Changes in accounting policies and correction of prior year errors	VII	—	931	—	—	(848,015)	—	(847,084)
II. As at 1 January 2007		121,944	4,023	—	51	(889,463)	3	(763,442)
III. Changes for the year								
(i) Net profit		—	—	—	—	43,383	—	43,383
(ii) Gains and losses directly recognised in owners' equity		—	(8,689)	—	—	—	(6)	(8,695)
1. Net changes in fair value of available-for-sale financial assets		—	(11,611)	—	—	—	—	(11,611)
Representing: Amounts recognised in owners' equity		—	(11,820)	—	—	—	—	(11,820)
Amounts realised in income statement		—	209	—	—	—	—	209
2. Income tax implications in relation to items recognised in owners' equity		—	2,884	—	—	—	—	2,884
3. Currency translation differences		—	—	—	—	—	(6)	(6)
4. Others		—	38	—	—	—	—	38
Subtotal of (I) and (II)		—	(8,689)	—	—	43,383	(6)	34,688
(iii) Capital injection from owners		—	—	—	—	—	—	—
(iv) Profit distribution		—	—	—	6	(6)	—	—
1. Appropriation to general reserve	X.33	—	—	—	6	(6)	—	—
(v) Transfer to Changcheng Trust	X.30	(332)	—	—	—	—	—	(332)
IV. As at 31 December 2007		121,612	(4,666)	—	57	(846,086)	(3)	(729,086)

The accompanying notes form part of the financial statements.

Notes to the Financial Statements

For the year ended 31 December 2008

I GENERAL INFORMATION

Agricultural Bank of China Limited (the “Bank”), formerly known as Agricultural Bank of China, was a state-owned commercial bank founded on 23 February 1979. Its establishment was authorised by the People’s Bank of China (the “PBC”). Pursuant to the Joint Stock Restructuring Plan of the Agricultural Bank of China (the “Restructuring Plan”) approved by the State Council (the “State Council”) of the People’s Republic of China (the “PRC”) on 21 October 2008, the Bank completed the financial restructuring prior to its reformation as a joint stock company on 15 January 2009, details of which are set out in Note II “Financial Restructuring and Incorporation of Joint Stock Company”. After the reformation as a joint stock company, the registered capital of the Bank is Renminbi (RMB) 260,000 million and the Ministry of Finance of the PRC (the “MOF”) and Central Huijin Investment Limited (“Huijin”) own 50% shares of the Bank respectively.

The Bank has the financial services certificate No. B0002H111000001 issued by the China Banking Regulatory Commission (the “CBRC”), and the business license No. 1000000000005472 issued by the State Administration of Industry and Commerce of the PRC.

The principal activities of the Bank are as follows: Absorbing public deposits, offering short-term, medium-term and long-term loans, arranging settlement of both domestic and overseas accounts, handling acceptance and discount of negotiable instruments, issuing financial bonds, issuing, cashing and undertaking the sale of government bonds as agents, buying and selling government bonds or financial bonds, undertaking inter-bank borrowing or lending, buying and selling foreign exchange by itself or as agents, engaging in bank card business, offering letter of credit services and guarantee, handling receipts and payments and insurance business as agents, providing safe boxes services, buying and selling RMB in exchange of foreign currencies and other businesses as approved by the banking regulatory authorities of the State Council and business approved by local regulatory bodies of overseas operations of the Bank.

For the purpose of these financial statements, the head office and domestic branches of the Bank and subsidiaries operating in the PRC are referred to as “Domestic Institution”. Hong Kong branch, Singapore branch of the Bank and the subsidiaries registered outside the PRC are referred to as “Overseas Institution”. The Bank and its subsidiaries are defined as the “Group”.

II FINANCIAL RESTRUCTURING AND INCORPORATION OF JOINT STOCK COMPANY

Pursuant to the Restructuring Plan, the Bank completed the following financial restructuring and joint stock reformation measures:

1. Disposal of non-performing assets

Pursuant to the Restructuring Plan, the Bank disposed of non-performing assets as at 31 December 2007 with principal amount of RMB815,695 million, including loans and advances of RMB766,768 million and non-credit assets of RMB48,927 million, part of the consideration was borrowed from the PBC of RMB150,602 million. The difference was recognised as receivable due from the MOF of RMB665,093 million, which will be settled in the following years and bears an interest rate of 3.3% per annum from 1 January 2008.

As a result of the disposal of non-performing assets, the allowance for impairment losses on loans of RMB717,531 million and the allowance for impairment losses on non-credit assets and unrecognised loss of RMB43,134 million were reversed and credited to the capital reserve.

II FINANCIAL RESTRUCTURING AND INCORPORATION OF JOINT STOCK COMPANY (continued)

2. Appraisal of the Bank's assets

Pursuant to the statutory requirements on the restructuring of state-owned enterprises, the Bank engaged China Enterprise Appraisals ("CEA"), an independent qualified asset appraisers, to perform a valuation exercise on its assets and liabilities as at 31 December 2007. CEA issued the Valuation Report on Assets under the Restructuring of the Agricultural Bank of China (Zhongqihua Pingbaozi [2008] No. 414) (the "Valuation Report"). According to the Valuation Report, the revaluation surplus of the Bank's assets was RMB50,992 million. The MOF approved the Valuation Report on 19 December 2008 by issuing *MOF Approval of Valuation Report on Assets of Agricultural Bank of China (Caijin [2008] No. 179)*. The Bank recognised the revaluation surplus of RMB50,992 million in related assets and credited capital reserve on the balance sheet as at 31 December 2008.

3. Replenishment of capital due from the MOF and capital structuring

Pursuant to the Restructuring Plan, after the disposal of non-performing assets, RMB130,000 million out of the financial resources as at 31 December 2007 and estimated income before tax for the year 2008 of the Bank was recognised as capital injection by the MOF. The Bank replenished the capital due from the MOF with income before tax for the year 2008 amounting to RMB34,497 million, and performed capital structuring in accordance with *MOF Approval on Agricultural Bank of China State Shares Administration Plan (Caijin [2008] No. 181)* issued by the MOF on 23 December 2008. After the capital structuring, the capital injection by the MOF was RMB130,000 million.

4. Capital injection by Central Huijin Investment Limited

On 29 November 2008, Huijin injected USD19,029 million of cash to the Bank, which was equivalent to RMB130,000 million on the capital injection date.

5. Incorporation of joint stock company

Pursuant to *MOF Approval on Agricultural Bank of China State Shares Administration Plan (Caijin [2008] No. 181)* issued by the MOF on 23 December 2008, the MOF and Huijin jointly set up Agricultural Bank of China Limited. The investors injected capital of RMB260,000 million to the Bank, which was converted into 260,000 million promoters' shares at par value of RMB1 each issued to the MOF and Huijin, with each holding 130,000 million shares representing 50% of share capital of the Bank. All shares held by the MOF and Huijin are state shares controlled by the PRC Government.

III BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared based on the financial restructuring such as disposal of non-performing assets and appraisal of the Bank's assets as set out in Note II, and the following basis:

1. First-time adoption of Accounting Standards for Business Enterprises issued on 15 February 2006 and related regulations ("new CASs").

Since 1 January 2008, the Group has adopted the new CASs issued by the MOF. For the accounting policy changes due to the first time adoption of new CASs, the Group made retrospective adjustments to the financial statements of the comparative year in accordance with the information obtained. The changes in the classification, name and method of presentation in the financial statements have been restated in the comparative year in accordance with the requirements of new CASs. The effects of first-time adoption of new CASs on the financial statements of the comparative year are set out in Note VII.

2. Preferential tax treatment

Pursuant to the Restructuring Plan, the Bank proposed a preferential tax plan of the Financial Restructuring ("Tax Plan") to the MOF and State Administration of Taxation (the "SAT") for approval. As at the date of approval of the financial statements, the Bank has not yet received the approval of Tax Plan from the MOF and the SAT. When preparing the financial statements, management assumed that the Tax Plan was approved according to the Restructuring Plan. Major preferential treatments in Tax Plan are set out as following:

- (1) The Bank is exempted from paying the deed taxes and business tax arising from transfer of those tangible assets and equity investments in the process of disposing non-performing assets.
- (2) The Bank is exempted from paying the income taxes arising from the valuation surplus during the financial restructuring. The tax base of assets are adjusted to the revalued amounts and the depreciation based on the adjusted tax base are deductible from income before tax.
- (3) The Bank is exempted from paying the income tax arising from the replenishment of capital due from the MOF by using the income before tax of 2008 of RMB34,497 million.

IV STATEMENT OF COMPLIANCE

The financial statements of the Bank have been prepared in accordance with the basis of preparation stated in Note III, and present truly and completely, the Bank's and consolidated financial position as at 31 December 2008, and the Bank's and consolidated results of operations and cash flows for the year then ended.

V SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Accounting year

The Group has adopted the calendar year as its accounting year, i.e. from 1 January to 31 December.

2. Functional and presentational currency

RMB is the currency of the primary economic environment in which the Group's Domestic Institution operate. The functional currency of Domestic Institution is RMB. The operation of the Group's Overseas Institution are measured using the currency of the primary economic environment in which the entity operates. The presentation currency of the Group is RMB.

3. Basis of accounting and principle of measurement

The Group has adopted the accrual basis of accounting. Except for certain financial instruments which are measured at fair value, and certain assets evaluated during joint stock restructuring which are measured at revalued cost approved by the MOF, the Group has adopted the historical cost as the principle of measurement of the financial statements. Where assets are impaired, provisions for asset impairment are made in accordance with relevant requirements.

4. Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

5. Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At the balance sheet date, foreign currency monetary items are translated to functional currency using the spot exchange rate at that date. Exchange differences arising from the differences between the spot exchange rate prevailing at the balance sheet date and those spot rates used on initial recognition or at the previous balance sheet date are recognised in profit or loss for the current period, except for: (1) exchange differences arising from hedging instruments for foreign currency risk, which are treated under hedge accounting; (2) exchange differences arising from the changes of monetary assets classified as available-for-sale other than the changes of the amortised cost, which are recognized in capital reserve.

Foreign currency non-monetary items carried at historical cost continue to be measured at the amounts in functional currency translated using the spot exchange rates at the dates of the transactions; foreign currency non-monetary items carried at fair value are translated using the spot exchange rates at the date when the fair value was determined. Differences between the translated amount and the original amount of functional currency are accounted for as changes in fair value and included in profit or loss for the period or capital reserve.

Where the preparation of financial statements involves a foreign operation, for foreign currency monetary items that substantially constitute a net investment in the foreign operation, exchange differences arising from changes in foreign exchange rates are included in "currency translation differences" in owners' equity, and is recognised in profit or loss for the period in which the foreign operation is disposed of.

V SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

6. Financial instruments

Financial assets or financial liabilities are recognised when the Group becomes a party to the contractual provisions of a financial instrument.

(1) Determination of fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. When available, the Group measures the fair value of an instrument using prices in an active market for that instrument. The fair values of quoted financial assets and financial liabilities in active markets are based on current bid and ask prices, as appropriate. Quoted prices from an active market are prices that are readily and regularly available from an exchange, dealer, broker, industry group or pricing service agency, etc, and represent prices of actual occurring market transactions on an arm's length basis. If there is no active market, the Group estimate fair value by using valuation techniques. Valuation techniques applied include recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

(2) Recognition and measurement of financial assets

Regular way purchases and sales of financial assets are recognised and derecognized using trade date accounting. On initial recognition, financial assets are classified into the following categories: financial assets at 'fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'loans and receivables' and 'available-for-sale' (AFS) financial assets. Financial assets are initially recognised at fair value. For financial assets at FVTPL, related transaction costs are directly charged to the profit or loss for the current period; for financial assets classified as other categories, related transaction costs are included in the initial recognition amounts.

Financial assets at FVTPL

Financial assets at FVTPL include financial assets held for trading and those designated as at FVTPL inception.

A financial asset is classified as held for trading if: (1) it has been acquired principally for the purpose of selling in the near future; or (2) it is 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 (3) it is a derivative, except for a derivative that is a designated and effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price from an active market) whose fair value cannot be reliably measured.

A financial asset may be designated, on initial recognition, as at fair FVTPL if either: (1) the designation eliminates or significantly reduces a measurement or recognition inconsistency of the related gains and losses that would otherwise result from measuring assets or liabilities on different bases; or (2) the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, and information about the group is reported on that basis to the Group's key management personnel. The Group's formal documentation has been prepared with respect to such risk management or investment strategy.

V SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**6. Financial instruments** (continued)**(2) Recognition and measurement of financial assets** (continued)*Financial assets at FVTPL (continued)*

Financial assets at TVTPL are subsequently measure at fair value, with gains or losses arising from changes in fair value as well as dividends and interest income related to such financial assets recognised in profit or loss for the current period.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity.

Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method; gains or losses arising from derecognition, impairment or amortisation are recognised in profit or loss for the current period.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period, using the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates the future cash flows considering all contractual terms of financial assets and financial liabilities (without considering future credit losses). The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group's loans and receivables include deposits with central bank, banks and other financial institutions, loans and advances to customers, debt securities classified as receivables, placements with banks and other financial institutions and financial assets hold under resell agreements.

Loans and receivables are subsequently measured at amortised cost using the effective interest method. Gains or losses arising from derecognition, impairment or amortisation are recognised in profit or loss for the current period.

V SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

6. Financial instruments (continued)

(2) Recognition and measurement of financial assets (continued)

AFS financial assets

AFS financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as (1) financial assets at FVTPL, (2) loans and receivables, and (3) held-to-maturity investments.

AFS financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value (other than impairment losses and foreign exchange gains and losses resulted from foreign currency monetary assets which are recognised in profit or loss for the current period) are recognised directly in capital reserve, and are reversed and recognised in profit or loss for the period when such financial assets are derecognised.

Interest received during the period in which the Group holds the available-for-sale financial assets and cash dividends declared by the investee is recognised as interest income and investment income respectively.

(3) Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that financial assets other than those at FVTPL is impaired, if there is objective evidence that financial assets are impaired, an impairment provision is made against the financial asset.

Objective evidence that a financial asset or group of assets is impaired includes the following observable loss events:

- (1) significant financial difficulty of the issuer or obligor;
- (2) a breach of contract, such as a default or delinquency in interest or principal payments;
- (3) the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider;
- (4) it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- (5) disappearance of an active market for that financial asset because of financial difficulties of the issuer;

V SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**6. Financial instruments** (continued)**(3) Impairment of financial assets** (continued)

- (6) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - adverse changes in the payment status of borrowers in the group;
 - national or local economic conditions that correlate with defaults on the assets in the group;
- (7) any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the obligor operates, and indicates that the cost of investments in equity instruments may not be recovered;
- (8) a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost; or
- (9) other objective evidence indicating there is an impairment of the financial asset.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. The Group performs a collective assessment for all other financial assets that are not individually significant or for which impairment has not yet been identified by including the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment for homogeneous group of financial assets.

Impairment of held-to-maturity investments and loans and receivables

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

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

V SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

6. Financial instruments (continued)

(3) Impairment of financial assets (continued)

Impairment of held-to-maturity investments and loans and receivables (continued)

When performing the collective assessment of impairment, the Group groups the financial assets with similar credit risk characteristics. Those characteristics are attributable to the estimation of future cash flows for groups of such financial assets based on the debtors' ability to pay all amounts due according to the contractual terms.

When a financial asset is uncollectible, it is written off against the related allowances for impairment after all necessary procedures have been completed. Subsequent recoveries of amounts previously written off are reversed the allowances for impairment in profit or loss for the current period.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account and recognised in profit or loss for the current period.

Impairment of AFS financial assets

Where AFS financial assets are impaired, accumulated losses due to decreases in fair value previously recognised directly in capital reserve are reversed and charged to profit or loss for the current period. The reversed accumulated losses are the asset's initial acquisition costs after deducting amounts recovered and amortised, current fair value and impairment losses previously recognised in profit or loss.

If, in a subsequent period, the carrying amount of financial assets increases and the increase can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment losses are reversed. The reversal of impairment losses of AFS equity instruments is recognised in capital reserve, and the impairment losses of AFS debt instruments are recognised in profit or loss for the current period.

Impairment losses incurred by investments in an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured; or derivatives financial assets linked to and must be settled by delivery of such an unquoted equity instrument are not reversed.

(4) Derecognition of financial assets

The Group derecognises a financial asset only when: (1) the contractual rights to receive the cash flows from the financial asset expire; or (2) it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to the transferee; or (3) it transfers the financial asset, neither transfers nor retains substantially all the risks and rewards of ownership but has not retained control of the financial asset.

Where the Group neither transfers nor retains substantially all risks and rewards of ownership of the financial asset, but has retained control of the financial asset, the Group continues to recognise the relevant financial assets to the extent of the Group's actual control, and recognise a financial liability.

V SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**6. Financial instruments** (continued)**(5) Derivative financial instruments**

Derivatives are initially recognised at fair value on the day when related contracts are signed, and are subsequently measured at fair value. The changes in fair value of derivatives are recognised in profit or loss for the period, unless they are designated and highly effective as hedging instruments, in which case gains or losses arising from changes in fair value are determined based on the nature of hedging relationship and recognised in the period in which profit or loss occurs under the requirements of hedge accounting.

(6) Embedded derivatives

For hybrid instruments containing embedded derivatives, if they are not designated as financial assets or financial liabilities at FVTPL, where the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract, and where they are of the same condition as embedded derivatives and meet the definition of a derivative on a stand-alone basis, the embedded derivative is accounted for as a stand-alone derivative financial instrument separately from the host contract. If the embedded derivative cannot be measured on a stand-alone basis at the time when acquired or at subsequent balance sheet dates, the hybrid instrument is designated as financial assets or financial liabilities at FVTPL as a whole.

(7) Financial liabilities

On initial recognition, financial liabilities are classified as either financial liabilities at 'fair value through profit or loss' (FVTPL) or 'other financial liabilities'. Financial liabilities are initially recognised at fair value. For financial liabilities at FVTPL, related transaction costs are directly charged to the profit or loss for the current period; for financial liabilities classified as other financial liabilities, related transaction costs are included in the initial recognition amounts.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

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

Financial liabilities at FVTPL are subsequently measured at fair value, with gains or losses arising from changes in fair values as well as dividends and interest income related to such financial liabilities recognised in profit or loss for the current period.

V SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

6. Financial instruments (continued)

(7) Financial liabilities (continued)

Other financial liabilities

Derivative financial liabilities linked to and which must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be measured reliably are subsequently measured at cost. Other financial liabilities are subsequently measured at amortised cost using the effective interest method; gains or losses arising from derecognition or amortisation are recognised in profit or loss for the current period.

(8) Financial guarantee contracts and loan commitments

Financial guarantee contracts that are not designated as financial liabilities at FVTPL, or loan commitments to provide a loan at a below-market interest rate which are not designated as financial liabilities at FVTPL are initially recognised at fair value, and are subsequently measured at the higher of the following two amounts: (1) the amount determined in accordance with *Accounting Standard for Business Enterprises No. 13 — Contingencies*; and (2) the amount initially recognised less cumulative amortisation recognised in accordance with the principles set out in *Accounting Standard for Business Enterprises No. 14 — Revenue*.

(9) Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are presented separately in the balance sheet and are not offset. However, a financial asset and a financial liability are offset and the net amount presented in the balance sheet when both of the following conditions are satisfied: (1) the Group has a legal right to set off the recognised amounts and the legal right is currently enforceable; and (2) the Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

7. Financial assets held under resale agreements and financial assets sold under repurchase agreements

Securities, bills and loans sold under repurchase agreements continue to be recognised, and classified as the same category of financial assets before they were sold. Consideration received from the counter parties are recognised as 'Financial assets sold under repurchase agreements'. Securities and bills purchased under resale agreements are recognised as 'Financial assets held under resale agreements'. The difference between purchase and sale price is recognised as interest expense or interest income in profit or loss over the agreement period using the effective interest method.

8. Long-term equity investment

For a long-term equity investment acquired through a business combination involving enterprises under common control, the initial investment cost of the long-term equity investment is the acquirer's share of the carrying amount of the owners' equity of the party being acquired at the date of combination. For a long-term equity investment acquired through business combination not involving enterprises under common control, the initial investment cost of the long-term equity investment acquired is the cost of acquisition. The long-term equity investment acquired otherwise than through a business combination is initially measured at its cost.

V SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**8. Long-term equity investment (continued)**

Where the Group does not have joint control or significant influence over the investee, the investment is not quoted in an active market and its fair value cannot be reliably measured, a long-term equity investment is accounted for using the cost method. Where the Group can exercise joint control or significant influence over the investee, a long-term equity investment is accounted for using the equity method. Where the Group does not have control, joint control or significant influence over the investee and the fair value of the long-term equity investment can be reliably measured, the investment is accounted for as an available-for-sale financial asset.

A long-term equity investment where the Group can exercise control over the investee is accounted for using the cost method.

Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its operating activities. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A long-term equity investment accounted for using the cost method

Under the cost method, a long-term equity investment is measured at initial investment cost. Investment income recognised is limited to the amount distributed out of accumulated net profits of the investee arising after the investment was made. Any cash dividends or distributions received in excess of this amount is treated as a return of initial investment cost to reduce the carrying amount of the investment.

A long-term equity investment accounted for using the equity method

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the Group's interest in the fair values of the investee's identifiable net assets at the acquisition date, no adjustment is made to the initial investment cost. Where the initial investment cost is less than the Group's interest in the fair values of the investee's identifiable net assets at the acquisition date, the difference is charged to profit or loss for the current period, and the cost of the long-term equity investment is adjusted accordingly.

Under the equity method, investment income or loss represents the Group's share of the net profits or losses made by the investee for the current period. The Group recognises its share of the investee's net profits or losses based on the fair values of the investee's individual separately identifiable assets at the acquisition date, after making appropriate adjustments thereto in conformity with the accounting policies and accounting periods of the Group. Unrealised gains and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interests in the associates and joint ventures, except for the unrealised losses that included in impairment of the asset transferred in accordance with *Accounting Standard for Business Enterprise No. 8 — Impairment of Assets*. For any changes in owners' equity other than net profits or losses in the investee, the Group adjusts the carrying amount of the long-term equity investment and includes the corresponding adjustment in owners' equity.

V SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**8. Long-term equity investment** (continued)***A long-term equity investment accounted for using the equity method***
(continued)

The Group's share of net losses of the investee is recognised to the extent that the carrying amount of the long-term equity investment together with any long-term interests that in substance form part of the investor's net investment in the investee is reduced to zero. If the Group has to assume additional obligations, the estimated obligation assumed is provided for and charged to profit or loss as investment loss for the period. Where the investee records profits in subsequent periods, the Group resumes recognizing its share of profits after setting off profits against the unrecognised share of losses.

Disposal of a long-term equity investment

On disposal of a long-term equity investment, the difference between the proceeds actually received and the carrying amount is recognised in profit or loss for the current period. For a long-term equity investment accounted for using the equity method, any changes in the owners' equity of the investee (other than net profits or losses) included in the owners' equity of the Group, is transferred to profit or loss for the current period on a pro-rata basis according to the proportion disposed of.

9. Fixed assets

The Group's fixed assets are tangible assets that are held for use in the supply of services, for rental to others, or for administrative purposes and have useful lives more than one accounting year.

A fixed asset is initially measured at cost and the effect of any expected costs of disposing the asset at the end of its useful life is considered. Fixed assets revaluated during joint stock restructuring are measured at revalued cost approved by the MOF. Depreciation is provided so as to write off the cost of each category of fixed assets over their estimated useful lives from the month after they are brought to working condition for the intended use, using the straight-line method. The useful lives, estimated net residual values rates and annual depreciation rates of each class of fixed assets are as follows:

Classes	Useful lives	Estimated net residual value rates (%)	Annual depreciation rates (%)
Buildings	15–35 years	3	2.77%–6.47
Electronic equipment, furniture and fixtures	3–11 years	3	8.82%–32.33
Motor vehicles	5 years	3	19.40

Estimated net residual value of a fixed asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

Subsequent expenditure incurred on a fixed asset is included in the cost of the fixed asset, only if it is probable that economic benefits associated with the asset will flow to the Group and the relevant cost can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognised. Other subsequent expenditure that fails to meet the capitalisation criteria is charged to profit or loss when incurred. The Group capitalises fixed asset refurbishment expenditure if the capitalization criteria are met.

The Group reviews the useful life and estimated net residual value and the depreciation method applied at least at each financial year-end. A change in the useful life or estimated net residual value of a fixed asset or the depreciation method used is accounted for as a change in an accounting estimate.

V SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**9. Fixed assets** (continued)

When a fixed asset is sold, transferred, retired or damaged, the Group recognises the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes in profit or loss for the current period.

Construction in progress

Cost of construction in progress is determined as the expenditure actually incurred for the construction, comprising all expenditure incurred for construction projects and other related expenses. Construction in progress revaluated during joint stock restructuring are measured at revalued cost approved by the MOF. Construction in progress is reclassified as fixed assets when it has reached working condition for its intended use.

10. Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Group.

An intangible asset is initially measured at cost. Intangible assets revaluated during joint stock restructuring are measured at revalued cost approved by the MOF. The expenditure incurred on an intangible asset is recognised as cost of the intangible asset only if: 1) it is probable that economic benefits associated with the asset will flow to the Group; and 2) the cost of the asset can be measured reliably. Other expenditure on an intangible asset that fails to meet the recognition criteria is charged to profit or loss when incurred.

Land-use right acquired is normally recognised as an intangible asset. Self-constructed buildings (e.g. plant), related land-use right and the buildings are separately accounted for as an intangible asset and fixed asset. For buildings purchased, the purchase consideration is allocated among the buildings and land-use right on a reasonable basis. In case there is difficulty in making a reasonable allocation, the consideration is recognised in full as fixed assets.

An intangible asset with a finite useful life is amortised using the straight-line method over its useful life when the asset is available for use. An intangible asset with an indefinite life is not amortised.

For an intangible asset with a finite useful life, the Group reviews the useful life and amortization method at least at each financial year-end. A change in the useful life or the amortization method used is accounted for as a change in an accounting estimate. For an intangible asset with an indefinite useful life, the Group reassesses the useful life of the asset in each accounting period. If there is evidence indicating that the useful life of that intangible asset is finite, the Group estimated the useful life of that asset and applies the amortization policy applicable to an intangible asset with a finite useful life accordingly.

V SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

11. Foreclosed assets

Foreclosed assets are initially recognised at fair value and subsequently measured at lower of its carrying amount and net realisable value at each balance sheet date. When the carrying amount of a foreclosed asset is higher than its net realisable value, an impairment loss is recognised.

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

When a foreclosed asset is for use by the Group and transferred to other assets, it is measured at the carrying amount. Any impairment loss is transferred simultaneously.

12. Impairment of non-financial assets

The Group assesses at each balance sheet date whether there is any indication that long-term equity investments, fixed assets, construction in progress, intangible assets and other assets may be impaired. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the asset belongs. If the recoverable amount of an asset is less than its carrying amount, the difference is recognised as an impairment loss and charged to profit or loss for the current period.

The recoverable amount of an asset is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset. An asset's fair value is the price in a sale agreement in an arm's length transaction. If there is no sale agreement but an asset is traded in an active market, fair value is based on the best information available. Costs of disposal include legal costs related to the disposal of the asset, related taxes, costs of removing the asset and direct costs to bring the asset into condition for its sale.

Once an impairment loss on abovementioned assets is recognised, it is not reversed in a subsequent period.

13. Employee benefits

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

Social welfare

Expenditure related to payments for employees' social welfare system established by the Government, including pensions, medical insurance, housing funds and other social welfare contributions, is included in profit or loss for the period in which they are incurred.

V SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**13. Employee benefits** (continued)***Supplementary retirement benefits and early retirement benefits***

The Group pays supplementary retirement benefits to employees of Domestic Institution who retired on or before 31 December 2007, and pays early retirement benefits to employees of Domestic Institution who accept the early retirement arrangement.

Supplementary retirement benefits include supplementary pension and medical benefits. Early retirement benefits have been paid to those employees who voluntarily accept step down from job before the normal retirement date as approved by the management. The related benefits payments are made from the date of early retirement through the normal retirement date.

Obligations of supplementary retirement benefits and early retirement benefits are calculated by an independent actuary using the projected unit credit actuarial cost method at balance sheet date. The present value of the obligations is determined by discounting estimated future cash outflows using the yield on the PRC government bonds at the balance sheet date, the maturity dates of which approximate to the terms of the Group's obligations. Actuarial gains and losses arising from changes in actuarial assumptions and amendments to pension plans is included in profit or loss for the period in which they are incurred.

Termination benefits

When the Group terminates the employment relationship with employees before the end of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, if the Group has a formal plan for termination of employment relationship or has made an offer for voluntary redundancy which will be implemented immediately, and at the same time the Group cannot unilaterally withdraw from the termination plan or the redundancy offer, a provision is recognised for the compensation arising from termination of employment relationship with employees, with a corresponding charge to profit or loss for the current period.

14. Contingent liabilities

An obligation related to a contingency is recognised as a provision when all of the following conditions are satisfied: (1) the obligation is a present obligation of the Group; (2) it is probable that an outflow of economic benefits will be required to settle the obligation; and (3) the amount of the obligation can be measured reliably.

At the balance sheet date, a provision is measured at the best estimate of the expenditure required to settle the related present obligation, taking into account the factors pertaining to a contingency such as the risks, uncertainties and time value of money.

