

2011

HUI SHANG BANK CORPORATION LIMITED
ANNUAL REPORT 2011



**Best Services and Sustainable Development
for Huishang Bank.**

HUI SHANG BANK CORPORATION LIMITED

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MANAGEMENT TEAM



Wang Xiaoxin Chairman



Zhang Renfu
Secretary of Party
Discipline Committee



Zhang Zhen
Chairman of the Board
of Supervisors



Wu Xuemin President



Xu Demei
Vice-Chairman



Wang Guisheng
Vice-President



Ci Yaping
Vice President



Gao Guangcheng
Vice President



Zhang Youqi
Vice President



Yi Feng
Assistant President



Yan Dongshun
Assistant President



Xu Chongding
Chairman of Labor
Union



Hu Dongdong
Secretary of the Board
of Directors



Xia Min
Assistant President



Liu Ming
Chief Executive Officer

The Board of Directors and the Board of Supervisors of the Bank and its directors, supervisors and senior management warrant that there are no false representations or misleading statements contained in, or material omissions from this report, and severally and jointly accept responsibility for the authenticity, accuracy and completeness of the information contained in this report.

The 2011 Annual Report of Huishang Bank was authorized for issue at the 10th Board meeting of the Second Board of Directors on 18 March 2012.

The financial statements for 2011 prepared in accordance with the China Accounting Standards have been audited by PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company. The firm has issued an unqualified audit opinion.

The Board of Directors, Huishang Bank Corporation Limited

Wang Xiaoxin, Chairman of the Bank, Wu Xuemin, President, Ci Yaping, Vice President in charge of Finance and Xia Min, General Manager of Finance Department, hereby warrant the authenticity and completeness of the financial information contained in this annual report.

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Important Notice



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Corporate Information



CORPORATE INFORMATION

I. Legally Incorporated Name (in Chinese): 徽商银行股份有限公司

Legally Incorporated Name (in English): HUISHANG BANK CORPORATION LIMITED

(Abbreviation: HUISHANG BANK, hereinafter known as "the Bank")

II. Legal Representative: Wang Xiaoxin

III. Secretary of the Board of Directors: Hu Dongdong

IV. Registered address: No. 79, Anqing Road, Hefei

Office address: No. 79, Anqing Road, Hefei

Contact Address: Office of the Board of Directors, Block A, Tianhui Building, No. 79, Anqing Road,
Hefei, China

Tel: +86-551-2667781

Fax: +86-551-2667787

Postal Code: 230001

Website: www.hsbank.com.cn

Email address: djb@hsbank.com.cn

V. Other Related Information

Registration date: December 28, 2005

Corporate Business License Serial Number: 340000000026144

Tax Registration Certificate Number: Guo-Shui-Wan-Zi 340103148974661

Di-Shui-He-Zi 340103148974661

Organization Code: 14897466-1

Selected Newspapers for Information Disclosure: Financial Times

Places where the Annual Report can be obtained: Corporate office of Board of directors,
Board of Supervisors

Appointed Auditing Firm: PricewaterhouseCoopers Zhong Tian Certified Public Accountants
Limited Company

Address: 11/F PricewaterhouseCoopers Center, 202 Hubin Road, Shanghai, PRC

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【Message from the Chairman】



MESSAGE FROM THE CHAIRMAN

The year 2011 was exceptional in the history of the Bank's development as featured by a most complicated external environment and unprecedented difficulties encountered by the Bank. The Bank reported an excellent result as illustrated by the improvement of its business capacities despite the fact that the Bank has risen to considerable challenges of increasingly complex economic environment, more restricted financial regulatory and fiercer competence in the financial market. Of course, the Bank could not strike such achievements without the guidance from the regulators and the support from all sectors of the society. By the end of 2011, the Bank's total assets reached RMB 257.0 billion, representing an increase of 23% from the prior year; deposit balances increased by 26% to a new record of RMB 205.7 billion; loan balances went up by 17%, adding up to RMB 137.4 billion; operating profit claimed an increase of 27%, reaching RMB 5.183 billion. The Bank's asset quality remained healthy, as reflected by a low non-performing loans ("NPL") ratio of 0.48%. Hence, the Bank managed to report decrease in the total volume of its non-performing loans and its NPL ratio in 6 consecutive years.

In the past year, the Bank has made continuous efforts in exploring innovation-driven development model which could represent the Bank's uniqueness so as to enhance its capacity for sustainable development. For example, the Bank has successfully issued subordinate bonds amounting to RMB 4 billion, which helped the Bank to replenish its capital as well as to optimize its capital structure. Plus, the Bank launched the IPO Project in which the Bank has achieved substantial progress. In addition, the Bank has reported consistent progress in transformation of its operation model and business structure as exemplified by the boom of its trade financing business, international settlement business, direct financing business, cash management business and e-banking business etc. Attributable to the improvement of asset and liability management capacity as well as the upgrade of risk and internal control management, the asset and liability management capacity of the Bank has also been elevated. Accounting management and the construction of a shared service centre also saw steady progress in 2011. All these mentioned above has laid a solid foundation for the Bank's future progress.

The world's economic environment is estimated to remain complicated in 2012. The delicacy and fluctuation of world economy will definitely affect the China's economic growth and the banking system in China. Unavoidably, the economic growth will slow down, in addition to the co-existence of overcapacity for traditional industries and uncertainty for rising industries which may give rise to potential credit risk.

Despite the many uncertainties for international and domestic economy, the Bank is still open up to substantial opportunities as there is still room for traditional services with the acceleration of financial innovation. Meanwhile, the Bank is faced with significant challenges of increasing regulatory pressure, demanding for diverse services from the client, rising difficulty of risk management, and growing demands for top talents etc. Under such circumstances, the Bank will stick to a scientific development model so as to seek steady development under the guidance of serving substantial economies. The Bank is to establish a firm foundation for its century-long sustainable development through transformation of operation model and acceleration of structural reform before upgrading its brand influence and core competence.



MESSAGE FROM THE CHAIRMAN

The banking industry is undergoing profound reform, leading to considerable changes in the development model and profit structure for banking industry. Looking forward to 2012, the Bank will take on new challenges along the path of transformation and development. We will make relentless efforts to speed up the operational and structural reform of the Bank, strengthening its sustainable development capacity and core competence. In order to fulfil this target, we will adopt more restricted standards while showing more passion and sense of responsibility in daily work. I firmly believe that together, we can create a brighter future for the Bank!

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【Financial Highlights】



FINANCIAL HIGHLIGHTS

I. Major Financial Data in the Reporting Period

Items	Unit: RMB '000		
	2011	2010	2009
Operating profit	4,525,317	3,449,508	2,226,036
Net non-operating income	78,330	52,565	49,367
Total profit	4,603,647	3,502,073	2,275,403
Net profit	3,492,610	2,702,353	1,755,480
Net cash inflow from operating activities	13,233,168	12,311,038	5,107,580
Net increase in cash and cash equivalents	16,157,582	1,407,994	2,095,646

II. Major Accounting Data and Financial Indicators at the End of the Reporting Period

Items	Unit: RMB '000		
	2011	2010	2009
Operating income(Thousand)	7,696,157	6,256,124	4,593,801
Total profit(Thousand)	4,603,647	3,502,073	2,275,403
Net profit(Thousand)	3,492,610	2,702,353	1,755,480
Total assets(Thousand)	256,981,556	208,976,148	162,399,641
Total deposits(Thousand)	205,679,704	163,632,006	136,610,684
Total loans(Thousand)	137,413,009	117,034,018	96,520,545
Shareholder's Equity(Thousand)	17,083,526	14,357,293	12,809,236
Earnings per share (RMB)	0.43	0.33	0.21
Net assets per share at year end (RMB)	2.09	1.76	1.57
Net cash inflow per share from operating activities (RMB)	1.62	1.49	0.62
Return on average total assets ratio (%)	1.50	1.46	1.20
Return on average equity ratio (%)	22.22	19.89	14.18
Cost to income ratio (%)	27.09	29.14	35.09

Note: The total deposits include deposits of RMB2.1 billion with the Postal Savings Bank of China.

FINANCIAL HIGHLIGHTS

III. Allowance for loan Impairment in the reporting period

Items	Unit: RMB'000		
	2011	2010	2009
Balance at beginning of year	2,975,575	2,433,724	1,972,457
Allowances made	596,784	578,375	477,562
Write-off	(68,209)	(21,360)	-
Recoveries of loans and advances written off previously	1,761	3,211	1,267
Recoveries of provision from increase in discounted value (15,785)		(18,375)	(17,562)
Balance at end of year	3,490,126	2,975,575	2,433,724

IV. Supplementary Financial Data as at the end of the reporting period

Items	Unit: RMB'000		
	2011	2010	2009
Total liabilities	239,898,030	194,618,855	149,590,405
Total deposits	205,679,704	163,632,006	136,610,684
Placements from banks	3,534,522	1,263,140	2,487,938
Total loans	137,413,009	117,034,018	96,520,545

V. Appendix to the Income Statement

Items	Profit in the reporting period (RMB'000)	Return on Net Asset(%)		Earnings per share(RMB)
		Year End	Weighted Average	
Operating profit	4,525,317	26.49	28.79	0.55
Total profit	4,603,647	26.95	29.28	0.56
Net profit	3,492,610	20.44	22.31	0.43

FINANCIAL HIGHLIGHTS

VI. Supplementary Financial Indicators as at the End of the Reporting Period

Items	Benchmark	2011	2010	2009
Core capital(RMB'000)	-	16,975,581	14,357,293	11,735,469
Supplementary capital (RMB'000)	-	5,834,196	1,175,256	1,095,721
Core capital adequacy ratio (%)	≥ 4	10.87	11.19	11.15
Capital adequacy ratio (%)	≥ 8	14.68	12.06	12.14
Liquidity ratio (%)	≥ 25	38.48	35.81	35.61
Loan to deposit ratio (%)	≤ 75	66.81	71.52	70.65
NPL ratio (%)	≤ 15	0.48	0.60	0.93
Interest collection ratio (%)	-	98.34	98.32	96.08
Loan concentration ratio of the largest single borrower (%)	≤ 10	6.18	9.10	7.86
Loan concentration ratio of the largest 10 borrowers (%)	≤ 50	44.58	58.91	52.55

VII. Changes in shareholder's equity in the reporting period

Items	Unit: RMB '000					
	Share Capital	Capital Reserve	Surplus Reserves	General Reserve	Undistributed Profits	Total Shareholder's Equity
Opening balance	8,174,819	1,721,425	688,903	1,077,380	2,694,766	14,357,293
Increase	-	51,105	619,496	200,000	3,492,610	3,543,715
Decrease	-	-	-	-	1,636,978	817,482
Closing balance	8,174,819	1,772,530	1,308,399	1,277,380	4,550,398	17,083,526

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Changes in Share Capital and Shareholdings
of Substantial Shareholders



CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

I. Changes in Share Capital

(1) Share Capital Structure

Type of shareholders	Number of shares	Unit: 10,000 shares	
		Percentage in total share capita	
State-owned	503,835.67	61.63	
Legal	290,835.61	35.58	
Individual	22,810.65	2.79	
Total	817,481.93	100.00	

Note: During the reporting period, the classification of shareholding has been revised. State-owned shares represent shares hold by enterprise whose 50% or more shares are owned by state.

(2) Issuance of shares

1. Changes in shares in the last three years prior to the end of reporting period

The total share capital remained unchanged at 8.175 billion shares since 2009 to 2011.

2. Number of shares and change in structure during the reporting period.

Type of shareholders	No. of Shares before Changes	Unit: 10,000 shares	
		No. of Shares after Changes	
State-owned	580,457.28	503,835.67	
Legal	214,012.73	290,835.61	
Individual	2,011.92	22,810.65	
Total shares	817,481.93	817481.93	

Note: During the reporting period, the share capital structure has changed considerably ensuing the Bank eliminated the illegal shareholding and redefined the classification of shareholding in accordance with the relevant rules and regulations.

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

II. Information on Shareholders

(1) At the end of the reporting period, there were a total number of 16,382 shareholders (including 98 state-owned shareholders, 271 legal shareholders and 16,013 individual shareholders)

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

No.	Name of shareholders	No. of shareholdings	Unit: 10,000 shares	
			No. of shareholdings	Shareholdings
1	Anhui Province Energy Group Corporation Limited	80,531.46	80,531.46	9.85
2	Anhui Credit Guarantee Group Limited	80,209.40	80,209.40	9.81
3	Anhui Guoyuan Holding (Group) Corporation Limited	66,000.00	68,000.00	8.32
4	Anhui Highway Company	50,000.00	50,000.00	6.12
5	Zhongjing Sihai Corporation Limited	44,469.62	44,469.62	5.44
6	Hefei Xingtai Holding Group Corporation Limited	36,269.40	36,269.40	4.44
7	Wuhu Construction Investment Corporation Limited	39,408.37	31,233.02	3.82
8	Jianxin Trust Corporation Limited	22,554.82	22,554.82	2.76
9	Tongling Nonferrous Metal Holding Group	21,062.92	21,062.92	2.58
10	Xiuning Xinhua Assets Investment Management Corporation Limited	434.66	20,434.66	2.50
	Total	440,940.65	454,765.30	55.64

Note:1.During the reporting period, 81.75 million shares were sold by Wuhu Construction Investment Corporation Limited and thus it became the seventh biggest shareholder.

