CRÉDIT AGRICOLE
CORPORATE & INVESTMENT BANK
东方汇理银行

Credit Agricole Corporate and Investment Bank (China) Limited

2010 Annual Report

Contents

Bank Profile

Credit Agricole Corporate and Investment Bank (China) Limited was locally incorporated on July 1st, 2009 and officially commenced business on August 3rd, 2009. Headquartered in Shanghai, CA-CIB (China) is a wholly-owned subsidiary of Crédit Agricole Corporate and Investment Bank. Further to the incorporation of CA-CIB (China), CA-CIB issued a first demand guarantee in respect of CA-CIB (China)'s obligations to demonstrate its full support to CA-CIB China.

CA-CIB has been present in China in a "continuous" fashion for more than a century, first through "La Banque de l'Indochine" which established its presence in China in 1898, making CA-CIB one of the foreign banks with the longest history in China. CA-CIB is also one of the first foreign banks which have obtained the RMB corporate licenses.

At present, CA-CIB (China) has five branches in Beijing, Shanghai, Tianjin, Xiamen and Guangzhou, with more than 140 employees offering professional financial services to over 300 corporate clients. In addition, CA-CIB maintains one representative office in Shenzhen and a branch in Shanghai.

CA-CIB and CA-CIB (China) are dedicated to providing customers with a broad range of products and services, including capital markets, brokerage, investment banking, financing, corporate banking.

Group and Parent Bank Introduction

Group

Crédit Agricole Group is the world's third-largest bank in total assets *(The Banker - July 2010)*. The Group is present in 70 countries with more than 59 million customers and has over 160,000 employees worldwide.

Activity / Profitability *	EUR
Net income - Group share	3.6 billion (up 31.5%)
Gross operating income	13.4 billion (up 14.6%)
Operating income	8.2 billion (up 57.9%)

**As of December 31st, 2010*

Crédit Agricole S.A. has been awarded high ratings by the main rating agencies, reflecting its strong financial position.

Ratings	Standard & Poor's	Moody's	Fitch Ratings
Long-terme senior unsecured debt	AA-	Aa1	AA-
Outlook	Negative	Stable	Stable
Last update	25/06/2009	20/12/2010	23/07/2010
Rating action type	Outlook change	Affirmation	Affirmation
Short-term debt	A-1+	Prime-1	F1+

DID YOU KNOW ?

CRÉDIT AGRICOLE

Ranked No.3

in the world

Parent Bank

Our parent bank, Crédit Agricole CIB, is the Corporate and Investment Banking arm of the Crédit Agricole Group. With about 13,000 professionals comprised in more than 50 countries, Crédit Agricole CIB offers its clients a comprehensive range of products and services in capital markets, brokerage, investment banking, structured finance, corporate banking and international private banking.

Business lines of the Corporate and Investment Bank are listed as follows:

- Corporate and Investment Banking
- Structured Finance
- Equity Brokerage and Derivatives
- Fixed Income Markets
- Transaction & Commercial Banking
- International Private Banking

Crédit Agricole Corporate and Investment Bank ID Card

Headquarter: 9, quai du Président Paul Doumer
92920 Paris La Défense Cedex, France.
Telephone: +33 1 41 89 00 00
Website: http://www.ca-cib.com

Company with limited liability with a capital of EUR 6 055 504 839
Registered under SIREN 304 187 701

Financial Highlights

Unit: RMB million

	Notes[1]	2010	2009[2]
Results of operations			
Net interest income		199	95
Non-interest income	1	95	61
Operating income	2	294	156
Operating expenses	3	-196	-81
Profit before income tax		103	83
Profit after income tax		51	82
Balance sheet items			
Total assets		16,831	12,136
Loans and Advances		7,398	6,283
Financial Assets classified as AFS and Trading		3,237	1,472
Placement with other banks		3,504	2,154
Total liabilities		13,703	9,055
Due to other banks and FI		745	875
Customer Deposits		4,594	4,204
Placement from other banks		6,697	3,362
Owner's Equity		3,128	3,081
Paid-in Capital		3,000	3,000
Capital surplus / Surplus reserve / General reserve		120	8
Undistributed profit		8	73
Key financial ratios			
Return on average total assets (%)	4	0.35	1.54
Return on average equity (%)	5	1.63	6.33
Cost to income (%)	6	52.64	45.83
Capital adequacy ratios			
Core capital adequacy ratio (%)		30.78	40.63
Capital adequacy ratio (%)		32.37	42.10
Asset quality			
Non – performing Assets ratio (%)	7	0	0
Loan provision sufficient ratio (%)	8	100	100
Human resources			
Number of employees	9	164	142

[1] Please refer to 'Definitions' in this annual report
[2] For the period from August 1st, 2009 (day of business conversion) to December 31st, 2009

Important Events of the Year

1. Awards

- In December 2010, Crédit Agricole CIB has been ranked 1st Foreign Bookrunner in the China Syndication market for the third consecutive year
- Ranked 5th foreign bank in the derivatives market
- CA-CIB (China), together with 6 other foreign banks in Shanghai, won the 1st Prize from PBOC Shanghai on statistical reporting for the year 2010

2. Licenses

- All branches obtained their RMB business license

3. Launch of New Business Line

- Transactional Commodities Finance was launched in July 2010, making it the third pole in this activity in Asia together with Singapore and Hong Kong

4. Charities

- RMB1,076,000 was donated to Red Cross, in hopes of relieving some of the devastation caused by the powerful earthquake which hit Yushu County, Qinghai province in April 2010
- The Bank renewed our participation in financing another three-year program (2010-2012) to contribute to help impoverished farmers in China, in Partnership with Heifer International

5. Name Change

- In May 2010, the Bank's English name was changed from Calyon (China) Limited into Credit Agricole Corporate and Investment Bank (China) Limited

Message from the Chairman

On behalf of the Board of Directors, I am delighted to present the Annual Report of Credit Agricole CIB (China) Limited ("the Bank") for the financial year end of 31 December 2010.

2010 was a year of uncertainty over the global economic recovery. Despite this, the Bank was still able to achieve remarkable results in 2010 thanks to strong economic growth in China, as well as successful implementation of the refocusing plan of its parent company Crédit Agricole CIB ("the Group"). With an aim to weather the global financial crisis and adapt to the new economic and financial environment , the Group's refocusing plan was launched in 2008 and successfully completed at the end of 2010.

While the more well-developed economies were still suffering from the high government debt and weak domestic demand during 2010, major emerging economies in Asia were showing strength and have become the force behind the global economic recovery. Among all the Asian economies, China, benefiting from stronger fundamentals, resumed annual double-digit growth of 10.3 percent in 2010 and is expecting a stable growth in 2011. Against this backdrop, the Group will launch an Asia Strategic Plan ("ASP") in 2011 to accelerate its future growth and capture abundant potential business opportunities in the region. Further expanding and developing business in China will be inevitably a top priority to the Group's ASP.

Looking forward, the Bank will speed up its development in China by further localizing its business operations to align with the strategic direction of the Group. With the global economy expected to continue to recover in 2011, the Bank remains cautiously optimistic of the China market in the foreseeable future. In the face of unprecedented challenges and opportunities ahead, the Bank will continue to improve its corporate governance structure, strengthen its risk management and internal controls, effectively implement the expansion plan leveraging on the momentum built over the past years. Backed by more than a century of experience in banking in China and with the expansion plan well-mapped out, the Bank is confident in its business performance in China in the long run.

While pursuing its business growth, the Bank has remained fully committed to its social responsibility as a corporate citizen. In 2010, a new corporate social responsibility project was jointly launched with the Group to help impoverished farmers in China, and to improve local community's environmental awareness. This project not only reaffirmed the Group's core values and commitment to its responsibility and sustainability, but also demonstrated its on-going efforts to contribute to the local communities and to the environment in China where it has been present for over 112 years.

Finally, I would like to thank our clients for their trust and support. I also wish to express my deep appreciation to our colleagues for their diligent work, and members of the Board of Directors for their significant contributions. I believe that, with the support of the Group, the commitment of our colleagues and guidance of the local government and regulators, we are well-positioned to achieve a higher level of success.

Patrice COUVEGNES
Chairman
March 30th, 2011

Message from the President

The incorporation of our activities was part of our initial strategic view aimed at localizing our activities in China. It proved itself to be the right choice; 2010 has demonstrated a full and successful implementation of this strategy.

We increased our presence in the China market with a significant increase of our corporate customers while being active in all core businesses of our Group. We supported both Multinational customers onshore and overseas investments by Chinese groups.

We continued to expand our local expertise with the launch in particular of our Transactional Commodities Finance line in July which is now fully active on the whole China market.

We finished the year once again in lead position for the bookrunning of Syndicated transactions both plain vanilla or structured loans, increasing the number of deals closed compared to 2009.

Our Fixed Income activities registered a further growth in 2010 both on the sales and trading sides with the wish to enlarge further more our licenses scope in a near future.

Profitability on risk adjusted assets remained good with no impaired loans.

The main goals of our previous medium term strategic plan have been achieved. We need now to move to our next plan which is fully part of the Asia Strategic Plan.

The year 2011 is promising in terms of business pipe line thanks to our broader franchise but could be challenging because of some market uncertainties and tight ratios and policies that we are facing in the coming months .

We need to follow our strict internal control procedures in order to keep our activities clear of operational loss and pay high attention to regulations.

I would like to take this opportunity to thank again our customers and partners for their support and their business with our Bank as well as the teams of Crédit Agricole CIB for the excellent services performed in 2010.

Xavier ROUX
President
March 30th, 2011

Management Report

1. Business Review

Crédit Agricole CIB has in China an extended experience in advising and arranging major projects. Considered as one of the top foreign corporate banking institutions in the country, Crédit Agricole CIB also has close relationships with local Chinese banks.

Crédit Agricole CIB has pioneered in China a large number of project financings and was among the first foreign banks to be licensed for Chinese currency (RMB) operations.

Credit Agricole CIB (China) Limited leverages its **local and global expertise** as well as its **network synergy** to advise and finance its clients' investments in and out of China:

Corporate Banking

- Strong focus on Chinese Corporates and Financial Institutions as well as Multinationals.
- Short term and medium term financing, in RMB and / or foreign currencies, bilateral and/or by way of syndication combining the strength of international and/or local banks, Guarantees, Letters of Credit, deposits as well as cash management services (including full e-banking).

Fixed Income

- Dealing rooms in Shanghai and Beijing.
- Clients are Corporates and Financial Institutions.
- Full range of hedging products (foreign exchange, interest rate derivatives, money market) and investment products.
- Leading position in both domestic and offshore markets for Chinese clients.

Structured Finance

- Strong expertise in structured and project finance: Natural resources, Infrastructures and Power.
- Plain vanilla & Structured International Trade Finance: Bonds, L/C, Discounting of receivables, Forfeiting.
- Export Finance both inbound and outbound transactions.
- Commodities Finance: Leading position among international and domestic Trading Companies.
- Asset Financing: Strong presence and structuring capabilities for asset and cash-flow based financing.

Syndication Market

Unrivalled market position established over time. Credit Agricole CIB (China) Limited is the leading foreign bank in China for several years for arranging and distribution of syndicated loans whether in USD or RMB.

2. Human Resources

Staff Profile

As at the end of 2010, the Bank had 145 permanent employees. The staff composition by age and education background was as follows:

Category	Detailed distribution	Number of employees	% of total
Age	Below 30	50	34%
	Between 31 and 40	65	45%
	Between 41 and 50	24	17%
	Above 51	6	4%
Educational Background	Holders of a Master's degree and above	46	32%
	Bachelor degree holders	69	48%
	Others	30	21%

The Bank implemented a gender balance by grade up to the general management as shown in the table below:

Grade	Male	Female
Manager and above	15%	19%
From Supervisor to deputy Manager	13%	28%
From Clerk to assistant Supervisor	12%	12%

Mobility

Being part of a large international network in more than 50 countries, we encourage the national and international mobility as one of the drivers to promote best practices within Crédit Agricole CIB and offer career opportunities to the employees.

Training

We also attach great importance to training and offered more than 6000 hours of training in 2010 in all kinds of topics including banking product knowledge, information technologies, languages, compliance, risk control, soft skills etc.

Compensation Management

As authorized by the Board of Directors, the Compensation Committee of the Bank shall be responsible, at the highest level in CA-CIB (China) Limited, for defining and formulating the remuneration policy and plans of the Bank's Directors and Senior Management Personnel and has power over all the Bank's branches and sub-branches (if any). Please refer to Corporate Governance (Page 29 of this Annual Report) for the membership composition and main duties and authorities of the Compensation Committee.

The compensation policy of the Bank is designed to compensate the employees competitively, as compared to the market and the environment, while ensuring a strict management of the payroll. The policy relies on an individualized compensation principle that takes into account the level and characteristics of the function performed, the experience and skills of the employees, while making sure that internal equity is observed for functions with equivalent weight in the organization, and that we remain competitive.

The compensation structure is composed of fixed compensation, variable compensation and other benefits.

The fixed compensation represents the compensation for the position held by the employee. Its level is determined by the nature and weight of the position within the organization, the range of responsibilities, the level of experience and the missions inherent to the person's function.

The variable compensation is determined according to a synthetic indicator, named contribution, and according to budget achievement on this specific indicator for each dept, based upon the "Bank activity". Contribution = Net Banking Income – (direct and indirect cost exc. Bonus) – cost of risk – cost of capital.

The variable compensation is linked to the Bank's performance and to the individual performance, evaluated based on measurable quantitative and qualitative criteria, specific to each function, in connection with the objectives set for each individual employee. A split between quantitative and qualitative criteria has been implemented. It also takes into account the attention paid by the employees to risk control and compliance issues.

Since fiscal year 2006, the Bank has been practicing a deferred system for the variable compensation payment. This system was amended as a result of the new regulations, which require among others, "the professional population of financial markets whose activities are likely to have a significant impact on the company's risk exposure" to defer a minimum of 50% of their variable compensation for at least 3 fiscal years subsequent to the allocation year. The purpose of these new standards is to assess, over the medium term, the lasting character of the performance achieved during the fiscal year when the variable compensation was allocated.

The total compensation in 2010 is RMB94,801,666 of which, the fixed compensation is RMB57,490,101; performance bonus is RMB13,721,681; medium to long term incentive is RMB3,260,042; benefits including social contribution, housing fund etc. is RMB20,329,842.

3. Corporate Social Responsibilities

The powerful earthquake which hit Yushu County, Qinghai province, on Wednesday April 14th, 2010 has once again brought the world's attention on west China.

CA-CIB (China) has donated, on the behalf of the Bank, its staff and its Trade Union an amount totaling RMB1,076,000 to Red Cross, in hopes of relieving some of the devastation.

The Bank also responded to the 2008 Sichuan Earthquake with donation to help relief efforts.