Where all or some of the expenditure required settling a provision is expected to be reimbursed by a third party, the reimbursement is recognised as a separate asset only when it is virtually certain that reimbursement will be received. The amount recognised for the reimbursement does not exceed the carrying amount of the provision.

V SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

15. Interest income and expense

Interest income and expense are recognised in profit or loss for interest-bearing financial instruments by using the effective interest method. For nominal interest rates that are very close to effective interest rates, those nominal interest rates can also be used in the calculation of interest income and expense.

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

16. Fee and commission income

Fees and commission income is recognised on an accrual basis when the service is provided.

17. Income taxes

Current income taxes

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods are measured at the amount expected to be paid (or recovered) according to the requirements of tax laws. Taxable profits, which are the basis for calculating the current tax expenses, are determined after adjusting the accounting profits before tax for the year in accordance with relevant requirements of tax laws.

Deferred tax

Temporary differences arising from the difference between the carrying amount of an asset or liability and its tax base, or the difference between the tax base and the carrying amount of those items that are not recognised as assets or liabilities but have a tax base that can be determined according to tax laws, are recognised as deferred tax assets and deferred tax liabilities using the balance sheet liability method.

Deferred tax liabilities are not recognised for taxable temporary differences related to (1) the initial recognition of goodwill; and (2) the initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) at the time of the transaction. In addition, for taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, if the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future, the Group does not recognise the corresponding deferred tax liability. Except for the temporary differences above, the Group recognises deferred tax liabilities for all other temporary differences.

Deferred tax assets are not recognised for deductible temporary differences related to the initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) at the time of the transaction. In addition, for deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, if it is not probable that the temporary difference will reverse in the foreseeable future and it is not probable that taxable profits will be available in the future, against which the temporary difference can be utilised, the Group does not recognise the corresponding deferred tax asset. Except for the deductible temporary differences above, the Group recognises deferred tax assets for all other deductible temporary differences to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised.

V SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**17. Income taxes** (continued)***Deferred tax*** (continued)

The Group recognises a deferred tax asset for the carry forward of unused deductible losses and tax credits to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilised.

At the balance sheet date, 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.

At the balance sheet date, the Group reviews the carrying amount of any deferred tax asset. If it is probable that sufficient taxable profits will not be available in future periods to allow the benefit of the deferred tax asset to be utilised, the carrying amount of the deferred tax asset is reduced. Any such reduction in amount is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Tax expense

Tax expense comprises current tax expense and deferred tax expense.

Current tax expense (current tax income) and deferred tax expense (deferred tax income) are included in profit or loss for the current period, except for: (1) current tax and deferred tax related to transactions or events that are directly recognised in owners' equity, which are recognised directly in owners' equity; (2) deferred tax arising from a business combination, which is adjusted against the carrying amount of goodwill.

Offset of tax assets and tax liabilities

Current tax assets and liabilities are offset when the Group has the legally enforceable right to set off current tax assets against current tax liabilities, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset when the Group has the legally enforceable right to set off deferred tax assets against deferred tax liabilities and when the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either: (i) the same taxable entity; or (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

V SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

18. Fiduciary activities

The Group's fiduciary activities mainly includes entrusted lending and fiduciary business. Entrusted lending is the business where the Group enters into entrusted loan agreements with customers (the "Consigner"), whereby the Consigner provides funding to the Group (the "Consignee"). The borrower, loan use, loan principal, lending rates, and repayment schedule is at the discretion of the Consigner and the Group lends, manages and collects loans on behalf of the Consigner. The Consigner assumes the risks, and the Group receives a commission related to its activities in connection with the entrusted loans. Fiduciary business is the business whereby the customers provide funding to the Group, the Group acts as the custodian or agent and invests on behalf of the customers. The Group receives a commission related to its activities, and does not take up any risks related to the assets that invested on behalf of the customers. Where the Group acts in a fiduciary capacity such as custodian or agent, assets arising thereon together with related undertakings to return such assets to customers are recorded as off-balance-sheet items. Custodial funds and entrusted investments are offset and disclosed as net amount at balance sheet date.

19. Leases

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

Recording of operating leases by the Group as lessee

Lease payments under an operating lease are recognised on a straight-line basis over the lease term. Initial direct costs are charged to the income statement for the current period. Contingent rents are charged to profit or loss in the period in which they are actually incurred.

Recording of operating leases by the Group as lessor

Lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term. Significant initial direct costs are capitalised when incurred and charged to profit or loss for the corresponding period according to the same basis for rental income recognition. Other insignificant initial direct costs are charged to profit or loss for the period in which they are incurred. Contingent rents are credited to profit or loss in the period in which they actually arise.

Recording of finance leases by the Group as lessor

At the commencement of the lease term, the Group records the aggregate amount of the minimum lease payments at the inception of the lease and the initial direct costs as a finance lease receivable, and records the unguaranteed residual value at the same time. The difference between the aggregate amount of the minimum lease payments, the initial direct costs and the unguaranteed residual value, and the aggregate amount of their present values is recognised as unearned finance income.

Unearned finance income is allocated to each period during the lease term; finance income for the current period is recognised using the effective interest method. Contingent rents are charged to profit or loss in the period in which they actually arise.

V SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**20. Preparation of consolidated financial statements**

The scope of consolidated financial statements is determined on the basis of control. Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its operating activities.

The dates on which the Group obtains or loses control of its subsidiaries are considered as the acquisition date and the date of disposal. For a subsidiary already disposed of, its operating results and cash flows before the date of disposal are appropriately included in the consolidated income statement and the consolidated cash flow statement; for a subsidiary disposed of during the current period, no adjustments are made to the opening balance of the consolidated balance sheet. Where a subsidiary has been acquired through a business combination not involving enterprises under common control, the subsidiary's operating results and cash flows after the acquisition date are appropriately included in the consolidated income statement and the consolidated cash flow statement, and no adjustments are made to the opening balance and comparative figures of the consolidated financial statements.

The accounting policies or accounting periods of the subsidiaries are different from those of the Bank, when preparing the consolidated financial statements, the Bank has made necessary adjustments to the financial statements of the subsidiaries based on its own accounting policies and accounting periods.

All significant intergroup accounts and transactions between the Bank and its subsidiaries or between subsidiaries are eliminated on consolidation.

The portion of a subsidiary's owners' equity that is not attributable to the parent is treated as minority interests and presented as "minority interests" in the consolidated balance sheet within owners' equity. The portion of net profits or losses of subsidiaries for the period attributable to minority interests is presented in the consolidated income statement below the "net profit" line item as "minority interests". When the amount of loss attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary, when the minority shareholders have a binding obligation under a statute or an agreement and are able to make an additional investment to cover the loss, the excess amount is allocated against minority interests; otherwise the excess amount is allocated against owners' equity attributable to the parent. If the subsidiary subsequently reports profits, such profits is allocated to owners' equity attributable to the parent until the minority shareholders' share of losses previously absorbed by the parent have been recovered.

21. Translation of financial statements denominated in foreign currencies

The financial statements of a foreign operation are translated into RMB using the following methods: all asset and liability items on the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date; Owners' equity items except for retained earnings are translated at the spot exchange rates at the dates on which such items arose; all items in the income statement as well as items reflecting the amount of profit distribution are translated at the spot exchange rates at the dates of the transactions; the opening balance of retained earnings is the closing balance of retained earnings for the prior year being translated into RMB; the closing balance of retain earnings is calculated and presented based on the translated amounts of various items related to profit distribution; differences between the aggregate of asset and liability items and owners' equity items are presented separately as "currency translation differences" under owners' equity items in the balance sheet.

When a foreign operation is disposed of, the currency translation differences of that foreign operation presented under owners' equity in the balance sheet is transferred, either in full or partly according to the portion disposed of, to the income statement in the period in which the disposal occurs.

V SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

21. Translation of financial statements denominated in foreign currencies (continued)

Cash flows arising from transactions in a foreign currency and the cash flows of a foreign subsidiary are translated at the spot exchange rate or an exchange rate that approximates the spot exchange rate at the date of the cash flows. The effect of exchange rate changes on cash and cash equivalents is regarded as a reconciling item and presented separately as “effect of foreign exchange rate changes on cash and cash equivalents” in the cash flow statement.

The opening balance and the actual balance of the prior year are presented based on the translated amounts in the prior year’s financial statements.

22. Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, they are regarded as related parties. Two or more parties are also regarded as related parties if they are subject to control, joint control or significant influence from the same party.

VI BASIS OF DETERMINING SIGNIFICANT ACCOUNTING POLICIES AND KEY ASSUMPTIONS AND UNCERTAINTIES IN ACCOUNTING ESTIMATES

In the application of the Group’s accounting policies, which are described in Note V, the Group is required to make judgments, estimates and assumptions about the carrying amounts of items in the financial statements that cannot be measured accurately, due to the internal uncertainty of the operating activities. These judgments, estimates and assumptions are based on historical experiences of the Group’s management as well as other factors that are considered to be relevant. Actual results may differ from these estimates.

The aforementioned judgments, estimates and assumptions are reviewed regularly on a going concern basis. The effect of a change in accounting estimate is recognised in the period of the change, if the change affects that period only; or recognised in the period of the change and future periods, if the change affects both.

At balance sheet date, areas susceptible to changes in essential estimates and judgments, which affect the carrying amounts of assets and liabilities, are set out below:

1. Impairment allowances on loans and advances

The Group reviews its loan portfolio to assess impairment on a periodic basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and advances before the decrease can be identified with an individual loan in that portfolio. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

VI BASIS OF DETERMINING SIGNIFICANT ACCOUNTING POLICIES AND KEY ASSUMPTIONS AND UNCERTAINTIES IN ACCOUNTING ESTIMATES (continued)

2. Fair value of financial instruments

The Group uses the valuation technique for financial instruments which are not quoted in an active market. Valuation techniques include the use of discounted cash flows analysis. To the extent practical, models use only observable data, however areas such as credit risk both own and counterparty's, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

3. Held-to-maturity investments

The Group classifies non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the positive intention and ability to hold to maturity as held-to-maturity investments. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to hold these investments to maturity other than for specific circumstances (such as selling an insignificant amount close to maturity), it will be required to reclassify the entire portfolio of assets as available-for-sale.

4. Impairment of held-to-maturity investments

The determination of whether a held-to-maturity financial asset is impaired requires significant judgement. Objective evidence that a financial asset or group of assets is impaired includes a breach of contract, such as a default or delinquency in interest or principal payments or the disappearance of an active market for that financial asset because of significant financial difficulty of the issuer, etc. In making this judgement, the impact of objective evidence for impairment on expected future cash flow of the investment is taken into account.

5. Impairment of AFS financial assets

The determination of whether an AFS financial asset is impaired requires significant judgement. In making this judgement, the Group evaluates, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, credit ratings, delinquency rates and counterparty risk.

6. Income taxes

There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. In particular, the deductibility of certain items are subject to government approval. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period during which such a determination is made.

VI BASIS OF DETERMINING SIGNIFICANT ACCOUNTING POLICIES AND KEY ASSUMPTIONS AND UNCERTAINTIES IN ACCOUNTING ESTIMATES (continued)

7. Supplementary retirement benefits and early retirement benefits

The Group recognises liabilities in connection with supplementary retirement benefits and early retirement benefits of employees in Domestic Institution. Employee benefit expense and liabilities are calculated based on assumptions. Assumptions include discount rate, inflation rates of medical expense and early retirement subsidy, and other factors. Actual results that differ from the assumptions are recognised in profit and loss for the current period. While management believes that assumptions are appropriate, differences in actual results or changes in assumptions may affect the expense and liabilities related to supplementary retirement benefits and early retirement benefits.

8. Contingent liabilities

Contingent liabilities are measured at the Group's best estimate of the expenditure required to settle the obligation at the balance sheet date which requires significant judgement. When making the judgement, the Group evaluates risks and uncertainty attached to the event and time value.

VII CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS OF PRIOR PERIOD ERRORS

1. Changes in accounting policies accounted for retrospectively

The Group adopted new CASs for the first time on 1 January 2008, and has recognised, measured and reported its transactions or events in accordance with new CASs since that date. For changes in accounting policies due to the first-time adoption of new CASs, the Group has made retrospective adjustments to the financial statements of the comparative year.

Financial assets

Before the adoption of new CASs, the Group classified its debt securities investments according to maturity of the debt securities. Short-term debt securities were recognised at the initial investment cost on acquisition, any interest received during the period of being held were deducted from the cost of investment. Such short-term investments were measured at the lower of the cost or market value at the end of the period. Long-term debt securities were recognised at the initial investment cost, and measured at the lower of carrying amount or net realizable value at the balance sheet date.

After the adoption of new CASs, the Group classifies the aforementioned debt securities investments into four categories: financial assets at FVTPL, held-to-maturity investments, loans and receivables and AFS financial assets. Details regarding the accounting policies for these financial assets are set out in Note V.6(2) "Recognition and measurement of financial assets".

VII CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS OF PRIOR PERIOD ERRORS

(continued)

1. Changes in accounting policies accounted for retrospectively (continued)

Financial liabilities held for trading

Before the adoption of new CASs, structure deposits are measured at cost.

After the adoption of new CASs, the Group classifies the aforementioned financial liabilities as financial liabilities designated as at FVTPL. Details regarding the accounting policies for financial liabilities designated as at FVTPL are set out in Note V.6(7) "Financial liabilities".

Derivative instruments

Before the adoption of new CASs, derivative instruments were not recognised in the balance sheet until settlement, and were recorded in profit or loss for the period upon settlement.

After the adoption of new CASs, details regarding the accounting policies for derivative instruments are set out in Note V.6(5) "Derivative instruments".

Impairment of assets

Before the adoption of new CASs, for loans and advances granted before 1 January 2005, the Bank accrued an impairment provision for its credit and non-credit risk bearing assets in accordance with *Measures for Administration of the Accrual of Bad Debt Provision and Write-off of Bad Debts (Caijin [2001] No. 127)*. Impairment provision charged for the period is 1% of the difference between the opening and closing balance of risk bearing assets of the period. For the risk bearing assets generated by new credit granted or new client relations formed after 1 January 2005, in accordance with *Measures on General Provision for Bad and Doubtful Debts for Financial Institutions (Caijin [2005] No. 49)*, the Bank accrued the specific loan impairment provision based on the five-grade loan classification by referring to the following percentages: special mention 2%; substandard 25%; doubtful 50%; and loss 100%.

After the adoption of new CASs, details regarding the accounting policies for impairment of financial assets are set out in Note V.6(3) "Impairment of financial assets"; details regarding the accounting policies for impairment of non-financial assets are set out in Note V.12 "Impairment of non-financial assets".

Employee benefits

Before the adoption of new CASs, supplementary retirement benefits, early retirement benefits and termination benefits were recognised in profit and loss for the period in which actual payment was made.

After the adoption of new CASs, details regarding the accounting policies for supplementary retirement benefits, early retirement benefits and termination benefits are set out in Note V.13 "Employee benefits".

VII CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS OF PRIOR PERIOD ERRORS

(continued)

1. Changes in accounting policies accounted for retrospectively (continued)**Income taxes**

Before the adoption of new CASs, income taxes were accounted for using tax payable method.

After the adoption of new CASs, income taxes are accounted for using the balance sheet liability method. Details regarding the accounting policies for income taxes are set out in Note V.17 "Income taxes".

Consolidated financial statements

Before the adoption of new CASs, the Bank did not consolidate subsidiaries such as Agricultural Finance Co., Ltd based on materiality.

After the adoption of new CASs, the Bank determines the scope of consolidated financial statements in accordance with the method stated in Note V.20. Due to changes in the scope of consolidation, the subsidiaries previously excluded from consolidated financial statements are included in consolidation.

2. Corrections of prior period errors

For accounting errors identified in the prior period financial statements, the Bank has made retrospective adjustments to the comparative figures for the prior year in the financial statements. The opening balance of assets, liabilities, owners' equity and net profit for prior year are affected.

The effects of the above changes in accounting policies and corrections of prior period errors on assets, liabilities and owners' equity as at 1 January 2007 and 31 December 2007 are summarized below:

Group	As at 1 January 2007			As at 31 December 2007		
	Amount before adjustments RMB million	Adjustments RMB million	Amount after adjustments RMB million	Amount before adjustments RMB million	Adjustments RMB million	Amount after adjustments RMB million
Total assets	5,363,628	(771,504)	4,592,124	6,050,127	(744,621)	5,305,506
Total liabilities	5,279,986	74,557	5,354,543	5,961,499	71,612	6,033,111
Owners' equity						
Paid-in capital	121,944	—	121,944	121,612	—	121,612
Capital reserve	3,092	931	4,023	3,088	(7,754)	(4,666)
General reserve	51	—	51	57	—	57
Retained earnings	(41,448)	(846,953)	(888,401)	(36,126)	(808,494)	(844,620)
Currency translation differences	3	(39)	(36)	(3)	15	12
Total owners' equity	83,642	(846,061)	(762,419)	88,628	(816,233)	(727,605)

VII CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS OF PRIOR PERIOD ERRORS

(continued)

2. Corrections of prior period errors (continued)**Bank**

	As at 1 January 2007			As at 31 December 2007		
	Amount before adjustments RMB million	Adjustments RMB million	Amount after adjustments RMB million	Amount before adjustments RMB million	Adjustments RMB million	Amount after adjustments RMB million
Total assets	5,363,628	(772,811)	4,590,817	6,050,127	(746,647)	5,303,480
Total liabilities	5,279,986	74,273	5,354,259	5,961,499	71,067	6,032,566
Owners' equity						
Share capital	121,944	—	121,944	121,612	—	121,612
Capital reserve	3,092	931	4,023	3,088	(7,754)	(4,666)
General reserve	51	—	51	57	—	57
Retained earnings	(41,448)	(848,015)	(889,463)	(36,126)	(809,960)	(846,086)
Currency translation differences	3	—	3	(3)	—	(3)
Total owners' equity	83,642	(847,084)	(763,442)	88,628	(817,714)	(729,086)

The effects of the above changes in accounting policies on the net profit for the year 2007 are summarised below:

	Group			Bank		
	Amount before adjustments RMB million	Adjustments RMB million	Amount after adjustments RMB million	Amount before adjustments RMB million	Adjustments RMB million	Amount after adjustments RMB million
Net profit	11,872	31,915	43,787	11,827	31,556	43,383

Notes to the Financial Statements

For the year ended 31 December 2008

VIII TAXES

1. Income taxes

Pursuant to the *Law of the People's Republic of China on Enterprise Income Tax*, from 1 January 2008, the applicable income tax rate of the Bank's domestic branches is 25%. Before 1 January 2008, the applicable income tax rate of the Bank's domestic branch is 33% according to the *Provisional Regulations of the People's Republic of China On Enterprises Income Tax*.

The Bank's overseas branches are subject to income taxation in accordance with the local tax regulations and income tax rates. Differences in income tax rates between overseas and domestic branches are collectively paid by the Bank's head office. Before the issuance of detailed rules of the *Law of the People's Republic of China on Enterprise Income Tax*, the overseas income of the Bank is deductible at a fixed rate of 16.5% pursuant to the *MOF and SAT Notice on Provisional Regulation for the Income Tax of Overseas Income (Revised) (CaiShui [1997] No. 116)*.

The deductibility of certain items from profit before tax is subject to relevant tax regulations.

2. Business tax

Business tax is levied at 5% on taxable income. The Bank's domestic branches file business tax return with local tax authorities.

3. City Construction tax

The Bank's domestic branches is levied at city construction tax, the applicable tax rate is 1%–7% of business tax.

4. Education surcharges

The Bank's domestic operations is levied at education surcharges, the applied tax rate is 3%–5% of business tax.

IX SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

The general information of the Bank's major subsidiaries as at 31 December 2008 is as follows:

Name	Place of incorporation	Proportion of Ownership interest held by the Bank or subsidiary (%)	Principal activities	Paid-in capital	Proportion of voting power held by the Bank or subsidiary (%)
Agricultural Finance Co., Ltd	Hong Kong	100.00	Investment	HKD588,789,999	100.00
ABC-CA Fund Management Co., Ltd	Shanghai	51.67	Fund management	RMB200,000,001	51.67
Hexigten Rural Bank	Inner Mongolia	51.02	Bank	RMB19,600,000	51.02
Hubei Hanchuan Rural Bank	(1) Hu Bei	50.00	Bank	RMB20,000,000	50.00

(1) The Bank owns no more than 50% of Hubei Hanchuan Rural Bank's direct voting rights, however as the Bank appoints two of the three directors in investee's board of directors, it has control over the investee in practice. Therefore, Hubei Hanchuan Rural Bank is within the scope of consolidation.

X NOTES TO THE FINANCIAL STATEMENTS**1. Cash and deposits with central banks**

		Group		Bank	
		As at 31 December		As at 31 December	
		2008	2007	2008	2007
		RMB million	RMB million	RMB million	RMB million
Cash		44,168	43,499	44,010	43,406
Statutory deposit reserve with central banks	(1)	936,813	761,639	936,813	761,639
Surplus deposit reserve with central banks	(2)	120,131	90,677	120,131	90,677
Other deposits with central banks	(3)	44,772	41,199	44,772	41,199
Total		1,145,884	937,014	1,145,726	936,921

- (1) The Group is required to place statutory deposit reserves on its general deposits with the PBC and central banks of overseas countries or regions where it has operations, which include RMB deposit reserve and foreign currency deposit reserve. The statutory deposit reserves are not available for the Group's daily operations. General deposits comprise the government and organizational deposits, out of fiscal budget deposits from government agency, individual savings deposits, corporate deposits, net entrusted funds and other deposits.

As at 31 December 2008, statutory deposit reserves placed with the PBC were calculated at 15.5% (31 December 2007: 15%) and 5% (31 December 2007: 5%) of eligible RMB deposits and foreign currency deposits from customers of Domestic Institution respectively. The amount of statutory deposit reserves placed by Overseas Institution is determined by local jurisdiction. The foreign currency deposits reserve placed with the PBC are non-interest bearing.

- (2) The surplus deposit reserve is maintained with the PBC mainly for the purposes of clearing.
- (3) Other deposits with central banks mainly represent fiscal deposits with the PBC by the Group, which include budgetary revenue of central government collected by the Group and local treasury deposits. The fiscal deposits with the PBC of Domestic Institution are non-interest bearing.

X NOTES TO THE FINANCIAL STATEMENTS (continued)**2. Deposits with banks and other financial institutions**

	Group		Bank	
	As at 31 December		As at 31 December	
	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million
Deposits with:				
Domestic banks	42,537	11,086	42,461	11,086
Other domestic financial institutions	137	412	137	412
Overseas banks	18,736	4,934	17,997	4,600
Other overseas financial institutions	1,261	—	1,261	—
Subtotal	62,671	16,432	61,856	16,098
Less: Allowances for impairment losses	(3)	—	(3)	—
Carrying value	62,668	16,432	61,853	16,098

As at 31 December 2008, the deposits with restriction to use amounting to RMB5,848 million, mainly including pledged deposits of derivative instrument due from overseas banks (31 December 2007: none).

3. Placements with banks and other financial institutions

	Group		Bank	
	As at 31 December		As at 31 December	
	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million
Placements with:				
Domestic banks	18,777	17,394	18,777	17,394
Other domestic financial institutions	2,700	400	2,700	400
Overseas banks	23,014	34,712	23,014	34,712
Other overseas financial institutions	—	—	221	—
Subtotal	44,491	52,506	44,712	52,506
Less: Allowances for impairment losses	(12)	(8)	(12)	(8)
Carrying value	44,479	52,498	44,700	52,498

X NOTES TO THE FINANCIAL STATEMENTS (continued)**4. Financial assets held for trading**

	Group		Bank	
	As at 31 December		As at 31 December	
	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million
Financial assets held for trading				
Government bonds	11,531	2,886	11,531	2,886
Public sector and quasi- government bonds	5,428	2,036	5,428	2,036
Financial institution debentures	511	713	511	713
Corporate bonds	2,218	2,705	2,218	2,705
Subtotal	19,688	8,340	19,688	8,340
Financial assets designated as at fair value through profit or loss				
— Designated debt securities				
Government bonds	265	607	265	607
— Public sector and quasi- government bonds	105	114	105	114
— Financial institution debentures	3,538	5,095	3,473	5,095
— Corporate bonds	162	180	162	180
Financial guarantee contracts	46	9	46	9
Others wealth management products	16,213	2,860	16,213	2,860
Subtotal	20,329	8,865	20,264	8,865
Total	40,017	17,205	39,952	17,205

Notes to the Financial Statements

For the year ended 31 December 2008

X NOTES TO THE FINANCIAL STATEMENTS (continued)

5. Derivative financial assets

Group and Bank

	As at 31 December 2008			As at 31 December 2007		
	Contractual/ notional amount RMB million	Fair value		Contractual/ notional amount RMB million	Fair value	
		Assets RMB million	Liabilities RMB million		Assets RMB million	Liabilities RMB million
Currency derivatives						
Currency forwards	103,294	2,565	(2,872)	140,835	2,013	(3,696)
Currency swaps	98,730	777	(1,448)	95,212	1,768	(913)
Cross-currency interest rate swaps	13,429	1,384	(2,482)	64,668	5,207	(1,160)
Currency options	6	1	(1)	292	1	(1)
Subtotal		4,727	(6,803)		8,989	(5,770)
Interest rate derivatives						
Interest rate swaps	104,456	2,386	(4,599)	140,062	1,218	(1,422)
Other interest rate contracts	1,094	38	(132)	730	—	(102)
Subtotal		2,424	(4,731)		1,218	(1,524)
Total derivatives assets/(liabilities)		7,151	(11,534)		10,207	(7,294)

6. Financial assets held under resale agreements

Group and Bank

	As at 31 December	
	2008 RMB million	2007 RMB million
Bonds	210,477	104,029
Bills	32,700	37,689
Loans	3,193	3,130
Total	246,370	144,848

X NOTES TO THE FINANCIAL STATEMENTS (continued)**7. Interest receivable****Group and Bank**

	As at 31 December	
	2008 RMB million	2007 RMB million
Held-to-maturity investments	10,494	7,219
Loans and advances to customers	7,411	8,401
Available-for-sale financial assets	6,832	4,725
Debt securities classified as receivables	3,490	1,843
Financial assets held for trading	274	129
Other interest receivable	1,449	1,466
Total	29,950	23,783

As at 31 December 2008, all interest receivable is aged within 1 year. As at 31 December 2007, the interest receivables aged over 1 year of RMB612 million were received in 2008.

8. Loans and advances to customers

(1) Analysis of loans and advances to customers by category:

	Group		Bank	
	As at 31 December		As at 31 December	
	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million
Corporate loans and advances				
— Loans and advances	2,377,556	2,777,346	2,377,556	2,777,346
— Discounted bills	258,098	205,631	258,098	205,631
Subtotal	2,635,654	2,982,977	2,635,654	2,982,977
Personal loans				
— Mortgages	319,505	298,858	319,505	298,858
— Credit card	7,901	4,417	7,901	4,417
— Others	137,099	187,922	137,066	187,922
Subtotal	464,505	491,197	464,472	491,197
Gross loans and advances to customers	3,100,159	3,474,174	3,100,126	3,474,174
Less: Allowances for impairment losses	(85,175)	(764,982)	(85,175)	(764,982)
— Individually assessed	(43,141)	(668,130)	(43,141)	(668,130)
— Collectively assessed	(42,034)	(96,852)	(42,034)	(96,852)
Loans and advances to customers, net	3,014,984	2,709,192	3,014,951	2,709,192

Notes to the Financial Statements

For the year ended 31 December 2008

X NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Loans and advances to customers (continued)

(2) Allowances for impairment losses on loans and advances to customers

Group and Bank

	2008			2007		
	Individually assessed allowances RMB million	Collectively assessed allowances RMB million	Total RMB million	Individually assessed allowances RMB million	Collectively assessed allowances RMB million	Total RMB million
As at 1 January	668,130	96,852	764,982	662,318	92,358	754,676
New allowances	32,783	7,075	39,858	15,941	5,174	21,115
Written off	(29)	—	(29)	(3,327)	(137)	(3,464)
Releases						
1. Recovery of loans and advances written off in previous years	13	9	22	7	14	21
2. Unwind of discount on allowances	(1,901)	(159)	(2,060)	(5,403)	(554)	(5,957)
3. Transfer out on disposal of non-performing loans and advances	(655,825)	(61,706)	(717,531)	—	—	—
4. Transfer out to foreclosed assets	(4)	(3)	(7)	(274)	—	(274)
5. Exchange difference	(26)	(34)	(60)	(1,132)	(3)	(1,135)
As at 31 December	43,141	42,034	85,175	668,130	96,852	764,982

9. Available-for-sale financial assets

Group and Bank

	As at 31 December	
	2008 RMB million	2007 RMB million
Available-for-sale debt securities		
Government bonds	588,386	354,270
Public sector and quasi-government bonds	155,153	116,386
Financial institution debentures	30,054	43,545
Corporate bonds	26,054	13,885
Subtotal	799,647	528,086
Equity instruments	366	1,117
Total	800,013	529,203

X NOTES TO THE FINANCIAL STATEMENTS (continued)**10. Held-to-maturity investments****Group and Bank**

	As at 31 December	
	2008 RMB million	2007 RMB million
Held-to-maturity debt securities		
Government bonds	330,239	287,953
Public sector and quasi-government bonds	228,740	231,644
Financial institution debentures	12,302	11,351
Corporate bonds	5,231	2,232
Subtotal	576,512	533,180
Less: Allowances for impairment losses	(189)	(364)
Carrying value	576,323	532,816

11. Debt securities classified as receivables**Group and Bank**

	Note	As at 31 December	
		2008 RMB million	2007 RMB million
Receivable due from the MOF	II.1	665,093	—
Special government bond	(1)	93,300	93,300
Government bond in certificates		26,849	29,979
PBC — non-negotiable bills	(2)	99,992	99,988
PBC — special bills		112	112
Financial institution debentures		7,180	5,606
Corporate bonds		91	907
Subtotal		892,617	229,892
Less: Allowances for impairment losses		(85)	(149)
Carrying value		892,532	229,743

- (1) On 18 August 1998, the MOF issued a non-negotiable special government bond to the Bank with a par value of RMB93,300 million. The bond matures on 18 August 2028 and bears an original interest rate of 7.2% per annum from the date of the issuance to 30 November 2008. Pursuant to the relevant regulations, interest income of the bond is paid to the Treasury and the Bank recorded the net effect in the income statement. Pursuant to the MOF Notice on Interest Payment of Special Government Bond Issued in 1998 to Agricultural Bank of China (Caijin [2009] No. 9), The interest rate of the bond was revised to a fixed interest rate of 2.25% per annum with effect from 1 December 2008, the interest receivable on the bond is settled by the MOF, and the interest income is not required to be paid to the Treasury.