2.During the reporting period, Anhui Cherry Auto Sales Company transferred 200 million shares to Xiuning Xinhua Assets Investment Management Corporation Limited, making it became the tenth biggest shareholder. In addition, according to the civil verdict of Anhui Province Senior Court(2011) WanMinErZhongZi 00710, the registration owned by Nanjing Rural Financial Association under the name of YongCheng International Advisory Corporation Hefei Branch was transferred to Xiuning Xinhua Assets Investment Management Corporation Limited, the Bank received the retrial case advice from the Supreme People's Court on 12 March 2012 and will act accordingly.

3.During the reporting period, Anhui Guoyuan Holding (Group) Corporation Limited increased its share holding to 680 million subsequent to shares transfer of 20 million shares from the Shenzheng Anhui Company.



CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

(III) Shareholders with shareholdings of 5% and above

1. Anhui Province Energy Group Corporation Limited

Anhui Province Energy Group Corporation Limited, the biggest shareholder of the Bank, owns 9.85% of the shares. The company was founded on April 9th, 1990 in Hefei city of Anhui Province, with registered capital of RMB 4.23 billion and with Zhang Feifei as the legal representative. It is a wholly state-owned company with limited liability. Its core businesses comprise of managing the operation of the wholly owned subsidiaries, shareholding companies and subordinate institutions; overseeing, making investments and involving in the manufacturing and production of the power industry, coal industry and other energies industry; and the development of raw materials for investment projects.

2. Anhui Credit Guarantee Group Limited

Anhui Credit Guarantee Group Limited, the second largest shareholder of the Bank, owns 9.81% of the shares. The company is a wholly state-owned company established in Hefei in November, 2005 with registered capital of RMB 2.87 billion and with Qian Zheng as the legal representative. Its core businesses cover: the provision of guarantee to small and medium sized companies, the provision of re-guarantee to guarantee institutions, project investment, capital operation, capital management and consultation, credit rating, financial and business information consultation.

3. Anhui Guoyuan Holding (Group) Corporation Limited

Anhui Guoyuan Holding (Group) Corporation Limited, the third largest shareholder of the Bank, owns 8.32% of the shares. The company is a wholly state-owned company established in Hefei in December, 2000, with registered capital of RMB 3 billion and with Guo Shigang as the legal representative. The company's core businesses cover: managing of the operation of all the state assets and equity in the group company and its subordinated shareholding companies, capital operation, capital management, merger and acquisition, asset restructuring and investment consultation.

4. Anhui Highway Company

Anhui Highway Corporation Limited, the fourth largest shareholder of the Bank, owns 6.12% of the shares. The company is a wholly state-owned company established in Hefei in April, 1993 with registered capital of RMB 4.53 billion and with Zhou Renqiang as the legal representative. The company's core businesses include: planning, designing, supervision, technical consultation and other supporting services for highway construction, real estate investment, car parts and warehousing.

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

5. Zhongjing Sihai Corporation Limited

Zhongjing Sihai Corporation Limited, the fifth largest shareholder of the Bank, owns 5.44% of the shares. The company is a private company established on 28th June, 1995. Registered in Xiuning Administration for Industry and Commerce, the company has a registered capital of RMB 1.05 billion with Gai Yang as the legal representative. The company's core businesses cover: real estate investment, investment management, investment consultancy, software development, gardening, leasing of office equipment, cultural projects and building refurbishment.

(IV) Relationship between the Top Ten Shareholders

Hefei Xingtai Holding Group Corporation Limited, the 6th largest shareholder, owns 27.5% shares of Jianxin Trust Corporation Limited which is the 8th largest shareholder of the Bank.

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【**Directors, Supervisors,
Senior Management and Staff**】



DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

I. Directors, Supervisors and Senior Management

(1) Directors

Name	Gender	Age	Position in HuiShang Bank	Position in Shareholder's Entity	Other Positions
Wang Xiaoxin	Male	56	Chairman	—	—
Xu Demei	Female	56	Vice-Chairman, Executive Director	—	—
Wu Xuemin	Male	44	President, Executive Director	—	—
Zhang Renfu	Male	50	Deputy Secretary of the Party Committee and Secretary of Party Discipline Committee, Executive Director	—	—
Ci Yaping	Male	53	Vice president, Executive Director	—	—
Qian Zheng	Male	59	Non- Executive Director	General Manager and Deputy Party Secretary of Anhui Credit Guarantee Group Limited	—
Bai Taiping	Male	61	Non- Executive Director	Chairmen of Anhui Province Energy Group Corporation Limited	—
Guo Shigang	Male	56	Non- Executive Director	General Manager of Anhui Guoyuan Holding (Group) Corporation Limited	—
Wu Tian	Male	48	Non- Executive Director	General Manager of Anhui Highway Company	—
Gao Yang	Male	46	Non- Executive Director	Chairmen of Anhui Highway Company	—
Wu Xiao qiu	Male	53	Independent Executive Director	—	Assistant to President of Renmin University of China
Dai Genyou	Male	62	Independent Executive Director	—	—
Wang Shihao	Male	61	Independent Executive Director	—	Director of National City Commercial Bank Clearing Centre
Zhang Shenghuai	Male	50	Independent Executive Director	—	Senior partner of Beijing Tianyin Law Firm
Wen Jinghui	Male	42	Independent Executive Director	—	Director partner, Vice general manager of Reanda Certified Public Accountants

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Working experience of Directors:

Wang Xiaoxin, male, born in September 1956 in Wangjiang County, Anhui Province. Educational background: Bachelor degree holder. He graduated from Liaoning College of Finance & Economics. He is a senior economist and is currently appointed as Chairman and Party Committee Secretary of Huishang Bank. He once served as Sub-Branch Manager of Wangjiang County Sub-Branch of China Construction Bank (CCB), Division Chief of General Affairs Planning Division of CCB Anhui Branch, Branch Manager of CCB Chaohu Branch, General Manager of International Business Department of CCB Anhui Branch, Vice President and Party Committee Member of CCB Anhui Branch.

Xu Demei, female, born in November 1956 in Anqing, Anhui Province. Educational background: CPC Party School Bachelor degree holder. She graduated from the Faculty of Economics and Management of the CPC Party School. She is a senior economist and is currently appointed as Vice-Chairman of Huishang Bank. She once served as Sub-Branch Manager of Fanchang County Sub-Branch of Agricultural Bank of China, Deputy Branch Manager and Party Committee Member of the Wuhu Branch of Agricultural Bank of China, Deputy Party Committee Secretary, Secretary of Party Discipline Committee and Deputy Branch Manager of the Ma' anshan Branch of Agricultural Bank of China, Vice-Secretary General of People's Government of Ma' anshan city and Chairman, President and Party Secretary of the Ma'anshan City Commercial Bank.

Wu Xuemin, male, Manchu, born in February 1968 in Qinglong of Hebei Province. Educational background: Master degree holder. He graduated from Harbin Institute of Technology, Renmin University and Fudan University with a Master's Degree in Money and Banking and an MBA Degree. He is the president of the Bank. He worked as an engineer in Beijing Institute of Aeronautical Materials, a journalist in People's Daily, Deputy Director of the Newspaper and Theories Department in China Construction Bank, Assistant Director in the Headquarters Office of China UnionPay, Deputy Director of its Board Office and Deputy Director of its Administrative Office, Party Secretary and General Manager of the Anhui branch of China UnionPay and General Manager of the Strategic Development and Compliance Department of China UnionPay.

Zhang Renfu, male, born in March 1962 in Feidong of Anhui Province. Educational background: Master degree holder. He graduated from the Faculty of Party History of the Renmin University of China. He is a senior economist, and is currently appointed as Deputy Secretary of the Party Committee and Secretary of Party Discipline Committee of Huishang Bank. He once served as Deputy Division Chief of the Liaison Division of the General Office of Anhui Provincial Government, Researcher at the Division III of Secretariat of the General Office of the Provincial Government, Leading role of Deputy Division Chief at the Division V of the General Office of the Provincial Government, Deputy Director of the Division II of Secretariat of the General Office of the Provincial Government, and Executive Deputy Director of the Finance Office of the Provincial Government.

Ci Yapin, male, born in May 1959 in Anhui Tongcheng. Educational background: Bachelor degree holder. He graduated from Anhui Provincial Party School of the CPC, economist, and is currently appointed as the

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Deputy President of Huishang Bank. He once served as vice president of Anqing Branch of the Bank of Communications, Chairman, President and secretary of Party Committee of Anhui City Commercial Bank.

Qian Zheng, male, born in 1953 in Wujin of Jiangsu Province. Educational background: Bachelor degree holder. A graduate of Anhui University, he is a senior economist. He is the General Manager and Deputy Party Secretary of Anhui Credit Guarantee Group Limited. He served as Secretary and Division Head in the Administrative Office of the Anhui CPC Committee, Deputy Director and Director of the Office of the NPC Anhui Committee, Vice General Manager and Deputy Party Secretary of Anhui Trust and Investment Company, Party Secretary of Anhui Bureau of State-owned Assets, Head of Anhui Credit and Guarantee Center and Chairman of Anhui Innovation and Investment Company.

BaiTaiping, male, born in June 1951 in Zhaozhuang, Shangdong Province. Educational background: Master degree of International Economics of the CPC Party School. He is a senior economist. He serves as Chairmen of Anhui Province Energy Group Corporation Limited. He once served as Vice Chairman, Chairman, and secretary of Party committee of Huainan Labor Union, Chief and Secretary of Fengtai Town, Vice president and Deputy secretary of Huainan city, Director of religion bureau, secretary of Party Committee, member of the provincial Party Committee, Chairman and Secretary General of Anhui Province Energy Group Corporation Limited, Commissioner of CPC Anhui.

Guo Shigang, male, born in 1956. Educational background: Bachelor degree holder. A graduate of Anhui University, he is the General Manager of Anhui Guoyuan Holding (Group) Corporation Limited. He served in Policy Research Office, Secretariat of the Administrative Office and Comprehensive Business Office of the Anhui CPC Committee. He served as a secretary to the Party Secretary of Anhui Province, Assistant to the General Manager, Deputy General Manager and member of the CPC Committee of Anhui International Trust and Investment Company. He also served as a member of the CPC Committee, Deputy General Manager, Deputy Party Secretary of Anhui Guoyuan Holding (Group) Corporation Limited, General Manager of Anhui Huangshan (Hong Kong) company, General Manager, Branch Party Secretary and Chairman of Anhui Guoyuan Trust and Investment Corporation Limited.

Wu Tian, male, born in 1964 in Jiangsu Province. Educational background: Master degree holder. A graduate of Zhejiang University, he is the General Manager of Anhui Highway Company. He served as student supervisor, Deputy Secretary of the Communist Youth League in Anhui Institute of Engineers, member, Deputy Director and Director of the Administrative Office of the Anhui provincial government and Deputy General Manager and Chief Legal Advisor in Anhui Highway company.

Gao Yang, male, Austrian nationality, born in 1966. A graduate of Hospitality Department in Meini Vocational School in Vienna, he is the Chairmen of Zhongjing Sihai Corporation Limited. He served as consultant to the Austria-China Friendship Association, Deputy Director of Austria Cultural Exchange Association, General Manager of Austria Aohua Company, Chairman of Shanghai Zhongjing Group, Director of Beijing Automobile Investment Company and Chairman of China Strategic Holdings.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Wu Xiaoqiu, male, born in February 1959 in Jiangxi Province. Educational background: PhD degree holder. He is a professor, PhD supervisor and Yangtze Scholar and is currently appointed as Assistant President of Renmin University of China, Vice-Dean of the School of Postgraduate Studies and Director of Finance and Securities Research Center of Renmin University. He once served as Supervisor of the Macroeconomics Department of the Economic Research Center of Renmin University of China, Vice Dean of the Faculty of Finance of Renmin University of China and the Executive Director of the Institute for Finance and Securities. He is also serving as the permanent board member of China Society of Finance and member of the Expert Committee of China Development Bank.

Dai Genyou, male, born in January 1950 in Huaining of Anhui Province, Han. Educational background: Bachelordegree holder. A political economics graduate from the Department of Politics in Anhui Laodong University, he is a senior economist who enjoys special allowances from the State Council. He served as the Deputy Party Secretary and Vice President of Anqing Branch of People's Bank of China, Deputy Director of Investigation and Statistics Department of the PBOC, Deputy Director of the Finance and Trade Team of the Office for the Central Financial and Economical Leaders' Team, Director of the Monetary Policy Department and Secretary of Monetary Policy Committee of the PBOC, Director of the Credit Management Department and Director of the Credit Management Center of the PBOC.