In 2010, the Bank renewed our participation in financing another three-year program (2010-2012) in Partnership with Heifer International.

Heifer is one of the world's most influential non profit organizations working on improving local farmer's income and their standards of living. The charity project adopts Heifer's unique approach of "Passing on the Gift". In addition to receiving an interest-free loan to purchase animals, all project families have been provided with training on animal management and natural resources management. They will pass the same amount of money, knowledge and skills to help new needy families within 2-3 years of receiving "their gifts". This process will continue in the same manner across generations of families, so as to reach more of the needy people for a long term benefit.

Our previous cooperation with Heifer lasted for three years (2007-2009). Our Bank was the biggest donor of Heifer China's Project which successfully lifted around 300 families out of poverty in Yunnan Tengchong, and significantly improved the local community's environmental and ecological awareness.

Our 2010-2012 partnership with Heifer will help impoverished farmers in Sichuan Yilong Mountainous Community to become self-reliant while preserving the environment.

Along with the deep values of our Group which began life as a cooperative institution making agricultural loans in 1894, our successive earthquakes donations and Heifer Charity cooperation renewal reflect our solidarity and our commitment to local population and are part of our sustainable development agenda.

4. China League Tables

2010 Bookrunner – China Loans

Rank	Banks	Volume (US$)	Deals
1	Bank of China	13,549,394,672	39
2	China Citic Bank	3,088,744,987	10
3	**Crédit Agricole CIB**	**1,040,675,899**	**10**
4	Industrial & Commercial Bank of China	925,969,345	2
5	Standard Chartered Bank	925,549,497	9
6	Sumitomo Mitsui Banking Corp	593,553,917	4
7	HSBC	536,553,357	5
8	Mizuho Corporate Bank	453,746,410	11
9	Agricultural Bank of China	339,862,996	1
10	China Construction Bank	269,042,210	1

Source: Basis Point / Reuters LPC

Risk Management

During the year of 2010, according to the provisions of the local regulatory bodies, with cautious, standardized, appropriate and sustainable risk management policies and also in strict accordance with the requirements of the Parent Bank and the Board of Directors, the Bank took an effective and stable control of various risks, including credit risk, market risk, operational risk, liquidity risk, reputation risk and compliance risk. Quality of our assets or credit portfolio remained at a high level. Market risk was well controlled within the limits prescribed by the Parent Bank. Also, operational risk was reduced to a minimal extent with the implementation and improvement of related systems and procedures. As an important part of corporate governance, reputation risk, which the Parent Bank and the Board attached great importance to, was reported periodically under the full responsibility of Compliance Department.

From the perspective of long-term risk management strategy, the Bank set up a complete development plan including 3-Year business plan and strategic development in China which has been approved by the Parent Bank and the Board of Directors. We review, adjust and modify the plan on yearly basis to meet requirement of business development in the new macroeconomic environment. For the past few years, although the development plan has been adjusted, we have basically followed its initial strategic road map without significant changes, the same went to relevant risk management policies.

As far as monitoring and management control of credit risk, market risk, liquidity risk are concerned, please refer to Notes to the Financial Statements (Page 70 - 89 of this report).

Legal Risk

The main purposes of the legal policy of the Bank are to monitor legal risk of the Bank and to provide legal support to the Bank (including its branches) and the business lines. In a broad way, legal risk encompasses two types of risks that may generate litigations and liabilities, whether civil, disciplinary or criminal ones, for the Bank, the management or staff members. The first one is compliance risk. It means the risk of non-compliance with the laws or regulations that govern operations and activities of the Bank. And such compliance is a condition to their legality, lawfulness, validity and binding effect vis-à-vis third parties. The second one is contractual risk. It means the risk that the contractual documentation be inadequate with regard to the activities it applies to. The inadequacy could be due to any inaccuracy, incompleteness or other insufficiency. And the consequences are that the documentation does not fully reflect in an exhaustive and clear manner the intentions of the parties. Or it does not provide sufficient protection for the interests of the Bank. In 2010, the Bank has maintained its effective legal risk control by strictly and fully implementing the above legal policies and monitoring those legal risks.

IT Risk

The IT risk has been addressed within the Bank's internal policy, namely Change Management Policy, and also controlled by regular audits, self-assessment and permanent control requested by the Parent Bank, as well as regular reporting to the IT Steering Committee and the Board of Directors.

In addition, the new role of "Local Coordinator of Information Security" (named CLSi) has been assigned to a staff independent from IT Department in order to control the information security and risk management performed by the IT Department.

To reduce the risk of outsourced activities, the IT Department issued a new template of contract to be signed by service providers. This contract enforces the guarantee of data security, and service quality according to regulatory requirements and group standards.

All employees received training on Information Security policy in 2010.

Finally, Business Continuity Plan management was improved during the year 2010 in terms of coverage, documentation, procedures and comprehensive training and testing.

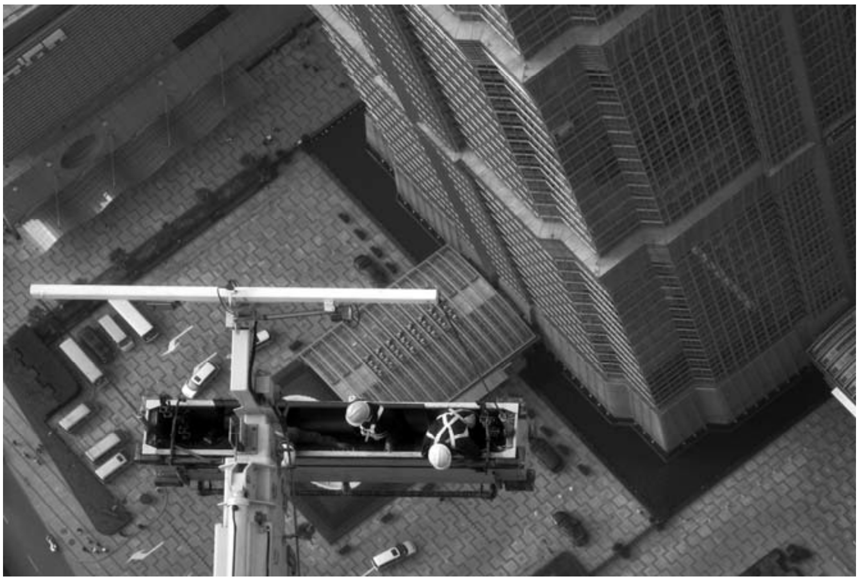
Compliance Risk

The Board of Directors is responsible for the ultimate responsibility of the compliance with the overall business activity of the bank. Risk Management Committee is set up under the Board of Directors to conduct high-level integrated risk management of the Bank.

The Bank appoints a Head of Compliance who is responsible for the overall coordination of the Bank's compliance matters. The Head of Compliance functionally reports to the Compliance Management Committee and administratively reports to the President.

In 2010, the Compliance Department of the Bank has been reinforced by recruiting 3 compliance officers, thus to satisfy the local regulator's requirement of having at least one full time dedicated compliance in each branch.

The Compliance Department closely coordinated with various departments / branches to strengthen the fraud risk prevention, implemented various regulations promulgated by regulators, conducted compliance training and carried out compliance monitoring tasks.



Corporate Information

Shareholder
Crédit Agricole Corporate and Investment Bank

Registered Name
In Chinese: 东方汇理银行（中国）有限公司
In English: Credit Agricole Corporate and Investment Bank (China) Limited

Registered Address
33^{rd} Floor, Unit 3370, Shanghai World Financial Center, 100 Century Avenue, Pudong New Area, Shanghai 200120, PRC
Telephone: 86 21 38566888
Facsimile: 86 21 38566922
SWIFT - CRLYCNSH
Website: http://www.ca-cib.com.cn

Registration Date
July 1^{st}, 2009

Authority of Registration
Shanghai Administration of Industry and Commerce

Corporate Business License Serial Number
310000400601090

Financial Institution License Serial Number
B1022H131000001

Registered Capital
Renminbi 3,000,000,000

Legal Representative
Xavier ROUX

Secretary to the Board of Directors
Valerie WANQUET

Auditor
PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company

Address: 11^{th} Floor, PwC Centre, No 202 Hubin Road, Shanghai 200021, PRC

Directors, Supervisor and Senior Management

1. Composition

Supervisor
TREMENBERT, Jean-Pierre

Board of Directors	
COUVEGNES, Patrice	Chairman, Non-executive Director
ROUX, Xavier	Executive Director, President
WU, Chang Gen	Non-executive Director
RANDOLPH, Patrice	Non-executive Director
CHEN, Shao Chang	Independent Non-executive Director

Note: On February 15th, 2011, the Shareholder of the Bank appointed Mr. Patrice RANDOLPH, the existing Non-executive Director as the Vice-Chairman of the Bank and Mr. Eric CHEVRE as a new Non-executive Director of the Bank. These appointments are subject to CBRC post-taking qualification approval.

Senior Management	
ROUX, Xavier	President (Legal Representative)
WANQUET, Valerie	Vice President and Secretary to the Board
ZHAO, Roger	Chief Risk Officer
XI, Tracy	Chief Financial Officer
ZHU, Anthony	Head of Compliance
SUN, Vanessa	Head of Internal Audit
ZHU, Sherri	Chief Technology Office
HONG, Didier	Head of Shanghai Branch
ZHONG, Xiaofeng	Head of Beijing Branch
ZHU, Philip	Head of Guangzhou Branch
XU, Jennifer	Head of Tianjin Branch
ZHAO, Jie	Head of Xiamen Branch

2. Working Experience and Other Positions held by Directors, Supervisor and Senior Management

a. Directors

COUVEGNES, Patrice

Education:
Patrice Couvegnes has a PhD in economics from Paris I University.

Professional experience:
Patrice Couvegnes started his career in the French Ministry of Transport. In 1975, he joined the Banking Division of Banque Française du Commerce Extérieur. In 1984, he joined the Large Corporate Department of Banque Indosuez where he was appointed Deputy Director in 1989. In 1996, he was appointed Crédit Agricole Indosuez Director of Corporate Business for the Asia Pacific region. In 2000, he became Senior Country Officer in the Crédit Agricole Indosuez Group, and later for the newly named Calyon in Korea.
Patrice Couvegnes, formerly Senior Country Officer of Japan (2005-2008), has been appointed Senior Regional Officer (SRO) for Asia (excluding Japan and Australia) in July 2008.

ROUX, Xavier

Education:
Xavier Roux holds a Master Degree in Business Administration from ESSEC in Paris, France.

Professional experience:
Xavier Roux began his banking career as an assistant in the Mergers & Acquisitions Department at Credit Lyonnais New York in 1982. Since then, Xavier has served in various capacities at Credit Lyonnais, including Deputy Branch Manager in Frankfurt, Vice President Project Finance in Paris, First Vice President Corporate Banking in New York, Managing Director in Australia, Deputy General Manager in Japan and Head of Corporate and Structured Finance for Asia Pacific in Hong Kong. In 2004, Xavier was appointed as Hong Kong Senior Country Officer & Head of Corporate and Specialised Finance for Asia Pacific for Calyon. He has been appointed as Senior Country Officer for China since July 2007, and in June 2009 he was appointed President of CALYON (China) Limited which changed its name to CA-CIB (China) Limited in May 2010.

WU, Chang Gen

Education:
Changgen Wu graduated from Anhui University in Hefei, China in 1978, and studied business at the University of British Columbia Business School from 1982 to 1983.

Professional experience:
Changgen Wu has been Chairman for China and Vice Chairman of Asia at CLSA Limited since March 2008.
Previously, Mr. Wu served as Chairman of China and Vice Chairman of Asia Pacific at Morgan Stanley.
Mr. Wu joined Morgan Stanley in 1998 as a Managing Director and Head of Investment Banking for China.
Prior to Morgan Stanley, Mr. Wu worked for the Bank of China from 1980 to 1997 in different positions including Vice Chairman & Chief Executive Officer of the Bank of China International Holdings Limited and was a Member of the Board of Directors of the Bank of China.

RANDOLPH, Patrice

Education:
Patrice Randolph is a graduate of Ecole Supérieure de Commerce de Paris (ESCP) and has a post-graduate degree in management studies from the University of Paris Dauphine.

Professional experience:
Patrice Randolph began his career with SG2, a computer services group, where he held a number of sales and financial posts over an 8 year period.
In 1991 he moved to Crédit Lyonnais Rouse France as Finance Director and then Managing Director, an international broker in the financial futures and negotiable debt instruments.
In 1995 he joined the Group Internal Audit at Crédit Lyonnais as Lead Auditor.
Then, based in London between 1999 and 2002 with Crédit Lyonnais Securities Europe, he was Chief Operating Officer for European brokerage.
In Tokyo from 2002 to 2004, he was Chief Operating Officer with Crédit Lyonnais Japan.
Patrice Randolph was then appointed Head of Individual Management in the Human Resources Department where he became Deputy Director in 2007.
In 2008 he was appointed to International Management as International COO of CA-CIB.

CHEN, Shao Chang

Education:
Shao Chang Chen graduated in Automatic Machinery from Shanghai No. 2 Industrial University. He awarded a scholarship by China Ministry of Education, acting visiting Scholar at England Central University.

Professional experience:
Shao Chang Chen retired at the end of 2008. Prior to retirement, he was a vice president at Shanghai State-owned Assets Operation Co., Ltd, covering a wide range of financing transactions including project financing, M&A and investment and acting Directors of various Boards including China Pacific Insurance Group, Bank of Communications, Bank of Shanghai, Shanghai Rural Commercial Bank, Bank of China International (China) and acting Independent Directors in A share listed companies of Shanghai Industrial Pharmaceutical Investment Co., Ltd and Shanghai LengGuang Industrial Co., Ltd. Before that, he worked at Bank of China, Shanghai Branch and London branch.

b. Supervisor

TREMENBERT, Jean-Pierre

Education:
Jean-Pierre Tremenbert is a graduate of HEC International Business School and Centre d'Etudes Actuarielles.

Professional experience:
Jean-Pierre Tremenbert has spent his entire career with Banque Indosuez, which later became Crédit Agricole Indosuez (CAI). He joined the bank in 1980 and worked in Risk, Budget and Management Control. In 1987, he moved to bond markets and then to the Franc Markets Division before holding various positions in the risk department at Crédit Agricole Indosuez. At the end of 1997, he was appointed Head of Market Risk at the Risk Management and Control Department of CAI. At the beginning of 2001, he joined CPR as Deputy Chief Executive Officer, Head of Operations, in charge of Human Resources, Finance, IT, Back Offices and Risk. He was appointed Chief Executive Officer of CPR at the end of 2001 and joined CAI in 2003 to take part in the merger with Crédit Lyonnais. In May 2004, he was appointed head of the Financing and Payment Division of Calyon, then of the Organisation and Project Management Division.
Jean-Pierre Tremenbert has been Corporate Secretary of CA-CIB since May 2008.

c. Senior Management

Please refer to the Directors' section

Xavier ROUX
President

Valerie WANQUET
Vice-President and Secretary to the Board of Directors

Education:
Valerie Wanquet graduated from Ecole Superieure des Sciences Economiques et Commerciales (ESSEC) Business School and is a Certified Public Accountant (France).