X NOTES TO THE FINANCIAL STATEMENTS (continued)**11. Debt securities classified as receivables** (continued)(2) *The Bank held the following non-negotiable PBC bills:*

Issue date	Tenor	Interest rate (%)	Notional value RMB million	As at 31 December	
				2008 Carrying value RMB million	2007 Carrying value RMB million
9 March 2007	3 years	3.07	21,000	20,999	20,999
11 May 2007	3 years	3.22	25,000	24,998	24,997
13 July 2007	3 years	3.60	19,000	18,998	18,997
17 August 2007	3 years	3.69	12,000	11,999	11,998
7 September 2007	3 years	3.71	23,000	22,998	22,997
			100,000	99,992	99,988

*Without approval of the PBC, these PBC bills are non-transferable and may not be used as collateral for borrowings.***12. Long-term equity investments**

	Group		Bank	
	As at 31 December		As at 31 December	
	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million
Subsidiaries	—	—	1,091	838
Associates	171	223	171	223
Other equity investments	215	399	215	399
Subtotal	386	622	1,477	1,460
Less: Allowance for impairment losses	(39)	(259)	(698)	(910)
Carrying value	347	363	779	550

X NOTES TO THE FINANCIAL STATEMENTS (continued)**13. Fixed assets****Group**

	Buildings RMB million	Electronic equipment furniture and fixtures RMB million	Motor vehicles RMB million	Construction in progress RMB million	Total RMB million
Cost					
As at 1 January 2008	78,161	25,330	6,127	6,226	115,844
Surplus/(deficit) on valuation	25,080	(472)	902	94	25,604
Elimination of accumulated depreciation and impairment losses on valuation	(22,059)	(12,842)	(4,111)	(382)	(39,394)
Additions	2,046	4,957	466	6,133	13,602
Transfer in/(out) from construction in progress	3,346	578	17	(3,941)	—
Other transfer in	172	—	—	—	172
Disposals	(1,572)	(221)	(57)	(182)	(2,032)
As at 31 December 2008	85,174	17,330	3,344	7,948	113,796
Accumulated depreciation					
As at 1 January 2008	(21,501)	(12,823)	(4,104)	—	(38,428)
Elimination of accumulated depreciation on valuation	21,501	12,823	4,104	—	38,428
Additions	(4,286)	(4,117)	(1,418)	—	(9,821)
Disposals	92	169	49	—	310
As at 31 December 2008	(4,194)	(3,948)	(1,369)	—	(9,511)
Allowances for impairment losses					
As at 1 January 2008	(558)	(19)	(7)	(382)	(966)
Elimination of impairment losses on valuation	558	19	7	382	966
Additions	(318)	(13)	(3)	(68)	(402)
Disposals	—	—	—	—	—
As at 31 December 2008	(318)	(13)	(3)	(68)	(402)
Net carrying value					
As at 1 January 2008	56,102	12,488	2,016	5,844	76,450
As at 31 December 2008	80,662	13,369	1,972	7,880	103,883

Notes to the Financial Statements

For the year ended 31 December 2008

X NOTES TO THE FINANCIAL STATEMENTS (continued)

13. Fixed assets (continued)

Group (continued)

	Buildings RMB million	Electronic equipment furniture and fixtures RMB million	Motor vehicles RMB million	Construction in progress RMB million	Total RMB million
Cost					
As at 1 January 2007	76,343	23,862	6,129	8,294	114,628
Additions	1,493	5,257	615	4,018	11,383
Transfer in/(out) from construction in progress	5,696	286	30	(6,012)	—
Other transfer in	254	—	—	—	254
Disposals	(5,625)	(4,075)	(647)	(74)	(10,421)
As at 31 December 2007	78,161	25,330	6,127	6,226	115,844
Accumulated depreciation					
As at 1 January 2007	(20,646)	(12,854)	(4,209)	—	(37,709)
Additions	(3,076)	(3,294)	(515)	—	(6,885)
Disposals	2,221	3,325	620	—	6,166
As at 31 December 2007	(21,501)	(12,823)	(4,104)	—	(38,428)
Allowances for impairment losses					
As at 1 January 2007	(946)	(191)	(18)	(382)	(1,537)
Additions	(25)	—	—	—	(25)
Disposals	413	172	11	—	596
As at 31 December 2007	(558)	(19)	(7)	(382)	(966)
Net carrying value					
As at 1 January 2007	54,751	10,817	1,902	7,912	75,382
As at 31 December 2007	56,102	12,488	2,016	5,844	76,450

X NOTES TO THE FINANCIAL STATEMENTS (continued)**13. Fixed assets** (continued)**Bank**

	Buildings RMB million	Electronic equipment furniture and fixtures RMB million	Motor vehicles RMB million	Construction in progress RMB million	Total RMB million
Cost					
As at 1 January 2008	78,019	25,254	6,120	6,226	115,619
Surplus/(deficit) on valuation	25,040	(477)	902	94	25,559
Elimination of accumulated depreciation and impairment losses on valuation	(22,010)	(12,810)	(4,106)	(382)	(39,308)
Additions	2,046	4,941	457	6,133	13,577
Transfer in/(out) from construction in progress	3,346	578	17	(3,941)	—
Other transfer in	172	—	—	—	172
Disposals	(1,571)	(193)	(57)	(182)	(2,003)
As at 31 December 2008	85,042	17,293	3,333	7,948	113,616
Accumulated depreciation					
As at 1 January 2008	(21,452)	(12,791)	(4,099)	—	(38,342)
Elimination of accumulated Depreciation on valuation	21,452	12,791	4,099	—	38,342
Additions	(4,281)	(4,110)	(1,412)	—	(9,803)
Disposals	92	164	48	—	304
As at 31 December 2008	(4,189)	(3,946)	(1,364)	—	(9,499)
Allowances for impairment losses					
As at 1 January 2008	(558)	(19)	(7)	(382)	(966)
Elimination of impairment losses on valuation	558	19	7	382	966
Additions	(318)	(13)	(3)	(68)	(402)
Disposals	—	—	—	—	—
As at 31 December 2008	(318)	(13)	(3)	(68)	(402)
Net carrying value					
As at 1 January 2008	56,009	12,444	2,014	5,844	76,311
As at 31 December 2008	80,535	13,334	1,966	7,880	103,715

Notes to the Financial Statements

For the year ended 31 December 2008

X NOTES TO THE FINANCIAL STATEMENTS (continued)

13. Fixed assets (continued)

Bank (continued)

	Buildings RMB million	Electronic equipment furniture and fixtures RMB million	Motor vehicles RMB million	Construction in progress RMB million	Total RMB million
Cost					
As at 1 January 2007	76,203	23,781	6,122	8,294	114,400
Additions	1,489	5,253	615	4,018	11,375
Transfer in/(out) from construction in progress	5,696	286	30	(6,012)	—
Other transfer in	254	—	—	—	254
Disposals	(5,623)	(4,066)	(647)	(74)	(10,410)
As at 31 December 2007	78,019	25,254	6,120	6,226	115,619
Accumulated depreciation					
As at 1 January 2007	(20,600)	(12,820)	(4,204)	—	(37,624)
Additions	(3,071)	(3,290)	(515)	—	(6,876)
Disposals	2,219	3,319	620	—	6,158
As at 31 December 2007	(21,452)	(12,791)	(4,099)	—	(38,342)
Allowances for impairment losses					
As at 1 January 2007	(946)	(191)	(18)	(382)	(1,537)
Additions	(25)	—	—	—	(25)
Disposals	413	172	11	—	596
As at 31 December 2007	(558)	(19)	(7)	(382)	(966)
Net carrying amount					
As at 1 January 2007	54,657	10,770	1,900	7,912	75,239
As at 31 December 2007	56,009	12,444	2,014	5,844	76,311

According to the relevant laws and regulations, after the establishment of a joint stock company, the Bank is required to register the title of its fixed assets under the name of Agricultural Bank of China Limited. As at the date of the financial statements, the registration has not been completed. Management anticipates that the registration process does not affect the rights of Agricultural Bank of China Limited as the legal successor to those assets of Agricultural Bank of China.

X NOTES TO THE FINANCIAL STATEMENTS (continued)**14. Intangible assets****Group**

	Computer Software RMB million	Land use rights RMB million	Proprietary technologies and patents RMB million	Total RMB million
Cost				
As at 1 January 2008	2,490	1,116	66	3,672
Surplus/(deficit) on valuation	1	25,371	(3)	25,369
Elimination of accumulated depreciation on valuation	(1,190)	(328)	(39)	(1,557)
Additions	581	209	45	835
Disposals	(8)	(96)	—	(104)
As at 31 December 2008	1,874	26,272	69	28,215
Accumulated depreciation				
As at 1 January 2008	(1,190)	(328)	(39)	(1,557)
Elimination of accumulated Depreciation on valuation	1,190	328	39	1,557
Additions	(422)	(736)	(12)	(1,170)
Disposals	5	3	—	8
As at 31 December 2008	(417)	(733)	(12)	(1,162)
Allowances for impairment losses				
As at 1 January 2008	—	—	—	—
Additions	(28)	(25)	—	(53)
Written off	—	—	—	—
As at 31 December 2008	(28)	(25)	—	(53)
Net carrying value				
As at 1 January 2008	1,300	788	27	2,115
As at 31 December 2008	1,429	25,514	57	27,000
Residual amortisation period (years)	1–10	1–50	1–10	

X NOTES TO THE FINANCIAL STATEMENTS (continued)**14. Intangible assets** (continued)**Group** (continued)

	Computer Software RMB million	Land use rights RMB million	Proprietary technologies and patents RMB million	Total RMB million
Cost				
As at 1 January 2007	2,171	1,246	93	3,510
Additions	385	183	3	571
Disposals	(66)	(313)	(30)	(409)
As at 31 December 2007	2,490	1,116	66	3,672
Accumulated depreciation				
As at 1 January 2007	(844)	(362)	(39)	(1,245)
Additions	(356)	(51)	(11)	(418)
Disposals	10	85	11	106
As at 31 December 2007	(1,190)	(328)	(39)	(1,557)
Allowances for impairment losses				
As at 1 January 2007	—	—	—	—
Additions	—	—	—	—
Written off	—	—	—	—
As at 31 December 2007	—	—	—	—
Net carrying value				
As at 1 January 2007	1,327	884	54	2,265
As at 31 December 2007	1,300	788	27	2,115
Residual amortisation period (years)	1–10	1–50	1–10	

X NOTES TO THE FINANCIAL STATEMENTS (continued)**14. Intangible assets** (continued)**Bank**

	Computer Software RMB million	Land use rights RMB million	Proprietary technologies and patents RMB million	Total RMB million
Cost				
As at 1 January 2008	2,490	1,109	66	3,665
Surplus/(deficit) on valuation	1	25,252	(3)	25,250
Elimination of accumulated depreciation on valuation	(1,190)	(322)	(39)	(1,551)
Additions	581	209	37	827
Disposals	(8)	(96)	—	(104)
As at 31 December 2008	1,874	26,152	61	28,087
Accumulated depreciation				
As at 1 January 2008	(1,190)	(322)	(39)	(1,551)
Elimination of accumulated depreciation on valuation	1,190	322	39	1,551
Additions	(422)	(736)	(11)	(1,169)
Disposals	5	3	—	8
As at 31 December 2008	(417)	(733)	(11)	(1,161)
Allowances for impairment losses				
As at 1 January 2008	—	—	—	—
Additions	(28)	(25)	—	(53)
Written off	—	—	—	—
As at 31 December 2008	(28)	(25)	—	(53)
Net carrying value				
As at 1 January 2008	1,300	787	27	2,114
As at 31 December 2008	1,429	25,394	50	26,873
Residual amortisation period (years)	1–10	1–50	1–10	

X NOTES TO THE FINANCIAL STATEMENTS (continued)**14. Intangible assets** (continued)**Bank** (continued)

	Computer Software RMB million	Land use rights RMB million	Proprietary technologies and patents RMB million	Total RMB million
Cost				
As at 1 January 2007	2,171	1,239	93	3,503
Additions	385	183	3	571
Disposals	(66)	(313)	(30)	(409)
As at 31 December 2007	2,490	1,109	66	3,665
Accumulated depreciation				
As at 1 January 2007	(844)	(357)	(39)	(1,240)
Additions	(356)	(50)	(11)	(417)
Disposals	10	85	11	106
As at 31 December 2007	(1,190)	(322)	(39)	(1,551)
Allowances for impairment losses				
As at 1 January 2007	—	—	—	—
Additions	—	—	—	—
Written off	—	—	—	—
As at 31 December 2007	—	—	—	—
Net carrying value				
As at 1 January 2007	1,327	882	54	2,263
As at 31 December 2007	1,300	787	27	2,114
Residual amortisation period (years)	1–10	1–50	1–10	

According to the relevant laws and regulations, after the establishment of a joint stock company, the Bank is required to register the title of its land use rights under the name of Agricultural Bank of China Limited. As at the date of the financial statements, the registration has not been completed. Management anticipates that the registration process does not affect the rights of Agricultural Bank of China Limited as the legal successor to those assets of Agricultural Bank of China.

X NOTES TO THE FINANCIAL STATEMENTS (continued)**15. Deferred taxes**

	Group		Bank	
	As at 31 December		As at 31 December	
	2008	2007	2008	2007
	RMB million	RMB million	RMB million	RMB million
Deferred tax assets	17,107	11,524	17,093	11,524

(1) The movements of the deferred income tax asset and liability accounts are as follows:

	Group		Bank	
	2008	2007	2008	2007
	RMB million	RMB million	RMB million	RMB million
As at 1 January	11,524	18,259	11,524	18,259
Credited/(charged) to income statement	14,011	(9,619)	13,997	(9,619)
Credited/(charged) to owners' equity	(8,428)	2,884	(8,428)	2,884
As at 31 December	17,107	11,524	17,093	11,524

(2) Deferred tax assets and liabilities analysed by nature

	Group				Bank			
	As at 31 December 2008		As at 31 December 2007		As at 31 December 2008		As at 31 December 2007	
	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Allowances for impairment losses on loans and advances	53,917	13,479	12,515	3,129	53,917	13,479	12,515	3,129
Allowances for impairment losses on other assets	1,385	346	6,457	1,614	1,385	346	6,457	1,614
Fair value changes	(16,229)	(4,057)	8,568	2,142	(16,227)	(4,057)	8,568	2,142
Contingent liabilities	4,158	1,040	3,482	870	4,158	1,040	3,482	870
Early retirement benefits	17,887	4,472	17,486	4,372	17,887	4,472	17,486	4,372
Others	7,307	1,827	(2,410)	(603)	7,252	1,813	(2,410)	(603)
Total	68,425	17,107	46,098	11,524	68,372	17,093	46,098	11,524

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X NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Other assets

		Group		Bank	
		As at 31 December		As at 31 December	
		2008	2007	2008	2007
		RMB million	RMB million	RMB million	RMB million
Accounts receivable and prepayments	(1)	2,986	3,755	2,924	3,702
Foreclosed assets	(2)	—	5,604	—	5,604
Advances to customer arising from derivatives transaction	(3)	—	—	—	—
Long-term deferred expense		1,286	1,084	1,226	1,022
Assets pending for disposal	(4)	—	—	—	—
Others		1,371	1,670	310	139
Total		5,643	12,113	4,460	10,467

(1) Aging analysis of accounts receivable and prepayments is as follows:

		Group							
		As at 31 December 2008				As at 31 December 2007			
		Original amount	Percentage	Allowances	Carrying value	Original amount	Percentage	Allowances	Carrying value
		RMB million	(%)	RMB million	RMB million	RMB million	(%)	RMB million	RMB million
Within 1 year		3,051	77	(842)	2,209	3,342	11	(173)	3,169
From 1 year to 2 years		267	7	(13)	254	282	1	(82)	200
From 2 years to 3 years		202	5	(11)	191	110	1	(56)	54
Over 3 years		435	11	(103)	332	26,134	87	(25,802)	332
Total		3,955	100	(969)	2,986	29,868	100	(26,113)	3,755

		Bank							
		As at 31 December 2008				As at 31 December 2007			
		Original amount	Percentage	Allowances	Carrying value	Original amount	Percentage	Allowances	Carrying value
		RMB million	(%)	RMB million	RMB million	RMB million	(%)	RMB million	RMB million
Within 1 year		2,989	55	(842)	2,147	3,289	10	(173)	3,116
From 1 year to 2 years		267	5	(13)	254	282	1	(82)	200
From 2 years to 3 years		202	4	(11)	191	110	1	(56)	54
Over 3 years		1,987	36	(1,655)	332	28,051	88	(27,719)	332
Total		5,445	100	(2,521)	2,924	31,732	100	(28,030)	3,702

X NOTES TO THE FINANCIAL STATEMENTS (continued)**16. Other assets** (continued)**(2) Foreclosed assets****Foreclosed assets analysed by types**

	Group		Bank	
	As at 31 December		As at 31 December	
	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million
Buildings	—	6,476	—	6,476
Others	5	568	5	568
Subtotal	5	7,044	5	7,044
Less: Allowances for impairment losses	(5)	(1,440)	(5)	(1,440)
Carrying value	—	5,604	—	5,604

(3) Advances to customer arising from derivatives transactions

	Group		Bank	
	As at 31 December		As at 31 December	
	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million
Advance to customer arising from derivatives transactions	1,067	—	1,067	—
Less: Allowances for impairment losses	(1,067)	—	(1,067)	—
Total	—	—	—	—

(4) Assets pending for disposal:

	Group		Bank	
	As at 31 December		As at 31 December	
	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million
Gross amount	44	2,522	44	2,522
Less: Allowances for impairment losses	(44)	(2,522)	(44)	(2,522)
Net value	—	—	—	—

Notes to the Financial Statements

For the year ended 31 December 2008

X NOTES TO THE FINANCIAL STATEMENTS (continued)

17. Allowances for impairment losses

Group

	2008					
	As at 1 January RMB million	Additions/ Reversal RMB million	Transfer in/ (out) RMB million	Write-off RMB million	Exchange difference RMB million	As at 31 December RMB million
Loans and advances to customers	764,982	39,858	(719,576)	(29)	(60)	85,175
Held-to-maturity investments	364	(61)	(91)	—	(23)	189
Debt securities classified as receivables	149	(13)	—	(40)	(11)	85
Long-term equity investments	259	—	—	(220)	—	39
Deposits with banks and other financial institutions	—	3	—	—	—	3
Placements with banks and other financial institutions	8	4	—	—	—	12
Fixed assets	966	402	(966)	—	—	402
Intangible assets	—	53	—	—	—	53
Other assets	30,075	1,170	(29,098)	(42)	(20)	2,085
Total	796,803	41,416	(749,731)	(331)	(114)	88,043

	2007					
	As at 1 January RMB million	Additions/ Reversal RMB million	Transfer in/ (out) RMB million	Write-off RMB million	Exchange difference RMB million	As at 31 December RMB million
Loans and advances to customers	754,676	21,115	(6,210)	(3,464)	(1,135)	764,982
Held-to-maturity investments	—	364	—	—	—	364
Debt securities classified as receivables	779	(615)	—	(5)	(10)	149
Long-term equity investments	303	—	—	(44)	—	259
Placements with banks and other financial institutions	8	—	—	—	—	8
Fixed assets	1,537	25	—	(596)	—	966
Other assets	33,317	50	—	(3,183)	(109)	30,075
Total	790,620	20,939	(6,210)	(7,292)	(1,254)	796,803

X NOTES TO THE FINANCIAL STATEMENTS (continued)**17. Allowances for impairment losses** (continued)**Bank**

	2008					
	As at 1 January RMB million	Additions/ Reversal RMB million	Transfer in/ (out) RMB million	Write-off RMB million	Exchange difference RMB million	As at 31 December RMB million
Loans and advances to customers	764,982	39,858	(719,576)	(29)	(60)	85,175
Held-to maturity investments	364	(61)	(91)	—	(23)	189
Debt securities classified as receivables	149	(13)	—	(40)	(11)	85
Long-term equity investments	910	—	—	(212)	—	698
Deposit with banks and other financial institutions	—	3	—	—	—	3
Placements with banks and other institutions	8	4	—	—	—	12
Fixed assets	966	402	(966)	—	—	402
Intangible assets	—	53	—	—	—	53
Other assets	31,992	1,170	(29,357)	(42)	(126)	3,637
Total	799,371	41,416	(749,990)	(323)	(220)	90,254

	2007					
	As at 1 January RMB million	Additions/ Reversal RMB million	Transfer in/ (out) RMB million	Write-off RMB million	Exchange difference RMB million	As at 31 December RMB million
Loans and advances to customers	754,676	21,115	(6,210)	(3,464)	(1,135)	764,982
Held to maturity investments	—	364	—	—	—	364
Debt securities classified as receivables	779	(615)	—	(5)	(10)	149
Long-term equity investments	954	—	—	(44)	—	910
Placements with banks and other institutions	8	—	—	—	—	8
Fixed assets	1,537	25	—	(596)	—	966
Other assets	35,154	153	—	(3,086)	(229)	31,992
Total	793,108	21,042	(6,210)	(7,195)	(1,374)	799,371

Transfer in or out of allowances for impairment losses during the year includes the reversal of the allowance for impairment losses on non-performing assets, and unwinding of discount on allowance.

X NOTES TO THE FINANCIAL STATEMENTS (continued)**18. Borrowings from central banks****Group and Bank**

	As at 31 December	
	2008 RMB million	2007 RMB million
Borrowings from central banks	314	150,867

19. Deposits from banks and other financial institutions

	Group		Bank	
	As at 31 December		As at 31 December	
	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million
Deposits from:				
Domestic banks	96,716	66,507	96,716	66,507
Other domestic financial institutions	192,077	227,875	192,077	227,875
Overseas banks	977	2,232	977	2,232
Other overseas financial institutions	2	4	2	5
Total	289,772	296,618	289,772	296,619

20. Placements from banks and other financial institutions**Group and Bank**

	As at 31 December	
	2008 RMB million	2007 RMB million
Placements from:		
Domestic banks	19,914	11,811
Other domestic financial institutions	—	42
Overseas banks	14,217	18,522
Total	34,131	30,375

X NOTES TO THE FINANCIAL STATEMENTS (continued)**21. Financial liabilities held for trading****Group and Bank**

	As at 31 December	
	2008 RMB million	2007 RMB million
Financial liabilities designated as at fair value through profit or loss		
Financial guarantee contract	2,752	996
Structure deposits	3,211	6,256
Other wealth management products	16,714	3,236
Total	22,677	10,488

22. Financial assets sold under repurchase agreements**Group and Bank**

	As at 31 December	
	2008 RMB million	2007 RMB million
Bonds	25,447	68,022
Bills	2,598	1,381
Loans	7,045	3,988
Total	35,090	73,391

X NOTES TO THE FINANCIAL STATEMENTS (continued)**23. Deposits from customers**

	Group		Bank	
	As at 31 December		As at 31 December	
	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million
Demand deposits				
Corporate customers	1,639,975	1,646,505	1,639,975	1,646,505
Individual customers	1,628,813	1,363,547	1,628,813	1,363,547
Time deposits				
Corporate customers	533,012	474,192	532,973	474,192
Individual customers	2,108,105	1,617,890	2,108,092	1,617,890
Guarantee deposits (1)	107,722	111,249	107,722	111,249
Others (including outward remittance and remittance under custody)	79,801	73,811	79,798	73,811
Total	6,097,428	5,287,194	6,097,373	5,287,194

(1) Guarantee deposits analysed by category:

	Group		Bank	
	As at 31 December		As at 31 December	
	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million
Bank acceptance deposits	72,637	70,345	72,637	70,345
Guarantee deposits	10,451	5,697	10,451	5,697
Letter of credit deposits	7,544	9,754	7,544	9,754
Personal business deposits	1,144	1,955	1,144	1,955
Other deposits	15,946	23,498	15,946	23,498
Total	107,722	111,249	107,722	111,249

X NOTES TO THE FINANCIAL STATEMENTS (continued)**24. Accrued staff costs****Group**

	2008				2007			
	As at 1 January RMB million	Accrued RMB million	Paid RMB million	As at 31 December RMB million	As at 1 January RMB million	Accrued RMB million	Paid RMB million	As at 31 December RMB million
Salaries, bonuses, and staff welfare	7,736	31,648	(30,895)	8,489	6,905	24,301	(23,470)	7,736
Social insurance	318	6,024	(5,830)	512	1,063	4,713	(5,458)	318
Housing funds	194	3,049	(2,963)	280	251	2,577	(2,634)	194
Labor union expenses and staff education expenses	885	1,466	(1,243)	1,108	580	1,067	(762)	885
Supplementary retirement benefits (1)	31,313	6,350	(1,611)	36,052	38,658	(4,300)	(3,045)	31,313
Early retirement benefits (2)	17,486	2,685	(2,284)	17,887	20,452	(552)	(2,414)	17,486
Others	417	6,554	(3,155)	3,816	81	3,365	(3,029)	417
Total	58,349	57,776	(47,981)	68,144	67,990	31,171	(40,812)	58,349

Bank

	2008				2007			
	As at 1 January RMB million	Accrued RMB million	Paid RMB million	As at 31 December RMB million	As at 1 January RMB million	Accrued RMB million	Paid RMB million	As at 31 December RMB million
Salaries, bonuses, and staff welfare	7,734	31,604	(30,863)	8,475	6,904	24,288	(23,458)	7,734
Social insurance	318	6,024	(5,830)	512	1,063	4,713	(5,458)	318
Housing funds	194	3,049	(2,963)	280	251	2,577	(2,634)	194
Labor union expense and staff education expense	885	1,466	(1,243)	1,108	580	1,067	(762)	885
Supplementary retirement benefits (1)	31,313	6,350	(1,611)	36,052	38,658	(4,300)	(3,045)	31,313
Early retirement benefits (2)	17,486	2,685	(2,284)	17,887	20,452	(552)	(2,414)	17,486
Others	417	6,554	(3,155)	3,816	81	3,365	(3,029)	417
Total	58,347	57,732	(47,949)	68,130	67,989	31,158	(40,800)	58,347

X NOTES TO THE FINANCIAL STATEMENTS (continued)**24. Accrued staff costs** (continued)**(1) Supplementary retirement benefits**

The supplementary retirement benefit charged/credit to the income statement as follows:

Group and Bank	As at 31 December	
	2008	2007
	RMB million	RMB million
Interest cost	1,362	1,114
Actuarial losses/(gains)	4,988	(5,414)
Total	6,350	(4,300)

At balance sheet date, the primary actuarial assumptions are as follows:

	As at 31 December	
	2008	2007
Discount rate (%)	3.00	4.50
Medical expenses inflation rate (%)	8.00	8.00
Mortality rate	China Insurance Industry Experience Mortality Table 2000–2003	

(2) Early retirement benefits

The early retirement benefits charged/credit to income statement as follows:

Group and Bank	As at 31 December	
	2008	2007
	RMB million	RMB million
Interest cost	692	481
Actuarial loss/(gain)	1,062	(1,033)
Incremental early retirement benefit cost	931	—
Total	2,685	(552)

X NOTES TO THE FINANCIAL STATEMENTS (continued)**24. Accrued staff costs** (continued)**(2) Early retirement benefits** (continued)

At balance sheet date, the principal actuarial assumptions are as follows:

	As at 31 December	
	2008	2007
Discount rate (%)	2.00	4.25
Medical expenses inflation rate (%)	8.00	8.00
Annual subsidies inflation rate (%)	8.00	8.00
Retiring age		
— Male	60	60
— Female	55	55

25. Taxes payable

	Group		Bank	
	As at 31 December		As at 31 December	
	2008	2007	2008	2007
	RMB million	RMB million	RMB million	RMB million
Corporate income taxes	21,234	27,385	21,233	27,385
Business taxes	3,685	3,760	3,685	3,760
City construction taxes	365	239	365	239
Other taxes	889	1,420	889	1,420
Total	26,173	32,804	26,172	32,804

Notes to the Financial Statements

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X NOTES TO THE FINANCIAL STATEMENTS (continued)

26. Interest payable

	Group		Bank	
	As at 31 December		As at 31 December	
	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million
Deposit from customers	64,510	43,207	64,513	43,209
Deposit from banks and other financial institutions	1,809	1,198	1,809	1,198
Placements with banks and other financial institutions	167	146	167	146
Certificate of deposit issued	22	16	22	16
Financial assets sold under repurchase agreements	4	119	4	119
Total	66,512	44,686	66,515	44,688

27. Provisions

Group and Bank

	2008				2007			
	As at 1 January	Accrued during the year	Utilised during the year	As at 31 December	As at 1 January	Accrued during the year	Utilised during the year	As at 31 December
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Litigation losses	2,819	1,053	(1,043)	2,829	2,777	432	(390)	2,819
Others	2,576	1,017	(638)	2,955	2,830	—	(254)	2,576
Total	5,395	2,070	(1,681)	5,784	5,607	432	(644)	5,395

28. Certificates of deposit issued

Group and Bank

	As at 31 December	
	2008 RMB million	2007 RMB million
Certificates of deposit issued	5,150	4,154

Certificates of deposit are issued by the Hong Kong and Singapore Branch and measured at amortised cost.