Wang Shihao male, born in December 1951. Educational background: Master degree holder. He graduated from Fudan University major in financial management. He is a senior economist, and is currently appointed as Director of National City Commercial Bank Clearing Centre and visiting professor of Fudan University, Shanghai Jiaotong University, Shanghai University of Finance and Economics. He also appointed as specialized consultant of Shanghai Municipal People's government for decision making. He once served as Deputy Chief of the Financial Executive Management of People's Bank of China Shanghai Branch. **He served** leading roles of divisions or equivalents, and Director of Shanghai credit union, Vice President of Bank of Shanghai.

Zhang Shenghuai male, born in June 1962. Educational background: PhD holder. He graduated with Bachelor of laws from Southwest University of Political Science and Law, **Master of laws from China University of Political Science and Law and Doctor of Law from Renmin University of China.** He is currently appointed as Senior Partner of Beijing Tianyin Law Firm. Commissioner of ACLA Financial Securities Committee, Visiting professor of Law School of Renmin University Of China, Commissioner of China Securities Regulatory Commission for the ninth Issuance Examination Committee.

Wen Jinghui male, born in April 1970. Educational background: Bachelordegree holder. He graduated from Faculty of Management of Beijing Institute of Technology, Certified Accountant, and is currently appointed as Director Partner, Vice-general Manager of Reanda Certified Public Accountants. He served as director of CICPA and Commissioner of Members' Rights Protection Commission of CICPA. He once worked at Beijing Jingdu CPA and Grant Thornton International (Beijing).

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

(2) Supervisors

Name	Gender	Age	Position in HuiShang Bank	Other Positions
Zhang Zhen	Male	57	Chairman of the Board of Supervisors	–
Xu Chongding	Male	55	Supervisor, Chairman of Labor Union	–
Fan Xiaohui	Male	56	Supervisor, Deputy General Manager of Compliance Department	Supervisor of Wuwei Huiyin Village Bank Corporation Limited
Fang Xiao	Male	34	Supervisor	Discipline Team leader, Party Committee Member of Wuhu Construction Investment Company
Gao Tongguo	Male	48	Supervisor	President and Director of Hefei Xingtai Holding Group
Wu Guozhong	Male	48	Supervisor	Deputy Chief Accountant and Head of the Finance Department of Tongling Nonferrous Metal Holding Group
Cheng Hong	Male	46	Supervisor	Chairman of Anhui Hengtai Real Estate Company, Chairman of Anhui Hengtai Group, Chairman of Anhui Taili Decorations Company, Chairman of Tongling Maoyuan Investment Company
Cheng Junpei	Female	49	External Supervisor	General Manager of Sinopharm Medicine Logistic Corporation Limited
Fan Libo	Male	48	External Supervisor	Deputy Dean of the International Business School of University of International Business and Economics

Working experience of Supervisors:

Zhang Zhen, male, born in October 1955 in Sixian County of Anhui Province. Educational background: Bachelor degree holder. He graduated from the Faculty of Economics and Management of the CPC Party School. He is a senior economist and is currently appointed as Chairman of the Board of Supervisors of Huishang Bank. He once served as Deputy Division Chief of the Planning Division of the Tibet Branch of People's Bank of China, Party Secretary and Branch Manager of the Suzhou Huibei Subsidiary Branch of People's Bank of China, Division Chief of the Management Division of the Hefei Subsidiary Branch of the People's Bank of China, Division Chief of the ICBC Supervision Division of the CBRC Anhui Bureau and the Division Chief of State-owned Bank Supervision Division I.

Xu Chongding, male, born in November 1957 in Hefei, Anhui Province. Educational background: Bachelor degree holder. He graduated from Anhui Normal University. He is a lecturer and is currently appointed as

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Chairman of Hushang Bank Labor Union. He once served as lecturer of Anhui Normal University, Director of MOHRSS of Hefei Trust and Investment Corporation, Director of HR of Hefei Commercial Bank, Secretary of Discipline, Member of Party and General Manager of Human Resource Department of Huishang Bank.

Fan Xiaohui, male, born in October 1956 in Changfeng of Anhui Province. Educational background: Diploma holder. He graduated from Anhui Vocational College. He is an economist and is currently appointed as Deputy General Manager of the Compliance Department of Huishang Bank and a Supervisor of Wuwei Huiyin Village Bank Corporation Limited. He once worked as Deputy Branch Manager of the Technology Branch of Hefei City Commercial Bank, General Manager of the Audit Department of Hefei City Commercial Bank and Deputy General Manager of the Audit Department of Huishang Bank.

Fang Xiao, male, born in January 1978 in Shexian, Anhui Province. Educational background: Master degree holder. He is currently appointed as Discipline Team leader, Party Committee Member of Wuhu Construction Investment Company. He once worked as Deputy Director of Asset Operation Department, Office Director, General Manager Assistant and Director of Audit Supervision Department of Wuhu Construction Investment Company.

Gao Tongguo, male, born in March 1964 in Tongcheng of Anhui Province. Educational background: Master degree holder. A graduate from Jiangxi Finance and Economics University, he is an accountant and President and Director of Hefei Xingtai Holding Group. He served as Deputy Director of Hefei State-owned Asset Management Bureau, Director of Hefei IPR Exchange Center, Chairman of Technological IPR Exchange Center, President of the Asset Evaluation Association, Chairman of the Board of Supervisors for Hefei Baida Group, Director of Hefei Commercial Bank and Huishang Bank.

Wu Guozhong, male, born in 1964 in Tongcheng of Anhui Province. Educational background: Master degree holder. A graduate from Anhui College of Business Administration, he is a senior accountant and Deputy Chief Accountant and Head of the Finance Department of Tongling Nonferrous Metal Holding Group. He served as Head of the Cost Division and Price Division of the Finance Department of Tongling Nonferrous Metal Holding Group, Deputy Chief of the Price Division in China Nonferrous Metal Company, Director, Board Secretary, Head of the Finance Department and Securities Department in the 3rd Board and Director, Deputy General Manager, Board Secretary and Head of the Securities Department in the 4th Board, Director and Board Secretary in the 5th Board.

Cheng Hong, male, born in March 1966 in Huoqiu of Anhui Province. Educational Background: Bachelor degree holder. A graduate of Anhui University of Architecture, he is a senior engineer and Chairman of Anhui Hengtai Real Estate Company, Chairman of Anhui Hengtai Group, Chairman of Anhui Taili Decorations Company, Chairman of Tongling Maoyuan Investment Company. He served as a lecturer in Anhui University of Architecture and Deputy General Manager of Shenzhen Taili Decorations Company.

Cheng Junpei, female, born in October 1963, German nationality. Educational background: Master degree holder. A graduate of Nyenrode Business University, she is the General Manager of Tianyi Consulting Company and Managing Director of Duo Source (Shanghai) International Trade Company. She served

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as Chief Agent for the German Subsidiary of Metro Group, General Manager of Swiss DKSH (Shanghai) International Trade and Vice President of Sinopharm Group Co. Ltd.

Fan Libo, male, born in September 1964 in Zhaoyuan of Shandong Province. Educational Background: PhD degree holder. A graduate of the University of International Business and Economics, he is a professor and PhD supervisor and Deputy Dean of the International Business School of University of International Business and Economics, Director of China Management Research Society, Executive Director of China Technology Economy Research Society, Member of the "Organization and Strategy" Division of China Management Society and Researcher in China WTO Research Institute. He served as a lecturer in the International Business School of University of International Business and Economics, Executive Deputy Dean of the Haier Business School of University of International Business and Economics, visiting scholar in HEC Management School in France and Business School in Koeln University in Germany.

(3) Senior Management

Name	Gender	Age	Position in Huishang Bank	Responsibility
Wu Xuemin	Male	44	President	Overall operation, HR Department
Zhang Renfu	Male	50	Deputy Secretary of the Party Committee and Secretary of Party Discipline Committee	Administrative Office, Compliance Department Security Department, CPC Public Relations Department, Integrated Support Center, Audit Contact Department
Wang Guisheng	Male	58	Vice President	Corporate Banking Department, Small Business Banking Department, International Business, Financial Market Department
Ci Yaping	Male	53	Vice President	Financial Planning Department, Credit-Review Department, Risk Management Department, Institution Management Department, Liaison with Offices of the Board of Directors and the Board of Supervisors
Gao Guangcheng	Male	48	Vice President	Retail Banking Department, E-Banking Department, Credit Card Center, Technology and Information Department
Zhang Youqi	Male	47	Vice President	Accounting Management Department, Operational Management Department Development and Research Department
Yi Feng	Male	49	Assistant President	President of Hefei Branch
Yan Dongshun	Male	49	Assistant President	General manager of Huishang Bank Corporation Department
Hu Dongdong	Male	48	Secretary of the Board of Directors	Office Director of Board of Directors and Board of Supervisors
Xia Min	Male	41	Assistant President	General manager of Financial Planning Department
Liu Ming	Male	55	Chief Executive Officer	Office Director of Huishang Bank



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Working experience of Senior Management:

Wang Guisheng, male, born in December 1954 in Wuwei of Anhui Province. Educational background: Bachelor degree holder. He graduated from the Faculty of Economics and Management of the CPC Party School. He is a senior economist and is currently appointed as Vice-President of Huishang Bank. He once served as Deputy Branch Manager and Deputy Party Secretary of the Wuhu Branch of the ICBC, Party Committee Secretary and Branch Manager of the Xuancheng Branch of the ICBC, Deputy Secretary and Director of the Supervisory Office of Party Discipline Committee of the Anhui Branch of the ICBC, Party Secretary and Chairman of the Wuhu Commercial Bank.

Gao Guangcheng, male, born in January 1964. Educational background: Bachelor degree holder. He graduated from Anhui University of Finance and Economics. He is a senior economist and certified public accountant and is currently appointed as Vice-President of Huishang Bank. He once served as President of sub-branch of Hefei City Commercial Bank, Assistant President, Vice President of Hefei Commercial Bank. He was President of Hefei Branch and Party Secretary of Huishang Bank.

Zhang Youlin, male, born in October 1965 in Changfeng, Anhui Province. Educational background: Master degree holder. He graduated from the Anhui University of Finance and Economics. He is a senior economist and is currently appointed as Vice-President of Huishang Bank. He used to be deputy President and member of the Party of China Everbright Bank Hefei Branch. Chairman, General Secretary of Party Committee of Tongling City Credit Union Corp., Ltd.. Directors and Secretary of the Board of Directors of Huishang Bank.

Yi Feng, male, born in August 1963 in Lujiang, Anhui Province. Educational background: Master degree holder. Graduated from Xiamen university, he is a senior economist and is currently appointed as Assistant President of Huishang Bank and President of Hefei Branch. He once served as Office Secretary, Manager, Deputy Director of CCB Anhui Branch. President of CCB Huangshan Branch, Manager of Entrust Agency of CCB Anhui Branch, General Manager of Institution and Investment Banking Department, President of Hefei Sanxiaokou Branch, President of Hefei City West Branch.

Yan Dongshun male, born in August 1963 in Suizhou, Hubei Province. Educational background: Master degree holder. He graduated from Huazhong Normal University. He is currently appointed as Assistant President of Huishang Bank, General Manager of Corporation Department of Huishang Bank, He once served as President of ABC Xiangfan Branch, Office Director of China Minsheng Bank Corporation ("CMBC") Wuhan Branch, Office Director and General Manager of Banking Department of CMBC Shenzhen Branch.

Hu Dongdong, male, born in December 1964 in Wuhu, Anhui Province. Educational background: Master degree holder. He graduated from Shanghai University of Finance and Economics. He is Senior Economist and is currently appointed as Secretary of Board of Directors of Huishang Bank, meanwhile responsible for Office Director of Board of Directors and Board of Supervisors respectively. He once served as Chief Secretary of People's Bank of China Wuhu Branch, Deputy Manager of Financial Management Department, General Manager of Integrated management Division of Wuhu Urban Cooperative Bank, President Assistant

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and Vice President. Vice President of Wuhu City Commercial Bank.

Xia Min, male, born in April 1971 in Hefei, Anhui Province. Educational background: Ph.D. Economics. He graduated from Shanghai University of Finance and Economics. He held Master's Degree and Ph.D. Economics in Research Institute for Fiscal Science, Ministry of Finance. He is currently appointed as Assistant President, General Manager of Financial Planning Department of Huishang Bank. He once served as President of Heifei Commercial Bank Xiaoyaojin Branch. General Manager of Financial Department of Heifei City Commercial Bank, Assistant President and Vice President of Heifei City Commercial Bank.