Professional experience:
Valerie Wanquet began her career in 1988 as an Auditor with *PriceWaterhouseCoopers* in Paris before joining Credit Lyonnais - Capital Markets Division in Paris in 1991 as Head of Accounting department.
In 1999, she moved to Credit Lyonnais – Singapore Branch as Financial Controller. She was based in Hong-Kong between 2001 and 2007 for Credit Lyonnais Regional Head Office and subsequently for Calyon – Asia Pacific as regional Chief Financial Officer. In 2007, she was appointed Chief Operating Officer for Calyon in China and after local incorporation of the Bank in 2009, she became Vice President and Secretary to the Board of Directors.

Corporate Governance

Corporate governance is the basic structure on which companies are built. Good corporate governance is essential for maintaining and enhancing its Shareholder's value and other stakeholders' confidence, and it is the only viable way of ensuring the Bank's sustainable development.

Since the Bank's incorporation in June 2009, in strict accordance with the relevant laws and regulations of PRC, as well as those rules and regulations stipulated by the regulatory authorities in regard to the corporate governance of commercial banks, the Bank has been dedicated to enhancing its corporate governance mechanism, and strived to follow the best corporate governance practice. Key corporate governance mechanisms were established to ensure independent operation of decision-making bodies, clear segregation of duties, and effective checks and balances for supervisory and management bodies. The overall status of the Bank's corporate governance structure is satisfactory.

The Board of Directors, Directors, the Supervisor, Specialized Committees under the Board of Directors and Senior Management of the Bank all diligently performed their respective duties and responsibilities in a professional and efficient manner according to applicable statutory and regulatory provisions as well as the Articles of Association of the Bank. Achievements were made to ensure the smooth operation and sustainable growth of the Bank.

1. The Board of Directors and Directors

The Board and Directors has been diligently performing their respective authorized duties and supervisory responsibilities, formulating business strategies in accordance with the development of the Bank's business and ensuring that the Bank's development is on the right track.

In 2010, the Board of Directors held 4 ordinary meetings, on February 26th, May 20th, September 23rd, and December 7th respectively and, in addition, circulated 11 resolutions in writing to review and approve various matters, including the operation strategy, budget, financial statements, risk management and internal control of the Bank. All meetings were held with required quorum.

In compliance with the Articles of Association, the Bank's Directors are appointed by the Shareholder, with a term of office of three (3) years starting from the date when the Bank receives the post-taking qualification approval from CBRC. A Director, at the expiry of the term of office, may serve consecutive terms by reappointment.

2. Specialized Committees under the Board of Directors

In 2010, the Specialized Committees under the Board fully discharged their duties in accordance with their respective Terms of References and the authorization of the Board. The Specialized Committees regularly convened meetings and reported to the Board, playing an important role in the meticulous and effective decision-making of the Board.

The frequency, quorum, contents of all the meetings of the Specialized Committees were in accordance with respective Terms of Reference of Committee.

Internal Audit Committee

This committee's main duties and authorities are listed here-below:

- to supervise the implementation of internal audit policies and procedures
- to evaluate the Bank's internal control system and advise on improvement plans
- to advise on the selection of external auditor and/or consultancy agency(s) for evaluating the effectiveness of the risk management and internal control system of the Bank
- to implement measures highlighted by the Board, the Supervisor, external auditor, and regulators
- to establish communication channels between the external auditor, the Internal Audit Department and the Board
- to review the Bank's policies for accounting treatment
- to review the Bank's financial information and its disclosure

This committee's composition is as follows:

Permanent Members
- Independent Non-executive Director *(Chairman of the Committee)* - Head of Internal Audit *(Secretary of the Committee)* - Vice-Chairman of the Board

Risk Management Committee

This committee's main duties and authorities are listed here-below:

- to review the Bank's risk management structure
- to review the Bank's risk management objectives and strategy
- to review and coordinate the establishment of limits of main risk indicators
- to evaluate the Bank's risk limits on a periodic basis
- to supervise and guide the risk identification, measurement and monitoring
- to ensure that the Bank has established an effective risk analysis and reporting mechanism

This committee's composition is as follows:

Permanent Members
- President *(Chairman of the Committee)*
- Chief Risk Officer *(Secretary of the Committee)*
- Independent Non-executive Director
- Head of Legal
- Head of Compliance

Connected Transaction Control Committee

This committee's main duties and authorities are listed here-below:

- to review the Bank's connected parties and report the list to the Board
- to review and approve normal connected transactions within its authority level
- to review and comment on significant connected transactions and submit them to the Board for approval
- to supervise the Bank's Directors and Senior Management in the effectiveness and efficiency of implementing the connected transactions management policies and procedures, and submit a Connected Transactions Management Report to the Board on an annual basis
- to review and comment on the information to be disclosed or to be reported to the regulatory authorities in relation to the Bank's connected parties and connected transactions

This committee's composition is as follows:

Permanent Members
- Independent Non-executive Director *(Chairman of the Committee)*
- Head of Legal *(Secretary of the Committee)*
- Chief Risk Officer
- President
- Vice-President
- Head of Compliance

Information Technology Steering Committee

This committee's main duties and authorities are listed here-below:

- to review and approve the Bank's Business Continuity Plan
- to review the Bank's information technology management structure, objectives and strategy
- to review and periodically follow-up on the Bank's major information technology related projects
- to review information technology related outsourcing contracts
- to report, to the Bank's Board and the Senior Management Personnel, on the effectiveness of the information technology strategic plan, budget, and performance
- to report any information technology related risk to the Risk Management Committee and the Board

This committee's composition is as follows:

Permanent Members
- Vice-President *(Chairman of the Committee)*
- Chief Technology Officer *(Secretary of the Committee)*
- President
- Permanent Control Officer
- Head of Compliance
- Head of Organization
- Head of Operations
- Head of Fixed Income Markets
- Head of Corporate Banking and Structured Finance

Compensation Committee

This committee’s main duties and authorities are listed here-below:

- to formulate and review the Bank's policies and procedures related to compensation and benefits for Directors and the Senior Management Personnel
- to review annually the structure and competitiveness of the Bank's compensation programs applicable to the Directors and the Senior Management Personnel and submit for approval by the Board any new plans, and amendments to any existing plans
- to formulate performance evaluation measures of the Bank’s Directors and the Senior Management Personnel and submitting them to the Board for approval
- to assist the Supervisor to periodically review and assess the performance of the Directors and the Senior Management Personnel, seeking input from individual members of the Board and the Senior Management Personnel
- to formulate and review the compensation and other terms of employment of the Bank’s President and Directors (if applicable) and submitting them to the Board for approval

This committee’s composition is as follows:

Permanent Members
- Chairman of the Board *(Chairman of the Committee)* - Vice-Chairman of the Board *(Secretary of the Committee)*

The Supervisor shall attend the meetings of the Committee. The Supervisor is entitled to express his opinions but shall have no voting right during the meeting.

3. Independent Non-Executive Director

Members of the Board of Directors include one (1) Independent Non-executive Director, in compliance with the requirement of a quorum specified in the Bank's Articles of Association.

This Independent Non-executive Director serves as permanent member of three (3) specialized committees under the Board of Directors among which he serves as the chairman of the Internal Audit Committee and the Connected Transaction Control Committee.

The post-taking qualification of the Bank's Independent Non-executive Director is fully complied with requirements set forth in *Guidelines on Strengthening the Corporate Governance of Foreign-funded Corporate Banks* issued by CBRC. Moreover, as required by CBRC, the Bank has received a written confirmation from its Independent Non-executive Director with regard to his independence.

Based on these confirmations and relevant information in its possession, the Bank confirms the independent status of Mr. CHEN Shao Chang, the Independent Non-executive Director of the Bank.

In 2010, the Independent Non-executive Director of the Bank attended all meetings of the Board, the Internal Audit Committee, the Connected Transaction Control Committee and the Risk Management Committee. With extensive professional knowledge and practical experience, the Independent Non-executive Director of the Bank fully discharged his duties and responsibilities through expressing objective and impartial opinions as well as providing valuable and constructive suggestions to the Bank.

4. Different Opinions Raised by the Independent Non-Executive Director on Relevant Matters of the Bank

No different opinions were raised by the Independent Non-executive Director on the resolutions of the Board of Directors and the specialized committees under the Board of Directors of the Bank in 2010.

5. Supervisor

The Supervisor inspects and supervises the business operations and financial activities of the Bank, oversees the conduct of Directors and Senior Management Personnel in carrying out their duties, and reviews various documents submitted by the Bank. On a yearly basis, the Supervisor oversees the performance assessment of the Board of Directors and its individual Directors.

In compliance with the Articles of Association, the Bank's Supervisor is appointed by the Shareholder, with a term of office of three (3) years. The Supervisor, at the expiry of the term of office, may serve consecutive terms by re-appointment.

In 2010, the Supervisor was in attendance of all the Board meetings.

6. Senior Management

In accordance with the Articles of Association and subsequent Board of Directors' resolution, the chief authority to manage the day to day operations of the Bank has been delegated to the President, which in turn is assisted in the exercise of his authorities by the Vice-President and other Senior Management Personnel.

7. Responsibility Statement of Directors on Financial Reports

The following statement, which should be read in conjunction with the auditors' statement of auditor's responsibilities set out in the Independent Auditor's Report, is made with a view to distinguishing for the Shareholder the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

The financial statements for the year ending on December 31st, 2010 truthfully and fairly present the financial position and operating results of the Bank.

8. Appointment or Termination of External Auditors

The Internal Audit Committee of the Bank shall advise the Board of Directors on the selection of external auditors. The ultimate responsibility to engage, renew the engagement or dismiss the External Auditor lies within the Bank's Board of Directors.

On November 16th, 2009, the Board of Directors resolved during its ordinary meeting to reappoint *PricewaterhouseCoopers Zhong Tian CPAs Limited Company* ("PricewaterhouseCoopers") as the Bank's Public Accountants for the year 2010.

The Chairman and the President were authorized to make any necessary or reasonable arrangement relating to such engagement, including negotiating and determining the fees of such auditors in accordance with market practice.

PricewaterhouseCoopers was not engaged in significant non-auditing services with the Bank.

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[English translation for reference only]

Report of the auditors

PwC ZT Shen Zi (2011) No.20725

(Page 1 of 2)

To the Board of Directors of CREDIT AGRICOLE CIB (China) Limited

We have audited the accompanying financial statements of CREDIT AGRICOLE CIB (China) Limited (the "Bank"), which comprise the balance sheet as at 31 December 2010, and the income statement, the statement of cash flows and the statement of changes in owner's equity for the year ended 31 December 2010 and notes to these financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements according to the Accounting Standard for Business Enterprises. This responsibility includes:
(1) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
(2) selecting and applying appropriate accounting policies; 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 the China Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting 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 present fairly, in all material respects, the financial position of the Bank as of 31 December 2010, and of its financial performance and its cash flow for the year then ended in accordance with the Accounting Standard for Business Enterprises.

PricewaterhouseCoopers Zhong Tian CPAs Limited Company

Shanghai, the People’s Republic of China

30 March 2011

Financial Statements

(All amounts expressed in RMB unless otherwise stated)

Balance Sheet

As at 31 December 2010

ASSETS	Notes*	31 December 2010	31 December 2009
Cash and deposits with the central bank	7	983,129,351	1,440,942,856
Deposits with other banks	8	30,657,340	177,058,903
Placements with other banks	9	3,504,403,788	2,154,138,055
Trading financial assets	10	2,597,803,823	255,594,385
Financial assets classified as available-for-sale	11	638,914,066	1,216,228,375
Derivative assets	12	1,553,421,030	500,656,691
Interest receivable	13	65,691,209	37,166,486
Loans and advances	14	7,397,962,510	6,282,677,077
Fixed assets		5,799,542	6,725,110
Deferred income tax assets	22	-	8,660,354
Other assets	15	53,086,883	56,212,015
TOTAL ASSETS		16,830,869,542	12,136,060,307
LIABILITIES			
Due to other banks and financial institutions	16	745,393,622	874,984,393
Placements from other banks	17	6,696,520,019	3,362,275,667
Derivative liabilities	12	1,487,045,264	467,522,617
Customer deposits	18	4,593,758,755	4,204,260,340
Payroll and welfare payable	19	16,897,075	21,199,332
Taxes payable	20	38,354,299	17,256,622
Interest payable	21	66,391,455	52,810,579
Deferred income tax liabilities	22	2,418,906	-
Other liabilities	23	55,803,011	54,381,080
TOTAL LIABILITIES		13,702,582,406	9,054,690,630
OWNER'S EQUITY			
Paid-in capital		3,000,000,000	3,000,000,000
Capital surplus	24	(3,965,827)	(144,497)
Surplus reserve	25	13,225,296	8,151,417
General reserve	26	110,585,141	-
Undistributed profit	27	8,442,526	73,362,757
TOTAL OWNER'S EQUITY		3,128,287,136	3,081,369,677
TOTAL LIABILITIES AND OWNER'S EQUITY		16,830,869,542	12,136,060,307

*** The accompanying notes form an integral part of these financial statements.**

President: Xavier ROUX Vice President: Valerie WANQUET Chief Financial Officer: Tracy Xi

Income Statement

For the Year Ended 31 December 2010

	Notes	2010	The period from 1 August 2009 (day of business conversion) to 31 December 2009
Interest income	28	351,356,043	137,948,429
Interest expense	28	(152,025,171)	(42,751,379)
Net interest income		199,330,872	95,197,050
Fee and commission income	29	90,023,172	46,267,146
Fee and commission expenses	29	(14,525,686)	(2,369,915)
Net fee and commission income		75,497,486	43,897,231
Investment income	30	31,190,965	14,787,194
Fair value gains	31	27,585,727	30,707,103
Net losses from foreign exchange and derivative transactions		(39,817,613)	(28,703,456)
Operating income		293,787,437	155,885,122
Business tax and levies		(21,617,044)	(6,667,695)
General and administrative expenses	32	(154,636,255)	(71,442,139)
Impairment loss on assets	33	(20,105,934)	(2,718,672)
Operating expense		(196,359,233)	(80,828,506)
Operating profit		97,428,204	75,056,616
Non-operating income		6,338,718	8,037,403
Non-operating expenses		(1,116,593)	(17,960)
Total profit		102,650,329	83,076,059
Less: Income tax	34	(51,911,540)	(1,561,885)
Net profit		50,738,789	81,514,174
Other comprehensive loss	35	(3,821,330)	(144,497)
Total comprehensive income		46,917,459	81,369,677