X NOTES TO THE FINANCIAL STATEMENTS (continued)**29. Other liabilities**

		Group		Bank	
		As at 31 December		As at 31 December	
		2008	2007	2008	2007
		RMB million	RMB million	RMB million	RMB million
Payables to the MOF	(1)	26,027	—	26,027	—
Items in process of clearing and settlement		14,071	7,224	14,071	7,224
Dormant accounts		3,411	3,795	3,411	3,795
Securities purchase payables		2,860	4,940	2,860	4,940
Other payables		14,732	15,537	14,409	14,991
Total		61,101	31,496	60,778	30,950

- (1) Pursuant to the MOF Notice on Relevant Issues Concerning the Disposal of Non-performing assets of Agricultural Bank of China (Caijin [2008] No. 138), the MOF consign the Bank to manage and dispose the non-performing assets. From 1 January 2008, all the risks and rewards generated by disposing the abovementioned non-performing assets are owned by the MOF. Payables to the MOF are balances in the process of settlement with the MOF.

30. Paid-in capital/Share capital

		As at 31 December	
		2008	2007
	Note	RMB million	RMB million
As at 1 January		121,612	121,944
Capital transfer	(1)	(7)	(332)
Capital structuring	II.3	8,395	—
Capital injection by Huijin	II.4	130,000	—
As at 31 December	(2)	260,000	121,612

- (1) Pursuant to the Letter Concerning the Partition and Transfer of China Great Wall Trust and Investment Company (Caijin[2000] No. 111), the Bank is required to transfer capital fund to China Great Wall Asset Management Corporation.
- (2) The MOF and Huijin jointly set up Agricultural Bank of China Limited. The investors injected capital of RMB260,000 million to the Bank, which is converted into 260,000 million promoters' shares at par value of RMB1 each issued to the MOF and Huijin, with each holding 130,000 million shares representing 50% of share capital of the Bank. All shares held by the MOF and Huijin are state shares controlled by the PRC Government. The capital contribution was verified by Deloitte Touche Tohmatsu CPA Ltd, in its verification report (De Shi Bao (Yan) Zi (08) No. 0034 issued on 25 December 2008.

Notes to the Financial Statements

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X NOTES TO THE FINANCIAL STATEMENTS (continued)

31. Capital reserve

Group and Bank

Note	2008			2007		
	Available-for-sale financial assets fair value changes RMB million	Others RMB million	Total RMB million	Available-for-sale financial assets fair value changes RMB million	Others RMB million	Total RMB million
As at 1 January	(7,766)	3,100	(4,666)	961	3,062	4,023
Fair value of available-for-sale financial assets recognised in owners' equity	33,490	—	33,490	(11,820)	—	(11,820)
Transfer to the income statement	(4)	—	(4)	209	—	209
Income tax implications	(8,428)	—	(8,428)	2,884	—	2,884
Financial restructuring	—	—	—	—	—	—
Disposal of non-performing assets	II.1	—	760,665	—	—	—
Surplus on valuation	II.2	—	50,992	—	—	—
Replenishment to capital due from the MOF	II.3	—	34,497	—	—	—
Capital restructuring	II.3	—	(849,254)	—	—	—
Others	—	—	—	—	38	38
As at 31 December	17,292	—	17,292	(7,766)	3,100	(4,666)

32. Surplus reserve

Under relevant PRC Laws, the Bank is required to allocate 10% of its net profit, as determined under Chinese Accounting Standards, to the statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

X NOTES TO THE FINANCIAL STATEMENTS (continued)**33. General reserve**

Pursuant to *Measures on General Provision for Bad and Doubtful Debts for Financial Institutions (Caijin [2005] No. 49)* and *Application Guidance of Financing Measures for Financial Institutions (Caijin [2007] No. 23)* issued by the MOF, in addition to allowances for impairment losses, the Bank is required to set aside a general reserve to cover potential losses which are not identified against risk bearing assets. The general reserve should not be less than 1% of the aggregate amount of risk bearing assets.

The Hong Kong Banking Ordinance requires the Group's banking operations in Hong Kong to set aside amounts in a regulatory reserve in respect of losses which it will, or may incur on loans and advances to customers, in addition to impairment losses recognised in accordance with the accounting policies of the Group. Transfers to and from the regulatory reserve are made through appropriation of profits.

ABC-CA Fund Management Co., Ltd., a subsidiary of the Bank, engages in financial operations such as funds raising, funds offering, and asset management, and is required to set aside amounts in a regulatory reserve through the appropriation of profit as stipulated by regulatory authorities.

X NOTES TO THE FINANCIAL STATEMENTS (continued)**34. Retained earnings****Group**

		2008	2007
	Note	RMB million	RMB million
As at 1 January		(844,620)	(888,401)
Net profit		51,474	43,787
Replenishment of capital due from the MOF	II.3	(34,497)	—
Capital structuring	II.3	840,859	—
Appropriation to surplus reserve	(1)	(1,187)	—
Appropriation to general reserve		(7)	(6)
As at 31 December		12,022	(844,620)

Bank

		2008	2007
As at 1 January		(846,086)	(889,463)
Net profit		51,591	43,383
Replenishment of capital due from the MOF	II.3	(34,497)	—
Capital structuring	II.3	840,859	—
Appropriation to surplus reserve	(1)	(1,187)	—
Appropriation to general reserve		(3)	(6)
As at 31 December		10,677	(846,086)

On 25 April 2009, the Board of Directors of the Bank approved the profit distribution plan for the year end 31 December 2008 as set out below:

- (1) The Bank appropriates RMB1,187 million to the statutory surplus reserve fund, which account for 10% of its distributable profit for the year ended 31 December 2008 amounting to RMB11,867 million;
- (2) After the appropriation of profits to the surplus reserve, the remaining undistributed profits amounting to RMB10,860 million will be appropriated to the general reserve, including the general reserve set aside by the Hong Kong Branch amounting to RMB3 million.

The profit distribution plan is to be approved at the Annual General Meeting.

X NOTES TO THE FINANCIAL STATEMENTS (continued)**35. Net interest income**

	Group		Bank	
	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million
Interest income				
Loans and advances to customers	216,320	184,393	216,320	184,393
Including: Corporate loans and advances	172,407	148,723	172,407	148,723
Personal loans and advances	33,220	24,692	33,220	24,692
Discounted bills	10,693	10,978	10,693	10,978
Debt securities classified as receivables	27,351	3,533	27,351	3,533
Held-to-maturity investments	23,338	17,349	23,338	17,349
Available-for-sale financial assets	21,412	18,940	21,412	18,940
Deposits with central banks	18,683	12,274	18,683	12,274
Financial assets held under resale agreements	5,366	3,447	5,366	3,447
Placements with banks and other financial institutions	1,928	2,312	1,928	2,312
Financial assets held for trading	720	516	720	516
Deposits with banks and other Financial institutions	579	553	579	553
Subtotal	315,697	243,317	315,697	243,317
Interest expense				
Deposits from customers	(111,815)	(77,564)	(111,815)	(77,639)
Deposits from banks and other financial institutions	(7,546)	(5,586)	(7,546)	(5,586)
Financial assets sold under repurchase agreements	(1,070)	(1,012)	(1,070)	(1,012)
Placements from banks and other financial institutions	(973)	(1,093)	(973)	(1,093)
Financial liabilities held for trading	(395)	(528)	(395)	(528)
Certificates of deposit issued	(51)	(64)	(51)	(64)
Borrowings from central banks	(2)	(5)	(2)	(5)
Subtotal	(121,852)	(85,852)	(121,852)	(85,927)
Net interest income	193,845	157,465	193,845	157,390
Include interest income on impaired financial assets	2,171	5,957	2,171	5,957

Notes to the Financial Statements

For the year ended 31 December 2008

X NOTES TO THE FINANCIAL STATEMENTS (continued)

36. Net fee and commission income

Group and Bank

	2008 RMB million	2007 RMB million
Fee and commission income		
Settlement and clearance fees	10,757	8,997
Agency commissions	5,484	8,536
Bank card fees	3,824	3,083
Consultancy and advisory fees	1,573	396
Credit commitment fees	829	577
Electronic banking service fees	728	360
Custodian and other fiduciary service fees	632	690
Others	967	1,282
Subtotal	24,794	23,921
Fee and commission expenses		
Bank card fees	(488)	(366)
Other service fees	(265)	(444)
Settlement and clearance fees	(243)	(116)
Subtotal	(996)	(926)
Net fee and commission income	23,798	22,995

37. Investment income

	Group		Bank	
	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million
Net gain from derivative financial instruments	4,950	1,229	4,950	1,229
Net loss from financial instruments held for trading	(800)	(95)	(800)	(95)
Net gains/(losses) on disposal of available-for-sale financial assets	256	(26)	256	(26)
Net gains from investment in associates and joint ventures	167	2	167	2
Gains on disposal of domestic equity investments	11	30	11	30
Others	57	29	56	29
Total	4,641	1,169	4,640	1,169

X NOTES TO THE FINANCIAL STATEMENTS (continued)**38. Net (losses)/gains on fair value changes**

	Group		Bank	
	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million
Derivative financial instruments	(6,690)	1,892	(6,690)	1,892
Financial instruments held for trading	(1,958)	(1,302)	(1,961)	(1,302)
Total	(8,648)	590	(8,651)	590

39. Foreign exchange gains/(losses)

Foreign exchange gains and losses include exchange differences arising from changes in foreign exchange rates in foreign currency transactions, and translation differences arising from monetary items denominated in foreign currency.

40. Other operating income

	Group		Bank	
	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million
Rental income	283	314	283	314
Others	183	490	113	80
Total	466	804	396	394

41. Business tax and surcharges

	Group		Bank	
	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million
Business taxes	11,954	10,106	11,952	10,106
City construction tax	773	649	773	649
Education surcharges	471	385	471	385
Others	25	—	25	—
Total	13,223	11,140	13,221	11,140

X NOTES TO THE FINANCIAL STATEMENTS (continued)**42. Operating and administrative expenses**

		Group		Bank	
		2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million
Staff costs	(1)	57,776	31,171	57,732	31,158
Operating expenses		25,218	21,090	25,125	20,944
Depreciation and amortisation		11,423	7,815	11,404	7,805
Total		94,417	60,076	94,261	59,907

(1) Staff costs

	Group		Bank	
	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million
Salaries, bonuses and staff welfare	31,648	24,301	31,604	24,288
Social insurance	6,024	4,713	6,024	4,713
Housing funds	3,049	2,577	3,049	2,577
Labor union expenses and staff education expenses	1,466	1,067	1,466	1,067
Supplementary retirement benefits	6,350	(4,300)	6,350	(4,300)
Early-retirement benefits	2,685	(552)	2,685	(552)
Others	6,554	3,365	6,554	3,365
Total	57,776	31,171	57,732	31,158

X NOTES TO THE FINANCIAL STATEMENTS (continued)**43. Impairment losses**

	Group		Bank	
	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million
Loans and advances to customers	39,858	21,115	39,858	21,115
Available-for-sales financial assets (1)	10,062	9,635	10,062	9,635
Held-to-maturity investments	(61)	364	(61)	364
Debt securities classified as receivables	(13)	(615)	(13)	(615)
Fixed assets	402	25	402	25
Intangible assets	53	—	53	—
Deposits with banks and other financial institutions	3	—	3	—
Placements with banks and other financial institutions	4	—	4	—
Other assets	1,170	50	1,170	153
Total	51,478	30,574	51,478	30,677

(1) The impairment losses on available-for-sale debt securities recognised in the income statement for the year ended 31 December 2008 amounted to RMB10,062 million (2007: RMB9,635 million), which is directly offset with the carrying value of the available-for-sale debt securities.

44. Non-operating income

	Group		Bank	
	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million
Gains on disposal of fixed assets	1,147	3,044	1,147	3,044
Income from clearance of dormant accounts	317	137	317	137
Others	1,349	1,033	1,328	1,024
Total	2,813	4,214	2,792	4,205

45. Non-operating expenses

	Group		Bank	
	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million
Provision for litigation losses	246	722	246	722
Losses on disposal of fixed assets	483	982	483	982
Penalty expenses	52	79	52	79
Others	1,754	1,621	1,753	1,621
Total	2,535	3,404	2,534	3,404

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For the year ended 31 December 2008

X NOTES TO THE FINANCIAL STATEMENTS (continued)

46. Income tax expense

	Group		Bank	
	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million
Current tax expenses	14,907	24,851	14,907	24,850
Deferred tax expenses	(14,011)	9,619	(13,997)	9,619
Total	896	34,470	910	34,469

Reconciliation of profit before tax to income tax

Note	Group		Bank	
	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million
Profit before tax	52,349	78,257	52,501	77,852
Tax calculated at statutory tax rate of 25% (33% for 2007)	13,087	25,825	13,125	25,691
Non-deductible expenses	636	10,179	612	10,312
Non-taxable income	(4,187)	(4,360)	(4,187)	(4,360)
Tax exemptions	(8,624)	—	(8,624)	—
Effect of different tax rates of Overseas Institution	(16)	(31)	(16)	(31)
Effect of change in tax rate on deferred tax transfer	—	2,857	—	2,857
Income tax expenses	896	34,470	910	34,469

- (1) Pursuant to the Law of the People's Republic of China on Enterprise Income Tax ratified by the National People's Congress on 16 March 2007, Since 1 January 2008, the PRC income tax rate has been reduced from 33% to 25%. Deferred tax expenses increased in accordance with the amendment with the amount of RMB2,857 million for the year 2007.

X NOTES TO THE FINANCIAL STATEMENTS (continued)**47. Cash and cash equivalents**

	Group		Bank	
	As at 31 December		As at 31 December	
	2008	2007	2008	2007
	RMB million	RMB million	RMB million	RMB million
Cash	44,168	43,499	44,010	43,406
Deposits with central banks	120,131	90,677	120,131	90,677
Deposits with banks and other financial institutions with an original maturity of under 3 months	51,388	9,499	50,573	9,165
Financial assets held under resale agreements with an original maturity of under 3 months	237,278	135,102	237,278	135,102
Placements with banks and other financial institutions with an original maturity of under 3 months	35,599	35,413	35,599	35,413
Total	488,564	314,190	487,591	313,763

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X NOTES TO THE FINANCIAL STATEMENTS (continued)

48. Supplementary information to the cash flow statement

	Group		Bank	
	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million
Reconciliation of net profit to cash flow from operating activities				
Net profit	51,453	43,787	51,591	43,383
Add: Impairment losses	51,478	30,574	51,478	30,677
Depreciation of fixed assets	9,821	6,885	9,803	6,876
Amortisation of intangible assets	1,170	418	1,169	417
Interest income arising from impaired financial assets	(2,171)	(5,957)	(2,171)	(5,957)
Losses on disposal of fixed assets, intangible assets and other long-term assets	(664)	(2,062)	(664)	(2,062)
Interest income from debt securities	(72,101)	(39,822)	(72,101)	(39,822)
Investment income	(491)	(35)	(490)	(35)
Losses/(gains) on fair value changes	8,648	(590)	8,651	(590)
Foreign exchange losses/(gains)	2,913	3,786	2,825	3,763
Changes in deferred tax assets	(14,011)	9,619	(13,997)	9,619
Changes in operating receivables	(590,365)	(592,602)	(590,698)	(592,064)
Changes in operating payables	839,101	690,714	839,195	690,080
Net cash inflow from operating activities	284,781	144,715	284,591	144,285
Investing and financing activities do not involve cash receipts and payments Capital restructuring (Note II.3)	8,395	—	8,395	—
Net changes in cash and cash equivalents				
Closing balance of cash	44,168	43,499	44,010	43,406
Less: Opening balance of cash	(43,499)	(35,660)	(43,406)	(35,660)
Add: Closing balance of cash equivalents	444,396	270,691	443,581	270,357
Less: Opening balance of cash equivalents	(270,691)	(241,188)	(270,357)	(241,187)
Net increase in cash and cash equivalents	174,374	37,342	173,828	36,916

XI SEGMENT INFORMATION

The Group manages its business both by geographical segments and business segments, which are comprised of corporate, personal and treasury banking. Accordingly, both geographical and business segment information is presented as the Group's primary segment reporting formats.

Measurement of segment assets and liabilities, and segment income and results is based on the Group's accounting policies.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer pricing are determined with reference to market rates and have been reflected in the performance of each segment. Net interest income and expenses arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expenses". Interest income and expenses earned from third parties are referred to as "external net interest income/expenses".

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.

The details of the geographical segments are as follows:

Head office

Yangtze River Delta: including Shanghai, Jiangsu, Zhejiang, Ningbo
Pearl River Delta: including Guangdong, Shenzhen, Fujian, Xiamen
Bohai Rim: including Beijing, Tianjin, Hebei, Shandong, Qingdao
Central China: including Shanxi, Hubei, Henan, Hunan, Jiangxi, Hainan, Anhui
Western China: including Chongqing, Sichun, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang, Xinjiang Corps, Tibet, Inner Mongolia, Guangxi
Northeastern China: including Liaoning, Heilongjiang, Jilin, Dalian and
Overseas and others: including branches and subsidiaries located outside Mainland China

Notes to the Financial Statements

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XI SEGMENT INFORMATION (continued)

1. Geographical segments

	2008									
	Head office	Yang river delta	Pearl river delta	Bohai rim	Central China	Western China	North-eastern China	Overseas	Eliminations	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Net interest income	52,075	37,366	21,592	23,712	18,669	34,993	4,974	464	—	193,845
External net interest income/(expense)	98,713	35,955	12,786	16,349	4,391	25,703	(516)	464	—	193,845
Internal net interest income/(expense)	(46,638)	1,411	8,806	7,363	14,278	9,290	5,490	—	—	—
Net fee and commission income	931	4,899	4,224	3,796	3,933	4,813	1,157	45	—	23,798
Fee and commission income	1,028	5,154	4,467	3,925	4,013	4,959	1,203	45	—	24,794
Fee and commission expense	(97)	(255)	(243)	(129)	(80)	(146)	(46)	—	—	(996)
Investment income	4,244	101	10	20	224	35	3	4	—	4,641
Net (losses)/gains on fair value changes	(13,229)	1,707	98	186	465	1,852	426	(153)	—	(8,648)
Foreign exchange gains/(losses)	(3,700)	441	173	175	(28)	62	9	(45)	—	(2,913)
Other operating income	79	67	27	29	96	75	12	81	—	466
Business taxes and surcharges	(262)	(3,919)	(1,958)	(2,304)	(1,562)	(2,777)	(441)	—	—	(13,223)
Operating and administrative expenses	(12,088)	(15,785)	(11,183)	(12,563)	(14,600)	(20,881)	(7,035)	(282)	—	(94,417)
Impairment losses	(10,538)	(5,962)	(8,088)	(6,889)	(4,724)	(11,638)	(3,597)	(42)	—	(51,478)
Operating profit	17,512	18,915	4,895	6,162	2,473	6,534	(4,492)	72	—	52,071
Add: Non-operating income	241	508	377	439	571	517	139	21	—	2,813
Less: Non-operating expenses	61	503	373	379	354	292	572	1	—	2,535
Profit before tax	17,692	18,920	4,899	6,222	2,690	6,759	(4,925)	92	—	52,349
Less: Income tax										896
Net profit										51,453
Segment assets	4,128,292	1,565,536	1,055,448	1,134,722	1,115,727	1,434,709	363,744	40,902	(3,841,836)	6,997,244
Including: Investment in associates and joint-ventures	—	—	—	—	155	—	—	—	—	155
Unallocated assets										17,107
Total assets										7,014,351
Segment liabilities	(3,913,905)	(1,533,043)	(1,043,150)	(1,120,040)	(1,107,838)	(1,419,263)	(368,020)	(39,153)	3,841,836	(6,702,576)
Unallocated liabilities										(21,234)
Total liabilities										(6,723,810)
Other segment information										
Credit commitments	42,157	233,162	121,005	141,534	108,039	108,798	12,743	14,144	—	781,582
Depreciation and amortisation	(956)	(2,165)	(1,549)	(1,660)	(1,952)	(2,319)	(757)	(65)	—	(11,423)
Capital expenditure	1,727	2,546	1,185	3,641	2,216	2,945	833	60	—	15,153

XI SEGMENT INFORMATION (continued)**1. Geographical segments** (continued)

	2007									
	Head office	Yang river delta	Pearl river delta	Bohai rim	Central China	Western China	North-eastern China	Overseas	Eliminations	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Net interest income	11,637	35,850	21,576	25,743	20,132	34,983	7,091	453	—	157,465
External net interest income/(expense)	58,373	31,458	12,383	18,209	7,912	26,161	2,516	453	—	157,465
Internal net interest income/(expense)	(46,736)	4,392	9,193	7,534	12,220	8,822	4,575	—	—	—
Net fee and commission income	1,014	4,433	4,302	3,523	3,482	4,919	1,284	38	—	22,995
Fee and commission income	1,141	4,641	4,462	3,669	3,571	5,063	1,336	38	—	23,921
Fee and commission expense	(127)	(208)	(160)	(146)	(89)	(144)	(52)	—	—	(926)
Investment income	1,121	25	1	2	4	6	—	10	—	1,169
Net gains/(losses) on fair value changes	625	—	—	—	—	—	—	(35)	—	590
Foreign exchange gains/(losses)	(6,129)	573	832	371	151	124	101	191	—	(3,786)
Other operating income	24	82	46	33	95	92	12	420	—	804
Business taxes and surcharges	(262)	(3,098)	(1,589)	(1,948)	(1,317)	(2,460)	(466)	—	—	(11,140)
Operating and administrative expenses	7,194	(12,484)	(9,095)	(9,913)	(12,291)	(17,174)	(6,061)	(252)	—	(60,076)
Impairment losses	(9,989)	(2,034)	(461)	(5,236)	(4,585)	(5,427)	(2,728)	(114)	—	(30,574)
Operating profit	5,235	23,347	15,612	12,575	5,671	15,063	(767)	711	—	77,447
Add: Non-operating income	184	926	796	420	716	943	218	11	—	4,214
Less: Non-operating expenses	60	16	66	879	1,018	759	676	(70)	—	3,404
Profit before tax	5,359	24,257	16,342	12,116	5,369	15,247	(1,225)	792	—	78,257
Less: Income tax										34,470
Net Profit										43,787
Segment assets	2,866,937	1,349,448	838,815	914,971	731,730	1,062,898	222,803	42,056	(2,735,676)	5,293,982
Including: Investment in associates and joint-ventures	—	—	—	—	223	—	—	—	—	223
Unallocated assets										11,524
Total assets										5,305,506
Segment liabilities	(2,849,298)	(1,364,814)	(915,228)	(1,019,741)	(966,112)	(1,233,349)	(352,923)	(39,937)	2,735,676	(6,005,726)
Unallocated liabilities										(27,385)
Total liabilities										(6,033,111)
Other segment information										
Credit commitments	29,149	216,790	117,288	145,884	87,221	104,382	13,526	9,935	—	724,175
Depreciation and amortisation	(753)	(1,273)	(1,053)	(1,137)	(1,310)	(1,695)	(577)	(17)	—	(7,815)
Capital expenditure	2,256	2,542	1,032	1,786	1,992	2,472	736	28	—	12,844

XI SEGMENT INFORMATION (continued)

2. Business segments

The Group comprises the following main business segments:

Corporate banking

The corporate banking segment covers the provision of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, trade financing, deposit activities and various types of corporate intermediary services.

Personal banking

The personal banking segment covers the provision of financial products and services to individual customers. The products and services include personal loans, deposit activities, card business, personal wealth management services and various types of personal intermediary services.

Treasury operations

The treasury operations segment covers the Group's treasury operations. The treasury conducts money market or repurchase transactions, debt instruments investments, and holding of derivative positions, for its own accounts or on behalf of customers.

Others

Including the equity investment, and assets, liabilities, income or the expense of the Head Office that could not be allocated to other segments in a reasonable way.

XI SEGMENT INFORMATION (continued)**2. Business segments** (continued)

	2008					
	Corporate banking RMB million	Personal banking RMB million	Treasury operations RMB million	Others RMB million	Eliminations RMB million	Total RMB million
Net interest income	106,407	51,375	36,105	(42)	—	193,845
External net interest income/(expense)	152,739	(30,087)	71,193	—	—	193,845
Internal net interest income/(expense)	(46,332)	81,462	(35,088)	(42)	—	—
Net fee and commission income	8,667	15,131	—	—	—	23,798
Fee and commission income	9,095	15,699	—	—	—	24,794
Fee and commission expense	(428)	(568)	—	—	—	(996)
Investment income	—	—	4,460	181	—	4,641
Net (losses)/gains on fair value changes	—	—	(8,651)	3	—	(8,648)
Foreign exchange gains/(losses)	—	—	(2,841)	(72)	—	(2,913)
Other operating income	—	—	—	466	—	466
Business taxes and surcharges	(9,020)	(2,383)	(1,796)	(24)	—	(13,223)
Operating and administrative expenses	(32,798)	(50,644)	(10,820)	(155)	—	(94,417)
Impairment losses	(40,480)	(1,003)	(9,995)	—	—	(51,478)
Operating profit	32,776	12,476	6,462	357	—	52,071
Add: Non-operating income	1,301	1,490	—	22	—	2,813
Less: Non-operating expenses	1,236	985	—	314	—	2,535
Profit before tax	32,841	12,981	6,462	65	—	52,349
Less: Income tax expense						896
Net Profit						51,453
Segment assets	2,673,949	547,169	7,614,921	3,041	(3,841,836)	6,997,244
Including: Investment in associates and joint-ventures	—	—	—	155	—	155
Unallocated assets						17,107
Total assets						7,014,351
Segment liabilities	(2,477,527)	(3,830,744)	(4,235,768)	(373)	3,841,836	(6,702,576)
Unallocated liabilities						(21,234)
Total liabilities						(6,723,810)
Other segment information						
Credit commitments	692,797	88,785	—	—	—	781,582
Depreciation and amortisation	(3,343)	(6,292)	(1,788)	—	—	(11,423)
Capital expenditure	4,435	8,346	2,372	—	—	15,153

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XI SEGMENT INFORMATION (continued)

2. Business segments (continued)

	2007					
	Corporate banking RMB million	Personal banking RMB million	Treasury operations RMB million	Others RMB million	Eliminations RMB million	Total RMB million
Net interest income	84,076	47,190	26,261	(62)	—	157,465
External net interest income/(expense)	134,773	(16,441)	39,133	—	—	157,465
Internal net interest income/(expense)	(50,697)	63,631	(12,872)	(62)	—	—
Net fee and commission income	10,788	12,207	—	—	—	22,995
Fee and commission income	11,348	12,573	—	—	—	23,921
Fee and commission expense	(560)	(366)	—	—	—	(926)
Investment income	—	—	1,167	2	—	1,169
Net gains on fair value changes	—	—	590	—	—	590
Foreign exchange gains/(losses)	—	—	(3,870)	84	—	(3,786)
Other operating income	—	—	—	804	—	804
Business taxes and surcharges	(8,667)	(2,053)	(335)	(85)	—	(11,140)
Operating and administrative expenses	(22,685)	(31,803)	(5,418)	(170)	—	(60,076)
Impairment losses	(27,110)	(4,890)	1,502	(76)	—	(30,574)
Operating profit	36,402	20,651	19,897	497	—	77,447
Add: Non-operating income	1,728	1,616	90	780	—	4,214
Less: Non-operating expenses	1,734	1,281	—	389	—	3,404
Profit before tax	36,396	20,986	19,987	888	—	78,257
Less: Income tax expense						34,470
Net Profit						43,787
Segment assets	2,380,398	476,893	5,168,662	3,705	(2,735,676)	5,293,982
Including: Investment in associates and joint-ventures	—	—	—	223	—	223
Unallocated assets						11,524
Total assets						5,305,506
Segment liabilities	(2,372,601)	(3,052,823)	(3,315,402)	(576)	2,735,676	(6,005,726)
Unallocated liabilities						(27,385)
Total liabilities						(6,033,111)
Other segment information						
Credit commitments	651,010	73,165	—	—	—	724,175
Depreciation and amortisation	(2,450)	(4,279)	(1,086)	—	—	(7,815)
Capital expenditure	4,026	7,032	1,786	—	—	12,844

XII RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1. The MOF

As at 31 December 2008, the MOF directly owned 50% of the issued share capital of the Bank (31 December 2007: 100.00%).