Liu Ming, male, born in May 1957 in Wuhan, Hubei Province. Educational background: Bachelor's Degree. He is currently appointed as Chief Executive Officer and Office Director of Huishang Bank. He once served as Deputy Manager and Manager of Financial Trade Department of Wuhu Planning Committee, President Assistant of CCB Wuhu Branch, Deputy Secretary and Vice Deputy Secretary of Party Committee, Vice President, President of Wuhu Commercial Bank, Secretary of Party Committee and President of Huishang Bank Wuhu Branch, General Manager of Compliance Department of Huishang Bank Head Office.

Note: Please refer resumes for Wu Xuemin, Zhang Renfu and Ci Yaping to the working experience of directors.

II. Annual Compensation

(1) Compensation Structure for Employees

1. The compensation of our employees consists of base salary, performance salary and allowances. A base salary accounts for less than 35% of the total compensation.
2. The budget for salaries and wages were based on the financial budget with the consideration of overall macroeconomics, average salary level in the Banking sector, growth of the Bank, results of the prior year operating profits and other relevant factors. The Financial Planning Department of the Bank will prepare the budget for human resources and approval from Board of Directors is required before which can be in used.

(2) Relationship between Compensation, Performance Evaluation and Risk Management

1. All departments will receive a quota of performance salary based on their overall evaluation and will allocate the compensation among their employees based on individual performance evaluation.
2. For middle and senior management and employees closely involved in risk management, 40% of their performance salary will be paid to them in three installments of 10%, 15% and 15% in the following three years. If regulations or risk control requirements was breached by related employees, such installments will be cancelled or have previous paid amount recouped.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

(3) Compensation for Directors, Supervisors and Senior Management

In accordance with the staff compensation scheme of the Bank, base salary and 40% of performance salary was paid during the 2011, while remaining 60% of the performance salary and long-term incentive payment will only be paid after 2011 performance evaluation is completed in 2012.

The compensation information for Directors, Supervisors and Senior Management in 2011 is as follows:

Compensation and Short-Term Benefits for Directors, Supervisors and Senior Management Paid in 2011 (before-tax)

Name	Unit: Yuan Total compensation paid for 2011
Wang Xiaoxin	835,875.00
Wu Xuemin	660,362.50
Zhang Renfu	621,787.00
Xu Demei	625,903.00
Zhang Zhen	621,868.00
Xu Chongding	684,582.00
Fan Xiaohui	480,732.00
Wang Guisheng	628,236.00
Ci Yaping	636,631.00
Gao Guangcheng	634,056.00
Zhang Youlin	470,520.00
Yi Feng	729,816.00
Yan Dongshun	641,158.00
Hu Dongdong	682,280.00
Xia Min	695,744.00
Liu Min	682,164.00
Total	10,331,714.50

Note: The above table is summarized pursuant to actual paid amount.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

III. Election and Resignation of Directors, Supervisors and Recruitment of Senior Management

1. During the reporting period, Mr. Zhang Youlin resigned from the position of Executive Director due to other work commitments, Ms. Su Min resigned from Non-Executive Director, Mr Ci Yaping was elected as Executive Director, and Mr. Bai Taiping was elected as Non-Executive Director in the 2010 Annual General Meeting. The term of office was equal to the term of Second Board of Directors.

2. During the reporting period, Mr. Du Changdi resigned from the position of Independent Director due to other work commitments. Mr. Wang Shihao, Mr. Zhang Shenghuai, Mr Wen Jinghui was appointed as the Independent Director in the second extraordinary General Meeting during 2011. The term of office was equal to the term of Second Board of Directors.

3. During the reporting period, Mr. Li Xiaowan retired from the position of Supervisor; Mr. Xu Chongding was elected as the Supervisor of second Board of Supervisors in the Worker's Conference. The term of office was equal to the term of Second Board of Directors. Meanwhile, Mr. Tao Haojie resigned from the position of Supervisor due to other work commitments, Mr Fang Xiao was elected as the Supervisor of second Board of Supervisors in the second Extraordinary General Meeting. The term of office was equal to the term of Second Board of Directors.

4. During the reporting period, Mr. Zhang Youlin resigned from Secretary of Board of Directors due to other work commitments. The Board of Directors appointed Mr. Zhang Youlin as Vice Present, and appointed Mr. Hu Dongdong as Secretary of Board of Directors, Mr Ren Yifeng, Mr. Yan Donshun and Mr. Xia Min was appointed as Assistant President, Mr. Liu Ming was nominated as Chief Operating Officer.

V. Staffs

As at December 31, 2011, the Bank had a total of 4,964 staff bonded by employment contracts, of which males accounts for 45% and female accounts for 55%; 62% of the staffs held Bachelor degrees or above, 38% held diploma or lower; 36 employees held senior professional qualifications, and 1,177 employees with middle level professional qualifications which accounted for 24% of all staffs.



HUIZHANG BANK CORPORATION LIMITED

ANNUAL REPORT 2011

Corporate Governance



CORPORATE GOVERNANCE

I. Corporate Governance

During the reporting period, pursuant to relevant laws including Company Law of the People's Republic of China, Law of the People's Republic of China on Commercial Banks and regulations including The Guidance of the Corporate Governance of Limited Liability Commercial Banks and Guidelines for Duty of Board of Directors in Limited Liability Commercial Banks, the Bank continually improved the corporate governance structure, improved the performance and conformance with regulations, boosted governance effectiveness and enhanced the corporate governance framework. This enables Board of Directors to make more prudent decisions and the Board of Supervisors to promote supervisory performance and compliance, improved overall corporate governance efficiency.

(1) Perfection of the Bank management system

During the reporting period, the Bank reviewed its regulation based on the proceeding development and expansion. The modification had been made to the following documentations: Regulation of Shareholder's meeting, Management of Related Party Transactions, Administration of Information Disclosure, Investor relationship Management, and established the following rules and regulations, Financing Management, Administration of Independent Director, Administration of Secretary of Board of Directors, Compliance Policy of Huishang Bank, Management of Liquidity Risks of Huishang Bank and Liquidity Emergency Prearrangement of Huishang Bank. The rules and regulations are more efficient and reliable after the above efforts.

(2) Shareholders and General Meeting of Shareholders

Pursuant to the Company Law of the People's Republic of China, the Articles of Associations and Policies of Shareholder Meetings, the Bank has held the general meetings of shareholders, facilitated communication with the shareholders, improved shareholder services and established an effective, multi-channel platform to communicate with shareholders. The Bank safeguarded the interest of all shareholders and ensured the equally rights of medium and small shareholders.

During the reporting period, the Bank held the General Meeting of Shareholders 3 times in accordance with Company Law and the Articles of Association, fulfilled corporate governance requirement and exercised the shareholder's rights. The procedures of meeting notice, meeting registration and shareholder voting at the meetings were fully complies with relevant law and regulations. Lawyer prepared legal opinions on the meetings. The procedures for submission and discussion of proposals meet the requirement set by Supervision Committee and Articles of Association.

(3) Shareholders and the Bank

The Bank has a large number of shareholders and is with no controlling shareholder. The top five shareholders are unable to circumvent the shareholder meeting and directly or indirectly control the

CORPORATE GOVERNANCE

operations or decision-making of the Bank. The Bank operates independently of its top five shareholders, in respect of its business, personnel, assets, institutional and financial matters. The Board of Directors, Board of Supervisors and internal functions all operate independently.

(4) Directors, Board of Directors and Special Committees

The Bank elects the directors based on the qualification requirements and election procedures sets out in the Articles of Association. The Board of Directors consists of fifteen directors, including five independent directors. The number of directors and the composition of the Board are in compliance with relevant laws and regulations. The decision making, authorization and voting procedures strictly follows relevant company policies and procedures. During the period, the Board of Directors fulfilled its duties diligently, discussed all matters that are significant to the Bank's future development, improved the Board operation mechanism, strengthened the corporate governance framework, implemented organizational change, facilitated prudent decision making, ensured financial stability and safeguarded the Bank and the shareholders' interest.

In accordance with relevant regulations, the Board of Directors established five special committees to assist the Board in performing its functions, including the Strategic Development Committee, the Nomination and Remuneration Committee, the Risk Management Committee, Related Party Transaction Control Committee and the Audit Committee. The chairmen of the Nomination and Remuneration Committees, the Risk Management Committee, Related Party Transaction Control Committee and the Audit Committee were held by independent directors, to strengthen independent director's role of supervision over the Bank. All committee members have fully fulfilled their responsibilities and deliver their profession opinions on their focus areas and Board resolutions. This effectively promoted management capability, strengthened risk management and safeguarded investors rights and interests.

Members of the Strategic Development Committee:

Wang Xiaoxin (Chairman), Wu Xuemin, Zhang Renfu, Wu Xiaoqiu, Wang Shihao, Qian Zheng, Guo Shigang, Bai Taiping, Gao Yang;

Members of the Nomination and Remuneration Committee:

Wu Xiaoqiu (Chairman), Wang Xiaoxin, Dai Genyou, Wang Shihao, Zhang Shenghuai, Guo Shigang, Gao Yang;

Members of the Risk Management Committee:

Xu Demei (Chairman), Wu Tian, Ci Yaping;

Members of the Related Party Transaction Control Committee:

Wang Shihao (Chairman), Zhang Shenghuai, Ci Yaping;

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Members of the Audit Committee:

Dai Genyou (Chairman), Wen Jinghui, Xu Demei;

During the reporting period,

- (i) The Nomination and Remuneration Committee held 5 meetings and deliberated on the Board of Directors and senior management performance evaluation for 2010, conducted nomination of independent directors and nominations and changes of senior management.
- (ii) The Strategy Development Committee held 3 meets during the year, deliberated on Huishang Bank Initial Public Offering plan, financing plans and other issues related to initial public offering. The committee also discussed 2010 financial results, 2011 operational plan and the financial budget report, 2010 annual profit distribution proposals and 2010 institutional development proposals.
- (iii) The Risk Management committee held 5 meetings (including teleconference), deliberated on nearly 20 articles including Huishang Bank Compliance Policy and Procedures, Huishang Bank Internal Control System and Plan. The committee also established 2011 risk management policy and credit control plan, and submitted to the Board for approval. The committee also investigated the risk profile of Credit Asset Transfer and Liquidity Management, and reviewed the Board's risk management policies and procedures implementation results and visited Wuwei Huiyin Village Bank. A written report was submitted to the Board at the end of the visit for review and discussion.
- (iv) The Related Party Transaction Control Committee held 6 meetings (including teleconferences), reviewed total 14 proposals, including review of 6 significant related party transactions with total line of credits of RMB 3.01 billion. The committee also discussed in detail of annual work plan and other related party transaction management issues. Each committee member expressed their professional opinions and submitted the significant transactions to the Board for approval in accordance with the Bank's policies and procedures,
- (v) The Audit committee held 2 meetings during the year, deliberated on matters related to appointment of external auditors and 2010 annual report.

(5) Supervisors, Board of Supervisors and Special Committees

The Bank elects the supervisors based on the qualification requirements and election procedures sets out in the Articles of Association. The Board of Supervisors consists of 9 supervisors, including 2 external supervisors. The number of supervisors and the composition of the Board of Supervisors are in compliance with relevant laws and regulations. During the reporting period, the Board of Supervisors fulfill its duties diligently, supervise the performance of the Board of Directors, the Directors, the senior management and its members, development of the internal control system, business and financial performance, and safeguarded the Bank and the shareholders' interest.

CORPORATE GOVERNANCE

The board of supervisors established two special committees, the Nomination Committee and the Supervisory Committee. The chairmen of the special committees are held by external supervisors. This assisted the Board to increase independence when discharging the responsibility of evaluating performance and internal control system. This will assist in enhancing management capability and improve corporate governance framework.

Members of the Nomination Committee:

Cheng Junpei (Chairman), Zhang Zhen, Xu ChongDing, Cheng Hong;

Members of the Supervision Committee:

Fan Libo (Chairman), Zhang Zhen, Gao Tongguo, Wu Guozhong, Fan Xiaohui.

During the reporting period,

- (i) The Nomination Committees held 4 meetings. The committee deliberated on the Supervisors and External Supervisors performance evaluation report and Huishang Bank Supervisors 2011 annual performance plan.
- (ii) Supervisors Committees held 3 meetings. The Committee deliberated on the Board of Directors and Directors 2010 annual performance evaluation report, the senior management and its member 2010 performance evaluation report, Investigation Report on Performance of Entrusted Loan since establishment of Huishang Bank and other matters

(6) Information Disclosure and Transparency

Pursuant to Measures for Information Disclosure of Commercial Banks and Notice on Regularizing Annual Report Content of Limited Liability Commercial Banks, and to improve the timeliness, accuracy and completeness of information disclosure, during the period, the Bank published the summary of the 2010 Annual Report in the Financial News. The 2010 Annual Report (Chinese/ English) version is also accessible from the Bank's official website. Furthermore, copies of the 2010 Annual Report (Chinese/ English) are provided in the office of Board of Directors and available to investors and stakeholders.