President: Xavier ROUX   Vice President: Valerie WANQUET   Chief Financial Officer: Tracy Xi

Statement of Cash Flow

For the Year Ended 31 December 2010

		Notes	2010	The period from 1 August 2009 (day of business conversion) to 31 December 2009
1	**Cash flows from operating activities**			
	Net increase in customer deposit and due to other banks		259,907,644	394,459,885
	Net decrease in trading financial assets		-	173,596,669
	Net decrease in placements with other banks		-	185,459,070
	Net increase in placements from other banks		3,334,244,352	-
	Interest received		322,831,320	134,388,951
	Fee and commission received		90,023,172	46,267,146
	Cash received relating to other operating activities		1,111,102,352	10,575,280
	Sub-total of cash inflow		5,118,108,840	944,747,001
	Net increase in loans and advances		(1,135,391,367)	(356,512,027)
	Net increase in trading financial assets		(2,340,156,701)	-
	Net increase in statutory deposit reserve with the central bank		(126,994,108)	(381,116,997)
	Net increase in placements with other banks		(1,972,236,017)	-
	Net decrease in placements from other banks		-	(1,772,776,106)
	Interest paid		(138,444,295)	(36,386,068)
	Fee and commission paid		(14,525,686)	(2,369,915)
	Cash paid to employees or on behalf of employees		(92,764,128)	(30,138,147)
	Payment of taxes		(40,077,870)	(7,822,782)
	Cash paid relating to other operating Activities		(1,178,114,593)	(48,865,544)
	Sub-total of cash outflow		(7,038,704,765)	(2,635,987,586)
	Net cash used in operating activities	36	(1,920,595,925)	(1,691,240,585)
2	**Cash flows from investing activities**			
	Cash received from disposal or repayment of investment		582,409,416	-
	Cash received from disposal of fixed assets and other long-term assets		415,067	-
	Sub-total of cash inflow		582,824,483	-
	Cash paid for investments		-	(1,216,421,038)
	Cash paid for purchase of fixed assets and other long-term assets		(3,712,361)	(1,824,867)
	Sub-total of cash outflow		(3,712,361)	(1,218,245,905)
	Net cash provided by/(used in) investing activities		579,112,122	(1,218,245,905)

Statement of Cash Flow (Continued)
For the Year Ended 31 December 2010

	Notes	2010	The period from 1 August 2009 (day of business conversion) to 31 December 2009
3 Net cash flows from financing activities		-	-
4 Effect of foreign exchange rate changes on cash and cash equivalents		(11,695,657)	3,181,638
5 Net decrease in cash and cash equivalents		(1,353,179,460)	(2,906,304,852)
Add: Cash and cash equivalents at beginning of the year/(period)		1,908,642,680	4,814,947,532
6 Cash and cash equivalents at end of year/(period)	36	555,463,220	1,908,642,680

President: Xavier ROUX Vice President: Valerie WANQUET Chief Financial Officer: Tracy Xi

Statement of Changes in Owner's Equity

For the Year Ended 31 December 2010

	Paid-in Capital	Capital surplus Note 24	Surplus reserve Note 25	General reserve Note 26	Undistributed profits Note 27	Total
Balance at 1 August 2009 (day of business conversion)	3,000,000,000	-	-	-	-	3,000,000,000
Net income	-	-	-	-	81,514,174	81,514,174
Other comprehensive loss	-	(144,497)	-	-	-	(144,497)
Distribution of profit						
Provide surplus reserve	-	-	8,151,417	-	(8,151,417)	-
Balance at 31 December 2009	3,000,000,000	(144,497)	8,151,417	-	73,362,757	3,081,369,677
Balance at 1 January 2010	3,000,000,000	(144,497)	8,151,417	-	73,362,757	3,081,369,677
Net income	-	-	-	-	50,738,789	50,738,789
Other comprehensive loss	-	(3,821,330)	-	-	-	(3,821,330)
Distribution of profit						
Provide surplus reserve	-	-	5,073,879	-	(5,073,879)	-
Provide general reserve	-	-	-	110,585,141	(110,585,141)	-
Balance at 31 December 2010	3,000,000,000	(3,965,827)	13,225,296	110,585,141	8,442,526	3,128,287,136

President: Xavier ROUX Vice President: Valerie WANQUET Chief Financial Officer: Tracy Xi

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1 GENERAL INFORMATION

CREDIT AGRICOLE CIB (China) Limited (hereinafter referred to as the "CA-CIB (China)" or the “Bank”) was established as a wholly-owned subsidiary of CRÉDIT AGRICOLE CIB S.A. (“CA-CIB”) in the People’s Republic of China.

On 7 February 2007, CA-CIB submitted the application to China Banking Regulatory Commission (hereinafter referred to as the "CBRC") regarding the restructuring into a wholly foreign owned bank incorporated in China, retaining the CA-CIB Shanghai branch for wholesale business of foreign exchange. The application was approved by CBRC on 10 June 2008. CBRC issued "certificate of approval of foreign banks" (Yin Jian Han [2009] No. 126) on June 17, 2009, approving the opening of the Bank. The paid-in capital of the Bank amounted to RMB 3,000,000,000. Subsequently, the Bank received "The People's Republic of China Finance License" issued by the CBRC, and "Enterprise Legal Person Business License" issued by the Shanghai Municipal Industry and Commerce Administration.

On 1 August 2009 (day of business conversion), majority of assets, liabilities, working capital and off-balance-sheet items of former CA-CIB China Branches have been transferred to the Bank at book value.

The financial statements were authorized for issue by the Board of Directors on 30 March 2011.

2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with the “Accounting Standards for Business Enterprises - Basic Standard” and 38 specific standards promulgated by the Ministry of Finance of the People’s Republic of China ("MOF") on 15 February 2006, the application guidance and interpretations issued up to date, and other relevant requirements (here after collectively referred to as "Accounting Standards for Business Enterprises").

3 ASSERTION OF ACCORDANCE WITH ACCOUNTING STANDARD FOR BUSINESS ENTERPRISES

The financial statements were prepared in accordance with the Accounting Standard for Business Enterprises and presented truly and completely, the financial position of the Bank as of 31 December 2010, and of its financial performance and its cash flow for the year ended 31 December 2010.

4 PRINCIPAL ACCOUNTING POLICIES

(1) Accounting period

The accounting period starts on 1 January and ends on 31 December.

(2) Functional currency

The Bank uses Renminbi (“RMB”) as its functional currency.

4 PRINCIPAL ACCOUNTING POLICIES (continued)

(3) Foreign currency translation

Foreign currency transactions are translated into RMB at the spot exchange rates at the dates of the transactions.

Monetary items denominated in foreign currencies are translated into RMB at the spot exchange rates at the balance sheet date and exchange differences are recorded in the income statement. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into RMB on balance sheet date at the spot exchange rates prevailing on transaction dates. Contributions to paid-in capital made in foreign currencies are translated into RMB at the stipulated exchange rates at the contribution dates.

(4) Cash and cash equivalents

Cash and cash equivalents in the cash flow statement comprise cash and balances with less than three months' maturity from the date of acquisition including deposits with other banks, placements with other banks and excess reserve with the central bank.

(5) Financial assets and financial liabilities

Regular-way purchases and sales of financial assets are recognised on trade day - the date on which the Bank commits to purchase or sell the financial assets. Regular-way purchases and sales of financial assets represent receiving or delivering financial assets according to contract terms within a legal or common agreed period.

<u>Classification, recognition and measurement of financial assets and financial liabilities</u>

The financial assets at initial recognition are classified as: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets.

The financial liabilities at initial recognition are classified as: financial liabilities at fair value through profit or loss and other financial liabilities. The classification of financial assets and liabilities depends on the holding purpose and capability of the bank. Management determines the classification of its financial assets and financial liabilities according to its intention and ability of holding.

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

This category includes: financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss at inception.

A financial asset or a financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling, repurchasing or redemption in the near term or if 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.

Financial assets and financial liabilities at fair value through profit or loss are measured at fair value at the initial recognition and subsequently, and changes in fair value are recorded in the income statement. Interest, cash dividends and disposal gain or loss of the assets in the holding period are booked into profit or loss.

4 PRINCIPAL ACCOUNTING POLICIES (continued)

(5) Financial assets and financial liabilities (continued)

Classification, recognition and measurement of financial assets and financial liabilities (continued)

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, including deposits with the central bank, deposits with other banks, placements with other banks, and loans and advances. When the Bank provides funds or services directly to customers and does not intend to sell the receivables, the Bank classifies such financial assets as loans and receivables and recognizes them at fair value plus transaction costs at initial recognition. Subsequently, such assets are measured at amortized cost using effective interest method.

(c) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has both the positive intention and the ability to hold to maturity. Such financial assets are recognized at fair value plus related transaction costs at time of acquisition. Subsequently, such assets are measured at amortized cost using effective interest method.

Except for specific situations such as disposal of insignificant amount of held-to-maturity investments at a date sufficiently close to maturity date, if the Bank fails to hold such investments through their maturities or reclassifies a portion of held-to-maturity investments into available-for-sale prior to their maturities, the Bank shall reclassify the entire held-to-maturity portfolio into available-for-sale investments at fair value and the Bank is further prohibited to designate any investments as held-to-maturity during the following two financial years.

(d) Available-for-sale financial assets

Financial assets classified as available-for-sale are those that are either designated as such or are not classified in any of the other categories. They are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Such financial assets are recognized at fair value plus related transaction costs at time of acquisition, and are subsequently measured at fair value at balance sheet dates. Gains and losses arising from changes in the fair value of financial assets classified as available-for-sale financial assets are recognized directly in owner's equity after deducting impairment and foreign exchange gain and loss impact. Until the financial assets are derecognized, the cumulative gain or loss previously recognized in owner's equity should be recognized in the income statement. The interest calculated by effective interest method in debt instrument and cash dividends declared from available-for-sale investment in equity instruments are booked into profit or loss.

(e) Other financial liabilities

Other financial liabilities are recognized initially at fair value, being their issuance proceeds net of transaction costs incurred. They are subsequently stated at amortized cost using effective interest method in the balance sheet.

4 PRINCIPAL ACCOUNTING POLICIES (continued)

(5) Financial assets and financial liabilities (continued)

De-recognition of financial assets and financial liabilities

The financial assets were derecognized when: (1) the rights to receive cash flows from the financial assets have expired; (2) the financial assets are transferred and the Bank has transferred substantially all risks and rewards of ownership; (3) although the Bank neither transfer the assets nor give up substantially all risks and rewards of ownership, the control of the financial assets has been given up.

Financial liabilities are derecognized when they are extinguished - that is, when the obligation is discharged, canceled or expires.

When derecognized, the difference between carrying amount and received amount was booked into profit or loss.

Fair value of financial assets

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. The fair values of quoted investments in active markets are based on current bid prices. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the market for a financial asset is not active, the Bank establishes fair value by using valuation techniques.

Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

(6) Impairment of financial assets

(a) Assets carried at amortized cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The major criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

4 PRINCIPAL ACCOUNTING POLICIES (continued)

(6) Impairment of financial assets (continued)

(a) Assets carried at amortized cost (continued)

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) the Bank, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Bank would not otherwise consider;

(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;

(v) the disappearance of an active market for that financial asset because of financial difficulties of the issuer; or

(vi) 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.

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

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. In practice, the Bank will also determine the fair value of the financial assets with the observed market value and assessed the impairment loss with that fair value.

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, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar and relevant credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that do not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

4 PRINCIPAL ACCOUNTING POLICIES (continued)

(6) Impairment of financial assets (continued)

(a) Assets carried at amortized cost (continued)

Estimates of the portfolio's future cash flow should reflect changes related to the observed data of the phase change with the changes in direction and consistency. Expected to reduce differences between estimated losses and the actual losses, the Bank performs periodic review of the theory and hypothesis of the expected future cash flow.

When a loan is unrecoverable, it is written off against the related allowance on impairment losses. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the impairment losses for loans and advances in the income statement.

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

(b) Assets classified as available-for-sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement, is removed from owner's equity and recognized in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

4 PRINCIPAL ACCOUNTING POLICIES(continued)

(7) Offsetting financial instruments

Financial assets and financial liabilities are separately presented in the balance sheet without any offsetting, except when:

(i) there is a legally enforceable right to offset the recognized amounts; and

(ii) there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(8) Derivative financial instruments

Derivatives are initially recognized at fair value on the date at which a derivative contract is entered into and are subsequently re-measured at their fair values. Gains or losses from changes in the fair value are recorded in the income statement.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognizes profits or losses on day 1.

Certain derivatives are embedded in non-derivative financial instruments (i.e. host contracts) and the embedded derivative and the corresponding host contract are collectively referred to as hybrid financial instruments. When the hybrid financial statements are not designated at fair value through profit or loss, the embedded derivative shall be separated from the host contract and accounted for as a derivative if, and only if:

a. the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

b. a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

The unrealized gain or loss arising from fair value measurement of separate derivative instrument is reported as the “fair value gains or losses” in the income statement.

(9) Fixed assets

Fixed assets comprise office equipment and furniture, electronic equipment and computers and vehicles. Fixed assets purchased by the Bank are initially recorded at cost, and subsequently measured at cost less accumulated depreciation and impairment.

Subsequent costs are included in the asset’s carrying amount, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. However, the carrying amount of any parts of fixed assets that are being replaced shall be derecognized and all related subsequent costs are expensed when incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. For impaired fixed assets, depreciation is calculated based on carrying amounts after deducting the provision for impairment over their estimated remaining useful lives.

4 PRINCIPAL ACCOUNTING POLICIES (continued)

(9) Fixed assets (continued)

Estimated useful lives, estimated residual value and annual depreciation rates are as follows:

	Estimated useful lives	Estimated residual value	Annual depreciation rate
Office equipment and furniture	5 years	-	20%
Electronic equipment and computers	3 years	-	33%
Vehicles	5 years	-	20%

The Bank reviews the estimated residual value, useful lives and depreciation method of fixed assets and makes appropriate adjustments on an annual basis.

When the Bank disposes or ceases to use the fixed assets, or does not expect to further benefit from fixed assets, the Bank derecognizes the assets. Proceeds from sale, transfer or disposal of fixed assets are recorded in the income statement after deducting carrying value and related taxes.

(10) Long-term prepaid expenses

Long-term prepaid expenses include leasehold improvements and other prepayment that should be amortized over more than one year. Long-term prepaid expenses are amortized on the straight-line basis over the expected beneficial periods and are presented at cost net of accumulated amortization.

(11) Impairment of non-financial assets

Fixed assets or other non-financial assets are reviewed for impairment if there are indications of impairment. If the carrying value of such assets is higher than the recoverable amount, the excess is recognized as an impairment loss. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Provision for impairment is determined on individual basis. If it is not possible to estimate the recoverable amount of the individual asset, the Bank determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit). A cash-generating unit is the smallest group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Once an impairment loss is recognized, it shall not be reversed to the extent of recovery in value in subsequent periods.