The MOF is a ministry under the State Council, primarily responsible for state fiscal revenue and expenditures, and taxation policies. Enterprises or legal entities under the control or supervision of the MOF are mainly financial institutions, government departments or agencies. The Group is of the opinion that none of the companies over which the MOF has controlled, joint control or exercises significant influence are considered as related party of the Group.

The Group enters into transactions with the MOF in its ordinary course of business, including the subscription and redemption of government bonds issued by the MOF. Details of the material transactions are set out as follows:

(1) Government bond and special government bond

	2008 RMB million	2007 RMB million
As at 1 January	449,448	394,883
Increase	122,487	136,989
Decrease	(79,295)	(82,423)
As at 31 December	492,640	449,449

(2) Receivable due from the MOF

	Note	2008 RMB million	2007 RMB million
As at 1 January		—	—
Increase	II.1	665,093	—
Decrease		—	—
As at 31 December		665,093	—

(3) Payables to the MOF

	Note	2008 RMB million	2007 RMB million
As at 1 January		—	—
Increase	X.29	(26,027)	—
Decrease		—	—
As at 31 December		(26,027)	—

XII RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)**1. The MOF** (continued)**(4) Deposits from the MOF**

	2008 RMB million	2007 RMB million
As at 1 January	23,250	14,733
Increase	45,781	57,517
Decrease	(60,647)	(49,000)
As at 31 December	8,384	23,250

(5) Redemption of government bond in certificates

	2008 RMB million	2007 RMB million
As at 1 January	(652)	(924)
Increase	(33,590)	(29,169)
Decrease	33,424	29,441
As at 31 December	(818)	(652)

(6) Net interest income

	2008 RMB million	2007 RMB million
Interest income	36,228	10,594
Interest expense	(131)	(343)
Net interest income	36,097	10,251

XII RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)**2. Huijin**

Huijin is a wholly-owned subsidiary of China Investment Corporation Limited, which is registered in Beijing with registered capital of RMB552,117 million and paid-in capital of RMB859,658 million. Legal representative of Huijin is Lou Jiwei (pending finalization of legal process). Huijin is established to hold certain equity investments as authorised by the State Council and does not engage in other commercial activities. Huijin exercises legal rights and obligations in the Bank on behalf of the PRC Government.

As at 31 December 2008, Huijin directly owned 50% of the issued share capital of the Bank (31 December 2007: none). The transactions carried out with Huijin are conducted in the normal course of business, with prices based on normal transaction prices, and under normal commercial terms.

Having due regard to the nature and function of Huijin, the Group is of the opinion that none of the companies over which Huijin has controlled, joint control or exercises significant influence are considered as related party of the Group.

3. Related parties where a control relationship exists

The related parties over which the Bank is able to exercise control are the Bank's subsidiaries (See Note VIII for details of major subsidiaries). The transactions carried out with the subsidiaries are conducted in the normal course of business, with prices based on normal transaction prices, and under normal commercial terms. All significant transactions between the Bank and its subsidiaries are eliminated on consolidation.

4. Other related parties without controlling relationships

The other related parties over which the Group has no controlled are its associates. The transactions carried out with other related parties are conducted in the normal course of business, with prices based on normal transaction prices, and under normal commercial terms. In the opinion of the management, the transactions between the Bank and its associates are insignificant.

5. Key management personnel

Key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group.

The aggregate compensation to key management personnel for the year is as follows:

	2008	2007
	RMB	RMB
	ten thousand	ten thousand
Salary and welfare	841	801

Companies or corporations in which the key management of the Group, or their close relatives, are shareholders or key management personnel who are able to exercise control or significant influence, are also considered as related parties of the Group. In the opinion of the management, the transactions carried out with the aforementioned parties are conducted in the normal course of business, with prices based on normal transaction prices, and under normal commercial terms.

XIII CONTINGENT LIABILITIES AND COMMITMENTS**1. Legal proceedings**

The Group is involved in certain lawsuits as defendants arising from its normal business operations. As at 31 December 2008, provisions of RMB2,829 million were made based on court judgments or the advice of counsel after consulting legal professionals (31 December 2007: RMB2,819 million). Management of the Group believes that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group. The allowance for litigation losses as advised by in-house or the external legal professionals is disclosed in Note X.27 "Provisions".

2. Capital commitments

	Group		Bank	
	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million
Authorised and contracted for	4,135	2,122	4,134	2,122
Authorised but not contracted for	1,262	259	1,262	259
Total	5,397	2,381	5,396	2,381

3. Credit commitments**Group and Bank**

	As at 31 December	
	2008 RMB million	2007 RMB million
Loan commitments	403,839	338,283
Including: with an original maturity of under 1 year	41,677	25,041
with an original maturity of 1 year or over	362,172	313,242
Letter of credit issued	38,780	51,983
Letter of guarantee issued	149,837	129,214
Bank acceptance bill issued	189,126	204,695
Total	781,582	724,175

Credit commitments represent credit card and general credit facility limits grant to customers. These credit facilities may be drawn in the form of loans and advances, the issuance of letter of credit, bank acceptance bill or letters of guarantee.

XIII CONTINGENT LIABILITIES AND COMMITMENTS (continued)**4. Operating leases commitment**

As of the balance sheet date, the Group had the following commitments in respect of irrevocable operating leases contracts:

	Group		Bank	
	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million
Within 1 year	1,103	839	1,097	839
1 to 2 years	914	570	914	570
2 to 3 years	742	478	742	478
Above 3 years	2,621	2,114	2,621	2,114
Total	5,380	4,001	5,374	4,001

5. Collaterals**(1) Assets pledged as collateral**

The carrying amount of assets pledged as collateral under repurchase agreement by the Group is as follows:

Group and Bank

	As at 31 December	
	2008 RMB million	2007 RMB million
Available-for-sale debt securities	25,830	68,503
Loans and advances to customers	9,646	5,378
Total	35,476	73,881

As at 31 December 2008, The Group had balances under repurchase agreements of RMB35,090 million (31 December 2007: RMB73,391 million). All such agreements mature within twelve months from inception.

(2) Collateral received

Cash and securities received as collaterals can be resold or re-pledged in connection with purchase of assets under resale agreements and security lending business. As at 31 December 2008, the fair value of collaterals received by the Group is RMB56,901 million (31 December 2007: RMB8,520 million). As at 31 December 2008, the Group has an obligation to return collaterals sold with a fair value of RMB2,301 million (31 December 2007: RMB1,409 million).

XIII CONTINGENT LIABILITIES AND COMMITMENTS (continued)

6. Government bond underwriting and redemption commitment

The Group is entrusted by the MOF to underwrite government bond in certificates. The Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date in accordance with the early redemption arrangement.

As at 31 December 2008 and 31 December 2007, the nominal value of government bonds underwritten by the Group but not yet matured is RMB51,400 million and RMB62,500 million respectively, the Group has redemption obligations to those bonds. The original maturities of government bonds vary from 3 to 5 years. As the deposit interest rate set by the PBC is lower than the coupon rate of government bond, management expects the early redemption before the maturity dates of those bonds will not be material to the Group.

The MOF will not provide funding for the early redemption of government bond in certificates, but will settle the principal and interest upon maturity.

XIV RISK MANAGEMENT

1. Overview

The Group's primary risk management objectives are to maximise value for equity holders while maintaining risk within acceptable parameters and satisfying the requirements of the regulatory authorities, the Group's depositors and other interest groups for the Group's prudent and stable development. The Group designs risk management policies and sets up risk controls to identify, analyse, monitor and report risks by means of relevant and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The most significant types of risk to the Group are credit risk, market risk and liquidity risk. Market risk includes interest rate risk, currency risk, and other price risk.

2. Financial risk management framework

The management of the Group is responsible for establishing the overall risk appetite of the Group and reviewing and approving the risk management objectives and strategies.

Within this framework, the Group's senior management has overall management responsibility for managing all aspects of risk, including implementing risk management strategies and initiatives and credit policies and approving internal rules, measures and procedures related to risk management. The Group has also defined departments monitoring risk arising from financial instruments within the Group, including the Risk Management Department, etc.

XIV RISK MANAGEMENT (continued)**3. Credit risk****3.1 Credit risk management**

Credit risk is the risk of loss arising from a borrower's or counterparty's inability to meet its obligations. Credit risk can also arise from operational failures that result in an unauthorized or inappropriate advance, commitment or investment of funds. The Group exposes to credit risk primarily due to loans and advances to customers (corporate loans and advances, personal loans), Treasury operations (including debt securities investments), guarantees, commitments and other credit risk exposures.

The Group implements standardised management over its entire credit business process, including: customer investigation and filing, authorisation and approval, loan disbursement, post lending monitoring, and management of non-performing loans. The Group identifies, measures, monitors and manages potential credit risks effectively and timely through the following means:

- implementing a credit approval system including centralised credit management procedures, credit management at different levels, separation of loan approval and disbursement, specialised examination, approval by designated posts and online practices; also employing a "three in one" credit approval approach comprised of board approvals, collegiate approvals and direct approvals;
- optimising and implementing a corporate customer credit rating system by means of adjusting customer rating procedures, limits on examination and approval of loans, and conditions for credit rating upgrade or downgrade;
- developing and implementing an internal customer rating system for corporate and personal loans;
- using Credit Management System ("CMS") to enable a real time risk monitoring, and upgrading the CMS, developing and implementing other risk management tools in accordance with the needs of risk control.
- controlling the scope and speed of credit distribution reasonably, adjusting and optimising structure of credit portfolio continually; and
- To enhance the credit risk management practices and ability of risk identification, the Group also launches training programs periodically for the credit officers at different levels.

XIV RISK MANAGEMENT (continued)

3. Credit risk (continued)

3.1 Credit risk management (continued)

Credit officers are responsible for collecting borrower's application materials, investigating and evaluating borrower's credit risk, proposing borrower's credit rating. The Group adopts authorisation of loan approvals between its headquarter and branches and determines each borrower's credit limit after considering the borrower's credit status, financial conditions, collaterals, credit risk regarding entire credit portfolios, macro-economic policies and laws and regulations. The Group optimises the structure of credit portfolio by updating the credit policy on a timely basis considering the trend of macro-economic environment and the diversity of industry. The loan disbursement center at each branch is responsible for monitoring the compliance, completeness and effectiveness of the credit business process before granting the loan to the borrowers. Credit officers are responsible for conducting the post lending monitoring periodically or non-periodically. The Group monitors corporate loans daily by means of relevant and up-to-date information systems, together with techniques and methods such as risk filtration, supervising loan lists, and risk flags. The Asset Disposal Department is responsible for the collection and disposal of non-performing loans for both corporate and personal. The Group manages non-performing loans by restructuring, disposing the collaterals or collecting from guarantees, litigation or arbitration and write-offs subject to regulatory requirements to lower the potential loss on credit risks.

In addition to the credit risk exposures on credit-related assets, investments and deposit with banks and other financial institutions, the credit risk exposure arising on treasury operations is managed by prudent selection of banks and financial institutions, balancing the risk and yield, referring to external credit rating information etc. In addition, the Group also makes available to its customers guarantees and credit commitments which may require that the Group makes payments on their behalf. Such payments are collected from customers based on the terms of the agreements signed. They expose the Group to similar risks as loans and these are mitigated by the same control processes and policies.

3.2 Impairment assessment

Key factors on impairment assessment

The Group measures and manages the quality of loans and advances to customers based on the "Guiding Principles on the Classification of Loan Risk Management" issued by the CBRC, which requires Chinese commercial banks to classify their corporate and personal loans into five categories: pass, special-mention, substandard, doubtful and loss, among which loans classified in the substandard, doubtful and loss categories are regarded as non-performing. The main considerations of the loan impairment assessment include probability of loan repayment and recoverability of principal or interest. The key assessment factors include a borrower's repayment ability, repayment records, intention of repayment, profitability of business, guarantees or collateral held and legal responsibility of loan repayment. The Group performs the impairment assessment in two areas: individually assessed impairment and collectively assessed impairment.

XIV RISK MANAGEMENT (continued)**3. Credit risk** (continued)**3.2 Impairment assessment** (continued)*Key factors on impairment assessment (continued)*

Individual assessment

All corporate loans and discounted bills are individually reviewed for objective evidence of impairment and classified based on the five-grade classification system. Corporate loans and discounted bills that are classified as substandard, doubtful or loss are individually assessed for impairment.

If there is objective evidence that an impairment loss on a loan or advance has 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. In determining allowances on individual basis, the following factors are considered:

- The sustainability of the counterparty's business plan;
- Its ability to improve performance once a financial difficulty has arisen;
- Projected receipts and the expected payout should bankruptcy ensue;
- Other available financial support and the realisable value of collateral; and
- The timing of the expected cash flows.

Collective assessment

Loans that are assessed for impairment losses on a collective basis include the following:

- Homogeneous groups of loans, including all personal loans; and
- All loans for which no impairment can be identified individually, either due to the absence of any objective evidence of impairment or an inability to measure reliably the impact of potential loss events on future cash flows.

For the purpose of collective assessment, assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

The accounting policies regarding the Group's determination of financial assets impairment are set in Note V.6(3) "Impairment of financial assets".

XIV RISK MANAGEMENT (continued)**3. Credit risk** (continued)**3.2 Impairment assessment** (continued)*Key factors on impairment assessment (continued)*

Collective assessment (continued)

The Group assesses debt securities investments for individual impairment at each balance sheet date. For debt securities carried at fair value, only non-temporary changes in fair value are recognised as impairment losses.

3.3 Maximum exposure to credit risk

The maximum exposure to credit risk represents a worst case scenario of credit risk exposure to the Group at the balance sheet date without taking any collateral held or other credit enhancements attached. The maximum exposure to credit risk at the balance sheet date is represented by the carrying amount of each financial asset in the balance sheet after the deduction of: (1) any amount that is offset in accordance with *new CASs No. 37 — Presentation of financial instruments*; and (2) any impairment allowance.

A summary of the Group's and Bank's maximum exposure to credit risk is as follows:

	Group		Bank	
	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million
Deposits with central banks	1,101,716	893,515	1,101,716	893,515
Deposits with banks and other financial institutions	62,668	16,432	61,853	16,098
Placements with banks and other financial institutions	44,479	52,498	44,700	52,498
Financial assets held-for-trading	40,017	17,205	39,952	17,205
Derivative financial assets	7,151	10,207	7,151	10,207
Financial assets held under resale agreements	246,370	144,848	246,370	144,848
Loans and advances to customers	3,014,984	2,709,192	3,014,951	2,709,192
Available-for-sale financial assets	799,647	528,086	799,647	528,086
Held-to-maturity investments	576,323	532,816	576,323	532,816
Debt securities classified as receivables	892,532	229,743	892,532	229,743
Other financial assets	32,936	27,538	32,874	27,485
Subtotal	6,818,823	5,162,080	6,818,069	5,161,693
Off-balance sheet items				
Credit commitments	781,582	724,175	781,582	724,175
Total	7,600,405	5,886,255	7,599,651	5,885,868

XIV RISK MANAGEMENT (continued)**3. Credit risk** (continued)**3.3 Maximum exposure to credit risk** (continued)

Except for unsecured loans, the Group employs a range of policies and credit enhancement practices to mitigate credit risk exposure to an acceptable level, the most typical of these is the taking advances as collateral and guarantees. The amount and type of acceptable collateral is determined by credit risk evaluations of counterparties. The Group implements guidelines on the acceptability of specific classes of collaterals and evaluation parameters.

The main types of collateral obtained are as follows:

- Mortgage loans to personal customers are generally collateralised by mortgages over residential properties;
- For other personal lending and corporate loans and advances, mainly collateralised by charges over land and properties and other assets of the borrowers;
- For reverse repo transactions, mainly collateralised by bonds, bills, loans or investment securities.

Management of the Group monitors the market value of collaterals periodically and requests for additional collaterals in accordance with the underlying agreement when it is considered necessary.

Notes to the Financial Statements

For the year ended 31 December 2008

XIV RISK MANAGEMENT (continued)

3. Credit risk (continued)

3.4 Loans and advances to customers

(1) The composition of loans and advances to customers by industry is analysed as follows:

Group	As at 31 December			
	2008		2007	
	Amount RMB million	% of total	Amount RMB million	% of total
Corporate loans and advances				
Mining	69,834	2.6	73,196	2.5
Manufacturing	821,258	31.2	1,007,829	33.8
Production and supply of electronic power, gas and water	384,314	14.6	344,970	11.6
Construction	85,280	3.2	83,572	2.8
Transportation, logistics and postal services	203,809	7.7	162,308	5.4
Telecommunication, computer services and software	38,663	1.5	31,205	1.0
Retail, wholesale	203,576	7.7	344,119	11.5
Real estate	342,237	13.0	353,130	11.8
Rental, commercial and servicing	67,204	2.5	112,238	3.8
Water, environment and public utility management	91,063	3.5	77,262	2.6
Others	328,416	12.5	393,148	13.2
Subtotal	2,635,654	100.0	2,982,977	100.0
Personal loans and advances				
Mortgage loans	319,505	68.8	298,858	60.8
Credit card overdraft	7,901	1.7	4,417	0.9
Others	137,099	29.5	187,922	38.3
Subtotal	464,505	100.0	491,197	100.0
Gross loans and advances to customers	3,100,159		3,474,174	
Less: Allowances for impairment losses of loans and advances to customers	(85,175)		(764,982)	
— Individually assessed	(43,141)		(668,130)	
— Collectively assessed	(42,034)		(96,852)	
Loans and advances to customers, net	3,014,984		2,709,192	

XIV RISK MANAGEMENT (continued)**3. Credit risk** (continued)**3.4 Loans and advances to customers** (continued)

(1) *The composition of loans and advances to customers by industry is analysed as follows: (continued)*

Bank

	As at 31 December			
	2008		2007	
	Amount RMB million	% of total	Amount RMB million	% of total
Corporate loans and advances				
Mining	69,834	2.6	73,196	2.5
Manufacturing	821,258	31.2	1,007,829	33.8
Production and supply of electronic power, gas and water	384,314	14.6	344,970	11.6
Construction	85,280	3.2	83,572	2.8
Transportation, logistics and postal services	203,809	7.7	162,308	5.4
Telecommunication, computer services and software	38,663	1.5	31,205	1.0
Retail, wholesale	203,576	7.7	344,119	11.5
Real estate	342,237	13.0	353,130	11.8
Rental, commercial and servicing	67,204	2.5	112,238	3.8
Water, environment and public utility management	91,063	3.5	77,262	2.6
Others	328,416	12.5	393,148	13.2
Subtotal	2,635,654	100.0	2,982,977	100.0
Personal loans and advances				
Mortgage loans	319,505	68.8	298,858	60.8
Credit card overdraft	7,901	1.7	4,417	0.9
Others	137,066	29.5	187,922	38.3
Subtotal	464,472	100.0	491,197	100.0
Loans and advances to customers	3,100,126		3,474,174	
Less: Allowances for impairment losses of loans and advances to customers	(85,175)		(764,982)	
— Individually assessed	(43,141)		(668,130)	
— Collectively assessed	(42,034)		(96,852)	
Loans and advances to customers, net	3,014,951		2,709,192	

XIV RISK MANAGEMENT (continued)**3. Credit risk** (continued)**3.4 Loans and advances to customers**

(2) The composition of gross loans and advances to customers by contractual maturity and collateral type is analysed as follows:

Group

	As at 31 December 2008			
	Less than 1 year	1 to 5 years	More than 5 years	Total
	RMB million	RMB million	RMB million	RMB million
Unsecured loans	420,862	173,794	155,715	750,371
Guaranteed loans	263,408	139,666	251,977	655,051
Mortgage loans	461,188	331,862	394,788	1,187,838
Pledged loans	310,964	24,246	171,689	506,899
Total	1,456,422	669,568	974,169	3,100,159

Bank

	As at 31 December 2008			
	Less than 1 year	1 to 5 years	More than 5 years	Total
	RMB million	RMB million	RMB million	RMB million
Unsecured loans	420,862	173,794	155,715	750,371
Guaranteed loans	263,408	139,666	251,977	655,051
Mortgage loans	461,155	331,862	394,788	1,187,805
Pledged loans	310,964	24,246	171,689	506,899
Total	1,456,389	669,568	974,169	3,100,126

Group and Bank

	As at 31 December 2007			
	Less than 1 year	1 to 5 years	More than 5 years	Total
	RMB million	RMB million	RMB million	RMB million
Unsecured loans	369,070	159,594	166,783	695,447
Guaranteed loans	562,142	228,662	191,798	982,602
Mortgage loans	592,301	393,356	367,930	1,353,587
Pledged loans	274,314	31,514	136,710	442,538
Total	1,797,827	813,126	863,221	3,474,174

XIV RISK MANAGEMENT (continued)**3. Credit risk** (continued)**3.4 Loans and advances to customers** (continued)(3) *Past due loans***Group and Bank**

	As at 31 December 2008				
	Up to 90 days (including 90 days) RMB million	90–360 days (including 360 days) RMB million	360 days to 3 years (including 3 years) RMB million	Over 3 years RMB million	Total RMB million
Unsecured loans	1,348	701	390	182	2,621
Guaranteed loans	11,269	8,855	6,193	214	26,531
Mortgage loans	24,430	18,734	7,295	317	50,776
Pledged loans	3,268	2,701	876	65	6,910
Total	40,315	30,991	14,754	778	86,838

Group and Bank

	As at 31 December 2007				
	Up to 90 days (including 90 days) RMB million	90–360 days (including 360 days) RMB million	360 days to 3 years (including 3 years) RMB million	Over 3 years RMB million	Total RMB million
Unsecured loans	997	2,227	3,041	248,184	254,449
Guaranteed loans	13,818	16,181	46,786	148,156	224,941
Mortgage loans	27,749	21,555	65,542	194,053	308,899
Pledged loans	4,218	2,852	4,197	4,008	15,275
Total	46,782	42,815	119,566	594,401	803,564

Note: Either a loan's principal or interest past due by 1 day in any period, the whole loan is classified as past due loan.

XIV RISK MANAGEMENT (continued)**3. Credit risk** (continued)**3.4 Loans and advances to customers** (continued)(4) *Past due and impairment***Group**

	As at 31 December	
	2008	2007
	RMB million	RMB million
Neither past due nor impaired (i)	2,945,165	2,626,085
Past due but not impaired (ii)	20,927	29,236
Impaired (iii)	134,067	818,853
Subtotal	3,100,159	3,474,174
Less: Allowance for impairment losses of loans and advances to customers	(85,175)	(764,982)
Loans and advances to customers, net	3,014,984	2,709,192

Bank

	As at 31 December	
	2008	2007
	RMB million	RMB million
Neither past due nor impaired (i)	2,945,132	2,626,085
Past due but not impaired (ii)	20,927	29,236
Impaired (iii)	134,067	818,853
Subtotal	3,100,126	3,474,174
Less: Allowance for impairment losses of loans and advances to customers	(85,175)	(764,982)
Loans and advances to customers, net	3,014,951	2,709,192

XIV RISK MANAGEMENT (continued)**3. Credit risk** (continued)**3.4 Loans and advances to customers** (continued)(4) *Past due and impairment* (continued)

(i) Loans and advances neither past due nor impaired

Group

	As at 31 December 2008		
	Pass RMB million	Special mention RMB million	Total RMB million
Corporate loans and advances	2,144,489	363,409	2,507,898
Personal loans and advances	421,597	15,670	437,267
Total	2,566,086	379,079	2,945,165

Bank

	As at 31 December 2008		
	Pass RMB million	Special mention RMB million	Total RMB million
Corporate loans and advances	2,144,489	363,409	2,507,898
Personal loans and advances	421,564	15,670	437,234
Total	2,566,053	379,079	2,945,132

Group and Bank

	As at 31 December 2007		
	Pass RMB million	Special mention RMB million	Total RMB million
Corporate loans and advances	1,985,939	237,788	2,223,727
Personal loans and advances	393,290	9,068	402,358
Total	2,379,229	246,856	2,626,085

XIV RISK MANAGEMENT (continued)**3. Credit risk** (continued)**3.4 Loans and advances to customers** (continued)(4) *Past due and impairment* (continued)

(ii) Loans and advances past due but not impaired

Group and Bank

	As at 31 December 2008				
	Up to 30 days	30–60 days	60–90 days	Total	Fair value of collaterals
	(including	(including	(including		
	30 days)	60 days)	90 days)		
	RMB million	RMB million	RMB million	RMB million	RMB million
Corporate loans and advances	3,623	241	148	4,012	4,857
Personal loans and advances	11,618	3,117	2,180	16,915	27,496
Total	15,241	3,358	2,328	20,927	32,353

Group and Bank

	As at 31 December 2007				
	Up to 30 days	30–60 days	60–90 days	Total	Fair value of collaterals
	(including	(including	(including		
	30 days)	60 days)	90 days)		
	RMB million	RMB million	RMB million	RMB million	RMB million
Corporate loans and advances	6,990	1,429	841	9,260	12,202
Personal loans and advances	14,686	3,348	1,942	19,976	36,399
Total	21,676	4,777	2,783	29,236	48,601

XIV RISK MANAGEMENT (continued)**3. Credit risk** (continued)**3.4 Loans and advances to customers** (continued)(4) *Past due and impairment* (continued)

(iii) Loans and advances impaired

Group and Bank

	As at 31 December 2008		
	Gross loans and advances RMB million	Allowance for impairment RMB million	Net value RMB million
Individually assessed	123,744	(43,141)	80,603
Collectively assessed	10,323	(4,219)	6,104
Total	134,067	(47,360)	86,707

Group and Bank

	As at 31 December 2007		
	Book value RMB million	Allowance for impairment RMB million	Net value RMB million
Individually assessed	749,989	(668,130)	81,859
Collectively assessed	68,864	(63,349)	5,515
Total	818,853	(731,479)	87,374

Including:

	As at 31 December	
	2008 RMB million	2007 RMB million
Individually assessed and impaired	123,744	749,989
Individually assessed and impaired (%)	3.99	21.59
Fair value of collaterals	21,394	46,445

XIV RISK MANAGEMENT (continued)

3. Credit risk (continued)

3.4 Loans and advances to customers (continued)

(5) Rescheduled loans and advances

Restructuring activities include approved external management plans, modification and deferral of payments. Following restructuring, a previously past due customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are under continuous review for applicability. Rescheduled loans and advances totaled RMB11,197 million as at 31 December 2008 (as at 31 December 2007: RMB32,271 million).

(6) During the year, the Group obtained assets by taking possession of collaterals held as security and other credit enhancement assets.

These assets are reflected in the foreclosed assets of other assets of the Group, detailed information of such foreclosed assets is disclosed in Note X.16(2) "Foreclosed assets".

XIV RISK MANAGEMENT (continued)**3. Credit risk** (continued)**3.5 Bonds and bills***Past due and impairment***Group**

	As at 31 December	
	2008	2007
	RMB million	RMB million
Neither past due nor impaired (i)	2,275,176	1,280,146
Past due but not impaired	—	—
Impaired*(ii)	17,358	25,348
Subtotal	2,292,534	1,305,494
Less: Allowances for impairment losses	(274)	(513)
Bonds and bills, net	2,292,260	1,304,981

Bank

	As at 31 December	
	2008	2007
	RMB million	RMB million
Neither past due nor impaired (i)	2,275,111	1,280,146
Past due but not impaired	—	—
Impaired*(ii)	17,358	25,348
Subtotal	2,292,469	1,305,494
Less: Allowances for impairment losses	(274)	(513)
Bonds and other bills, net	2,292,195	1,304,981

* The impaired bonds and bills mainly include available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables. Impaired available-for-sale financial assets are presented at fair value, impaired held-to-maturity investments and debt securities classified as receivables are presented at carrying amount.