The Bank treats correspondence, telephone calls, visits and inquiries from all shareholders and stakeholders with high importance, and is committed to ensure equal opportunity of information access for all shareholders and stakeholders.

II. Independent Directors and External Supervisors

During the reporting period, the independent directors and external supervisors performed their duties responsibly, objectively and diligently. Their effort helped to safeguard the Bank and the shareholders' interest, assisted the Board and the Board of Supervisors to fulfill their responsibility of decision making and supervision effectively.

CORPORATE GOVERNANCE

(i) Attendance of Independent Directors at meetings of the Board of Directors

Name of Independent Directors	No of Required Attendance During the Year	Attendance in Person	Entrusted Attendance	Absence
Wu Xiaoqiu	4	3	1	-
Dai Genyou	4	4	-	-
Wang Shihao	1	1	-	-
Zhang Shenghuai	1	1	-	-
Wen Jinghui	1	1	-	-

Note: The service of Wang Shihao, Zhang Shenghuai, Wen Jinghui started at the ninth meeting of the Second Board of Directors

(ii) Attendance of External Supervisors at meetings of Board of Supervisors

Name of Independent Directors	No of Required Attendance During the Year	Attendance in Person	Entrusted Attendance	Absence
Cheng Junpei	4	2	2	-
Fan Libo	4	3	1	-

(iii) Objections by Independent Directors In Affairs of the Bank

During the reporting period, the Independent Directors did not bring forward any objection to any proposal of the Board of Directors or other relevant matters.

III. Independence from Shareholders in "Five Areas"

The Bank is fully independent from shareholders in five areas including business, personnel, assets, institutional and financial matters. The Bank can operate and complete business transactions independently. The Board of Directors, the Board of Supervisors and other internal organizations are also able to operate independently.

IV. Decision-making Process of the Bank

The highest decision making body of the Bank is the General Meeting of Shareholders, with decision-making and management executed through the Board of Directors. The Board of Supervisors executed supervisions. President of Huishang Bank is appointed by the Board of Directors to manage daily business operations. The Bank adopts a head office to branch structure. All outlets of the Bank are non-reporting



CORPORATE GOVERNANCE

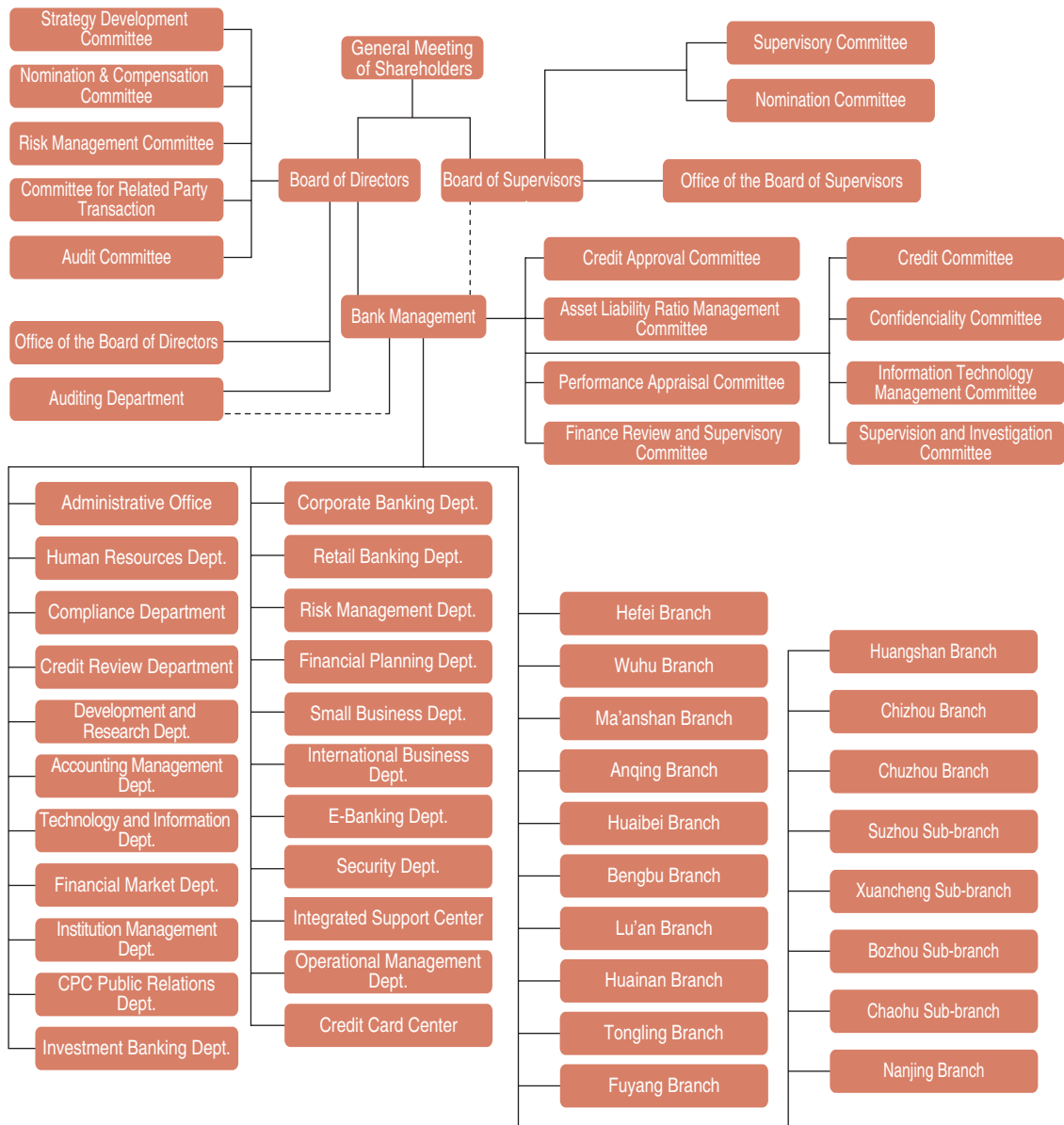
entities, and carry out their respective management and business activities as approved by the Head Office and ultimately reports to Head office.

V. Performance Evaluation, Incentive and Restraints for Senior Management

Based on the principle of performance based remuneration, the Bank adopted a senior management remuneration plans are based on both qualitative and quantitative factors, established KPIs and performance evaluation methods. This further motivates the senior management, provides emphasis on management capability, operation awareness and accountability.

CORPORATE GOVERNANCE

VI. Organizational Structure



CORPORATE GOVERNANCE

VII. Internal control and self-evaluation

In 2011, the Bank emphasized the importance of internal control, constantly review and perfection the internal control system. The related policies, procedures and risk management were enhanced for persistent and steady development. According to regulation, the Basic Regulation of Internal Control and related guidance promulgated by five authorities jointly, the Bank reviewed its internal control system, process, risk and risk control and started the internal control system establishment work.

In 2011, the internal audit work was reinforced, 56 internal audit projects was accomplished, and mainly reflected from performance evaluation, authorization implementation, organization operation, management assessment, liquidity management, information technology management. Internal audit valuation was also carried out according to Notice of Internal Audit Valuation of City Commercial Banks from CBRC.

According to the regulation, Internal Accounting Control Essential Requirement (Trial) from ministry of finance, the Bank performed self assessment for its control over accounting as of 31 December 2011. PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company reviewed the Bank's internal control over accounting and issued a review report. It stated that the Bank had maintained and established effective internal control over accounting in comply with the Internal Accounting Control Essential Requirement (Trial) in all material aspects.

VIII. Commitment to Corporate Social Responsibility

The Bank continues to practice corporate social responsibility, developed a multi-channel platform to fulfill our responsibility towards economy, society and environment. We also support sustainable economic, environmental and social development. We made active contribution to build a harmonious society.

1. Promote credit system, improve consumer financial literacy

In 2011, the Bank launched "Improvement of Consumer Financial Literacy" campaign, through a serious of activities including "Promotion of Financial Knowledge", "Financial Consumer Questionnaire", "Financial Literacy and Community" and "Education on Wealth management for Adolescence". Branch managers and wealth manager became instructors and organized volunteer teacher teams. They were in the community and distributed questionnaires and used diversified methods to educate financial knowledge to the general public. The team also displayed the message "Treasury your credit history, Increase awareness of credit system" on the computer screen at each location, played videos on credit system, distributed brochures and promoted the importance of integrity. When delivering services to customers, team also proactively educated them on credit awareness, effectively increased the public's knowledge on credit system.

2. Diversify service platforms, increase the quality of financial services

The Bank optimized the network location, extended existing electronic network, actively pushed forward

CORPORATE GOVERNANCE

branch transformation and increase the network branch service capability. In 2011, the Bank established 74 new ATM locations, built 112 additional e-banking experience facilities, invested 155 internet banking terminal and completed 62 ATM service area upgrades, opened personal "super e-Banking" service. The Bank's customer services passed CCCS 5 star operation qualification, and have been awarded "5 star customer service centre" by Customer Relationship Management Committee of China Information System Implementation Alliance. They also received the award of 2010 to 2011 Best China Call Centre.

3. Improve customer complaints management, extend customer satisfaction survey

The Bank implemented Huishang bank Customer Complaints Management Tentative Measures, Huishang Bank Guidance on further improvement of services (2011), placed customer comments book at each branch, displayed the customer service phone number 95688 in prominent positions at each service centre and ATM locations, and installed direct line for customers to use. The Bank also engaged international renowned survey company to perform customer surveys. In 2011 the company had 4 visits from "mystery customer". 5 employees of the Bank also received Chinese Bank Industry "Star Branch Manager" award.

4. Focus on risk disclosure to customers, respect customer legal rights

Through the Bank's website, self service areas, electronic displays and promotion brochures, the Bank provided adequate reminder to customers over risk associated with e-banking and bankcards. When there is an indication of heightened activities of telephone fraud, the Bank broadcasted warning through 96588, displayed "Beware of Fraudulent Messages" notice in prominent positions at each outlets, informed customer of the fraud, raised customer overall fraud prevention awareness, thus protected customers' assets. When marketing wealth management and mutual fund products to customers, the Bank ensured all necessary client risk assessment are carried out, risk conditions and contract terms are fully disclosed to the customer prior to signing of the contract.

5. Proactively support project that improves standard of living and local economies

In 2011, the Bank supported several projects that aimed at raising people's standard of living, including projects in low-income housing, cultural, education and public health sectors, cumulative loan amount reached RMB 875 million, additional loan amount RMB 181 million. The Bank fully supported local economy development, published policies including "Guidance regarding supporting the establishment of Wanjiang City Industrial District Transformation Demonstration Area", prioritized the financing needs of Anhui province major economic development areas, including "Wanjiang City Industrial District Transformation Demonstration Area", "Hefei Wuhu Bengbu new Innovation Development Zone", "Wangbei Development Area". We were awarded the "top 10 contributors to Anhui province's Eleventh Five-Year economic plan"

6. Supporting the development of small and micro enterprises

In accordance with Supplementary Notice of Supporting Commercial Banks in Further Improving

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Financial Services for Small- and Micro-sized Enterprises issued by China Banking Regulatory Commission, the Bank continued to build the "six mechanisms", further developed small enterprise operation centers, introduced new micro-lending technologies, enhanced small and micro enterprises businesses management and improved overall services to small enterprises. To implement "little giant" and "eyas" business nurturing plan, the Bank introduced "Smart 360" small and micro business lending products. As of end of 2011, total loans to small and micro enterprises amounted to RMB 32.69 billion, representing an increase of 27.66%. This is higher than the Bank's overall lending increase of 8.89%. The Bank continued to achieve the "Two Higher" target, and received "China Banking Industry Financial Institution Small Enterprise Financial Services Model Company" awarded by China Banking Regulatory Commission.

7. Proactively promote "Green Credit"

The Bank strongly advocates resource saving and environmental protections. We established an environmental impact evaluation process for all financing projects, and clearly stated that we support projects that adhere to government land policy and relevant environmental regulations. We provided preferential support to projects in low carbon industries such as energy reduction, environment management, recycling and renewable energy sectors. We strictly prohibit financing enterprises that contravene government industry policies and environmental regulations. We prevented credit loans funding flow into unregulated lending market, and reposition the business with the national wide movement to restructure and upgrade industrial structure.

8. Supporting the development of rural economy and "rural areas, agriculture and farmers"

The Bank supports the development of rural economy. In 2011, the Bank established 6 rural branches, further increasing our commitment to support rural economies. The Bank adopted the principle of "Watch, support and develop rural areas, agriculture and farmers", and boost level of agricultural related loans. As of end of 2011, agricultural related loans amounted to RMB 13.93 billion, presenting an increase of RMB 7.85 billion from prior year, or 128.97%.