(12) Interest income and expenses

Interest income and expense for all interest-bearing financial instruments are recognized using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period using its effective interest rate.

4 PRINCIPAL ACCOUNTING POLICIES (continued)

(12) Interest income and expenses (continued)

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 Bank estimates cash flows considering all contractual terms of the financial instrument (e.g., prepayment options, call/put options and similar options) but should not consider future credit losses.

The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, such as transaction costs and all other premiums or discounts. If the cash flows cannot be estimated, the Bank shall use contractual cash flows in the entire contract period.

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 recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(13) Fee and commission income

Fees and commissions are generally recognized on an accrual basis when the related service has been provided.

(14) Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets shall be recognized for deductible losses or tax credits that can be carried forward to subsequent years. The deferred tax assets and deferred tax liabilities at the balance sheet date shall be measured at the tax rates that, according to the requirements of tax laws, are expected to apply to the period when the asset is realized or the liability is settled.

Deferred tax assets shall be recognized to the extent that it is probable that future taxable profit will be available against which the deductible losses and tax credits can be utilized.

Deferred income tax related to fair value changes of available-for-sale investments is recognized in owner’s equity and is subsequently recognized in the income statement with derecognition of investments.

The Bank’s deferred income tax assets and liabilities are netted as the amounts are recoverable from or due to the same tax authority.

(15) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the leaser are classified as operating leases. The Bank engaged into various operating lease agreements to rent its branches’ offices and facilities. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the leases. And the fine of terminated the agreement in advance was booked into profit or loss.

4 PRINCIPAL ACCOUNTING POLICIES (continued)

(16) Contingent liabilities

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

A contingent liability is not recognized as a provision but is disclosed in the notes to the financial statements.

(17) Financial guarantee contracts

The Bank has the following types of financial guarantee contracts: letters of credit and letters of guarantee. These financial guarantee contracts provide for specified payments to be made to reimburse the holder for losses incurred when the guaranteed parties default under the original or modified terms of the specified debt instruments.

The Bank initially recognizes all financial guarantee contracts at fair value in the balance sheet, which is amortized into the income statement ratably over the guarantee period. Subsequently, they are carried at the higher of amortized carrying value or the provision required to meet the Bank's guarantee obligation. The changes in carrying value are recorded in the income statement under fee and commission income.

The contractual amounts of financial guarantee contracts are disclosed as off-balance-sheet items in the notes to the financial statements.

(18) Employee benefits

Employee benefits consist of salary, bonus, allowance and subsidy, staff welfare funds, social insurance and housing fund, staff education funds and any other employee related benefits. Employee benefits expenses are recognized as general and administrative expenses in the period of services rendered.

The Bank participates in social security plans managed by the government, including pension, medical, housing and other welfare benefits. The Bank also participates in commercial insurance as a supplement to government managed social insurance. The Bank has no other substantial commitments to its employees.

4 PRINCIPAL ACCOUNTING POLICIES(continued)

(19) Provision

Provisions are recognized when the Bank has a present obligation as a result of past transactions or events, and it is more likely than not that an outflow of economic benefits will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are initially determined using best estimates based on historical experience, taking into consideration the risks, uncertainties and discount effect related to contingencies. Where the effect of discounting future cash flow is significant, provisions shall be determined at the discounted future cash flows.

(20) Segment reporting

Segments are reported in a manner consistent with the internal reporting provided to the management of the Bank, who is responsible for allocating resources and assessing performance of the segments.

The Bank manages business by regions and product lines. The Bank operates business in mainland China. The Bank does not need not to disclose segment information because Shanghai alone contributes the majority of revenue, profits and assets.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes critical estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Areas susceptible to changes in essential estimates and judgments, which affect the carrying value of assets and liabilities, are set out below. It is impracticable to determine the effect of changes to the critical estimates and key assumptions discussed below. It is possible that actual results may require material adjustments to the estimates referred to below.

(1) Allowance for impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on quarterly basis, unless there are known situations which demonstrate that impairment losses have occurred between each assessment period. In determining whether an impairment loss should be recorded in the income statement, the Bank 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 before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its 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.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES (continued)

(2) Fair value of financial instruments

The fair value of financial instruments that is not quoted in active markets is determined by using valuation techniques. To the extent practical, cash flow models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

(3) Income taxes

Significant estimates are required in determining the provision for income tax. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. In particular, the deductibility of certain items in the People's Republic of China is subject to tax authority's approval, mainly like the impairment allowance for loans and advances. 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 income tax provisions in the period in which such determination is made.

6 TAXATION

The Bank's business activities are mainly subject to following major taxes:

Tax	Tax rate	Tax basis
Corporate income tax	25%	Taxable income
Business tax	5%	Taxable revenue
River-way administrative toll	1%	Business Tax
Urban maintenance and construction tax	7%	Business Tax
Educational surcharge	3%	Business Tax

According to the No.35 Guo fa [2010] promulgated by State Council, the Bank should pay Urban maintenance and construction tax and Educational surcharge starting from 1 December 2010.

7 CASH AND DEPOSITS WITH THE CENTRAL BANK

	31 December 2010	31 December 2009
Cash	191,165	370,062
Statutory deposit reserve with the PBOC	737,275,471	610,281,363
Balance with the PBOC excess statutory deposit reserve	245,662,715	830,291,431
	983,129,351	1,440,942,856

According to the relevant provisions of the People's Bank of China ('PBOC'), the required reserve ratio for customer deposits denominated in foreign currencies is 5% as at 31 December 2010(31 December 2009:5%). Such reserve is non-interest-bearing. The required reserve ratio for customer deposits denominated in RMB is 16.5% as at 31 December 2010(31 December 2009:13.5%). Rmb deposit reserves bear interest according to PBOC's provisions.

This statutory deposit reserve is not available to fund the Bank's day-to-day operations.

8 DEPOSITS WITH OTHER BANKS

	31 December 2010	31 December 2009
Deposits with domestic banks	24,486,307	111,271,235
Deposits with overseas banks	-	58,615,568
Deposits with related parties (Note 39)	6,171,033	7,172,100
	30,657,340	177,058,903

9 PLACEMENTS WITH OTHER BANKS

	31 December 2010	31 December 2009
Placements with domestic banks	408,500,000	662,692,670
Placements with related parties (Note 39)	70,452,000	239,229,598
Lending to domestic banks	2,950,322,406	1,168,635,469
Lending to related parties (Note 39)	75,129,382	83,580,318
	3,504,403,788	2,154,138,055

10 TRADING FINANCIAL ASSETS

	31 December 2010	31 December 2009
PBOC notes	1,783,960,843	255,594,385
Government bond	613,479,601	-
Corporate bond	164,753,121	-
Syndicated loan hold for trading	35,610,258	
	2,597,803,823	255,594,385

11 FINANCIAL ASSETS CLASSIFIED AS AVAILABLE-FOR-SALE

	31 December 2010	31 December 2009
PBOC notes	638,914,066	1,216,228,375

12 DERIVATIVE INSTRUMENTS

The following derivative instruments are utilized by the Bank for trading purpose:

Foreign exchange forwards represent commitments to purchase/sell foreign exchanges at a future date, including unsettled spot transactions.

Forward rate agreements are individually negotiated interest rate contract that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Foreign exchange and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps).

Gold forwards are commitments to trade certain amount of gold at contract price at a certain day in the future.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or market risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The fair value of financial instruments that is not quoted in active markets is determined by using valuation techniques. To the extent practical, cash flow models use only observable data, like interest rate and foreign currency rate, certain data like credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

12 DERIVATIVE INSTRUMENTS (continued)

The notional amount and fair value of the Bank's derivative financial instruments are as follows:

31 December 2010	**Notional amount**	**Fair value**	
		Assets	**Liabilities**
Currency derivatives			
Foreign exchange forward	3,800,850,610	35,936,067	(44,935,760)
Foreign exchange swap	49,608,066,582	423,037,104	(302,919,578)
Subtotal	53,408,917,192	458,973,171	(347,855,338)
Interest rate derivatives			
Forward rate agreement	104,983,040,400	324,317,185	(324,300,205)
Interest rate swaps	61,205,072,973	770,130,674	(814,889,721)
Subtotal	166,188,113,373	1,094,447,859	(1,139,189,926)
Total	219,597,030,565	1,553,421,030	(1,487,045,264)

31 December 2009	**Notional amount**	**Fair value**	
		Assets	**Liabilities**
Currency derivatives			
Foreign exchange forward	3,388,107,321	83,346,001	(51,994,325)
Foreign exchange swap	14,905,153,838	58,250,954	(67,642,073)
Gold forward	309,297,179	9,784,921	(9,784,922)
	18,602,558,338	151,381,876	(129,421,320)
Interest rate derivatives			
Forward rate agreement	110,289,086,400	87,359,300	(85,304,237)
Interest rate swap	21,969,158,638	261,915,515	(252,797,060)
	132,258,245,038	349,274,815	(338,101,297)
Total	150,860,803,376	500,656,691	(467,522,617)

13 INTEREST RECEIVABLE

	31 December 2010	31 December 2009
Interest receivable from:		
Loans and advances	22,659,202	19,337,203
Deposits and placements with other banks	33,037,482	6,299,936
Securities investment	9,994,525	11,529,347
	65,691,209	37,166,486

14 LOANS AND ADVANCES

	31 December 2010	31 December 2009
Corporate loans and advances		
-Loans	6,692,061,847	6,151,898,829
-Forfeiting	437,013,328	142,719,209
-Negotiating bills and others	379,907,653	78,973,423
	7,508,982,828	6,373,591,461
Collectively assessed impairment allowance	(111,020,318)	(90,914,384)
Loans and advances, net	7,397,962,510	6,282,677,077

There is no overdue or impaired loan as at 31 December 2010 and 31 December 2009. All impairment allowances are provided by collective assessment.

(1) Industry sector:

	31 December 2010		31 December 2009	
	Balance	%	Balance	%
Manufacturing	4,831,399,334	64	4,440,885,895	70
Wholesale and retail trading	887,893,300	12	464,342,980	7
Power, energy and water	880,332,571	12	567,298,428	9
Financial institutions	464,391,816	6	100,870,103	2
Others	444,965,807	6	800,194,055	12
Total, gross	7,508,982,828	100	6,373,591,461	100

(2) Geographic sector:

	31 December 2010		31 December 2009	
	Balance	%	Balance	%
East China	3,259,674,009	43	3,167,902,381	50
North China	1,975,306,995	26	1,302,123,122	20
Middle China	807,715,806	11	1,068,771,567	17
South China	870,683,607	12	592,212,829	9
Others	595,602,411	8	242,581,562	4
Total, gross	7,508,982,828	100	6,373,591,461	100

14 LOANS AND ADVANCES (continued)

(3) By type of security:

	31 December 2010	31 December 2009
Clean credit facility	4,592,133,298	4,472,646,303
Collateralized loan	497,797,061	1,069,409,400
Guaranteed loan	1,008,605,016	770,909,315
Pledged loan	1,410,447,453	60,626,443
Total, gross	7,508,982,828	6,373,591,461

(4) Movement of impairment allowance:

	2010	The period from 1 August 2009 (day of business conversion) to 31 December 2009
Collective assessed impairment allowance		
At beginning of the year/(period)	90,914,384	88,214,923
Impairment losses (Note 33)	20,105,934	2,718,672
Exchange differences	-	(19,211)
At end of the year/(period)	111,020,318	90,914,384

15 OTHER ASSETS

	31 December 2010	31 December 2009
Guarantee deposit for foreign exchange business	21,342,585	19,956,377
Settlement suspense balance	10,131,680	15,467,757
Long-term prepaid expenses	7,811,839	8,729,297
Rental deposits	4,897,271	4,811,842
Fee and commission receivables	4,338,460	4,632,848
Intangible assets	1,174,937	599,869
Others	3,390,111	2,014,025
	53,086,883	56,212,015

16 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	31 December 2010	31 December 2009
Deposit from related parties (Note 39)	162,315,163	230,116,995
Deposit from domestic financial institutions	583,078,459	644,867,398
	745,393,622	874,984,393

17 PLACEMENTS FROM OTHER BANKS

	31 December 2010	31 December 2009
Placements from related parties (Note 39)	4,748,023,019	3,362,275,667
Placements from domestic banks	1,948,497,000	-
	6,696,520,019	3,362,275,667

18 CUSTOMER DEPOSITS

	31 December 2010	31 December 2009
Corporate current deposits	1,114,533,024	1,179,880,020
Corporate time deposits	2,786,799,944	2,805,775,402
Individual current deposits	4,044,193	1,867,258
Margin deposits	688,381,594	216,737,660
	4,593,758,755	4,204,260,340

19 PAYROLL AND WELFARE PAYABLE

	31 December 2010	31 December 2009
Salary, bonus and social insurance	16,799,530	20,701,477
Housing funds	16,512	496,674
Staff activity funds	81,033	1,181
	16,897,075	21,199,332

20 TAXES PAYABLE

	31 December 2010	31 December 2009
Withholding income tax	9,115,329	9,084,215
Income tax	23,291,705	6,576,173
Business tax and levies	4,527,618	535,295
Others	1,419,647	1,060,939
	38,354,299	17,256,622

21 INTEREST PAYABLE

	31 December 2010	31 December 2009
Interest payable to:		
Customer deposits	24,385,105	21,907,050
Due to and placements from other banks and financial institutions	42,006,350	30,903,529
	66,391,455	52,810,579

22 DEFERRED INCOME TAX ASSETS/(LIABILITIES)

Movement of deferred income tax assets/(liabilities) is as following:

	2010	The period from 1 August 2009 (day of business conversion) to 31 December 2009
Balance at the beginning of the year/(period)	8,660,354	9,887,303
Charge to the income statement (Note 34)	(12,353,037)	(1,275,115)
Charge to capital surplus - deferred income tax from fair value changes of financial assets classified as available-for-sale (Note 24)	1,273,777	48,166
Balance at the end of the year/(period)	(2,418,906)	8,660,354

22 DEFERRED INCOME TAX ASSETS/(LIABILITIES)

Deferred income tax assets/(liabilities) arose from following temporary differences:

	31 December 2010		31 December 2009	
	Deferred tax assets	Deductable temporary differences	Deferred tax assets	Deductable temporary differences
Allowance for impairment of loans and advances	128,895	515,580	6,704,810	26,819,241
Carrying forward tax losses	-	-	8,830,642	35,322,567
Accrued expense	12,475,927	49,903,709	1,624,600	6,498,398
Unrealized loss of trading financial assets	248,271	993,083	-	-
Depreciation in fair value of financial assets classified as available-for-sale	1,321,943	5,287,770	48,166	192,663
	14,175,036	56,700,142	17,208,218	68,832,869
	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences
Unrealized gain of trading financial assets	-	-	(264,345)	(1,057,379)
Unrealized gain of derivatives	(16,593,942)	(66,375,766)	(8,283,519)	(33,134,074)
	(16,593,942)	(66,375,766)	(8,547,864)	(34,191,453)
Net	(2,418,906)	(9,675,624)	8,660,354	34,641,416

23 OTHER LIABILITIES

	31 December 2010	31 December 2009
Service fee to parent company (Note 39)	15,216,100	16,201,043
Unearned fee and commission income	17,429,700	11,114,451
Suspense settlement balance of forfeiting	6,001,536	5,039,607
Professional service fees payable	1,977,593	4,717,647
Letter of guarantee commission expenses payable	1,925,526	3,564,944
Suspense settlement balance of forward	-	2,075,664
Rental expenses payable	1,550,000	1,900,000
Technology maintenance fee to related parties (Note 39)	1,664,479	1,786,234
Payable to travelling agencies	1,726,000	1,350,000
Others	8,312,077	6,631,490
	55,803,011	54,381,080

24 CAPITAL SURPLUS

Capital surplus is from the change in fair value of financial assets classified as available-for-sale.