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For the year ended 31 December 2008

XIV RISK MANAGEMENT (continued)

3. Credit risk (continued)

3.5 Bonds and bills (continued)

Past due and impairment (continued)

(i) Debt investment neither past due nor impaired

Group

	As at 31 December 2008			
	Held-for-trading financial assets	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables
	RMB million	RMB million	RMB million	RMB million
Government bonds	11,796	588,386	330,239	—
Public sector, quasi-government bonds	5,533	153,342	227,204	—
Financial institution debentures	4,049	17,061	11,395	7,180
Corporate bonds	2,380	26,054	5,211	—
Special government bond	—	—	—	93,300
Government bond in certificates	—	—	—	26,849
PBC — non-negotiable bills	—	—	—	99,992
PBC — special bills	—	—	—	112
Receivable due from the MOF	—	—	—	665,093
Total	23,758	784,843	574,049	892,526

Group

	As at 31 December 2007			
	Financial assets Held-for-trading	Available-for-sale financial assets	Held-to-maturity investments	Debt securities classified as Receivables
	RMB million	RMB million	RMB million	RMB million
Government bonds	3,493	354,270	287,953	—
Public sector, quasi-government bonds	2,150	113,437	229,810	—
Financial institution debentures	5,808	24,043	10,453	5,606
Corporate bonds	2,885	13,881	2,232	746
Special government bond	—	—	—	93,300
Government bond in certificates	—	—	—	29,979
PBC — non-negotiable bills	—	—	—	99,988
PBC — special bills	—	—	—	112
Total	14,336	505,631	530,448	229,731

XIV RISK MANAGEMENT (continued)**3. Credit risk** (continued)**3.5 Bonds and bills** (continued)*Past due and impairment (continued)*

(i) Debt investment neither past due nor impaired (continued)

Bank

	As at 31 December 2008			
	Financial assets	Available-for-sale	Held-to-maturity	Debt securities
	Held-for-trading	financial assets	investments	classified as
	RMB million	RMB million	RMB million	Receivables
Government bonds	11,796	588,386	330,239	—
Public sector, quasi-government bonds	5,533	153,342	227,204	—
Financial institution debentures	3,984	17,061	11,395	7,180
Corporate bonds	2,380	26,054	5,211	—
Special government bond	—	—	—	93,300
Government bond in certificates	—	—	—	26,849
PBC — non-negotiable bills	—	—	—	99,992
PBC — special bills	—	—	—	112
Receivable due from the MOF	—	—	—	665,093
Total	23,693	784,843	574,049	892,526

Bank

	As at 31 December 2007			
	Financial assets	Available-for-sale	Held-to-maturity	Debt securities
	Held-for-trading	financial assets	investments	classified as
	RMB million	RMB million	RMB million	Receivables
Government bonds	3,493	354,270	287,953	—
Public sector, quasi-government bonds	2,150	113,437	229,810	—
Financial institution debentures	5,808	24,043	10,453	5,606
Corporate bonds	2,885	13,881	2,232	746
Special government bond	—	—	—	93,300
Government bond in certificates	—	—	—	29,979
PBC — non-negotiable bills	—	—	—	99,988
PBC — special bills	—	—	—	112
Total	14,336	505,631	530,448	229,731

XIV RISK MANAGEMENT (continued)**3. Credit risk** (continued)**3.5 Bonds and bills** (continued)*Past due and impairment (continued)*

(ii) Investment securities impaired

Group and Bank

	As at 31 December 2008			
	Financial assets	Available-for-sale	Held-to-maturity	Debt securities
	Held-for-trading	financial assets	investments	classified as
	RMB million	RMB million	RMB million	Receivables
Public sector, quasi-government bonds	—	1,811	1,536	—
Financial institution Bonds	—	12,993	907	—
Corporate Bonds	—	—	20	91
Total	—	14,804	2,463	91

Group and Bank

	As at 31 December 2007			
	Financial assets	Available-for-sale	Held-to-maturity	Debt securities
	Held-for-trading	financial assets	investments	classified as
	RMB million	RMB million	RMB million	Receivables
Public sector, quasi-government bonds	—	2,949	1,834	—
Financial institution Bonds	—	19,502	898	—
Corporate Bonds	—	4	—	161
Total	—	22,455	2,732	161

4. Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. This may arise from amount or maturity mismatches of assets and liabilities.

The Group manages its liquidity risk through the Assets and Liabilities Management Department and aim at:

- Optimising the assets and liabilities structure;
- Maintaining the stability of deposit base;
- Projecting cash flows and evaluating the level of current assets; and
- In terms of liquidity of the branches, maintaining an efficient internal fund transfer mechanism.

XIV RISK MANAGEMENT (continued)**4. Liquidity risk** (continued)**(1) Liquidity analyses of non-derivative financial instruments**

The table below summarise the maturity analysis of the Group's non-derivative financial assets and liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the carrying amounts for the financial assets and the contractual undiscounted cash flows for the financial liabilities.

Group

	As at 31 December 2008							Total RMB million
	Past due/ Undated RMB million	On demand RMB million	Less than 1 month RMB million	1-3 months RMB million	3-12 months RMB million	1-5 years RMB million	Over 5 years RMB million	
Non-derivative financial assets								
Cash and deposits with central banks	981,585	164,299	—	—	—	—	—	1,145,884
Deposits with banks and other financial institutions	—	55,161	2,077	750	4,680	—	—	62,668
Placements with banks and other financial institutions	—	—	18,418	20,112	4,063	1,886	—	44,479
Financial assets held for trading	—	—	2,008	3,218	14,635	16,269	3,887	40,017
Financial assets held under resale agreements	—	—	186,387	50,891	9,092	—	—	246,370
Loans and advances to customers	21,400	—	130,212	314,869	1,198,698	652,129	697,676	3,014,984
Available-for-sale financial assets	3	—	107,052	87,284	176,371	270,739	158,564	800,013
Held-to-maturity investments	—	—	2,676	5,649	59,454	350,556	157,988	576,323
Debt securities classified as receivables	6	—	2,837	7,007	15,429	105,360	761,893	892,532
Other financial assets	692	3,724	3,790	11,214	13,551	1	—	32,972
Total non-derivative financial assets	1,003,686	223,184	455,457	500,994	1,495,973	1,396,940	1,780,008	6,856,242
Non-derivative financial liabilities								
Borrowings from central banks	—	—	(35)	(252)	—	(28)	—	(315)
Deposit from banks and other financial institutions	—	(184,068)	(13,637)	(15,798)	(32,157)	(49,389)	—	(295,049)
Placements from banks and other financial institutions	—	—	(23,788)	(8,128)	(1,980)	(151)	(171)	(34,218)
Financial liabilities held for trading	—	—	(6,422)	(3,704)	(5,240)	(6,667)	(1,560)	(23,593)
Financial assets sold under repurchase agreements	—	—	(28,791)	(3,194)	(3,434)	—	—	(35,419)
Deposits from customers	—	(3,348,589)	(405,648)	(542,318)	(1,427,361)	(514,061)	(5,518)	(6,243,495)
Other financial liabilities	—	(60,352)	(10,243)	(15,285)	(27,578)	(19,303)	(77)	(132,838)
Total non-derivative financial liabilities	—	(3,593,009)	(488,564)	(588,679)	(1,497,750)	(589,599)	(7,326)	(6,764,927)
Net position	1,003,686	(3,369,825)	(33,107)	(87,685)	(1,777)	807,341	1,772,682	91,315

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For the year ended 31 December 2008

XIV RISK MANAGEMENT (continued)

4. Liquidity risk (continued)

(1) Liquidity analyses of non-derivative financial instruments (continued)

Group (continued)

	As at 31 December 2007							Total RMB million
	Past due/ Undated RMB million	On demand RMB million	Less than 1 month RMB million	1-3 months RMB million	3-12 months RMB million	1-5 years RMB million	Over 5 years RMB million	
Non-derivative financial assets								
Cash and deposits with central banks	802,838	134,176	—	—	—	—	—	937,014
Deposits with banks and other financial institutions	—	12,457	16	2,321	1,638	—	—	16,432
Placements with banks and other financial institutions	—	—	27,870	16,650	7,223	755	—	52,498
Financial assets held-for-trading	—	—	1,041	1,380	5,751	5,520	3,513	17,205
Financial assets held under resale agreements	—	—	115,283	19,820	9,745	—	—	144,848
Loans and advances to customers	54,743	—	140,030	302,325	986,714	617,303	608,077	2,709,192
Available-for-sale financial assets	4	—	73,094	75,671	48,432	162,990	169,012	529,203
Held-to-maturity investments	—	—	130	30,295	107,476	266,662	128,253	532,816
Debt securities classified as receivables	612	—	1,584	5,600	21,050	105,451	95,446	229,743
Other financial assets	1,804	4,243	3,691	7,984	9,865	—	—	27,587
Total non-derivative financial assets	860,001	150,876	362,739	462,046	1,197,894	1,158,681	1,004,301	5,196,538
Non-derivative financial liabilities								
Borrowings from central banks	—	—	(115)	(150,602)	(122)	(28)	—	(150,867)
Deposit from banks and other financial institutions	—	(241,442)	(8,070)	(3,324)	(14,181)	(20,571)	(16,982)	(304,570)
Placements from banks and other financial institutions	—	—	(24,598)	(4,857)	(609)	(155)	(196)	(30,415)
Financial liabilities held-for-trading	—	—	(441)	(566)	(2,849)	(3,866)	(5,237)	(12,959)
Financial assets sold under repurchase agreements	—	—	(69,306)	(2,300)	(2,616)	—	—	(74,222)
Deposits from customers	—	(3,083,863)	(360,103)	(424,459)	(1,104,219)	(413,123)	(3,247)	(5,389,014)
Other financial liabilities	—	(29,476)	(9,150)	(8,611)	(18,480)	(14,786)	(44)	(80,547)
Total non-derivative financial liabilities	—	(3,354,781)	(471,783)	(594,719)	(1,143,076)	(452,529)	(25,706)	(6,042,594)
Net on-balance position	860,001	(3,203,905)	(109,044)	(132,673)	54,818	706,152	978,595	(846,056)

XIV RISK MANAGEMENT (continued)**4. Liquidity risk** (continued)**(1) Liquidity analyses of non-derivative financial instruments** (continued)**Bank**

	As at 31 December 2008							
	Past due/ Undated	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Non-derivative financial assets								
Cash and deposits with central banks	981,585	164,141	—	—	—	—	—	1,145,726
Deposit with banks and other financial institutions	—	54,444	2,050	741	4,618	—	—	61,853
Placements with banks and other financial institutions	—	—	18,418	20,112	4,284	1,886	—	44,700
Financial assets held-for-trading	—	—	1,943	3,218	14,635	16,269	3,887	39,952
Financial assets held under resale agreements	—	—	186,387	50,891	9,092	—	—	246,370
Loans and advances to customers	21,400	—	130,212	314,869	1,198,665	652,129	697,676	3,014,951
Available-for-sale financial assets	3	—	107,052	87,284	176,371	270,739	158,564	800,013
Held-to-maturity investments	—	—	2,676	5,649	59,454	350,556	157,988	576,323
Debt securities classified as receivables	6	—	2,837	7,007	15,429	105,360	761,893	892,532
Other financial assets	692	3,662	3,790	11,214	13,551	1	—	32,910
Total non-derivative financial assets	1,003,686	222,247	455,365	500,985	1,496,099	1,396,940	1,780,008	6,855,330
Non-derivative financial liabilities								
Borrowings from central banks	—	—	(35)	(252)	—	(28)	—	(315)
Deposits from banks and other financial institutions	—	(184,068)	(13,637)	(15,798)	(32,157)	(49,366)	(23)	(295,049)
Placements from banks and other financial institutions	—	—	(23,788)	(8,128)	(1,980)	(151)	(171)	(34,218)
Financial liabilities held for trading	—	—	(6,422)	(3,704)	(5,240)	(6,667)	(1,560)	(23,593)
Financial assets sold under Repurchase agreement	—	—	(28,791)	(3,194)	(3,434)	—	—	(35,419)
Deposits from customers	—	(3,348,589)	(405,645)	(542,318)	(1,427,309)	(514,061)	(5,518)	(6,243,440)
Other financial liabilities	—	(60,033)	(10,243)	(15,285)	(27,577)	(19,303)	(76)	(132,517)
Total non-derivative financial liabilities	—	(3,592,690)	(488,561)	(588,679)	(1,497,697)	(589,576)	(7,348)	(6,764,551)
Net on-balance position	1,003,686	(3,370,443)	(33,196)	(87,694)	(1,598)	807,364	1,772,660	90,779

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XIV RISK MANAGEMENT (continued)

4. Liquidity risk (continued)

(1) Liquidity analyses of non-derivative financial instruments (continued)

Bank (continued)

	As at 31 December 2007							
	Past due/ Undated	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Non-derivative financial assets								
Cash and deposits with central banks	802,838	134,083	—	—	—	—	—	936,921
Deposits with banks and other financial institutions	—	12,204	16	2,274	1,604	—	—	16,098
Placements with banks and other financial institutions	—	—	27,870	16,650	7,223	755	—	52,498
Financial assets held-for-trading	—	—	1,041	1,380	5,751	5,520	3,513	17,205
Financial assets held under resale agreements	—	—	115,283	19,820	9,745	—	—	144,848
Loans and advances to customers	54,743	—	140,030	302,325	986,714	617,303	608,077	2,709,192
Available-for-sale financial assets	4	—	73,094	75,671	48,432	162,990	169,012	529,203
Held-to-maturity investments	—	—	130	30,295	107,476	266,662	128,253	532,816
Debt securities classified as receivables	612	—	1,584	5,600	21,050	105,451	95,446	229,743
Other financial assets	1,805	4,190	3,691	7,984	9,864	—	—	27,534
Total non-derivative financial assets	860,002	150,477	362,739	461,999	1,197,859	1,158,681	1,004,301	5,196,058
Non-derivative financial liabilities								
Borrowings from central banks	—	—	(115)	(150,602)	(122)	(28)	—	(150,867)
Deposits from banks and other financial institutions	—	(241,442)	(8,070)	(3,324)	(14,181)	(20,571)	(16,982)	(304,570)
Placements from banks and other financial institutions	—	—	(24,598)	(4,857)	(609)	(155)	(196)	(30,415)
Financial liabilities held-for-trading	—	—	(441)	(566)	(2,849)	(3,866)	(5,237)	(12,959)
Financial assets sold under Repurchase agreements	—	—	(69,306)	(2,300)	(2,616)	—	—	(74,222)
Deposits from customers	—	(3,083,863)	(360,103)	(424,459)	(1,104,219)	(413,123)	(3,247)	(5,389,014)
Other financial liabilities	—	(28,932)	(9,150)	(8,611)	(18,480)	(14,787)	(43)	(80,003)
Total non-derivative financial liabilities	—	(3,354,237)	(471,783)	(594,719)	(1,143,076)	(452,530)	(25,705)	(6,042,050)
Net on-balance position	860,002	(3,203,760)	(109,044)	(132,720)	54,783	706,151	978,596	(845,992)

Assets available to meet all of the liabilities and outstanding loan commitments include cash, deposits with central banks, deposits from banks and other financial institutions, placements with banks and other financial institutions and financial assets held for trading. In the normal course of business, a large proportion of customer deposits will be extended at maturity, instead of immediately withdrawn. The Group would also be able to sell the available-for-sale financial assets to repay the matured liabilities once necessary.

XIV RISK MANAGEMENT (continued)**4. Liquidity risk** (continued)**(2) Liquidity analyses of non-derivative financial instruments***(i) Derivatives settled on a net basis*

The major component of the Group's derivatives that settled on a net basis is interest rate derivatives. The table below analyses the Group's derivative financial instruments that will be settled on a net basis by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group and Bank

	As at 31 December 2008					
	Less than 1 month RMB million	1-3 months RMB million	3-12 months RMB million	1-5 years RMB million	Over 5 years RMB million	Total RMB million
Interest rate derivatives	(34)	(82)	(307)	(1,237)	(665)	(2,325)

	As at 31 December 2007					
	Less than 1 month RMB million	1-3 months RMB million	3-12 months RMB million	1-5 years RMB million	Over 5 years RMB million	Total RMB million
Interest rate derivatives	(94)	14	(48)	(108)	(92)	(328)

XIV RISK MANAGEMENT (continued)**4. Liquidity risk** (continued)**(2) Liquidity analyses of non-derivative financial instruments** (continued)*(ii) Derivatives settled on a gross basis*

The Group's derivatives that will be settled on a gross basis refer to currency derivatives. The table below analyses the Group's derivative financial instruments that will be settled on a gross basis by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group and Bank

	As at 31 December 2008					
	Less than 1 month RMB million	1-3 months RMB million	3-12 months RMB million	1-5 years RMB million	Over 5 years RMB million	Total RMB million
Currency derivatives						
Inflow	22,596	21,428	111,998	34,985	1,359	192,366
Outflow	(22,640)	(21,395)	(110,967)	(36,050)	(3,854)	(194,906)
Total	(44)	33	1,031	(1,065)	(2,495)	(2,540)

	As at 31 December 2007					
	Less than 1 month RMB million	1-3 months RMB million	3-12 months RMB million	1-5 years RMB million	Over 5 years RMB million	Total RMB million
Currency derivatives						
Inflow	61,509	26,562	143,528	17,575	1,291	250,465
Outflow	(61,711)	(26,674)	(139,210)	(18,386)	(1,291)	(247,272)
Total	(202)	(112)	4,318	(811)	—	3,193

XIV RISK MANAGEMENT (continued)**4. Liquidity risk** (continued)**(3) Off-balance sheet items**

The Group's off-balance sheet items mainly include loan commitments, letters of credit, letters of guarantee, and acceptances. The table below discloses the amounts of the off-balance sheet items.

Group and Bank

	As at 31 December 2008			
	Less than 1 year RMB million	1-5 years RMB million	Over 5 years RMB million	Total RMB million
Loan commitments	289,586	43,493	70,760	403,839
Letters of credit issued	34,872	2,361	1,547	38,780
Letters of guarantee issued	37,007	40,011	72,819	149,837
Acceptances	189,126	—	—	189,126
Total	550,591	85,865	145,126	781,582

	As at 31 December 2007			
	Less than 1 year RMB million	1-5 years RMB million	Over 5 years RMB million	Total RMB million
Loan commitments	221,931	32,531	83,821	338,283
Letters of credit issued	48,721	3,262	—	51,983
Letters of guarantee issued	21,354	36,448	71,412	129,214
Acceptances	204,695	—	—	204,695
Total	496,701	72,241	155,233	724,175

5. Market risk

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices etc. Market risk arises from both the Group's trading and non-trading business.

The Group is exposed to primarily structural interest rate risk arising from commercial banking and position risk arising from treasury transactions. Interest rate risk is inherent in many of its businesses and largely arises from mismatches between the re-pricing dates of assets and liabilities.

The Group's foreign exchange risk is the risk of loss in respect of its foreign exchange exposures, mainly comprises foreign exchange exposures from the asymmetry of currency structure of assets and liabilities denominated in foreign currencies, and forward exposures from currency derivative transactions, which would suffer from adverse movements in foreign exchange rate.

The Group considers the market risk arising from commodity or stock prices in respect of its investment portfolios as immaterial.

Notes to the Financial Statements

For the year ended 31 December 2008

XIV RISK MANAGEMENT (continued)

5. Market risk (continued)

(1) Exchange rate risk

The Group conducts its businesses mainly in RMB, with certain transactions denominated in US dollar and HK dollar and, to a lesser extent, other currencies. Transactions in other currencies arise from the Group's treasury exposures and foreign operations.

The exchange rate of RMB to USD is under a managed-floating exchange rate system. The exchange rate of RMB to USD has regularly risen over the past few years. The HKD exchange rate has been pegged to the USD and therefore the exchange rate of RMB to HKD has fluctuated in line with the changes in the exchange rate of RMB to USD.

Group	As at 31 December 2008				
	RMB RMB million	USD RMB equivalent RMB million	HKD RMB equivalent RMB million	Other currencies RMB equivalent RMB million	Total RMB million
Cash and deposits with central banks	1,139,807	4,535	943	599	1,145,884
Deposits with banks and other financial institutions	6,130	52,973	1,255	2,310	62,668
Placements with banks and other financial institutions	20,042	21,842	994	1,601	44,479
Financial assets held for trading	35,750	2,722	1,178	367	40,017
Derivative financial assets	1,394	3,954	258	1,545	7,151
Financial assets held under resale agreements	246,370	—	—	—	246,370
Loans and advances to customers	2,937,685	59,911	11,898	5,490	3,014,984
Available-for-sale financial assets	692,004	104,550	1,252	2,207	800,013
Held-to-maturity investments	553,729	20,987	451	1,156	576,323
Debt securities classified as receivables	892,526	—	—	6	892,532
Other financial assets	31,881	940	55	96	32,972
Total financial assets	6,557,318	272,414	18,284	15,377	6,863,393
Borrowings from central banks	(314)	—	—	—	(314)
Deposit from banks and other financial institutions	(273,457)	(14,358)	(1,554)	(403)	(289,772)
Placements from banks and other financial institutions	(15,210)	(15,382)	(2,488)	(1,051)	(34,131)
Financial liabilities held for trading	(16,754)	(5,470)	(453)	—	(22,677)
Derivative financial liabilities	(769)	(7,346)	(266)	(3,153)	(11,534)
Financial assets sold under repurchase agreements	(28,045)	(6,531)	(15)	(499)	(35,090)
Deposits from customers	(6,028,548)	(47,627)	(12,835)	(8,418)	(6,097,428)
Other financial liabilities	(121,222)	(6,911)	(4,418)	(212)	(132,763)
Total financial liabilities	(6,484,319)	(103,625)	(22,029)	(13,736)	(6,623,709)
Net position	72,999	168,789	(3,745)	1,641	239,684

XIV RISK MANAGEMENT (continued)**5. Market risk** (continued)**(1) Exchange rate risk** (continued)**Group** (continued)

	As at 31 December 2007				
	RMB RMB million	USD RMB equivalent RMB million	HKD RMB equivalent RMB million	Other currencies RMB equivalent RMB million	Total RMB million
Cash and deposits with central banks	929,814	5,477	1,206	517	937,014
Deposits with banks and other financial institutions	7,776	4,696	511	3,449	16,432
Placements with banks and other financial institutions	13,586	38,536	201	175	52,498
Financial assets held for trading	10,658	3,812	2,366	369	17,205
Derivative financial assets	2,881	5,261	466	1,599	10,207
Financial assets held under resale agreements	140,574	4,274	—	—	144,848
Loans and advances to customers	2,624,138	67,557	11,844	5,653	2,709,192
Available-for-sale financial assets	451,294	74,329	1,577	2,003	529,203
Held-to-maturity investments	518,980	12,496	515	825	532,816
Debt securities classified as receivables	229,585	151	—	7	229,743
Other financial assets	25,962	1,159	411	55	27,587
Total financial assets	4,955,248	217,748	19,097	14,652	5,206,745
Borrowings from central banks	(150,867)	—	—	—	(150,867)
Deposits from banks and other financial institutions	(286,262)	(8,672)	(1,628)	(56)	(296,618)
Placements from banks and other financial institutions	(8,850)	(11,160)	(8,700)	(1,665)	(30,375)
Financial liabilities held for trading	(3,570)	(6,307)	(611)	—	(10,488)
Derivative financial liabilities	(3,832)	(1,462)	(372)	(1,628)	(7,294)
Financial assets sold under repurchase agreements	(41,820)	(31,239)	(80)	(252)	(73,391)
Deposits from customers	(5,212,853)	(55,114)	(9,834)	(9,393)	(5,287,194)
Other financial liabilities	(74,147)	(2,299)	(3,834)	(56)	(80,336)
Total financial liabilities	(5,782,201)	(116,253)	(25,059)	(13,050)	(5,936,563)
Net on-balance position	(826,953)	101,495	(5,962)	1,602	(729,818)

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For the year ended 31 December 2008

XIV RISK MANAGEMENT (continued)

5. Market risk (continued)

(1) Exchange rate risk (continued)

Bank

	As at 31 December 2008				
	RMB RMB million	USD RMB equivalent RMB million	HKD RMB equivalent RMB million	Other currencies RMB equivalent RMB million	Total RMB million
Cash and deposits with central banks	1,139,649	4,535	943	599	1,145,726
Deposit with banks and other financial institutions	6,053	52,973	517	2,310	61,853
Placements with banks and other financial institutions	20,042	21,842	1,215	1,601	44,700
Financial assets held for trading	35,685	2,722	1,178	367	39,952
Derivative financial assets	1,394	3,954	258	1,545	7,151
Financial assets held under resale agreements	246,370	—	—	—	246,370
Loans and advances to customers	2,937,652	59,911	11,898	5,490	3,014,951
Available-for-sale financial assets	692,004	104,550	1,252	2,207	800,013
Held-to-maturity investments	553,729	20,987	451	1,156	576,323
Debt securities classified as receivables	892,526	—	—	6	892,532
Other financial assets	31,819	940	55	96	32,910
Total financial assets	6,556,923	272,414	17,767	15,377	6,862,481
Borrowings from central banks	(314)	—	—	—	(314)
Deposit from banks and other financial institutions	(273,457)	(14,358)	(1,554)	(403)	(289,772)
Placements from banks and other financial institutions	(15,210)	(15,382)	(2,488)	(1,051)	(34,131)
Financial liabilities held for trading	(16,754)	(5,470)	(453)	—	(22,677)
Derivative financial liabilities	(769)	(7,346)	(266)	(3,153)	(11,534)
Financial assets sold under repurchase agreements	(28,045)	(6,531)	(15)	(499)	(35,090)
Deposits from customers	(6,028,493)	(47,627)	(12,835)	(8,418)	(6,097,373)
Other financial liabilities	(121,129)	(6,911)	(4,192)	(211)	(132,443)
Total financial liabilities	(6,484,171)	(103,625)	(21,803)	(13,735)	(6,623,334)
Net on-balance position	72,752	168,789	(4,036)	1,642	239,147

XIV RISK MANAGEMENT (continued)**5. Market risk** (continued)**(1) Exchange rate risk** (continued)**Bank** (continued)

	As at 31 December 2007				
	RMB RMB million	USD RMB equivalent RMB million	HKD RMB equivalent RMB million	Other currencies RMB equivalent RMB million	Total RMB million
Cash and deposits with central banks	929,721	5,477	1,206	517	936,921
Deposits with banks and other financial institutions	7,776	4,696	177	3,449	16,098
Placements with banks and other financial institutions	13,586	38,536	201	175	52,498
Financial assets held for trading	10,658	3,812	2,366	369	17,205
Derivative financial assets	2,881	5,261	466	1,599	10,207
Financial assets held under resale agreements	140,574	4,274	—	—	144,848
Loans and advances to customers	2,624,138	67,557	11,844	5,653	2,709,192
Available-for-sale financial assets	451,294	74,329	1,577	2,003	529,203
Held-to-maturity investments	518,980	12,496	515	825	532,816
Debt securities classified as receivables	229,585	151	—	7	229,743
Other financial assets	25,909	1,159	411	55	27,534
Total financial assets	4,955,102	217,748	18,763	14,652	5,206,265
Borrowings from central banks	(150,867)	—	—	—	(150,867)
Deposits from banks and other financial institutions	(286,263)	(8,672)	(1,628)	(56)	(296,619)
Placements from banks and other financial institutions	(8,850)	(11,160)	(8,700)	(1,665)	(30,375)
Financial liabilities held for trading	(3,570)	(6,307)	(611)	—	(10,488)
Derivative financial liabilities	(3,832)	(1,462)	(372)	(1,628)	(7,294)
Financial assets sold under repurchase agreements	(41,820)	(31,239)	(80)	(252)	(73,391)
Deposits from customers	(5,212,853)	(55,114)	(9,834)	(9,393)	(5,287,194)
Other financial liabilities	(74,051)	(2,326)	(3,359)	(56)	(79,792)
Total financial liabilities	(5,782,106)	(116,280)	(24,584)	(13,050)	(5,936,020)
Net on-balance position	(827,004)	101,468	(5,821)	1,602	(729,755)

XIV RISK MANAGEMENT (continued)**5. Market risk** (continued)**(1) Exchange rate risk** (continued)

The table below indicates the potential effect of an appreciation or depreciation of RMB spot and forward exchange rate against all other currencies by 5% on the Group's net profit and equity.

Group				
	2008		2007	
	Net profit RMB million	Owners' equity RMB million	Net profit RMB million	Owners' equity RMB million
5% appreciation	(8,120)	(214)	(4,557)	(300)
5% depreciation	8,120	214	4,557	300

Bank				
	2008		2007	
	Net profit RMB million	Owners' equity RMB million	Net profit RMB million	Owners' equity RMB million
5% appreciation	(8,105)	(214)	(4,562)	(300)
5% depreciation	8,105	214	4,562	300

The impact on the net profit arises from the effect of movement of RMB exchange rate on the net position of monetary assets and liabilities, the net position of non-monetary assets and liabilities measured at fair value and RMB currency derivative instruments.

The effect on the net profit is based on the assumption that the Group's foreign currency sensitive exposure and RMB currency derivative instruments as at year end are kept unchanged. In operation, the Group mitigates its currency exchange rate risk through active management of its foreign currency exposures and appropriate use of derivative instruments, based on the Group's judgment of foreign exchange rate movement trends. Therefore, the above sensitivity analysis may differ to the actual situation.

The effect on equity arises from currency translation differences of overseas operations and the effect of movement of RMB exchange rate on investments in overseas operations included in monetary assets denominated in foreign currencies.

XIV RISK MANAGEMENT (continued)

5. Market risk (continued)

(2) Interest rate risk

The Group's interest rate risk arises from the differences in timing between contractual maturities and re-pricing of interest-generating assets and interest-bearing liabilities. The Group's interest-generating assets and interest-bearing liabilities are mainly denominated in RMB. The PBC establishes RMB benchmark interest rates which include a cap for RMB deposit rates and a floor for RMB loan rates.

The Group manages its interest rate risk by:

Regularly monitoring the macro-economic factors that may impact on the PBC benchmark interest rates;

Optimising the differences in timing between contractual maturities and repricing of interest-generating assets and interest-bearing liabilities; and

Managing the deviation of the pricing of interest-generating assets and interest-bearing liabilities from the PBC benchmark interest rates.

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XIV RISK MANAGEMENT (continued)

5. Market risk (continued)

(2) Interest rate risk (continued)

The tables below summarise the contractual repricing or maturity date, whichever is earlier, of the Group's financial assets and liabilities.