9. Developing employee code of conduct

In the effort to strengthen internal control, moderate employee behaviors, assist with compliance, in second half year of 2011, the Bank published "The Notice of Increasing Screening of Irregular Employee Behaviors", implemented a work plan for screen irregular employee behaviors to prevent involvement in civil lending disputes. The Bank also improved existing employee code of conduct, created whistle blower policy and increased safeguard against ethical risks, actively promoted the corporate values of Huishang Bank. In 2011, Liu'An Branch received "China Model Organization" award.

HUSHANG BANK CORPORATION LIMITED

ANNUAL REPORT 2011

General Meeting of Shareholders



GENERAL MEETINGS OF SHAREHOLDERS

I. Details of General Meeting of Shareholders Convened During the Reporting Period

1. The Bank issued the public notice of 2010 Annual General Meeting of shareholders in the 19 April 2011 issue of "Financial News" and "Anhui Daily" as well as posted it on the Bank's website. On 10 May 2011, the Bank held 2010 Annual General Meeting of shareholders in person at Hefei, Anhui province. The meeting was facilitated by the Board of Directors and chaired by Wang Xiaoxin (Chairman of the Board). 14 shareholders or their authorized representatives attended the meeting, representing 4,424,549,417 shares, being 54.12% of the Bank's total issued shares. The following resolutions were passed by written ballots at the meeting:

- (1) 2010 Report of the Second Board of Directors of Huishang Bank Corporation Limited
- (2) 2010 Report of the Second Board of Supervisors of Huishang Bank Corporation Limited
- (3) 2010 report of final financial results of Huishang Bank Corporation Limited
- (4) 2011 operation plan of Huishang Bank Corporation Limited
- (5) Proposed 2010 profit distribution scheme of Huishang Bank Corporation Limited
- (6) 2010 annual report of Huishang Bank Corporation Limited
- (7) Proposed appointment of external auditors for 2011
- (8) Huishang Bank Corporation Limited IPO plan
- (9) Huishang Bank Corporation Limited Corporate Pension Plan
- (10) Board of Directors performance evaluation report of Directors, including independent Directors;
- (11) Board of Supervisors performance evaluation report of Supervisors, including external Supervisors;
- (12) Proposed authorization for Board of Directors to make decisions on external investment;
- (13) Proposed authorization for Board of Directors to make adjustment on 2011 operation plan;
- (14) Resignation of Liao Li from as a Independent Director from Second Board of Directors of Huishang Bank Corporation Limited
- (15) Resignation of Su Min from as a Director from Second Board of Directors of Huishang Bank Corporation Limited;
- (16) Resignation of Zhang Youqi as a Director from Second Board of Directors of Huishang Bank Corporation Limited;

GENERAL MEETINGS OF SHAREHOLDERS

(17) Appointment of Bai Taiping as a Director on the Second Board of Directors of Huishang Bank Corporation Limited;

(18) Appointment of Ci Yaping as a Director on the Second Board of Directors of Huishang Bank Corporation Limited;

2. The Bank issued the public notice of 2011 First Extraordinary General Meeting of shareholders in the 3 August 2011 issue of "Financial News" and "Anhui Daily" as well as posted it on Bank's external website. On 19 August 2011, the Bank held 2011 First Extraordinary General Meeting of shareholders in person at Hefei, Anhui province. The meeting was facilitated by the Board of Directors and chaired by Wang Xiaoxin (Chairman of the Board). 16 shareholders or their authorized representatives attended the meeting, representing 4,488,275,290 shares, being 54.90% of the Bank's total issued shares. The following resolutions were passed by written ballots at the meeting:

- (1) Proposed initial public offering of the Bank's ordinary shares denominated in RMB
- (2) Proposed use of funds received through initial public offering of Bank's ordinary shares denominated in RMB
- (3) Proposed authorization for the Board of Directors to manage issues concerning public listing
- (4) Proposed profit distribution scheme of pre- initial public offering retain earnings
- (5) Proposed Huishang Bank Corporation Limited capital management plan
- (6) Proposed the Articles of Association of Huishang Bank Corporation Limited (Draft for listing)
- (7) Proposed changes to Rules and Procedures for General Meeting of Shareholders based on listing requirements
- (8) Proposed changes to Rules and Procedures for Meeting of Board of Directors based on listing requirements
- (9) Proposed changes to Rules and Procedures for Meeting of Board of Supervisors based on listing requirements

3. The Bank issued the public notice of 2011 Second Extraordinary General Meeting of shareholders in the 26 September 2011 and 27 September 2011 issues of "Financial News" and "Anhui Daily" as well as posted it on Bank's external website. On 12 October 2011, the Bank held 2011 Second Extraordinary General Meeting of shareholders in person at Hefei, Anhui province. The meeting was facilitated by the Board of Directors and chaired by Wang Xiaoxin (Chairman of the Board). 12 shareholders or their authorized representatives attended the meeting, representing 3,949,195,083 shares, being 48.31% of the Bank's total issued shares. The following resolutions were passed by written ballots at the meeting:



GENERAL MEETINGS OF SHAREHOLDERS

- (1) Appointment of Zhang Shenhui as an Independent Director on the Second Board of Directors of Huishang Bank Corporation Limited;
- (2) Appointment of Wen Jinghui as an Independent Director on the Second Board of Directors of Huishang Bank Corporation Limited;
- (3) Appointment of Wang Shihao as an Independent Director on the Second Board of Directors of Huishang Bank Corporation Limited;
- (4) Appointment of Fang Xiaodan as a Supervisor on the Second Board of Supervisors of Huishang Bank Corporation Limited;
- (5) Proposed treatment of suspense shareholders' equity accounts
- (6) Proposed changes to Related Party Transactions Control Measures of Huishang Bank Corporation Limited.

HUIZHANG BANK CORPORATION LIMITED

ANNUAL REPORT 2011

Report of the Board of Directors



REPORT OF THE BOARD OF DIRECTORS

I. Management Discussion and Analysis

(1) Business Review during Reporting period

1. Overall Performance

— Business Scope of the Bank

Public deposits; short-term, medium-term and long-term loans; domestic and international settlement; bill acceptance and discount; issuance of financial bonds; issuing, cashing and underwriting treasury bonds as an agent; purchase and sales of treasury and financial bonds; inter-bank lending business; card business; purchase and sales of foreign exchange, purchase and sales of foreign exchange as an agent; providing letters of credit and their guarantee; acting as an agent in collection and payment and insurance business; providing safe deposit box service; designated deposits and loans and other businesses approved by the CBRC.

Exchange settlement and sales business approved by the PBOC.

— Performance in Major Business Operations

Items		2011	2010	Unit: % 2009
Operation and Performance Indicators	Weighted Average Return on Total Assets	1.50	1.46	1.20
	Weighted Average Return on Net Assets	22.22	19.89	14.18
	Cost to Income Ratio	27.09	29.14	35.09
Asset Quality Indicators	NPL Ratio	0.48	0.6	0.93
Prudent Operation Indicators	Capital Adequacy Ratio	15.44	12.06	12.14
	The Largest Single Borrower Ratio	6.18	9.1	7.86
	Provision Coverage Ratio	533.33	426.97	271.96

— Risk Management in 2011

In 2011, the Bank followed the principle of "rationality, prudence and stability" in terms of its risk appetite, the Bank paid close attention to macroeconomic, financial situations and policies changes while steadily accelerated the establishment of a risk management system. Guided by its annual risk management policy, the Bank continued to optimize its organizational structure of risk management and risk control, optimize

REPORT OF THE BOARD OF DIRECTORS

the balance between "capital, risk and return", enhance the risk assessment tools and establish the overall risk management framework. All loan indicators have been improved and risk management capacity has achieved great result.

The Bank mainly exposes the following risks: credit risk, market risk, operational risk, liquidity risk, legal risk, reputational risk, etc.

Credit Risk

The Bank facilitated its key risk control area. It pushed forward with risk limit management, and monitored it on monthly basis. The Bank implemented stress testing to major products, evaluated the loan quality and loss provision under extreme circumstances. In terms of client concentration control, the Bank classified group client into integrated credit management and supervised the related party transactions by reporting to Business Management and Control Committee. We further strengthened the capital quality control and achieved transformation from sole credit control to portfolio risk management by conducting credit risk tests. The Bank strictly adhered to the national macroeconomic regulatory policies prudently controlled loans granted to industries in support of credit resources configuration and portfolio risk management, with a focus on investment in superior projects, and developing exiting strategy guidance for enterprises in industries that face overcapacity. We achieved the credit structure optimization while supporting economy development. By the end of 2011, the balance of non-performing loans was RMB 654 million, decrease by RMB 43 million from the previous year end, and the ratio of NPLs to total loans fell by 0.12 percentage points to 0.48%. The Bank collected non-performing loans of RMB 155 million in cash in 2011. The balance of non-credit NPA was RMB 160 million, down RMB 84 million from the previous year end; a non-credit NPA ratio of 0.14%, down 0.12%.

Market Risk

The Bank further enhanced the market risk management methodologies and relevant policies and procedures, developed safeguards over the capital transaction risk, pushed forward day-to-day risk management, comprehensively applied cash flow analysis, sensitivity analysis, scenario analysis, VaR analysis and stress testing, etc, for better performance of market risk measurement and control, and reduced market risk in this regard.

Operational Risk Management

The Bank strengthened the overall operational management through stratification. In one aspect, risk reporting and risk release policy were modified and improved. The Bank perfected two-way operational risk reporting system, optimized operational risk management by collecting missing statistics and disclosing study cases at the same time. On the other aspect, the Bank further strengthened and facilitated the underlying operational risk management and internal control by exercising operational risk management on major transactions.

REPORT OF THE BOARD OF DIRECTORS

Liquidity Risk

The Bank adopted both credit ceiling and loan to deposit ratio controls supported by multidisciplinary cooperation. This reduced the stress on liquidity risk and strengthened debt management through establishment of appropriate multi-level liquidity reserves.

Legal risk

The Bank established Compliance Regulation of Huishang Bank and 2011 Performance Advice of Huishang Bank, explicated the regulation goal, idea, management and compliance culture establishment to further perfect the legal risk framework. In 2011, the Bank launched the internal control system development according to the Basic Regulation of Company Internal Control promulgated by five authorities jointly.

Reputational Risk

In 2011, the Bank made adjustment to the the reputational risk management process, sets up stringent monitoring controls over major incidents that may pose as a risk to reputation , facilitated the development of media accesses, increased the public satisfaction and significantly improved the reputational risk management capability.

— Organizational management

At the end of 2011, the Bank had a total of 176 branches, subsidiaries and outlets, including 1 Head Office, 16 branches (including 1 branch outside the local province), 2 direct sub-branches and 157 sub-branches. 171 of them delivered services to the public. 11 sub-branches were established in 2011, including Hefei Feidong Sub-branch and Lujiang Sub-branch. Chizhou dongzhi Sub-branch and Jiangnan Jizhongqu Sub-branch, Chuzhou Fenglelu Sub-branch, Suzhou Xiaoxian Sub-branch and Huaihelu Sub-branch, Xuancheng Guangde Sub-branch, Haozhou Mengcheng Sub-branch, and Nanjing Changjianglu Sub-branch and Hexi Sub-branch which established across the province. Two direct sub-branches were upgraded to Suzhou Branch and Xuancheng Branch. None of the branches, subsidiaries and outlets has been degraded in 2011.

In 2011, the Bank installed, tested and activated 210 self-service equipments, including 80 ATMs, 70 CRS machines, 60 multimedia information stands and 62 self-service banks, which improved the Bank's self-service availability and capacity.

— The Application of Information Technology

There were 17 projects, including 7 key projects developed and upgraded in 2011. The Bank successfully completed the development and installation of systems such as electronic commercial bills, domestic forex payment, online interbank transaction and POS collection with 26 agent services were also developed, effectively extended the service scope and strengthening our competitiveness. Major related business systems were upgraded by advanced system supervision and analysis functions for better scalability

REPORT OF THE BOARD OF DIRECTORS

and stability. Data platform (Phase II) and loan pricing management systems were formulated to support decision making in daily operations. Moreover, the Bank further established a problem solving platform for information sharing, problem analysis and troubleshooting purposes. The Bank's overall risk awareness and responses against emergency had significant improvement after successfully execution of the first off-site emergency drill.

— Status and Influence

In 2011, the Bank received numerous awards and honors including:

'Top Banking Services for Small Enterprises In the China Banking Industry ' awarded by CBRC.