	2010	The period from 1 August 2009 (day of business conversion) to 31 December 2009
Balance at the beginning of the year/(period)	(144,497)	-
Change in fair value of financial assets classified as available-for-sale	(5,095,107)	(192,663)
Deferred income taxes (Note 22)	1,273,777	48,166
Balance at the end of the year/(period)	(3,965,827)	(144,497)

25 SURPLUS RESERVE

	2010	The period from 1 August 2009 (day of business conversion) to 31 December 2009
Reserve fund:		
Balance at the beginning of the year/(period)	8,151,417	-
Appropriation of net profit	5,073,879	8,151,417
Balance at end of the year/(period)	13,225,296	8,151,417

In accordance with the Detail Rules for Implementing the Law of Foreign Invested Enterprise, appropriations from net profit should be made to the reserve fund, after offsetting accumulated losses from prior years, and before profit distributions to the investors. The percentage to be appropriated to the reserve fund is determined by the Board of Directors of the Bank, but should not be less than 10% of net income after tax before accumulated reserve fund reaching 50% or more of the registered capital. Subject to the approval from the Board of Directors, the reserve fund can be used for replenishing the accumulated losses or increasing the Bank’s capital.

26 General reserve

Pursuant to Circulars CaiJin [2005] No.49 and No.90 issued by MOF, financial institution should provide general reserve as profit distribution to prevent business risk and enhance the capability to withstand risk. This general reserve is part of the owner’s equity.

As approved by the Board of Directors, the Bank appropriated general reserve in 2010 according to 1% of year-end risk assets.

27 UNDISTRIBUTED PROFIT

The Bank appropriated net profit of the statutory financial statement in accordance with the relevant regulations in 2010.

The Bank appropriated 10% of net profit for the year ended 31 December 2010, RMB 5,073,879 to surplus reserve and RMB 110,585,141 to general reserve.

28 NET INTEREST INCOME

	2010	The period from 1 August 2009 (day of business conversion) to 31 December 2009
Interest income:		
Loans and advances	242,518,988	107,922,950
Placements with other banks	92,708,713	8,337,371
Deposits with other banks	3,352,597	16,528,456
Deposits with the central bank	12,775,745	5,159,652
	351,356,043	137,948,429
Interest expense:		
Customer deposit	(71,173,414)	(22,832,978)
Due to other banks	(43,439,127)	(19,478,759)
Placements from other banks	(37,412,630)	(439,642)
	(152,025,171)	(42,751,379)
Net interest income	199,330,872	95,197,050

29 NET FEE AND COMMISSION INCOME

	2010	The period from 1 August 2009 (day of business conversion) to 31 December 2009
Fee and commission income:		
Credit related fees and commissions	54,123,336	33,938,575
Guarantee fees	26,523,098	8,035,399
Settlement and clearing fees	8,131,517	2,733,367
Others	1,245,221	1,559,805
	90,023,172	46,267,146
Fee and commission expense:		
Foreign exchange settlement and clearing expense	(9,368,930)	(1,554,597)
Guarantee expense to parent bank	(702,359)	(587,500)
Others	(4,454,397)	(227,818)
	(14,525,686)	(2,369,915)
Net fee and commission income	75,497,486	43,897,231

30 INVESTMENT INCOME

	2010	The period from 1 August 2009 (day of business conversion) to 31 December 2009
Financial assets classified as available-for-sale	19,544,776	6,916,244
Trading financial assets	11,646,189	7,870,950
	31,190,965	14,787,194

31 FAIR VALUE GAINS/(LOSSES)

	2010	The period from 1 August 2009 (day of business conversion) to 31 December 2009
Net gains on derivative instruments	29,638,464	34,972,633
Net losses on financial trading assets	(2,052,737)	(4,265,530)
	27,585,727	30,707,103

32 GENERAL AND ADMINISTRATIVE EXPENSES

	2010	The period from 1 August 2009 (day of business conversion) to 31 December 2009
Salaries and bonus	80,940,718	33,197,196
Social insurance	7,521,153	5,155,071
Service fee to parent bank	11,473,138	5,199,240
Rental and utilities	20,426,916	8,176,852
Telecommunications and computers	8,976,376	4,084,030
Travelling expenses	4,186,161	2,418,264
Entertainment expenses	1,976,059	1,095,959
Depreciation and amortization	4,893,612	2,319,772
Staff training expenses	889,200	113,510
Consulting expenses	1,987,228	138,762
Stationery expenses	1,403,722	632,812
Others	9,961,972	8,910,671
	154,636,255	71,442,139

33 IMPAIRMENT LOSSES ON ASSETS

	2010	The period from 1 August 2009 (day of business conversion) to 31 December 2009
Impairment losses on loans and advances (Note 14)	20,105,934	2,718,672

34 INCOME TAX

	2010	The period from 1 August 2009 (day of business conversion) to 31 December 2009
Current income tax	39,558,503	286,770
Deferred income tax (Note 22)	12,353,037	1,275,115
	51,911,540	1,561,885

Reconciliation between income tax and which calculated using applicable tax rate:

	2010	The period from 1 August 2009 (day of business conversion) to 31 December 2009
Profit before income tax	102,650,329	83,076,059
Income tax calculated using 25% tax rate	25,662,582	20,769,015
Interest income of government bond non subject tax	(42,000)	-
Expenses not deductible for tax purposes	197,606	116,353
Adjustment on capital exchange loss of former CA-CIB China Branches	19,615,934	-
Written back deferred income tax assets recognized in previous year	5,295,538	-
Tax clearing differences for previous year	1,181,880	-
Impact from change in income tax rate of former CA-CIB Xiamen Branch	-	(9,510)
Tax clearing differences of former CA-CIB China Branches	-	286,770
Carry forward tax losses of former CA-CIB China Branches	-	(19,600,743)
	51,911,540	1,561,885

35 OTHER COMPREHENSIVE LOSS

	2010	The period from 1 August 2009 (day of business conversion) to 31 December 2009
Financial assets classified as available-for-sale		
Changes in fair value	5,095,107	192,663
Less: Effect of income tax	(1,273,777)	(48,166)
	3,821,330	144,497

36 NOTES TO THE STATEMENT OF CASH FLOWS

(1) Cash and cash equivalents

	31 December 2010	31 December 2009
Cash (Note 7)	191,165	370,062
Balances with the PBOC excess statutory deposit reserve (Note 7)	245,662,715	830,291,431
Deposits with other banks with maturity less than three months from acquisition date	30,657,340	177,058,903
Placements with other banks with maturity less than three months from acquisition date	278,952,000	900,922,284
Total	555,463,220	1,908,642,680

36 NOTES TO THE STATEMENT OF CASH FLOWS (continued)

(2) Cash flows from operating activities

	Notes	2010	The period from 1 August 2009 (day of business conversion) to 31 December 2009
Net profit:		50,738,789	81,514,174
Adjusted by:			
Impairment loss	33	20,105,934	2,718,672
Depreciation and amortization	32	4,893,612	2,319,772
Gains on disposal of fixed assets and other long-term assets		(328,718)	17,960
Fair value gains	31	(27,585,727)	(30,707,103)
Deferred income tax		12,353,037	1,275,115
Increase in operating receivables		(6,621,352,110)	(323,436,184)
Increase/(decrease) in operating payables		4,640,579,258	(1,424,942,991)
Net cash used in operating activities		(1,920,595,925)	(1,691,240,585)

(3) Net change in cash and cash equivalents:

	2010	The period from 1 August 2009 (day of business conversion) to 31 December 2009
Cash and cash equivalents at end of the year/(period)	555,463,220	1,908,642,680
Less: cash and cash equivalents at beginning of the year/(period)	(1,908,642,680)	(4,814,947,532)
Net decrease in cash and cash equivalents	(1,353,179,460)	(2,906,304,852)

37 CONTINGENT LIABILITIES AND COMMITMENTS

(1) Credit commitment

	31 December 2010	31 December 2009
Letters of guarantee issued	3,646,186,820	5,009,734,802
Letters of credit issued	301,493,749	267,023,445
Negotiation credit	509,391,987	269,569,790
Loan commitment	837,107,937	535,717,313
	5,294,180,493	6,082,045,350

37 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

(2) Operating lease commitments

Future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2010	31 December 2009
Within 1 year	19,598,321	17,427,307
Over 1 year less than 2 years	2,373,852	14,131,180
Over 2 years less than 3 years	-	2,373,852
	21,972,173	33,932,339

(3) Legal proceedings

At 31 December 2010, there was no legal proceeding against the Bank (none at 31 December 2009).

(4) Capital commitments

At 31 December 2010, there was no significant capital commitment (none at 31 December 2009).

38 EVENTS AFTER THE BALANCE SHEET DATE

There were no significant post-balance sheet events which are required to be disclosed in the financial statements.

39 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) Related party who control the Bank

Name of entity	Registered location	Main business	Relations with the Bank	Economic nature
CA-CIB	Paris, France	Banking	Parent bank	Foreign enterprise

CRÉDIT AGRICOLE S.A. registered in France is the ultimate holding company of the Bank.

(b) Share of interest of related party who control the Bank and its changes

Name of entity	31 December 2010 Amount	%	31 December 2009 Amount	%
CA-CIB	3,000,000,000	100	3,000,000,000	100

(c) Nature of related parties which do not control the Bank or are controlled by the Bank

Names of related parties	Relationship with the Bank
CA-CIB Shanghai Branch	Branch of parent bank
CA-CIB Hong Kong Branch	Branch of parent bank
CA-CIB Tokyo Branch	Branch of parent bank
CA-CIB London Branch	Branch of parent bank

39 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(d) Related party transactions

(1) Pricing policy

The major transactions entered into by the Bank with its related parties are inter-bank borrowing and lending. The terms of inter-bank borrowing and lending with related parties follow commercial terms arranged in the ordinary course of the Bank's business.

(2) Significant related party transactions

	2010	**The period from 1 August 2009 (day of business conversion) to 31 December 2009**
(i) Provide funding		
Interest income from financial institutions:		
CA-CIB Hong Kong Branch	3,261,062	1,559,251
CA-CIB	73,522	137,379
CA-CIB Shanghai Branch	-	57,695
CA-CIB Tokyo Branch	148	-
	3,334,732	1,754,325
(ii) Receive service		
Service fee to parent bank	11,473,138	5,199,240
Guarantee fee to related parties	1,087,799	587,500

(3) Balance with related parties

(i) Deposits/Placements with other banks	**31 December 2010**	**31 December 2009**
Deposits with other banks:		
CA-CIB Hong Kong Branch	-	7,172,100
CA-CIB	3,260,683	-
CA-CIB Shanghai Branch	2,910,350	-
	6,171,033	7,172,100
Placements with other banks:		
CA-CIB Hong Kong Branch	145,581,382	321,809,916
CA-CIB Shanghai Branch	-	1,000,000
	145,581,382	322,809,916

39 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(d) Related party transactions(continued)

(3) Balance with related parties(continued)

(ii) Due to/Placements from other banks

Due to other banks:	**31 December 2010**	**31 December 2009**
CA-CIB Shanghai Branch	162,315,163	230,116,995

Placements from other banks:		
CA-CIB Hong Kong Branch	4,722,511,407	3,330,460,653
CA-CIB	21,448,612	31,815,014
CA-CIB Tokyo Branch	4,063,000	-
	4,748,023,019	3,362,275,667

(iii) Interest receivable/ interest payable:	**31 December 2010**	**31 December 2009**
Interest receivable:		
CA-CIB Hong Kong Branch	2,722,136	3,029,931
CA-CIB Shanghai Branch	-	1,710
	2,722,136	3,031,641

Interest payable:	**31 December 2010**	**31 December 2009**
CA-CIB Hong Kong Branch	3,944,167	1,542,852
CA-CIB	110,288	193,166
CA-CIB Shanghai Branch	-	286,841
	4,054,455	2,022,859

(iv) Other receivables and other liabilities

Fee and commission receivable from related parties	**31 December 2010**	**31 December 2009**
CA-CIB London Branch	1,858,427	-
CA-CIB	544,748	666,056
CA-CIB Hong Kong Branch	209,573	37,758
	2,612,748	703,814
Unpaid service fee to parent bank	15,216,100	16,201,043
Accrued technology maintenance expenses to related parties	1,664,479	1,786,234

39 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(d) Related party transactions(continued)

(3) Balance with related parties(continued)

(v) Derivative financial instruments

2010	Notional amount	Fair value	
		Assets	Liabilities
CA-CIB Hong Kong Branch			
Forward rate agreement	104,983,040,400	324,317,185	(324,300,205)
Foreign exchange swap	857,296,423	28,567,702	(11,130,407)
Interest rate swap	14,702,421,191	425,669,028	(467,599,830)
Foreign exchange forward	27,612,148	4,193,242	-
	120,570,370,162	782,747,157	(803,030,442)
CA-CIB			
Foreign exchange swap	40,851,377	4,191,384	(17,464)
Interest rate swap	2,112,075,375	196,150	(60,008,926)
	2,152,926,752	4,387,534	(60,026,390)
CA-CIB London Branch			
Foreign exchange swap	725,501,890	2,833,910	(17,359,099)
	123,448,798,804	789,968,601	(880,415,931)

2009	Notional amount	Fair value	
		Assets	Liabilities
CA-CIB Hong Kong Branch			
Forward rate agreement	110,289,086,400	87,359,300	(85,304,237)
Foreign exchange swap	1,873,962,482	20,979,304	(7,350,273)
Interest rate swap	18,070,905,603	167,856,119	(180,965,032)
Foreign exchange forward	90,781,339	10,972,272	(10,961)
	130,324,735,824	287,166,995	(273,630,503)
CA-CIB			
Foreign exchange swap	22,177,356	1,211,204	(121,198)
Interest rate swap	291,762,515	-	(57,242,072)
Gold forward	151,524,688	1,768,559	(8,016,362)
	465,464,559	2,979,763	(65,379,632)
	130,790,200,383	290,146,758	(339,010,135)

40 FINANCIAL RISK MANAGEMENT

(1) Overview

The Bank's activities expose it to a variety of risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the inherent risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adhere to limits by means of reliable and up-to-date information systems.