Group	As at 31 December 2008						
	Less than 1 month RMB million	1 to 3 months RMB million	3 to 12 months RMB million	1 to 5 years RMB million	Over 5 years RMB million	Non-interest bearing RMB million	Total RMB million
Cash and deposits with central banks	1,053,751	—	—	—	—	92,133	1,145,884
Deposits with banks and other financial institutions	54,008	750	4,659	—	—	3,251	62,668
Placements with banks and other financial institutions	18,763	20,319	5,397	—	—	—	44,479
Financial assets held-for-trading	2,790	5,459	15,150	13,551	3,021	46	40,017
Derivative financial assets	—	—	—	—	—	7,151	7,151
Financial assets held under resale agreements	186,387	50,891	9,092	—	—	—	246,370
Loans and advances to customers	1,168,670	631,159	1,211,979	925	2,251	—	3,014,984
Available-for-sale financial assets	125,489	98,320	211,561	237,575	126,699	369	800,013
Held-to-maturity investments	20,627	40,637	135,693	256,313	123,053	—	576,323
Debt securities classified as receivables	—	2,844	7,221	120,568	761,893	6	892,532
Other financial assets	—	—	—	—	—	32,972	32,972
Total financial assets	2,630,485	850,379	1,600,752	628,932	1,016,917	135,928	6,863,393
Borrowings from central banks	—	(49)	—	—	—	(265)	(314)
Deposit from banks and other financial institutions	(187,988)	(28,566)	(32,251)	(40,967)	—	—	(289,772)
Placements from banks and other financial institutions	(29,700)	(2,722)	(1,466)	(3)	(240)	—	(34,131)
Financial liabilities held-for-trading	(9,589)	(3,699)	(3,219)	(3,248)	(170)	(2,752)	(22,677)
Derivative financial liabilities	—	—	—	—	—	(11,534)	(11,534)
Financial assets sold under repurchase agreements	(28,708)	(3,120)	(3,262)	—	—	—	(35,090)
Deposits from customers	(3,666,787)	(525,113)	(1,372,789)	(447,491)	(5,447)	(79,801)	(6,097,428)
Other financial liabilities	(473)	(2,469)	(2,207)	—	—	(127,614)	(132,763)
Total financial liabilities	(3,923,245)	(565,738)	(1,415,194)	(491,709)	(5,857)	(221,966)	(6,623,709)
Net position	(1,292,760)	284,641	185,558	137,223	1,011,060	(86,038)	239,684

XIV RISK MANAGEMENT (continued)**5. Market risk** (continued)**(2) Interest rate risk** (continued)**Group** (continued)

	As at 31 December 2007						Total RMB million
	Less than 1 months	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	
Cash and deposits with central banks	848,936	—	—	—	—	88,078	937,014
Deposits with banks and other financial institutions	10,314	2,320	1,638	—	—	2,160	16,432
Placements with banks and other financial institutions	28,317	16,736	7,445	—	—	—	52,498
Financial assets held for trading	1,830	4,613	6,574	2,629	1,550	9	17,205
Derivative financial assets	—	—	—	—	—	10,207	10,207
Financial assets held under resale agreements	115,283	19,820	9,745	—	—	—	144,848
Loans and advances to customers	1,081,410	567,112	1,059,805	398	467	—	2,709,192
Available for sale financial assets	104,540	89,550	70,601	143,421	119,970	1,121	529,203
Held-to-maturity investments	18,628	52,318	191,285	195,568	75,017	—	532,816
Debt securities classified as receivables	746	1,612	6,214	125,859	95,300	12	229,743
Other financial assets	—	—	—	—	—	27,587	27,587
Total assets	2,210,004	754,081	1,353,307	467,875	292,304	129,174	5,206,745
Borrowings from central banks	—	(49)	—	—	—	(150,818)	(150,867)
Deposit from banks and other financial institutions	(257,907)	(2,522)	(35,835)	(354)	—	—	(296,618)
Placements from banks and other financial institutions	(24,248)	(4,822)	(1,092)	(7)	(206)	—	(30,375)
Financial liabilities held for trading	(4,464)	(1,017)	(3,446)	(240)	(325)	(996)	(10,488)
Derivative financial liabilities	—	—	—	—	—	(7,294)	(7,294)
Financial assets sold under repurchase agreements	(69,224)	(2,033)	(2,134)	—	—	—	(73,391)
Deposits from customers	(3,365,948)	(414,181)	(1,063,698)	(366,334)	(3,222)	(73,811)	(5,287,194)
Other financial liabilities	(644)	(2,426)	(824)	(260)	—	(76,182)	(80,336)
Total liabilities	(3,722,435)	(427,050)	(1,107,029)	(367,195)	(3,753)	(309,101)	(5,936,563)
Net	(1,512,431)	327,031	246,278	100,680	288,551	(179,927)	(729,818)

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XIV RISK MANAGEMENT (continued)

5. Market risk (continued)

(2) Interest rate risk (continued)

Bank

	As at 31 December 2008						
	Less than 1 months RMB million	Between 1 to 3 months RMB million	Between 3 to 12 months RMB million	Between 1 to 5 years RMB million	Over 5 years RMB million	Non-interest bearing RMB million	Total RMB million
Cash and deposits with central banks	1,053,593	—	—	—	—	92,133	1,145,726
Deposits with banks and other financial institutions	53,305	740	4,599	—	—	3,209	61,853
Placements with banks and other financial institutions	18,763	20,319	5,618	—	—	—	44,700
Financial assets held for trading	2,790	5,459	15,085	13,551	3,021	46	39,952
Derivative financial assets	—	—	—	—	—	7,151	7,151
Financial assets held under resale agreements	186,387	50,891	9,092	—	—	—	246,370
Loans and advances to customers	1,168,670	631,159	1,211,946	925	2,251	—	3,014,951
Available for sale financial assets	125,489	98,320	211,561	237,575	126,699	369	800,013
Held-to-maturity investments	20,627	40,637	135,693	256,313	123,053	—	576,323
Debt securities classified as receivables	—	2,844	7,221	120,568	761,893	6	892,532
Other financial assets	—	—	—	—	—	32,910	32,910
Total assets	2,629,624	850,369	1,600,815	628,932	1,016,917	135,824	6,862,481
Borrowings from central banks	—	(49)	—	—	—	(265)	(314)
Deposit from banks and other financial institutions	(187,988)	(28,566)	(32,251)	(40,967)	—	—	(289,772)
Placements from banks and other financial institutions	(29,700)	(2,722)	(1,466)	(3)	(240)	—	(34,131)
Financial liabilities held for trading	(9,589)	(3,699)	(3,219)	(3,248)	(170)	(2,752)	(22,677)
Derivative financial liabilities	—	—	—	—	—	(11,534)	(11,534)
Financial assets sold under repurchase agreements	(28,708)	(3,120)	(3,262)	—	—	—	(35,090)
Deposits from customers	(3,666,787)	(525,113)	(1,372,737)	(447,491)	(5,447)	(79,798)	(6,097,373)
Other financial liabilities	(473)	(2,469)	(2,207)	—	—	(127,294)	(132,443)
Total liabilities	(3,923,245)	(565,738)	(1,415,142)	(491,709)	(5,857)	(221,643)	(6,623,334)
Net	(1,293,621)	284,631	185,673	137,223	1,011,060	(85,819)	239,147

XIV RISK MANAGEMENT (continued)**5. Market risk** (continued)**(2) Interest rate risk** (continued)**Bank** (continued)

	As at 31 December 2007						Total RMB million
	Less than 1 months RMB million	Between 1 to 3 months RMB million	Between 3 to 12 months RMB million	Between 1 to 5 years RMB million	Over 5 years RMB million	Non-interest bearing RMB million	
Cash and deposits with central banks	848,843	—	—	—	—	88,078	936,921
Deposits with banks and other financial institutions	10,104	2,274	1,604	—	—	2,116	16,098
Placements with banks and other financial institutions	28,317	16,736	7,445	—	—	—	52,498
Financial assets held for trading	1,830	4,613	6,574	2,629	1,550	9	17,205
Derivative financial assets	—	—	—	—	—	10,207	10,207
Financial assets held under resale agreements	115,283	19,820	9,745	—	—	—	144,848
Loans and advances to customers	1,081,410	567,112	1,059,805	398	467	—	2,709,192
Available for sale financial assets	104,540	89,550	70,601	143,421	119,970	1,121	529,203
Held-to-maturity investments	18,628	52,318	191,285	195,568	75,017	—	532,816
Debt securities classified as receivables	746	1,612	6,214	125,859	95,300	12	229,743
Other financial assets	—	—	—	—	—	27,534	27,534
Total assets	2,209,701	754,035	1,353,273	467,875	292,304	129,077	5,206,265
Borrowings from central banks	—	(49)	—	—	—	(150,818)	(150,867)
Deposits from banks and other financial institutions	(257,908)	(2,522)	(35,835)	(354)	—	—	(296,619)
Placements from banks and other financial institutions	(24,248)	(4,822)	(1,092)	(7)	(206)	—	(30,375)
Financial liabilities held for trading	(4,464)	(1,017)	(3,446)	(240)	(325)	(996)	(10,488)
Derivative financial liabilities	—	—	—	—	—	(7,294)	(7,294)
Financial assets sold under repurchase agreements	(69,224)	(2,033)	(2,134)	—	—	—	(73,391)
Deposits from customers	(3,365,948)	(414,181)	(1,063,698)	(366,334)	(3,222)	(73,811)	(5,287,194)
Other financial liabilities	(644)	(2,426)	(824)	(260)	—	(75,638)	(79,792)
Total liabilities	(3,722,436)	(427,050)	(1,107,029)	(367,195)	(3,753)	(308,557)	(5,936,020)
Net	(1,512,735)	326,985	246,244	100,680	288,551	(179,480)	(729,755)

XIV RISK MANAGEMENT (continued)**5. Market risk** (continued)**(2) Interest rate risk** (continued)

The following table illustrates the potential impact of a parallel upward or downward shift of 100 basis points in all currencies' yield curves on the Group's net interest income and equity, based on the Group's structure of interest-bearing assets and liabilities at the balance sheet date.

Group	31 December 2008		31 December 2007	
	Net interest		Net interest	
	income	Owners' equity	income	Owners' equity
	RMB million	RMB million	RMB million	RMB million
+100 basis points	(9,315)	(17,431)	(10,842)	(12,764)
-100 basis points	9,315	18,714	10,842	13,743

Bank	31 December 2008		31 December 2007	
	Net interest		Net interest	
	income	Owners' equity	income	Owners' equity
	RMB million	RMB million	RMB million	RMB million
+100 basis points	(9,323)	(17,431)	(10,846)	(12,764)
-100 basis points	9,323	18,714	10,846	13,743

The sensitivity of net interest income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the financial assets and financial liabilities held at year end subject to repricing within the coming year.

The sensitivity of equity is the effect on changes of fair value calculated by revaluing fixed rate available-for-sale financial assets at year end for the effects of the assumed changes in interest rates.

The standard-frame weight modulus from the Appendix of *Principle of Interest Risk Management and Monitoring* by the Basel Committee (July 2004) is referenced in the calculation of the sensitivity of the net interest income. The modulus is based on the assumption that the Group continues receiving net interest income calculated using the varied yield after repricing date.

The interest rate sensitivities may differ from actual situation as the Group does not consider that the above assumption represents its policies on treasury operations and interest risk management.

XIV RISK MANAGEMENT (continued)**5. Market risk** (continued)**(2) Interest rate risk** (continued)

The interest rate sensitivities set out in the table above are illustrative only. The figures represent the effect of the pro forma movements in net interest income and equity based on the projected yield curve scenarios and the Group'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.

(3) Other price risks

Other price risks mainly arise from holding derivatives instruments on equity investments by the Group. Most of the equity investments are obtained thorough historical reasons or acquisitions of foreclosed assets. The Group considers the other price risk it faces as immaterial.

6. Capital management

The Group computes the capital adequacy ratio in accordance with *Decision of China Banking Regulatory Commission on Revising the Measures for the Management of Capital Adequacy Ratios of Commercial Banks*, *Notice from China Banking Regulatory Commission on the Relevant Issues on Calculating the Capital Adequacy Ratio After Banks and Financial Institutions Implementing <Accounting Standards for Business Enterprises>* and other related regulations promulgated by the CBRC.

		As at 31 December 2008	
		Group	Bank
		RMB million	RMB million
Core capital adequacy ratio (%)	(1)	8.04	8.00
Capital adequacy ratio (%)	(2)	9.41	9.36
Components of capital base			
Core capital			
Paid-in capital/Share capital		260,000	260,000
Surplus reserve and general reserves		1,251	1,247
Retained earnings		12,022	10,677
Minority interests		96	—
		273,369	271,924
Supplementary capital			
Collectively assessed allowances for impairment losses of loans and advances from customers		37,815	37,815
Reserve for net change in the fair value of available-for-sale financial assets	(3)	8,646	8,646
		46,461	46,461
Total capital base before deductions		319,830	318,385
Deductions:			
Unconsolidated equity investments		347	779
Total capital base after deductions		319,483	317,606
Risk-weighted assets and market risk capital adjustment	(4)	3,396,301	3,394,217

XIV RISK MANAGEMENT (continued)

6. Capital management (continued)

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

7. Determination of fair value

In determining the fair value of financial instruments, the Group considers that the market price or market interest is the best reflection of the fair value of financial instruments for which an active market exists. As there is no available market value or market interest for certain financial instruments, the Group uses the discounted cash flow method or other valuation methods. Whether the discounted cash flow method or other valuation method is used, reference is made to market condition for the financial instruments being valued at balance sheet date.

The valuation methods are usually applied to over-the-counter derivatives, unlisted held-for-trading assets or liabilities and unlisted available-for-sale financial assets. The most commonly used pricing models and valuation techniques by the Group include forward pricing based on the discounted cash flows, swap models, option pricing models and credit models.

The fair value estimated by the methods described above is distinctly influenced by the model selection and inherent hypothesis, such as the amount and timing of the future cash inflows, discount rate, volatility and credit risk etc.

The Group adopts the following three types of valuation methods to determine the fair value of financial instruments:

- (1) The fair value of financial instruments traded on active markets and may be acquired directly at quoted market price is determined by market transaction price.
- (2) The fair value of financial instruments may not be acquired directly at quoted market price is determined by valuation methods or models, with assumptions based on market price or market interest at the balance sheet date.
- (3) For financial instruments whose fair value may not be determined directly or indirectly by market price or market interest, the Group employs valuation methods or models with relevant assumptions and parameters to determine their fair value.

XIV RISK MANAGEMENT (continued)**7. Determination of fair value** (continued)

The tables below summarise the carrying amounts and fair values of those financial assets and liabilities not presented on the balance sheet at their fair value. Financial assets and liabilities for which the carrying amounts approximates fair value, such as due from central banks, due from banks and other financial institutions, placements with banks and other financial, financial assets purchased under agreements to resell, due to central banks, placements from banks and other financial institutions, financial assets sold under agreements to repurchased etc have not been included in the tables below.

Group

	31 December 2008		31 December 2007	
	Carrying value RMB million	Fair value RMB million	Carrying value RMB million	Fair value RMB million
Financial assets				
Loans and advances to customers	3,014,984	3,015,029	2,709,192	2,709,113
Held-to-maturity investments	576,323	608,739	532,816	543,994
Debt securities classified as receivables	892,532	896,889	229,743	226,929
	4,483,839	4,520,657	3,471,751	3,480,036
	31 December 2008		31 December 2007	
	Carrying value RMB million	Fair value RMB million	Carrying value RMB million	Fair value RMB million
Financial liabilities				
Deposits from banks and other financial institutions	289,772	289,859	296,618	296,585
Deposit from customers	6,097,428	6,114,989	5,287,194	5,281,482
	6,387,200	6,404,848	5,583,812	5,578,067

Notes to the Financial Statements

For the year ended 31 December 2008

XIV RISK MANAGEMENT (continued)

7. Determination of fair value (continued)

Bank

Financial assets	31 December 2008		31 December 2007	
	Carrying value RMB million	Fair value RMB million	Carrying value RMB million	Fair value RMB million
Loans and advances to customers	3,014,951	3,014,996	2,709,192	2,709,113
Held-to-maturity investments	576,323	608,739	532,816	543,994
Debt securities classified as receivables	892,532	896,889	229,743	226,929
	4,483,806	4,520,624	3,471,751	3,480,036

Financial liabilities	31 December 2008		31 December 2007	
	Carrying value RMB million	Fair value RMB million	Carrying value RMB million	Fair value RMB million
Deposits from banks and other financial institutions	289,772	289,859	296,619	296,585
Deposit from customers	6,097,373	6,114,934	5,287,194	5,281,482
	6,387,145	6,404,793	5,583,813	5,578,067

XV APPROVAL OF THE FINANCIAL STATEMENTS

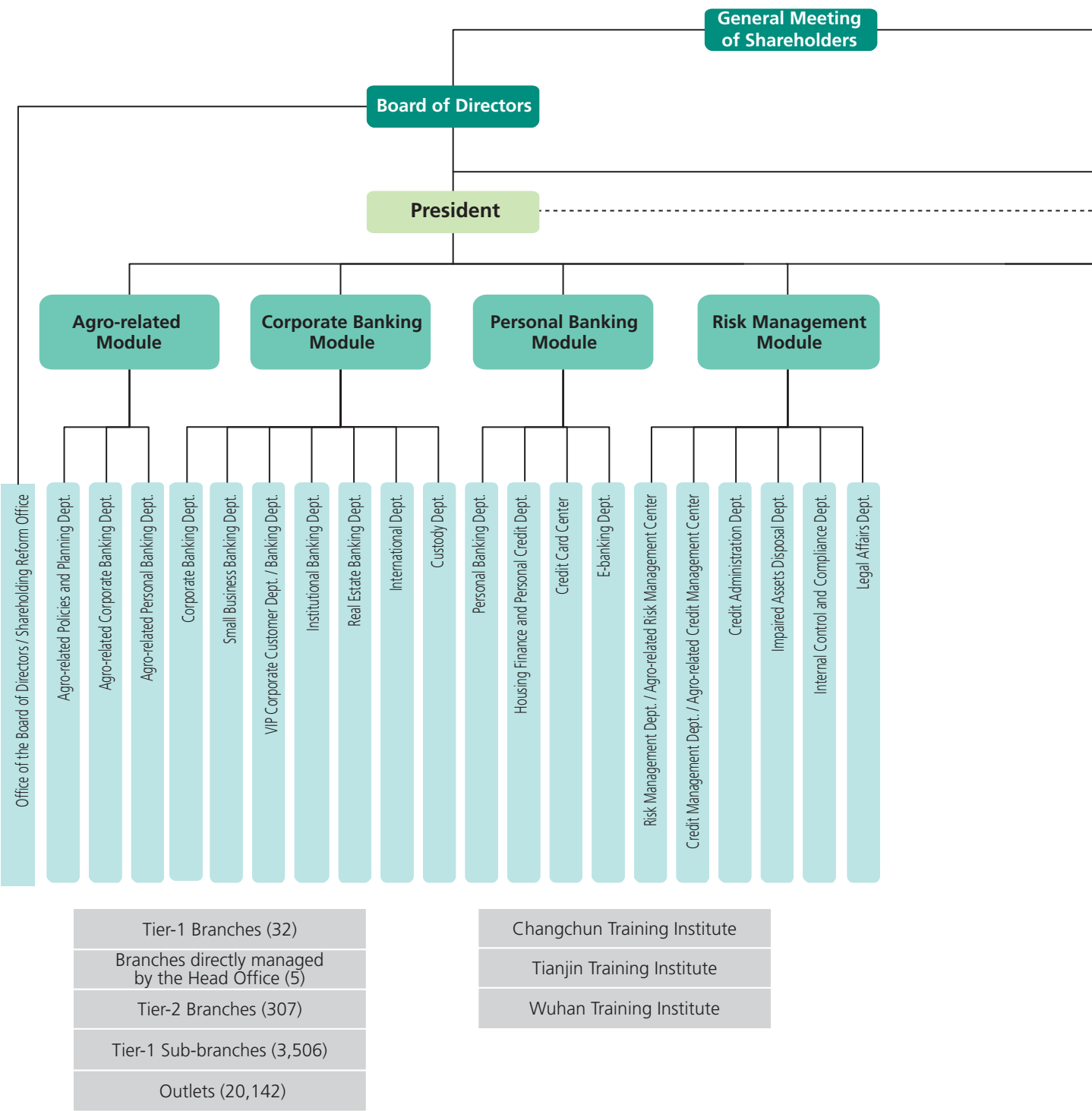
The financial statements are approved and by the Board of Directors of the Bank on 25 April 2009.

List of Documents for Reference

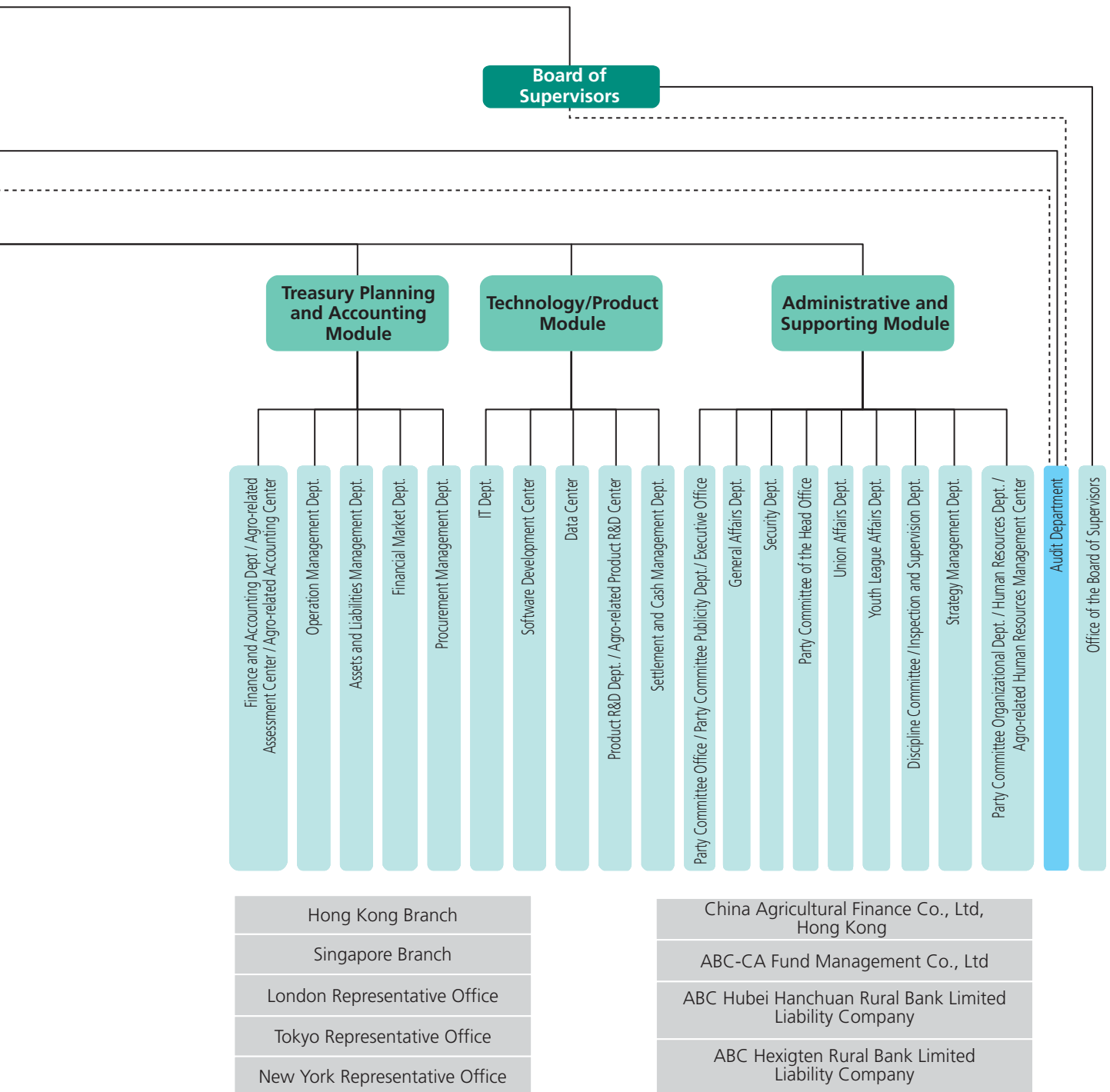
- i. Financial statements signed and sealed by the Legal Representative, Executive Vice President in charge of finance and accounting and Head of the Finance & Accounting Department; and
- ii. Original auditor's report sealed by the accounting firm and signed and sealed by CPAs.

(The report is prepared in both Chinese and English. Should there be any discrepancy between the Chinese and English versions, the former shall prevail.)

Organizational Chart



Organizational Chart



List of Domestic and Overseas Branches and Offices

Domestic Institutions

- **BEIJING BRANCH**

ADD: 5 Zhanlan Road,
Xicheng District,
Beijing 100037, P. R. China

TEL: 010-68358266

FAX: 010-68350495

- **TIANJIN BRANCH**

ADD: No. 3 6 Zijinshan Road,
Hexi District,
Tianjin 300074, P. R. China

TEL: 022-23338734

FAX: 022-23338736

- **HEBEI BRANCH**

ADD: 39 Ziqiang Road,
Shijiazhuang,
Hebei Province 050000,
P. R. China

TEL: 0311-87026132

FAX: 0311-87019961

- **SHANXI BRANCH**

ADD: 92 Fudongjie, Taiyuan,
Shanxi Province 030002,
P. R. China

TEL: 0351-4956830

FAX: 0351-4956999

- **INNER MONGOLIA
BRANCH**

ADD: ABC Building,
Xincheng North Road,
Hohhot, Inner Mongolia
010010, P. R. China

TEL: 0471-6903388-80904

FAX: 0471-6904750

- **LIAONING BRANCH**

ADD: 27 Beijing Road,
Shenhe District, Shenyang,
Liaoning Province 110013,
P. R. China

TEL: 024-22550004

FAX: 024-22550007

- **JILIN BRANCH**

ADD: 926 Renmindajie,
Changchun, Jilin Province
130051, P. R. China

TEL: 0431-82093114

FAX: 0431-82093597

- **HEILONGJIANG BRANCH**

ADD: 131 Xidazhijie,
Nangang District,
Harbin, Heilongjiang
Province 150006,
P. R. China

TEL: 0451-86208846

FAX: 0451-86209357

- **SHANGHAI BRANCH**

ADD: 599 Xujiahui Road,
Luwan District,
Shanghai 200023,
P. R. China

TEL: 021-53961888

FAX: 021-53961900

- **JIANGSU BRANCH**

ADD: 357 Hongwu Road,
Nanjing 210002,
P. R. China

TEL: 025-84571888

FAX: 025-84573199

- **ZHEJIANG BRANCH**

ADD: 55 Changqing Street,
Hangzhou, Zhejiang
Province 310003,
P. R. China

TEL: 0571-87226000

FAX: 0571-87226177

- **ANHUI BRANCH**

ADD: 448 Changjiang Zhonglu,
Hefei, Anhui Province
230061, P. R. China

TEL: 0551-2843475

FAX: 0551-2843573

- **FUJIAN BRANCH**

ADD: 177 Hualin Road,
Fuzhou, Fujian Province
350003, P. R. China

TEL: 0591-87909976

FAX: 0591-87909886

- **JIANGXI BRANCH**

ADD: 339 Zhongshan Road,
Nanchang, Jiangxi Province
330008, P. R. China

TEL: 0791-6693775

FAX: 0791-6693777

- **SHANDONG BRANCH**

ADD: 168 Jingqi Road,
Ji'nan, Shandong Province
250001, P. R. China

TEL: 0531-85858888

FAX: 0531-82056558

List of Domestic and Overseas Branches and Offices

- **HENAN BRANCH**

ADD: 16 Outside Ring
Business Road,
Zhengdong New District,
Zhengzhou, Henan Province
450016, P. R. China
TEL: 0371-69196826
FAX: 0371-69196724

- **HUBEI BRANCH**

ADD: 66 Zhongbei Road,
Wuchang District, Wuhan,
Hubei Province 430071,
P. R. China
TEL: 027-68875778
FAX: 027-87326693

- **HUNAN BRANCH**

ADD: 540 Furong Zhonglu,
Section 1, Changsha,
Hunan Province 410005,
P. R. China
TEL: 0731-4300265
FAX: 0731-4300261

- **GUANGDONG BRANCH**

ADD: 423-425 North Tower,
Zhujiang East Road,
Zhujiang New Town,
Tianhe District, Guangzhou,
Guangdong Province
510623, P. R. China
TEL: 020-38008003
FAX: 020-38008019

- **GUANGXI BRANCH**

ADD: 56 Jinhu Road, Nanning,
Guangxi Autonomous
Region 530028, P. R. China
TEL: 0771-2106036
FAX: 0771-2106035

- **HAINAN BRANCH**

ADD: 26 Binhai Road,
Haikou, Hainan Province
570125, P. R. China
TEL: 0898-66772087
FAX: 0898-66772999

- **SICHUAN BRANCH**

ADD: 6 Tiyuchang Road,
Chengdu, Sichuan Province
610015, P. R. China
TEL: 028-86760327
FAX: 028-86760461

- **CHONGQING BRANCH**

ADD: 103 Xinhua Road,
Yuzhong District,
Chongqing 400011,
P. R. China
TEL: 023-63551188
FAX: 023-63844275