The small business chattel mortgage escrow product was awarded as '2010 Top ten Financial Product for Small Enterprises in agriculture, farmer and rural area' of CBA

'2010 Outstanding Trading Business for Bond Settlement" awarded by China Government Securities Depository Trust & Clearing Co. Ltd;

'The most influential Bank award' for intra-bank domestic currency market;

The Bank was elected as 'Bank of Anhui '11th Five-Year Plan" of Top ten Economic Development Contributor';

'2010 Provincial Outstanding Financial Operation Contribution' awarded by the local government;

'2010 Activist in Bank and Enterprise Cooperation;'

In 2011, the Bank was once again elected in the top 500 domestic service industry, placed number 241; Top 200 of National Profitable Enterprises. The third time elected on the list of 'Top 1000 Largest Banks' by British magazine 'The Banker', moved up 41 brackets to 315th, also the 25th among domestic banks. During the same year, the Bank was also awarded "Best Brand Influence of Small and Medium Sized Banks in China" by China Finance Net, '2010-2011 Domestic Best Call Centre 'by the ninth CCMW Summit. 'Jiu Ding Award' by 2011 Asia-Pacific Summit which represent the financial integrity in China. '2011 the Best Cash Management Growth Award' by 2011 Annual Summit of CCTM.

2. Operation Income, Operating profit, Net Profit, Increase in Cash and Cash Equivalent

Items	Unit: RMB 1,000		
	2011	2010	2009
Operation Income	11,908,461	8,538,284	6,637,037
Operating Profit	4,525,317	3,449,508	2,226,036
Net Profit	3,492,610	2,702,353	1,755,480
Increase in Cash and Cash Equivalent	16,157,582	1,407,994	2,095,646

REPORT OF THE BOARD OF DIRECTORS

Including: Operation Income

Items	Unit: RMB 1,000		
	2011	2010	2009
Loans	8,196,860	6,107,835	4,925,860
Due from banks and other financial institutions	1,170,474	715,550	524,423
Intermediary Business	461,172	294,024	205,716
Investment Income	1,984,113	1,360,799	1,360,799
Other Businesses	85,842	60,076	21,155
Total	11,908,461	8,538,284	6,637,037

3. Total Assets and Shareholders' Equity at the End of the Reporting Period in Comparison with Those at the beginning of the Reporting Period

Item	Unit: RMB 1,000		
	2011	2010	2009
Total Asset	256,981,556	208,976,148	162,399,641
Shareholder's Equity	17,083,526	14,357,293	12,809,236

4. Financial position

Items	Unit: RMB 1,000				Main Cause
	2011	2010	2009	Increase/Decrease	
Total Asset	256,981,556	208,976,148	162,399,641	48,005,408	Business Expansion
Trading financial assets	5,035,807	2,717,898	2,772,871	2,317,909	Investment Restructured
Investment available for sale	18,356,903	20,865,630	18,756,182	-2,508,727	Investment Restructured
Investment held to maturity	20,604,548	13,190,678	8,857,935	7,413,870	Business Expansion
Investment classified as receivables	3,815,116	6,888,458	2,556,823	-3,073,342	Investment Restructured
Fixed Asset and WIP	1,186,089	1,150,470	1,206,377	35,619	Fixed Asset Investment Expansion
Total Liability	239,898,030	194,618,855	149,590,405	45,279,175	Deposit Increase
Shareholder's Equity	17,083,526	14,357,293	12,809,236	2,726,233	Transfer-in of net profit
Operating profit	4,525,317	3,449,508	2,226,036	1,075,809	Business Expansion
Investment Income	1,984,113	1,360,799	959,883	623,314	Investment expansion and fair value adjustment
Net Profit	3,492,610	2,702,353	1,755,480	790,257	Business expansion and increase in net movements

REPORT OF THE BOARD OF DIRECTORS

5. Off-balance sheet items

Items	Unit: RMB 1,000		
	2011	2010	2009
Bank guarantee	1,752,715	1,656,332	1,826,837
Letter of credit	3,053,143	1,682,903	537,927
Bills acceptance	38,087,308	27,467,421	24,619,964
Loan commitment	298,000	52,000	

(2) Bank Business

1. Branch, sub-branch and outlets

Number	Organization	Address	Total No. of Branch, sub-branch and outlets (176)
1	Head Office	No. 79, Anqing Road, Hefei	1
2	Hefei Branch	No. 79, Anqing Road, Hefei	39
3	Nanjing Branch	No. 231, Zhongyang Road, Nanjing	4
4	Wuhu Branch	No. 1, Beijing Xi Road, Wuhu	20
5	Ma'an Shang Branch	No. 75, Hunan XI Road, Ma' Anshan	16
6	Anqing Branch	No. 528, Renmin Road, Anqing	15
7	Bengbu Branch	No. 1018, Huaihe Road, Bengbu	18
8	Huaibei Branch	No. 282, Huaihai Road, Huaibei	13
9	Tonglin Branch	No.999, Yangjiashan Road, Tongling	6
10	Liuan Branch	Kaixuan International Square, Meishan Nan Road, Lu'	10
11	Huainan Branch	No. 39, Shungeng Xi Road, Huainan	11
12	Fuyang Branch	No. 666, Yidaohu Road, Fuyang	6
13	Huangshan Branch	No. 39, Huangshan Xi Road, Huangshan	1
14	Chizhou Branch	Fortune Plaza Changjiang Nan Road, Chizhou	3
15	Chuzhou Branch	No.286, North Fengle Road, Chuzhou	4
16	Suzhou Branch	No. 32, Huanghaizhong Road, Suzhou	3
17	Xuancheng Branch	No.1, West Aofeng Road, Xuancheng	3
18	Haozhou Sub-branch	No. 260, Shaohua Road, Bozhou	2
19	Chaohu Sub-branch	Building No. 9, East Tuanjie Road Community, Chaohu	1

REPORT OF THE BOARD OF DIRECTORS

2. Five Classification of Credit Asset

Classification	Unit: RMB 1,000			
	Beginning Balance		Ending Balance	
	Amount	Ratio (%)	Amount	Ratio (%)
Normal	111,460,360	95.24%	134,070,541	97.57%
Special Attention	4,876,481	4.17%	2,688,069	1.96%
NPL	697,117	0.60%	654,398	0.48%
Substandard	454,779	0.39%	477,906	0.35%
Doubtful	125,827	0.11%	100,742	0.07%
Loss	116,571	0.10%	75,751	0.06%
Total	117,034,018	100%	137,413,009	100.00%

3. Provision

Item	Unit: RMB 1,000		
	2011	2010	2009
Due from banks and other financial institutions	6,003	6,003	6,003
Placements with banks and other financial institutions, reverse repurchased agreements	48,081	48,503	48,503
Loans and advances to customers	3,490,126	2,975,575	2,433,724
Financial asset available for sale	4,939	6,563	6,563
Other receivables	81,568	131,511	166,989
Foreclosed assets	2,287	37,009	38,641

4. Top Five RMB Loan Industries

No.	Top Five	Unit: RMB 1,000	
		Loan Balance	Percentage in total loan (%)
1	Manufacture	31,512,125	22
2	Commerce and Services	23,455,046	17
3	Public Services	19,253,367	14
4	Construction	7,588,935	6
5	Real Estate	6,187,552	5

REPORT OF THE BOARD OF DIRECTORS

5. Ratio of Loans to Top 10 Clients

No.	Client	Unit: RMB 1,000	
		Loan Bal.	Percentage in Total Loan(%)
1	Anhui Investment Group	1,400,000.	1.00
2	Hefei Binhu New Area Construction Investment Corporation Limited	1,370,000	0.98
3	Wuhu Construction Investment Corporation Limited	1,175,000	0.84
4	Hefei Binhu New Area Construction Investment Holding Corporation Limited	1,052,000	0.75
5	HuaiBei Mining Holding Corporation Limited	1,019,870	0.73
6	Huainan Mining (Group) Corporation Limited	920,000	0.66
7	Heifei Jingdongfang Optoelectronic Technology Corporation Limited	899,180.	0.64
8	Hefei Xincheng State Assets Holding Corporation Limited	880,000	0.63
9	Anhui Highway Administration Bureau	700,000	0.50
10	Hefei Gaoxin Construction and Investment Group	690,000.	0.49
	Total	10,106,050	7.22

6. Monthly Average Balance and Average Interest Rate of Deposits and Loan

Classification	Average Balance	Unit: RMB 1,000
		Average Interest Rate (%)
Short, Mid and Long Term Loan	122,154,495.3	5.34
Corporate Deposits	138,958,415.7	1.29
Savings Deposits	36,921,621	2.04

REPORT OF THE BOARD OF DIRECTORS

7. Significant Government Bond as at End of Reporting Period

Bond Type	Annual Interest Rate	Nominal Amount (RMB 1,000)	Unit: RMB 1,000	
			Maturity Date	
2009 Local Government Bond	1.60%	300,000.00	2012.4.1	
2010 Local Government Bond	2.37%-3.70%	250,000.00	2013.8.10-2015.11.15	
2011 Local Government Bond	3.01%-4.30%	1,130,000.00	2014.7.12-2016.11.16	
2001 Treasury Bond	3.85%-4.69%	70,000.00	2016.6.6-2021.10.23	
2002 Treasury Bond	2.70%-2.90%	760,000.00	2012.3.18-2032.5.24	
2003 Treasury Bond	2.80%-4.18%	400,000.00	2013.4.9-2018.10.24	
2005 Treasury Bond	2.83%-3.65%	494,000.00	2012.5.25-2020.11.15	
2006 Treasury Bond	2.51%-2.89%	250,000.00	2013.2.27-2016.3.27	
2007 Treasury Bond	2.93%-4.49%	1,190,000.00	2014.2.6-2017.11.5	
2008 Treasury Bond	2.71%-4.41%	1,510,000.00	2013.4.21-2018.9.22	
2009 Treasury Bond	1.55%-3.48%	1,370,000.00	2012.5.21-2019.9.17	
2010 Treasury Bond	2.01%-3.83%	1,965,000.00	2012.1.28-2020.12.20	
2011 Treasury Bond	3.22%-3.99%	3,590,000.00	2012.9.15-2021.11.17	
2009 Savings Bond	3.73%-4.00%	260,248.60	2012.7.15-2014.7.15	
2010 Savings Bond	3.73%-4.60%	152,809.90	2013.4.10-2015.11.15	
Total		13,692,058.50		

8. Foreclosed Asset

Classification	Balance	Unit: RMB 1,000	
		Percentage in Total Foreclosed Asset (%)	
Real Estate	2,526	76.68	
Others	768	23.32	
Total	3,294	100	

9. Credit Granting to Group Customers and Risk Management

The Bank strictly adhered to the CBRC regulation concerning credit management for group customers, formulated the tentative measures for Unified Credit Granting to Corporate Clients of Huishang Bank. The Bank set up maximum credit granting limit based on its credit policy and the conditions of clients, in

REPORT OF THE BOARD OF DIRECTORS

order to carry integrated risk control and prevent excessive or repetitive credit granting. As at the end of 2011, the largest group client was Huaibei Mining (group) Holding Corporation Limited, which had a credit exposure of RMB 1.95 billion, 8.73% of the net capital.

10. Discount Loans Accounting for 20% or Above of Total Loans at the Year End

None during the reporting period.

11. Balance of Restructured Loans at the End of Year and Overdue Loans

There has been no restructure of loan during the reporting period. All of the outstanding amounts, RMB 1.47 million in total, in relation to previous existed restructured loan have be fully received, no overdue amount remaining.

12. NPL

As at reporting period end, total loan balance was RMB 137.41 billion and NPL was 54 million. The NPL ratio is 0.48%, which achieved 'both decline' of RMB 43 million and 0.12% compared to the end of last year.

During the reporting period, the Bank collected NPL of 155 million in cash by active collection, pledge disposition and litigation.

To improve the quality of assets and reduce NPL, the Bank adopted the following methods:

First, it strictly adhered to the risk management strategy to establish a prudent and rational risk appetite and achieved balanced growth and risk management of speed, quality and efficiency.

Second, it prudently implemented the national macroeconomic regulatory polices and actively joined the project which supported by state policies, accelerated the loan withdrawal of restricted industries and optimized the credit structure.

Third, the Bank implemented asset portfolio management by formulating industry credit quotas to sensitive industries, and managed the allocation of credit resources. The Bank also reduced concentration risks and pursuit a steady, sound and sustainable credit growth.

Fourth, the Bank adopted strict criteria on credit authorization to ensure credit resources are granted to credit-worthy customers.

Fifth, the Bank emphasized its credit management in major areas and key principles, with caution of NPL reoccurrence.

Sixth, the Bank implemented active supervision on credit movement, proactively cleared the risks and perfected risk control strategy to better support risk clearing activity and whistle blowing system.

REPORT OF THE BOARD OF DIRECTORS

Seventh, the Bank facilitated the risk management by further strengthened the NPL management, improved the efficiency in clearing NPL by exercising plans on clients respectively.

Eighth, the Bank strengthened its efforts to clear bad debts in a timely manner.

13. Overdue liabilities

During the reporting period, the Bank had no overdue debts.