Board of directors developed the Bank's risk management strategies. The senior management of the Bank implemented relevant risk management policies and procedures, including exchange rate risk, interest rate risk and credit risk under the risk management strategies developed by Board of directors. The relevant department of the Bank is responsible for implementation of these risk management strategies. In addition, the internal audit department is responsible for conducting an independent review on risk management and internal controls.

The most important types of business risk are credit risk, liquidity risk and market risk. Market risk includes currency risk and interest rate risk.

(2) Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty may fail to discharge an obligation, resulting in financial losses to the Bank. Significant changes in the economy, or in a particular industry segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. If the counterparties of the transaction are focused on the same industries or geographic region, the credit risk increases. Credit exposures arise principally in loans and advances, debt securities and due from banks and other financial institutions. There is also credit risk in off-balance sheet financial arrangements such as loan commitments and guarantees. Management closely monitors its exposure to credit risk. The Risk Analysis and Decision Department, the Credit Risk Management Department, the Market Risk Management Department, and the Permanent Control and Operational Risk Management Department coordinate the credit risk management functions and communicate with the Bank's senior management. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to individual borrowers. Such risks are monitored on a regular basis and subject to an annual review.

40 FINANCIAL RISK MANAGEMENT (continued)

(2) Credit risk (continued)

(a) Credit risk measurement

(i) Loans and credit commitments

The Bank designs loan grade under a five grade asset classification system to manage the quality of its loan portfolio. Such classification system is based on “the Guidance on Credit Risk Classification” (”the Guidance”) issued by CBRC. Under the Bank’s own system and the CBRC Guidance, the Bank classifies its credit assets and off-balance sheet credit exposures into five categories, which are namely pass, special mention, substandard, doubtful and loss. The last three categories are also classified as “non-performing credit assets”.

The core definition of the Bank’s credit asset classification is as follows:

Pass:	The borrower is able to fulfil the contractual obligations, and there is no uncertainty that principal and interest can be paid on time.
Special Mention:	The borrower is able to make current due payments, but there exist some indications that may have negative impact on the borrower’s future payments.
Substandard:	The borrower's repayment ability has been in doubt and its normal income cannot repay the loan principal and interest in full. Losses may be incurred by the Bank, even with the enforcement of guarantees and collateral.
Doubtful:	The borrower cannot repay the principal and the interest in full. Significant losses will be incurred even with the enforcements of guarantees and collateral.
Loss:	After taking into consideration all possible recovery actions and necessary legal procedures, the principal and interest cannot be collected, or only a very small portion of principal and interest can be collected.

(ii) Debt securities

The Bank manages credit risks through limiting the issuers’ credit rating. Currently, investments in debt securities are limited to government bond, PBOC notes and corporate bonds rated AAA.

(iii) Loans to other banks and financial institutions

The parent bank reviews and monitors the credit risk of individual financial institutions on regular basis. Limits are placed for each individual bank or non-banking financial institution which has business relationship with the Bank.

40 FINANCIAL RISK MANAGEMENT (continued)

(2) Credit risk (continued)

(b) Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and groups, and to industries and regions.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risks accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, where necessary.

Exposures to credit risk are also managed through regular analysis of the ability of borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below:

(i) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of collateral, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral. The principal types of collateral for loans and advances are real estates, plants and equipments.

Value of collateral is usually assessed by professional valuer designated by the Bank. To mitigate the credit risk, the Bank sets limit on the loan-to-value ratio for different types of collateral.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities are generally unsecured.

(ii) Derivative instruments

The Bank maintains strict credit limits on derivative transactions with counterparties. The Bank mitigates credit risk associated with derivative instruments by requiring margin deposits from counterparties.

40 FINANCIAL RISK MANAGEMENT (continued)

(2) Credit risk (continued)

(b) Risk limit control and mitigation policies(continued)

(iii) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. In some cases, such as those situations where the amount of credit commitment exceeds the original credit limit, guarantee deposits are received by the Bank to lessen the credit risks related to certain of these commitments provided by the Bank. The Bank's potential amount of credit risk is generally equivalent to the total amount of credit commitments.

(c) Impairment and provisionning policies

Impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment.

The objective evidences of impairment are as follows:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position.

The Bank's policy requires review of impairment for individual material financial assets at least annually when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified.

40 FINANCIAL RISK MANAGEMENT (continued)

(2) Credit risk (continued)

(d) Maximum exposure to credit risk before collateral held or other credit enhancements

	31 December 2010	31 December 2009
On-balance-sheet items:		
Deposits with the central bank	982,938,186	1,440,572,794
Deposits with other banks	30,657,340	177,058,903
Placements with other banks	3,504,403,788	2,154,138,055
Trading financial assets	2,597,803,823	255,594,385
Financial assets classified as available-for-sale	638,914,066	1,216,228,375
Derivative assets	1,553,421,030	500,656,691
Interest receivable	65,691,209	37,166,486
Loans and advances	7,397,962,510	6,282,677,077
Other receivables	14,470,140	20,100,605
Subtotal	16,786,262,092	12,084,193,371
Off-balance-sheet items:		
Letter of guarantee	3,646,186,820	5,009,734,802
Letter of credit issued	301,493,749	267,023,445
Negotiating credit issued	509,391,987	269,569,790
Loan commitment	837,107,937	535,717,313
Subtotal	5,294,180,493	6,082,045,350
Total	22,080,442,585	18,166,238,721

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2010, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

(e) Placements with other banks

	31 December 2010	31 December 2009
Neither past due nor impaired	3,504,403,788	2,154,138,055

40 FINANCIAL RISK MANAGEMENT (continued)

(2) Credit risk (continued)

(f) Loans and advances

	31 December 2010	31 December 2009
Neither past due nor impaired	7,508,982,828	6,373,591,461
Less: allowance for impairment losses	(111,020,318)	(90,914,384)
Loans and advances, net	7,397,962,510	6,282,677,077

(i) Loans and advances neither past due or impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the five rating classification system adopted by the Bank.

	31 December 2010	31 December 2009
Pass	7,483,203,802	6,091,737,017
Special Mention	25,779,026	281,854,444
	7,508,982,828	6,373,591,461

(ii) Loans and advances renegotiated

Renegotiated loans represent the loans for which original contract repayment terms have been modified as a result of the deterioration of borrowers' financial conditions or inability to repay the loans according to contractual terms. There are no loans and advances renegotiated as at 31 December 2010 (31 December 2009: Nil).

(g) Investment securities

The Bank only invested in government debts, PBOC notes and corporate bonds rated AAA as at 31 December 2010. Details refer to Note 10 and 11.

(3) Market risk

The Bank takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and commodity price.

The Bank separates exposures to market risk into either trading or non-trading portfolios. The trading portfolio consists of positions in financial instruments held with trading intent with customers or other participants in the market. The non-trading portfolio consists of interest rate risk management of assets and liabilities, and foreign currency of financial instruments which are hold to maturity and available for sale.

40 FINANCIAL RISK MANAGEMENT (continued)

(3) Market risk (continued)

Currently, the Risk Management Department takes responsibility of monitoring and controlling the market risk of both the trading and non-trading accounts. The Bank has established the daily reporting system for market risk, monitoring and analysing market risk changes and limits on net and gross positions conditions, and these reports are presented to the senior management regularly.

(a) Risk management approaches

The Bank uses Value-at-Risk (VaR) and Non-Value-at-Risk (Non-VaR) to monitor the market risk of the Bank's investment portfolios. The Bank uses a historical simulation approach to calculate VaR at a 99% confidence level over a one-day holding period. Non-VaR risk management index that the Bank uses mainly includes PV01, foreign currency position, cut loss point, notional amount and maturity date.

(b) Currency Risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of exchange rate on its financial position and cash flows.

The Bank's principle in controlling exchange rate risk is to match its assets and liabilities in each currency and to maintain exchange rate risk within established limits. The Bank has set risk limits for exposure of each currency and monitors it on daily basis. The Bank has set risk limits according to the guidelines established by the Risk Management Committee, the relevant regulatory requirements, and management's assessment of the current market condition. The Bank also manages its foreign capital sources and usage of foreign currencies to minimize potential currency mismatches.

(c) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The table below summarizes the Bank's exposures to interest rate risks. The table presents the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

40 FINANCIAL RISK MANAGEMENT (continued)

(3) Market risk (continued)

(c) Interest rate risk (continued)

31 December 2010	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Financial asset:						
Cash and deposits with the central bank	982,938,186	-	-	-	191,165	983,129,351
Deposits with other banks	30,657,340	-	-	-	-	30,657,340
Placements with other banks	2,260,870,948	1,013,971,666	229,561,174	-	-	3,504,403,788
Trading financial assets	1,062,414,984	1,351,005,080	164,169,428	20,214,331	-	2,597,803,823
Financial assets classified as available-for-sale	250,143,770	388,770,296	-	-	-	638,914,066
Derivative assets	-	-	-	-	1,553,421,030	1,553,421,030
Interest receivable	-	-	-	-	65,691,209	65,691,209
Loans and advances	2,131,854,208	1,583,057,731	3,329,433,130	353,617,441	-	7,397,962,510
Other receivables	-	-	-	-	14,470,140	14,470,140
Total	6,718,879,436	4,336,804,773	3,723,163,732	373,831,772	1,633,773,544	16,786,453,257

40 FINANCIAL RISK MANAGEMENT (continued)

(3) Market risk (continued)

(c) Interest rate risk (continued)

31 December 2010	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Financial liabilities						
Due to other banks and financial institutions	64,197,420	196,066,820	485,129,382	-	-	745,393,622
Placements from other banks	3,488,192,250	1,355,004,420	1,853,323,349	-	-	6,696,520,019
Derivative liabilities	-	-	-	-	1,487,045,264	1,487,045,264
Customer deposits	3,599,948,755	317,000,000	676,810,000	-	-	4,593,758,755
Interest payable	-	-	-	-	66,391,455	66,391,455
Other payables	-	-	-	-	24,059,698	24,059,698
Total	7,152,338,425	1,868,071,240	3,015,262,731	-	1,577,496,417	13,613,168,813
Net interest re-pricing gap	(433,458,989)	2,468,733,533	707,901,001	373,831,772	56,277,127	3,173,284,444

40 FINANCIAL RISK MANAGEMENT (continued)

(3) Market risk (continued)

(c) Interest rate risk (continued)

31 December 2009	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Financial asset:						
Cash and deposits with the central bank	1,378,595,737	-	-	-	62,347,119	1,440,942,856
Deposits with other banks	172,019,296	-	-	-	5,039,607	177,058,903
Placements with other banks	1,448,178,267	125,627,920	580,331,868	-	-	2,154,138,055
Trading financial assets	-	-	255,594,385	-	-	255,594,385
Financial assets classified as available-for-sale	-	959,602,400	256,625,975	-	-	1,216,228,375
Derivative assets	-	-	-	-	500,656,691	500,656,691
Interest receivable	-	-	-	-	37,166,486	37,166,486
Loans and advances	2,441,112,266	1,154,249,872	2,241,777,249	445,537,690	-	6,282,677,077
Other receivables	-	-	-	-	20,100,605	20,100,605
Total	5,439,905,566	2,239,480,192	3,334,329,477	445,537,690	625,310,508	12,084,563,433

40 FINANCIAL RISK MANAGEMENT (continued)

(3) Market risk (continued)

(c) Interest rate risk (continued)

31 December 2009	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Financial liabilities						
Due to other banks and financial institutions	168,671,524	242,732,551	313,580,318	150,000,000	-	874,984,393
Placements from other banks	1,686,457,643	1,294,285,310	381,532,714	-	-	3,362,275,667
Derivative liabilities	-	-	-	-	467,522,617	467,522,617
Customer deposits	3,657,260,340	547,000,000	-	-	-	4,204,260,340
Interest payable	-	-	-	-	52,810,579	52,810,579
Other payables	-	-	-	-	31,595,532	31,595,532
Total	5,512,389,507	2,084,017,861	695,113,032	150,000,000	551,928,728	8,993,449,128
Net interest re-pricing gap	(72,483,941)	155,462,331	2,639,216,445	295,537,690	73,381,780	3,091,114,305

40 FINANCIAL RISK MANAGEMENT (continued)

(3) Market risk (continued)

(c) Interest rate risk (continued)

The table below illustrates the potential impact from a simple 100 basis point move of interest rate to the financial position of the Bank at 1 January 2011 on the Bank's reported net interest income in the coming year:

	31 December 2010	31 December 2009
+ 100 basis point parallel move in all yield curves	5,464,985	(51,251)
- 100 basis point parallel move in all yield curves	(5,464,985)	51,251

In performing the above analysis, the Bank has made following assumptions:

a. There are no significant changes in business operations after balance sheet date;
b. The impacts on different assets and liabilities are the same;
c. Interest rates are re-priced in the middle of each specified time period;
d. Customers' responses to interest rate movement are not considered;
e. Impact from interest rate movement on market prices of assets and liabilities are not considered;
f. Impact from interest rate movement on off-balance sheet items are not considered;
g. The necessary actions to be taken by the Bank in response to the interest rate movements are not considered.

Due to these limitations to the Bank's approach, actual impact from interest rate fluctuation may vary from the analysis above.

(4) Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and other calls on cash settled derivatives. The Bank does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a reasonably high level of certainty. The management sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

At 31 December 2010, the Bank maintained 16.5% of RMB deposit and 5% of foreign currency denominated deposits with the PBOC as statutory deposit reserve.

The matching and controlled mismatching of the maturities of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transactions are often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Bank.

Limits are set on maturity mismatches over books under normal scenarios and liquidity ratios. As part of its liquidity risk management, the Bank focuses on a number of components, including maintaining sufficient liquid assets, maintaining diversified sources of liquidity, preserving necessary funding capacity and contingency planning.