- **GUIZHOU BRANCH**

ADD: 201 Zhonghua South Road,
Guiyang, Guizhou Province
550002, P. R. China
TEL: 0851-5221016
FAX: 0851-5221009

- **YUNNAN BRANCH**

ADD: 1 Renmin Middle Road,
Kunming, Yunnan Province
650051, P. R. China
TEL: 0871-3203405
FAX: 0871-3203408

- **TIBET BRANCH**

ADD: 10 Kang'ang East Road,
Lhasa, Tibet 850000,
P. R. China
TEL: 0891-6333750
FAX: 0891-6328111-6125

- **SHAANXI BRANCH**

ADD: 64 Nanguanzhengjie,
Xi'an, Shaanxi Province
710068, P. R. China
TEL: 029-87802428
FAX: 029-87804810

- **GANSU BRANCH**

ADD: 108 Jinchang North Road,
Lanzhou, Gansu Province
730030, P. R. China
TEL: 0931-8895084
FAX: 0931-8895040

- **QINGHAI BRANCH**

ADD: 96 Huanghe Road,
Xining, Qinghai Province
810001, P. R. China
TEL: 0971-6145160
FAX: 0971-6141235

- **NINGXIA BRANCH**

ADD: 95 Jiefang West Street,
Xingqing District, Yinchuan,
Ningxia Autonomous
Region 750001, P. R. China
TEL: 0951-6027614
FAX: 0951-6027440

- **XINJIANG BRANCH**

ADD: 66 Jiefang South Road,
Urumqi 830002, P. R. China
TEL: 0991-2814785
FAX: 0991-2815229

- **XINJIANG PRODUCTION
AND CONSTRUCTION
CORPS BRANCH**

ADD: 173 Jiefang South Road,
Urumqi 830002, P. R. China
TEL: 0991-2323641
FAX: 0991-2839450

- **DALIAN BRANCH**

ADD: 10 Zhongshan Road,
Zhongshan District, Dalian,
Liaoning Province 116001,
P. R. China
TEL: 0411-82510020
FAX: 0411-82510654

List of Domestic and Overseas Branches and Offices

- **QINGDAO BRANCH**

ADD: 19 Shandong Road,
Qingdao, Shandong
Province 266071,
P. R. China

TEL: 0532-85802215

FAX: 0532-85814102

- **NINGBO BRANCH**

ADD: 518 Zhongshan East Road,
Ningbo, Zhejiang Province
315040, P. R. China

TEL: 0574-87363537

FAX: 0574-87363537

- **XIAMEN BRANCH**

ADD: 98-100 ABC Building,
Jiahe Road, Siming District,
Xiamen, Fujian Province
361009, P. R. China

TEL: 0592-5578881

FAX: 0592-5578899

- **SHENZHEN BRANCH**

ADD: 5008 Shennan East Road,
Shenzhen, Guangdong
Province 518001,
P. R. China

TEL: 0775-25590960

FAX: 0755-25590942

- **TIANJIN TRAINING INSTITUTE**

ADD: 88 Weijin Nanlu,
Nankai District,
Tianjin 300381, P. R. China

TEL: 022-23389307

FAX: 022-23381289

- **CHANGCHUN TRAINING INSTITUTE**

ADD: 1408 Qianjin Street,
Chaoyang District,
Changchun, Jilin Province
130012, P. R. China

TEL: 0431-86822002

FAX: 0431-86822111

- **WUHAN TRAINING INSTITUTE**

ADD: 134 Zhongbei Road,
Wuchang District, Wuhan,
Hubei Province 430077,
P. R. China

TEL: 027-86780477

FAX: 027-86795502

- **SUZHOU BRANCH**

ADD: 65 Shishan Road,
New District, Suzhou,
Jiangsu Province 215011,
P. R. China

TEL: 0512-68247016

FAX: 0512-68417800

- **ABC-CA FUND MANAGEMENT Co., Ltd**

ADD: 7/F, Puxiang Business
Plaza, 1600 Century Road,
Shanghai 200122,
P. R. China

TEL: 021-61095588

FAX: 021-61095556

- **ABC HUBEI HANCHUAN RURAL BANK LIMITED LIABILITY COMPANY**

ADD: Jianshece Road,
Xinhe Power Plant,
Hanchuan, Hubei Province
431600, P. R. China

TEL: 0712-8412338

FAX: 0712-8412338

- **ABC HEXIGTEN RURAL BANK LIMITED LIABILITY COMPANY**

ADD: Industrial Park,
Middle Section,
Jiefang Road,
Jingpeng Township,
Hexigten 025350

TEL: 0476-5227657

FAX: 0476-5227657

Overseas Institutions

- **SINGAPORE BRANCH**

ADD: 80 Raffles Place,
#27-20 UOB Plaza 2,
Singapore, 048624
TEL: 0065-65355255
FAX: 0065-65367155

- **HONG KONG BRANCH**

ADD: 23/F, Tower 1,
Admiralty Centre,
18 Harcourt Road,
Hong Kong
TEL: 00852-28618000
FAX: 00852-28660133

- **CHINA AGRICULTURAL
FINANCE CO., LTD,
HONG KONG**

ADD: Unit C, 32/F, Tower One,
Lippo Centre,
No. 89 Queensway,
Hong Kong
TEL: 00852-25111645
FAX: 00852-25075959

- **LONDON
REPRESENTATIVE OFFICE**

ADD: 18/F, City Tower,
40 Basinghall Street
London, EC2V 5DE, U. K.
TEL: 0044-20-73748900
FAX: 0044-20-73746425

- **TOKYO REPRESENTATIVE
OFFICE**

ADD: No. 503,
Kishimoto, Building 2-1,
2 Chome Marunouchi,
Chiyoda-Ku, Tokyo,
100 Japan
TEL: 0081-3-32114628
FAX: 0081-3-32125047

- **NEW YORK
REPRESENTATIVE OFFICE**

ADD: 45 Rockefeller Plaza,
Suite 1706 New York,
NY 10111 U.S.A.
TEL: 001-212-8888998
FAX: 001-212-8889686

Definitions

In the report, unless the context otherwise specifies, the following terms shall have the meanings as follows:

1. Shibor	Shanghai Interbank Offered Rate
2. The Bank/the Group/ABC/ Agricultural Bank of China	Agricultural Bank of China Limited or its precursor (except otherwise referred to herein) and all the subsidiaries of Agricultural Bank of China Limited
3. Articles of Association of the Bank	The Articles of Association of Agricultural Bank of China Limited as approved by the CBRC on 13 January 2009
4. MOF	The Ministry of Finance of the People's Republic of China
5. Changsha-Zhuzhou-Xiangtan	Changsha, Zhuzhou and Xiangtan
6. Freddie Mac	Federal Home Loan Mortgage Corp.
7. Fannie Mae	Federal National Mortgage Association
8. Company Law	The Company Law of the People's Republic of China
9. State Administration for Industry & Commerce	State Administration for Industry & Commerce of the People's Republic of China
10. The top three commodities and futures exchanges of China	Shanghai Futures Exchange, Zhengzhou Commodity Exchange and Dalian Commodity Exchange
11. State Council	The State Council of the People's Republic of China
12. Huijin	Central Huijin Investment Limited
13. Basis point	Ten thousandth
14. Lehman Brothers	Lehman Brothers Holdings Inc.
15. Moody's	Moody's Investors Service
16. ABC-CA Fund Management	ABC-CA Fund Management Co., Ltd
17. PBOC	The People's Bank of China
18. Agro-related	Agriculture, rural areas and farmers
19. CBRC	China Banking Regulatory Commission
20. RMB	Chinese currency Renminbi
21. CSRC	China Securities Regulatory Commission
22. CASs	The Accounting Standards for Enterprises promulgated on 15 February 2006 by the Ministry of Finance of the People's Republic of China and other related rules and regulations
23. China's Auditing Standards	The Auditing Standards for Chinese Certified Public Accountants promulgated on 15 February 2006 by the Ministry of Finance of the People's Republic of China and other related rules and regulations

Internal Control Self-Assessment Report

I. Basic Structure of Internal Control

The Bank has built a multi-tiered, all-dimensional and integrated internal control system spanning the aspects of internal environment, risk assessment, internal control information, communication, and internal supervision, in accordance with *the Law of the People's Republic of China on Commercial Banks*, *the Law of the People's Republic of China on Regulation of and Supervision over the Banking Industry*, *the Guidelines for Internal Control of Commercial Banks* issued by CBRC, *the Basic Standard for Enterprise Internal Control* released by five authorities¹ and internal control requirements of the Basel Committee on Banking Supervision. The Bank established the Risk Management Committee, Audit Committee, Agro-related Finance Development Committee and other decision-making and discussion bodies under the Board of Directors. These were created with an aim to improve the general decision-making system. To further improve the internal control management framework, the Bank also established an independent Risk Management Department and Internal Control Compliance Department, as well as a "two-tiered and relatively independent" internal audit body. The Bank has been continuously improving the corporate governance structure and endeavors to build a comprehensive risk management system. With focused efforts on the detail-oriented management of procedure-based operations, improvement of IT capability and establishment of a multi-channel supervision system, the Bank is continuing its improvement of internal control and steady business growth.

II. Establishment and Improvement of Internal Control

(i) Improved Corporate Governance

After the incorporation of the joint stock company in January 2008, the Bank created a corporate governance structure consisting of the General Meeting of Shareholders, Board of Directors, Board of Supervisors and Senior Management. It also developed a series of corporate governance documents in line with regulatory requirements and the new governance structure. The documents include the Articles of Association of the Bank, the Rules of Procedures of the General Meeting, the Rules of Procedures of the Board of Directors, the Rules of Procedures of the Board of Supervisors, the rules of procedures of specialist committees under the Board of Directors, as well as the working rules for the president. These efforts ensure standardized operation of the General Meeting, Board of Directors, Board of Supervisors and Senior Management.

(ii) Development and Implementation of "3510" Strategy

The Bank defined the medium- and long-term strategic objectives of "making significant changes in three years, attaining fundamental changes in five years, and building ABC into a globally leading bank in 10 years" ("3510 Strategy"). We also designed the blueprint for the next 10 years which identified the direction of development. Within the framework of the "3510 Strategy", Bank branches and departments created specific action plans that were pushed forward in a timely manner within the overall strategy.

(iii) Basic Policy Framework for Comprehensive Risk Management

The Bank preliminarily established the basic policy framework for risk management. The risk management policy outlines three basic policies (1) credit risk, (2) market risk and (3) operational risk. Separate rules and codes of practice were developed in sequence for corporate customer credit rating, asset risk classification, stress test, treasury transactions and investment management. The Bank also developed the agro-related business risk management procedures and guidelines. It formulated rules and regulations regarding risk manager appointments, agro-related customer credit ratings, risk classification and provisions.

1. The Ministry of Finance, the National Audit Office, CBRC, CSRC and CIRC.

(iv) Authorization Management System Improvement

To further improve the authorization management system to accommodate the corporate governance structure of modern commercial banks, the Bank developed the administrative regulations for authorization by the Board of Directors and by the president. We also regulated the “authorization to same level job positions” and began an authorization indicators system. Special authorization remains strictly enforced.

(v) Compliance Management and Compliance Culture Development

To meet requirements of the Guidelines on Compliance Risk Management in Commercial Banks, the Bank developed the Compliance Policy of Agricultural Bank of China, which establishes the guidelines, philosophies, objectives and basic rules for compliance management of ABC.

The Bank issued the Circular on Implementation of the “Basic Standard for Enterprise Internal Control” and organized preparation of the Basic Rules for Internal Control of Agricultural Bank of China. In addition, the Bank introduced procedures for internal control compliance inspection and management to strengthen internal control regulation. It also coordinates management of supervision and inspection resources.

Furthermore, to further improve the anti-money laundering system, the Bank issued the code of practice for customer status identification. It also developed procedures for anti-money laundering information management and established a protocol for the reporting of large-amount and suspicious transactions.

(vi) Business Rules and Regulations Perfection for Growing Operations

The Bank standardized credit operations and effectively controlled credit risk. Regulations for credit business approval and for Independent Credit Approval Person of credit business were developed. The corporate customer management procedures were amended to clarify their customer classification and identification methods. In addition, the corporate customer credit management procedures for the group customers were re-designed. The administrative measures for “non-standard collateral by warehouse receipts” were developed and distributed, and amendments were made to policies on entrusted loans, credit filing and credit business authorization. The Bank adjusted and standardized the five aspects of agro-related credit: (1) basic codes, (2) rating, (3) authorization, (4) credit granting and (5) guarantee. In addition, the administrative measures for resident agro-related credit risk managers were developed.

More efforts were made in improving the accounting system and building a sustainable standardized management system. The basic accounting rules and the procedures for recognition and measurement of asset impairment, basic accounting policies under the new accounting standards, and the new accounting standards were fully clarified and implemented. The Bank also developed and improved: (1) the fixed asset management procedures and the capital project management rules, (2) the financial management measures for the cost center, (3) the financial management measures for the Head Office level profit center at the Head Office level, (4) the financial management measures for overseas operations, and (5) the budget management procedures for the Head Office’s IT and new product development projects.

Improvements were made to the vault management system to control the risks. The Bank reviewed existing regulations and developed the procedures for vault management and teller cash box management. It also developed provisional administrative measures for cash cassettes of self-service equipments. All these rules and regulations covered the complete process of vault management.

The Bank improved the IT internal control system, developed solutions for statistics reporting risks, enhanced control of operational risk in statistics. In addition, we amended four regulations, including the administrative measures for information system risks and the management procedures for operation of IT projects. The action plan for reviewing operational risk in technological divisions was developed and a solid foundation for IT risk management was laid.

III. Internal Control System Achievements

(i) Corporate and Compliance Culture Development

An efficient corporate culture fuels internal control development, and the implementation of internal controls relies on support from and maintenance of corporate culture. To improve employee proficiency and heighten corporate image, the Bank arranged discussions on corporate culture to identify problems and introduced solutions. These efforts created a welcoming corporate culture atmosphere throughout the Bank and kept all employees involved.

“Dedication, Integrity, Diligence and Compliance” are the basic elements of professional ethics of the Bank’s employees. The phrase also represents the core of the Bank’s corporate culture. The Bank carried out reviews of the *Codes of Conduct of the Employees* and established regular employee training, which created a strong compliance culture.

(ii) HR and Performance Management Reform

The Bank continued the comprehensive HR reform under the principles of “overall design, effective interface and step-by-step implementation”. To accomplish this in the context of the new strategic positioning of the Bank, we hired Mercer, a human resource consulting company, to introduce cutting-edge HR management concepts, advance HR management tools, as well as an organization structure with features of urban-rural binary operation and management.

To date, the Bank has developed the organizational structure plan, created a clear position management system, and designed a position arrangement template for organizations and units of the Bank at all levels. In addition the Bank identified standard positions (mandatory) and auxiliary positions (optional), standardized core functions of positions, and completed all design tasks for the position management project module.

In 2008, the Bank designed the overall framework for employee performance management with four goals in mind: “planning, guidance, assessment of performance, and the application of results”. The Bank also standardized the workflows for employee performance management at the Head Office and its branches, and developed the temporary procedures for performance assessment of the Head Office divisions and employees.

(iii) Internal Audit Reorganization

To accommodate needs resulting from stockholding reform and improvement in corporate governance structure, the Bank adjusted the internal audit system that operates directly under the Board of Directors and independently of business operation and management. It also explored the internal audit management mechanism within the new framework.

Currently, under the guidelines of “focusing on agriculture, rural areas and farmers with commercialized operation”, the Bank decided to reorganize the audit function of tier-1 branches to an “office and sub-offices” audit system as well as develop plans for internal audit restructuring and establish audit sub-offices. The audit restructuring will be fully implemented in 2009.

(iv) Comprehensive Risk Management

The Bank gives top priority to risk management as an important part of its internal reform. This year, the Bank restructured the risk management segment by setting up a separate risk management department, which oversaw all risks of the Bank. To intensify risk management, the Bank also established the Credit Granting Department, Internal Control & Compliance Department and Operation Management Department.

The project for planning the comprehensive risk management system was fully commenced this year. According to the requirements on listing and corporate governance, the Bank developed the “Strategic Objectives for Risk Management and Risk Preference”, “Organizational Structure of Risk Management”, “Risk Management Policies and Regulations”, “Risk Management of Agro-related Business”, “Risk Management and Measurement Tools” and “Building of the Risk Manager Team” to further comprehensive risk management of the Bank.

The risk reporting system was built progressively to ensure proper risk monitoring and reporting. The Bank defined risk reporting procedures and the administrative measures for operational risk reporting. ABC also set out reporting standards for classifications, subject matters, formality and contents, paths, time requirements, organizations, and evaluation and assessment. The Bank maintained a routine risk monitoring and reporting method while closely watching macroeconomic movements and changes in financial and economic policies.

The Bank promoted internal rating system development and researched economic capital measurements. This year it finished the framework of foundation IRB approach to non-retail customers. In 2009, this concept will be tested and promoted throughout the Bank. The Bank will also start to offer the retail customer internal rating project bidding.

(v) Internal Control Practice, Business Processes and Detail-Focused Management

The Bank strengthened the internal control of credit business. While focusing on risk control, credit system building, and credit approval restructuring, the Bank gave attention to efficient development, management enhancement and reform & innovation techniques. The Bank promoted online credit approval, implemented industry-specific credit policies management, carried out a test project for customer list management and improved the quality and efficiency of credit approval. In addition, the Bank strengthened the use of credit technologies, which aim at the building of implementation capacity in the credit management line.

The Bank also improved internal control of accounting. The overall reform of financial management was carried out aggressively in respect to financial fundamentals, financial mechanism and finance governance. The Bank also explored business growth sustainability as it related to resource allocation, in pursuit of an innovative comprehensive performance assessment that meets requirements of shareholding reform. The Bank developed provisional procedures for comprehensive performance assessment as well as procedures for domestic branches. The Bank re-designed the rules for domestic tiered branch management, linked tiered branch management to performance assessment, and upgraded the Financial Management Information System (FMIS). It also stepped up promotion and implementation of the Performance and Value Management System (PVMS).

In addition, the Bank set up a separate business management department in 2008 to apply a central management over operational and trading businesses and relevant back-office operations. The counter-based business process and post supervision mode were re-engineered by establishment of the back office processing and incorporation of technical platforms, such as the image system, thereby emphasizing procedure-based control in all aspects, reducing manual control in business operations and accounting, and creating a workflow from front office through middle office to back office.

Consistent with business growth needs, the Bank launched the ABIS system upgrading project and improved counter-based business processes to reduce the work load on counter-based operations. The counter-based seal management procedures and the counter-based register management procedures were further developed. In addition, the Bank optimized the ARMS system in such aspects as monitoring rules, parameter setting and information analysis. To eliminate potential sources of risks, controls intensified in risk vulnerable areas through centralized reconciliation, door-to-door services and extended counters.

(vi) Agro-related Business Risk Control and Sustainable Development

The Bank strengthened risk control in its agro-related services and implementation of the county-level “blue ocean” strategy. A specific agro-related business risk management system was created to promote sustained growth of agro-related business.

Vertical risk control was intensified for the agro-related business to accommodate requirements from the credit power division and lower level operation focus. The organization of resident risk manager, accounting supervisor and compliance manager was also introduced. Furthermore, the Bank improved the agro-related business risk management mechanism. In addition, it improved the risk classification for agro-related loans, enhanced and held accountable provision management for loan impairments, transfer and off-office audit systems. The Head Office and all level branches were trained to properly handle relations (1) between service enhancement and risk control and (2) between short-term benefits and long-term growth.

(vii) IT Application and Information Security

To provide effective technologies to ensure operational risk control, the Bank promoted the fingerprint authentication system, the accounting monitoring centralization project, and the automatic operation and maintenance project.

The IBR approach, CMS New Accounting Standard Module, anti-money laundering and other systems were also developed to support the comprehensive risk management framework.

The Bank integrated technological resources, created the working systems for coordination of IT resource allocation and began civil works for the Northern Data Center. In addition, the Bank improved infrastructures of the Shanghai Data Center and accelerated Phase III migration of application systems. To meet the needs resulting from business outlet transformation, the business processing center establishment, and the creation of a remote business monitoring system, the Bank adjusted its network architecture and improved its capacity, management and security therein.

In 2008, the Phase I project of the National Network Administration platform was completed and preparations in place for the Phase II. The project provided central management of relevant LANs, MANs, high-speed core communication network and tier-1 core communication network. It also optimized network operation and management processes, as well as improve network operation, maintenance efficiency and service quality, and reduce downtime and accidents.

(viii) Diversified Supervision Methods and Correction of Problems Identified in Internal and External Inspections

In 2008, the Bank conducted a complete central audit and completed a full inspection and assessment of operation and management of 11 tier-1 branches. These efforts disclosed problems and risks as well as consolidated loan quality and financial and profit bases.

The Bank carried out supervision in many ways. Random checks over vault, cash and important blank vouchers were conducted arbitrarily at the Head Office, branch and sub-branch levels. Tour and special inspections were carried out to identify and correct problems in major branches and key businesses as well as in key procedures. Job rotation was enhanced. Employee conduct examination and non-compliance scoring management was maintained. Full displacement-based inspection was tested in some branches to enhance control over key positions in county-level sub-branches and their outlets to prevent operational risk and ethic risk in operation and management.

The Bank gave important consideration to rectification of problems identified in internal and external inspections. Corrections were made in accordance with the duties, procedures, standards, follow-up requirements and accountability set out in the *Interim Rules on Rectification of Problems Found by External Regulators and Internal Inspectors*. Vulnerabilities in internal control were identified and solutions developed to strengthen supervision. Problems in regards to internal control systems were researched and addressed during the shareholding reform. Violators were punished to the highest degree allowed, and leaders at all levels were subjected to strict accountability procedures.

Annual internal control assessment was implemented throughout the Bank to cover all tier-1 branches (or branches directly under the Head Office), tier-2 branches and county-level sub-branches. Assessment results were included into the annual comprehensive performance assessment system and linked to the assessment, authorization and re-authorization of branches and sub-branches. They are taken as the basis for assessment of their superior management. The internal control assessment has become an essential component of the Bank's internal control system, as it is as crucial risk control instrument for assessing internal control management of branches.

(ix) Processing of Incompliance Cases to Prevent Further Risks

The Bank carried out campaigns to enhance internal control and prevent incompliance cases by mobilizing all staff in this regard. To create a sustainable incompliance control mechanism, the Bank introduced a series of policies and actions against incompliance cases and achieved satisfactory results.

On one hand, focus was placed on key businesses and procedures. Based on full analysis of risk points in businesses, the Bank focused efforts on operational risk in counter-based businesses and in credit businesses, including (1) violation with counter-based operation procedures, (2) non-compliances in notes business, (3) fraudulent pledge and mortgage loans, and (4) violations in personal loans for production purposes.

On the other hand, focus was placed on key branches and sub-branches. Efforts were focused on areas showing frequent violations and disorder management. This included 82 tier-2 branches and 704 sub-branches of the Bank. There were marked improvements in internal control management after the corrections.

In 2008, the Bank filed 26 cases of legal and regulatory violations, representing a decline of 31 cases or 54.4% from the previous year and exceeding the annual objective of a 30% reduction in cases. There were six cases in excess of RMB1 million, down by 11 cases or 64.6% from 2007. 226 violation attempts involving RMB20.505 million were also detected and processed. Compared with the previous year, a drastic decline was seen in total number cases, total volume of money involved, and total number of violations over RMB1 million.

IV. Aspects for Improvement in Internal Control

(i) Risk Prevention and Response

In the context of slowing global economic growth and escalating turmoil in financial markets, pressures build up on some industries and enterprises and commercial banks are confronted with heightened credit risk and market risk, immediately adding difficulties to risk control for the Bank. The Bank shall introduce risk control policies in proactive response to these adverse changes in domestic and overseas economic conditions and procure sound risk management and control across the Bank. The Bank shall start to apply industry limit management in 2009 that focuses on industries granted with high limits or exposed to high risks.

(ii) Management Tools and Systems

There is still room for improvement in areas such as the application of internal rating, management accounting, and portfolio management compared with some advanced management tools and systems according to international standards. The Bank shall step up efforts to develop advanced risk measurement instruments and improve risk measurement capability, with focus on the internal rating system. Management tools including economic capital, limits, asset portfolio, risk pricing and Internal FTP will be used to meet risk control objectives.

(iii) Risk Prevention in Foreign Exchange Transactions and Investment

Amidst the global financial crisis that began with collapse of the U.S. subprime mortgage market, domestic enterprises, in particular financial institutions, reviewed and adjusted policies accordingly. The Bank also adjusted its overseas transaction and investment strategy based on in-depth research. With regard to the risk management policy on foreign currency bond investment, the bank shall hold fast to the principles of “calm response, restructuring, sufficient provisions and disposal as appropriate”. In addition, ABC will suspend investment in credit bonds and structured products, conduct followed-up researches on international financial markets, adjust forex investment portfolio and increase holdings of sovereign bonds and quasi-sovereign bonds where appropriate.

(iv) Agro-related Risk Control

As a bank oriented towards agro-related businesses, the Bank is rapidly expanding its agro-related and county-level businesses. However this increases the demand for improved risk control. To ensure satisfactory services, controlled risks and sustained growth of agro-related and county-level businesses, the Bank shall accelerate the building of systems for vertical risk management, resident risk managers and certification of risk management personnel within the multidivisional structure system. The Bank shall also enhance internal control of divisions by establishing the county-level sub-branch credit authority suspension & resumption system, a system in which the Head Office communicates with county-level sub-branch about major risks and other control measures.

(v) Internal Control Assessment Procedures

Adjustments and additions should be made to the existing internal control assessment procedures, as a result of (1) the Bank's shareholding reform acceleration, (2) the improvements in corporate governance structure, (3) the transformation of operation and (4) the implementation of the multidivisional system. To improve feasibility and effectiveness of internal control assessment, it is necessary to amend the Bank's internal control assessment procedures, operating rules and off-site assessment procedures to meet the needs of the new corporate structure and operation.

V. Priorities and Key Measures of Internal Control in 2009

(i) Internal Control Environment Improvement

The Bank shall further improve the composition and operation systems of the General Meeting, the Board of Directors and the Board of Supervisors. In addition the Bank shall appoint additional independent directors, elect employee supervisors, and improve the cumulative voting system, independent nomination system and the independent directors as specialist committee heads appointment system.

The comprehensive HR reform plan of the Bank will be implemented in 2009. The Bank is now stepping up efforts to improve reform plans for organization system, position system, performance management and compensation management sub-modules with aims at maintaining a full-fledged performance assessment system and a strict accountability system providing effective incentives.

(ii) Comprehensive Risk Management System Development

The Bank shall also improve efforts to release its risk management policy framework, as well as develop risk management objectives and actions consistent with the risk management strategy of the Bank. Meanwhile, alterations, additions and refinements will be made to main risk management procedures and operating rules for individual businesses and risk management.

The Bank's risk management system will be further improved on a "specialized, centralized and vertical" basis. Duties will be properly divided between business lines, risk lines and audit lines, with a horizontal coordination mechanism created to integrate risk management resources.

The Bank shall push forward risk management consultation projects, establish valuation modules for foreign currency corporate derivatives, measure the fair value of financial instruments, and create innovative bonds with balanced risk and yield. The Bank shall develop, promote and apply (1) the IBR approach for credit risk, (2) the internal model approach for market risk, and (3) the standardized approach for operational risk and stress test instruments.

The Bank shall also advance risk management for agro-related businesses and further develop risk control actions and instruments according to distinctiveness of agro-related businesses.

(iii) Process Development and Detail-Focused Management

The Bank shall formally launch the compliance manual compilation project to identify key risk points and standardize business operation and management procedures. These procedures are based on review and optimization of business and product processes. With consideration of both risk and efficiency, the existing credit policies and regulations will be fully reviewed. Credit business processes will be adjusted and the efficiency of credit business quality will be strengthened through detail-focused management.

(iv) Application System and Technical Support

Efforts will focus on 10 application systems related to serving agro-related businesses, its accounting report and decision-making support, marketing support, risk control and business operation. These together provide a strong technological support for the Bank's business growth and division management. The bank shall further implement the IT risk work accountability system, accelerate the building of the IT risk management framework and control system, identify and control key risk points and ensure security and stability of the Bank's IT system. The Bank shall further promote standard, automated operation as well as improve disaster recovery and emergency response systems to assure operational security and stability of the information system.

(v) Internal Supervision and Internal & External Inspections

The Bank shall fully implement the audit reform plan, set up audit sub-offices and establish an innovative audit system. The development and application of the computer-aided audit system will provide auditing with additional investigation approaches.

The full displacement-based inspection actions will be standardized and promoted throughout the Bank in accordance with the Interim Procedures for Full Displacement-based Inspection of Agricultural Bank of China. Full-time inspection groups are arranged to conduct inspection over working positions without prior notice and to temporarily remove relevant persons from their positions during inspection. This intensifies supervision over persons involved in crucial offices at county-level sub-branches and their outlets.

The rectification work remains under strict control. As to the problems found in internal and external inspections, differentiated problem-solving mechanisms should be made depending on their nature and severity. The supervisory system was established to ensure that the alteration of problems should be included as part of the daily operation and management. It will be combined with internal control to be more successful.



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