40 FINANCIAL RISK MANAGEMENT (continued)

(4) Liquidity risk (continued)

(i) Non-derivative cash flows of financial assets and liabilities

The table below presents the cash flows payable by the Bank under non-derivative financial assets and liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

	Within 1 month	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
31 December 2010						
Financial liabilities:						
Due to other banks and financial institutions	54,899,924	10,238,792	197,716,326	510,813,134	-	773,668,176
Placements from other banks	2,344,765,920	1,233,682,686	1,374,339,877	1,862,567,278	-	6,815,355,761
Customer deposits	2,272,318,348	1,374,043,943	324,550,000	695,692,999	-	4,666,605,290
	4,671,984,192	2,617,965,421	1,896,606,203	3,069,073,411	-	12,255,629,227

40 FINANCIAL RISK MANAGEMENT (continued)

(4) Liquidity risk (continued)

(i) Non-derivative cash flows of financial assets and liabilities (continued)

31 December 2010	Within 1 month	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial asset:						
Cash and deposits with the central bank	983,129,351	-	-	-	-	983,129,351
Deposits with other banks	30,657,340	-	-	-	-	30,657,340
Placements with other banks	79,759,209	2,257,789,348	1,036,552,910	236,209,556	-	3,610,311,023
Trading financial assets	-	1,082,297,965	1,390,016,952	168,248,792	20,988,540	2,661,552,249
Financial assets classified as available-for-sale	-	261,550,326	388,770,296	-	-	650,320,622
Loans and advances	748,963,107	1,472,926,559	1,654,988,072	3,459,592,145	366,606,633	7,703,076,516
	1,842,509,007	5,074,564,198	4,470,328,230	3,864,050,493	387,595,173	15,639,047,101
Net cash flows	(2,829,475,185)	2,456,598,777	2,573,722,027	794,977,082	387,595,173	3,383,417,874

40 FINANCIAL RISK MANAGEMENT (continued)

(4) Liquidity risk(continued)

(i) **Non-derivative cash flows of financial assets and liabilities**

31 December 2009	Within 1 month	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial liabilities:						
Due to other banks and financial institutions	67,659,257	103,157,551	246,750,985	329,099,147	159,000,000	905,666,940
Placements from other banks	860,668,974	831,313,067	1,297,069,812	383,151,798	-	3,372,203,651
Customer deposits	3,021,602,988	672,077,100	563,241,400	-	-	4,256,921,488
	3,949,931,219	1,606,547,718	2,107,062,197	712,250,945	159,000,000	8,534,792,079
Financial asset:						
Cash and deposits with the central bank	1,440,942,856	-	-	-	-	1,440,942,856
Deposits with other banks	177,058,903	-	-	-	-	177,058,903
Placements with other banks	858,855,931	601,344,268	128,534,851	586,471,950	-	2,175,207,000
Trading assets	-	-	3,710,000	266,994,385	-	270,704,385
Financial assets classified as available-for-sale	-	-	959,602,400	267,569,975	-	1,227,172,375
Loans and advances	669,518,981	1,773,083,325	1,154,324,110	2,242,662,068	445,537,690	6,285,126,174
	3,146,376,671	2,374,427,593	2,246,171,361	3,363,698,378	445,537,690	11,576,211,693
Net cash flows	(803,554,548)	767,879,875	139,109,164	2,651,447,433	286,537,690	3,041,419,614

40 FINANCIAL RISK MANAGEMENT (continued)

(4) Liquidity risk(continued)

(ii) Derivative cash flows

a Derivatives settled on a net basis

The Bank's derivatives that will be settled on a net basis include interest rate swaps and forward rate agreements

The table below analyses the Bank's derivative financial instruments that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 month	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
31 December 2010						
Interest rate derivatives						
−Interest rate swaps	12,413,313	(324,895)	(27,212,823)	(30,680,075)	(2,587,884)	(43,216,596)
−Forward rate agreements	-	-	2,651,432	-	-	2,651,432
	12,413,313	(324,895)	(24,561,391)	(30,680,075)	(2,587,884)	(40,565,164)
31 December 2009						
Interest rate derivatives						
−Interest rate swaps	6,916,618	(1,345,436)	14,004,582	(6,075,265)	149,229	13,649,728
−Forward rate agreements	-	-	2,011,952	3,101,768	-	5,113,720
	6,916,618	(1,345,436)	16,016,534	(2,973,497)	149,229	18,763,448

40 FINANCIAL RISK MANAGEMENT (continued)

(4) Liquidity risk(continued)

(ii) Derivative cash flows(continued)

b Derivatives settled on a gross basis

The Bank’s derivatives that will be settled on a gross basis include:

- Foreign exchange derivatives: currency forward and swap

The table below analyses the Bank’s derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 month	Within 3 months	3-12 months	1-5 years	Total
31 December 2010					
Foreign exchange derivatives					
− Outflow	(9,580,701,702)	(11,791,664,986)	(30,170,792,328)	(1,755,693,825)	(53,298,852,841)
− Inflow	9,598,223,179	11,835,682,221	30,212,436,877	1,762,574,915	53,408,917,192
	17,521,477	44,017,235	41,644,549	6,881,090	110,064,351

	Within 1 month	Within 3 months	3-12 months	1-5 years	Total
31 December 2009					
Foreign exchange derivatives					
− Outflow	(1,750,470,497)	(3,845,786,886)	(11,142,508,722)	(1,525,456,045)	(18,264,222,150)
− Inflow	1,749,766,932	3,861,704,615	11,136,570,421	1,545,219,191	18,293,261,159
	(703,565)	15,917,729	(5,938,301)	19,763,146	29,039,009

40 FINANCIAL RISK MANAGEMENT (continued)

(4) Liquidity risk(continued)

(iii) Off-balance sheet items

	Within 1 year	Over 1 years	Total
31 December 2010			
Letter of guarantee issued	2,352,723,083	1,293,463,737	3,646,186,820
Letters of credit issued	301,317,619	176,130	301,493,749
Negotiating credit issued	464,780,318	44,611,669	509,391,987
Loan commitment	164,725,436	672,382,501	837,107,937
Operating lease commitments	19,598,321	2,373,852	21,972,173
Total	3,303,144,777	2,013,007,889	5,316,152,666

	Within 1 year	Over 1 years	Total
31 December 2009			
Letter of guarantee issued	4,390,178,800	619,556,002	5,009,734,802
Letters of credit issued	267,023,445	-	267,023,445
Negotiating credit issued	46,989,780	222,580,010	269,569,790
Loan commitment	244,968,100	290,749,213	535,717,313
Operating lease commitments	17,427,307	16,505,032	33,932,339
Total	4,966,587,432	1,149,390,257	6,115,977,689

(5) Fair values of financial assets and liabilities

(i) Financial instruments not measured at fair value

Financial instruments not measured at fair value include: cash and deposit with central bank, deposits with other banks, placements with other banks, loans and advances, due to other banks and financial institutions, placements from other banks and customer deposits.

There is no significant difference with these financial instruments between carrying amount and fair value at 31 December 2010.

(ii) Fair value hierarchy

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices) other than quoted market price. This category includes majority of derivatives traded over the counter and RMB bonds. Input such as yield and credit risk of counterparties are from Bloomberg and China Bond.

Level 3: Valuation techniques using significant unobservable inputs. This category includes equity and debt instruments where the valuation technique includes inputs not based on observable data.

40 FINANCIAL RISK MANAGEMENT (continued)

(5) Fair values of financial assets and liabilities (continued)

(ii) Fair value hierarchy

	Level 1	Level 2	Level 3	Total
31 December 2010				
Financial assets				
- Trading bonds	-	2,597,803,823	-	2,597,803,823
- Derivative assets	-	1,553,421,030	-	1,553,421,030
- Available-for-sale bonds	-	638,914,066	-	638,914,066
	-	4,790,138,919	-	4,790,138,919
Financial liabilities				
-Derivative liabilities	-	1,487,045,264	-	1,487,045,264
	-	1,487,045,264	-	1,487,045,264
31 December 2009				
Financial assets				
-Trading bonds	-	255,594,385	-	255,594,385
-Derivative assets	-	500,656,691	-	500,656,691
- Available-for-sale bonds	-	1,216,228,375	-	1,216,228,375
	-	1,972,479,451	-	1,972,479,451
Liabilities				
-Derivative liabilities	-	467,522,617	-	467,522,617
	-	467,522,617	-	467,522,617

The Bank had no financial instruments whose fair value hierarchy are categorized in Level 1 or Level 3.

40 FINANCIAL RISK MANAGEMENT (continued)

(6) Capital management

The Bank's capital management focuses on monitoring of the capital adequacy ratio, aiming to comply with the regulatory requirements and support the business expansion.

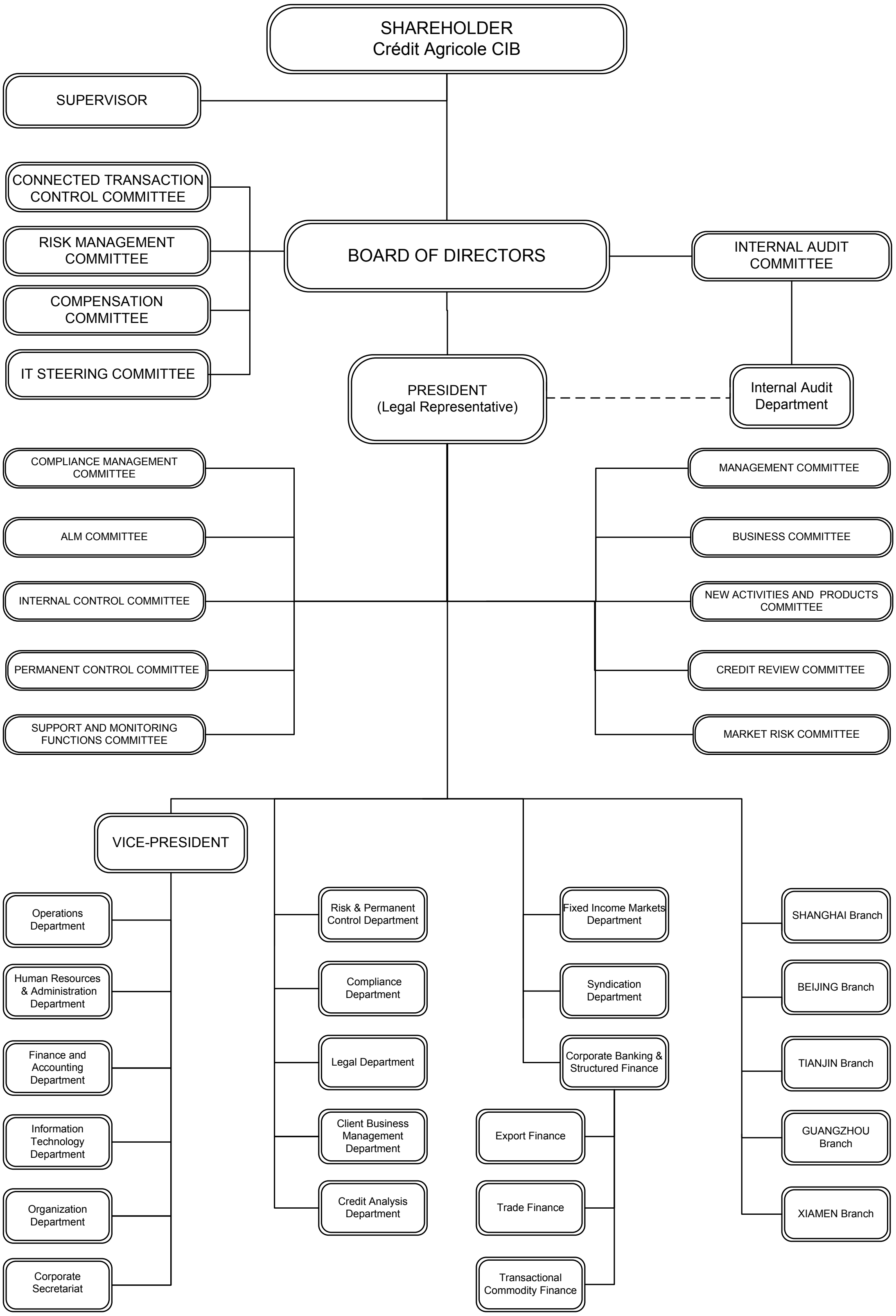
The Bank calculates and discloses capital adequacy ratio in accordance with “The Rules on Capital Adequacy Ratios of Commercial Banks” and other regulatory requirements issued by the CBRC.

	31 December 2010	31 December 2009
Tier 1 capital		
Paid-in capital	3,000,000,000	3,000,000,000
Capital surplus	(3,965,827)	(144,497)
Surplus reserve	13,225,296	8,151,417
General reserve	110,585,141	-
Undistributed profits	8,442,526	73,362,757
Adjustment:		
Unrealized gain of trading securities (i)	(49,037,012)	(25,643,590)
Net Tier 1 Capital	3,079,250,124	3,055,726,087
Tier 2 capital		
Unrealized gain of trading securities (i)	49,037,012	25,643,590
General provision for loan and advances	110,504,737	85,277,295
Net Tier 2 capital	159,541,749	110,920,885
Net regulatory capital	3,238,791,873	3,166,646,972
Total risk-weighted assets	9,396,853,600	7,521,756,970
Market risk capital	48,629,441	-
Core capital adequacy ratio	30.78%	40.63%
Capital adequacy ratio	32.37%	42.10%

(i) In accordance with “Notice issued by CBRC regarding calculation of Capital Adequacy Ratios for Banks adopting China Accounting Standard” (YJF [2007]No.82):

If the cumulative effect of fair value measurement of trading securities is a gain, the unrealized gains after tax should be deducted from the Tier 1 capital and added into the Tier 2 capital. While no adjustment should be made if the cumulative effect of fair value measuring is a loss.

Organizational Chart



List of Domestic Operations

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Definitions

In this Annual Report, unless the context otherwise requires, the following terms shall have the meanings set out below:

The Group / Crédit Agricole Group	Crédit Agricole S.A., Caisses Régionales (Regional Banks), and its subsidiaries
Crédit Agricole CIB / CA-CIB	Crédit Agricole Corporate and Investment Bank and all of its subsidiaries and branches
Parent Bank / Shareholder	Crédit Agricole Corporate and Investment Bank
CA-CIB (China) / Our Bank / the Bank / we / us	Credit Agricole Corporate and Investment Bank (China) Limited, its predecessors and all of its branches
Articles of Association / AOA	The performing Articles of Association of the Bank
PRC	People's Republic of China
RMB / Renminbi	The lawful currency of PRC
CBRC	China Banking Regulatory Commission

Notes to Financial Highlights:

1. Non-interest income = Fee and commission income (Expense) + investment income + Fair value gains + Net losses from FX and Derivative transactions
2. Operating Income = Net interest income + non-interest income
3. Operating Expense = Business Tax and levies + General Expenses + Impairment Loss
4. Return on average total assets = profit after tax ÷ average total assets
5. Return on average equity = profit after tax ÷ average equity
6. Cost to Income = General Expense ÷ Operating Income
7. Non-performing Assets ratios = Non-performing Assets ÷ total Assets
8. Loan provision sufficient ratio: based on People's Bank of China loan provision policy issued in 2002
9. Staff number includes contracted staffs

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