(3) The Prospect

1. Future environment, Operation Guidance and Key Objective

Based on national 12th Five-Year Plan, the commercial banks are facing more complicated and volatile economic and financial situations and drastic changes to their business environment. First, the country is accelerating transformation of economic growth pattern and structural re-adjustment, and steadily pushing forward with reforms of interest rate liberalization and RMB exchange rate. Second, the country is building up a counter-cyclical macro-prudential supervision framework with a view to learn from up-to date international rules of strengthened banking regulation. Third, as the financial reform further progresses and the disintermediation grow, there will be more intense competition among banks.

In 2012, the world economy is facing significant challenges, the domestic economy is under pressure from inflation and down of growth. Substantial systematic risk still exists in the Banking sector. The Bank will respond to the guidance from the Central Economic Work Conference, the state government and the Banking regulation commission, exercising the scientific development strategy and accelerating transformation through structural adjustment, ongoing reform, team building and capacity upgrade to achieve overall strength and competitiveness and successfully accomplish business excellence as a leading domestic regional bank.

2012 objective of the Bank is to reach deposits of RMB 226.4 billion (excluding treasury deposit), increase RMB 27 billion and 12.8%; retail deposit balance to reach RMB 48.9 billion, increase RMB 7 billion and 15%; maintain the loan balance around RMB 155.4 billion, increase RMB 18 billion and 13%; manage the loan to deposit ratio to 68% or so; NPL ratio under 1%; achieving annual operation profit of RMB 5.998 billion, net profit of 4.26 billion; no major fraud and offense.

2. Major tasks in 2012

(i) Reinforce business expansion, accelerate development infrastructure

To further develop the deposits services, the Bank will focus on clients and source, discover new clients and potential of existing clients at the same time. Unlock new business area for steady growth of public

REPORT OF THE BOARD OF DIRECTORS

deposit, to develop systematic and group client. Improve the marketing capacity of treasury departments, social security and legal reserves of house acquisition. The Bank will actively seeking savings deposit by developing financial products, bank cards, agent services, and premier clients within local province, and strengthening the performance evaluation of SMEs, increasing SMEs and premier clients, driving steady growth of SMEs by leading the branches to develop normal settlements. It also needs to further strengthen private and public sector cooperation and marketing, to extend the product coverage over valid clients, realizing the settlement and flow of client capital to the greatest extend.

The Bank will accelerate the retail business with active marketing of 'easy loan', commercial vehicle loan and other individual loan etc, with focus on low risk, great potential credit products like individual operation loan and engineering machinery loan, thus facilitated integrated pricing capacity, steadily improve the percentage of individual loan in total amounts. It will also increase the financial services capacity by further development of personal financial products, sale process optimization, and push forward the development of trust management, continue to expand engaged business clients, preference clients, and increase card activation ratio and transaction amount by marketing of card payment, strengthening advertising of credit card and develop underlying clients.

The Bank will accelerate the development of small enterprises businesses; steadily push forward the small enterprises operation centre development, optimize the small enterprises business management structure and establish the workflow management and control system to improve the work efficiency, It further strengthen the 'little giant ', 'eyas' enterprises development, to optimize the small enterprises of 'smart 360' product system. It will introduce the professional micro-loan technology to achieve breakthrough; further intensify the loan grant capacity to micro-enterprises, especially for credit ceiling under RMB 5 million.

(ii) Strengthen the business structure and operation transformation structure

The Bank will promote its liability structure, continue to intensify and expand the deposit form superior mid/large clients and major projects, stabilize the market share of public deposit, with a decrease of influence from institutional clients deposit fluctuation to deposit stability; take further steps in developing advanced deposit clients, increase percentage in term deposit and savings deposit, and stability of liability. The Bank also strengthen the corporation between insurance, trust and financial institutions, focus on national treasury cash deposit, agreement deposit, impact from specific financial liability of micro-enterprises to replenish of liquidity and liability structure adjustment, encourage multiple liability sources by expanding steadily liquefied replenish access.

The Bank will optimize the credit structure and credit asset structure, control over expansion of risky asset, and ensure the coordination of total amount, proportion and structure, as well as rate, quality and efficiency, and strictly adhere to the focus on quality and profit, and continue to regulate the structure of credit business, client and maturity, with continue support of national credit policy and industry policy, insist 'assistance with control ', impose credit restriction on' industries fall behind. It will support development of substantial



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economy, SMEs with great potential in development and profitability, also increase percentage of personal loan investment in credit assets, with application of rational control over the volume of mid/long term loan to further optimizes the short term financing development and continue to regulate loan maturity structure.

The Bank will optimize and regulate revenue structure, encourage simultaneous development of traditional and emerging business, especially facilitate the development of intermediate business to formulate diversified and steady revenue structure. It will create and seize potential need from customers, expanding the market and business by developing major products including syndicated loan, investment banking, wealth management, forex, asset trusteeship, bank cards, Mobile phone banking, internet banking, entrust loans, short term commercial paper and capital entrust, to increase access to mid-level business and accelerate diversification of business income.

(iii) Enforce major risk control and risk management basics

To further strengthen the risk control and control of default risks by encourage the credit supervision over admittance, approval and subsequent management. Intensify risk indicator supervision and implement risk decentralize management by attention to underlying economic risk control, and restrain the loss from abnormal price fluctuation by enforcing the debenture and mortgage valuation. Take further steps in liquidity risk control management and over-grow of mid/long term loan. It will accelerate coordinated asset/liability development by enhancing deposit stability, further develop and to be proactive in risk management, act in a pertinent and effective way.

The Bank further intensifies the risk control in major area. Actively respond to macroeconomic changes and avoid systematic risks. It implements the loan policy and promoted the loan process management; further intensify the classification of platform credit and control its risks. Be alert to the mortgage risks, risks arise from transformation and upgrade of traditional and emerging industries, especially to risks arise from civil credit and social factors, with fire wall set up against risks.

The Bank strengthens its asset quality control by focus on rising NPL, pay attention to NPL reoccurrence. Intensify the risk control in platform, real estate, and credit grant; strictly adhere to the whistle blower policy, sustain excellent development of asset quality by further strengthen credit withdrawal and NPL disposal.

Optimize the risk supervision and evaluation system; take successive steps over the performance evaluation of risk management departments and operational institutions. Prudently exam and evaluate the adequacy and effectiveness of major risks control from various aspects, continuous to establish multi-level and comprehensive risk evaluation system.

(iv) Intensify management of Infrastructure and internal control implementation

Continue enforcement of liability management, optimize its structure and system, clarify the orientation and key issue, and improve its elaboration and logic. It intensifies the liability management and controls

REPORT OF THE BOARD OF DIRECTORS

its cost, to further improve the borrowing capacity, rationality and stability of the borrowing structure. Place intensified control over asset ratio, to ensure liquidity, safety and profitability of the asset. The Bank needs to prudently cohere the total amount, structure and term of asset and liabilities, and strengthens the capital and economic management by reinforces the management principle, comprehensively take into account the coherence between risks, profit and capital.

Continue to strengthen the internal control by implementing 'standardize borrowing behavior, to further streamline charge' and 'year of internal control intensification' theme activity. The Bank strictly adheres to policy and regulation to further establish effective management. Place the internal in priority and build up legible internal control management. Arrange and perfecting the regulation, process, risky points and risk control management, rectify and reform the internal control weakness, to establish and implement internal control evaluation standard and system. It enforces the supervision and scrutiny of major institution, position and procedure, with strict exercises over the control, implementation and regulation of operation management.

Take further steps to intensify the credit review. Strengthen the coordination between credit policy, macroeconomic, industry and regional policy; accelerate the credit flow to substantial economy. It strengthens the clients' credit in unity, and concentrated management of credit, continue to control credit ratio between the largest group client and individual client. It will optimize the credit authorization module, continue to accredit on credit differentiation, improve the micro enterprises authorization management and efficiency, to push forward the information construction of credit management, and thus promote the credit management capacity.

The Bank will continue to strength the internal audit, strictly adhere to the risk orientation and improve the audit work, implement specific audit work by emphasis areas including accounting management and operation, date backup and credit card transaction, to exercise audit work of economic responsibility and business institution, audit scrutiny over financing and data quality. It will facilitated the audit rectify and reform, improve the audit outcome by persistently track the audit process and results.

The Bank will also continue to enforce the case control management, be proactive in control activity, and intensify the training, awareness of incidence, safety management skills, formulate responsible and active prospects. Improve technical protection skills and safety project quality. Perfect and enhance the contingency reaction ability though proactive management and contingency drill, to take further steps in supervision of staff abnormal behavior and emphasis the achievement of 'yearly activity of internal control and defense policy ', and ensure the zero occurrence of critical incidents.

3. Analysis over potential risks in 2012

In 2012, the Bank will strictly adhere to the national macroeconomic regulatory, prioritise the scientific outlook on development and restructuring, followed the principle of "rationality, prudence and stability," and

REPORT OF THE BOARD OF DIRECTORS

to outlook 'scale, structure, rate, quality and benefit' as a whole, place balance among 'risks, capital and profit', with intensification of the overall risk management, highlight control over credit risks, market risks, operational risks and liquidity risks to sustain rapid development of the business.

(i) Credit risks.

In 2012, the Bank will pursue the latest trends and features of economic and financial situations, and allocate our credit resources based on the business development strategies and capital availability. We will optimize credit structure in regions, industries, timelines, products, and emphasis management of portfolios of short and mid-long term loans in an effort to promote coordinated development of assets and liabilities and prevent system risks.

First, further intensify analysis and research on macroeconomic. Based on the trends and key tasks of transformation of economic growth pattern and industrial structural adjustment, we will further exercise intensive analysis and research on green economy, low carbon economy and circular economy, to strengthen portfolio risk management and adapt credit policies in a timely manner, and ensure scientific implementation over credit facilities and credit structure are being optimized.

Second, enhance risk identification capacity. The Bank need to develop prudent evaluation on clients' credit ability, fully implement rating effect over credit admittance, credit authorization and risk management, exercising prompt regulate on credit policy and post-lending control pursuant to the rating alteration.

Third, further implement credit quotas management; enforce risk management in key areas. The Bank will optimize the credit quotas management, promoted the risk control in platform, real estate, credit grant to over productivity industry and 'shadow bank' business, increase risk supervision of group client and distance credit clients. It will investigate and clear risk evaluation regularly, intensify management over active withdrawal of credit, decrease risks in major areas, and accomplish systematic development of risk quotas management, to further improve the quotas management elaboration level.

Fourth, Implemented stress testing to major products, evaluated the loan quality and loss provision under extreme circumstances; to strengthen credit risk management by provide decision making evidence.

Fifth, intensify the portfolio risk management of retail asset. Based on the characteristic of different retail product, market change factors, risk measurement and research of optimal retail portfolio structure, to supervise and investigate the overall risks and maximize the benefit of risk adjustment.

Sixth, Implement thorough control management of off the balance sheet items, including notes and bank guarantee, to further regulate issuance of financial products by comply with Commercial Bank Financial Product Sale and Management Method, and prevent liquidity risk by attention to financial product and investment product structure, matching the terms accordingly.

Additionally, the Bank should put the post-lending management into practice, intensify the post-lending

REPORT OF THE BOARD OF DIRECTORS

portfolio management by enforce standard post-lending management, investigate and scan for migrating loan on a month basis, optimize the risk release steps and prevent NPL from reoccurrence.

(ii) Operational Risk Management

Confronting the complicated macroeconomic situation, all the branch, sub-branch and outlets strictly adhere to the risk management of primary responsible person. Endeavour to reduce frequent and low risk operations, stop rare and high risk operations, and strengthen daily supervision and investigation of operational risks. Promptly resolve the problems from internal/external investigation and operational risk report, exercise self-review on operational risk control conditions.

First, enforce the operational risk control in major area;

Second, beware of the abrupt risks by social turbulence;

Third, perfect the investigation and evaluation system of operational risks;

Forth, strengthen and implement the operational risk reporting mechanism;

Fifth, facilitated professional and integrity training to employees;

Sixth, improve operational risks management skills;

(iii) Market risk management.

In 2012, the Bank will further variation analysis of interest and foreign exchange rate, prevent the business risks and structure risks by evaluating interest and foreign exchange rate risks through sensitive analysis and long term analysis.

First, push forward the rectification of market risk operation process, to prudently arrange the vertical management relationship between risk management and business department, as well as inter-cross relationship between other departments, to establish the independent, centralized and vertical market management module.

Second, improve the technical level of market risk management, classify and analyze the risks based on bond type, credit rating etc, to achieve overall measurement of transaction account interest rate risks and bank account interest rate risks. Meanwhile, add the foreign exchange transactions in interest rate stress testing area, apply the result as evidence of the risk limit indicator, and improve the flexibility of limit control.

Third, strengthen supervision over capital investment risks, to reinforce the daily review of capital operation and operation risk supervision, and unveil the serious hidden risks and risky incidents in one aspect, and further intensify the trace and management of transaction account, reinforce effective market risk management according to the change of market environment from the other aspect.

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Fourth, optimize the capital transaction risk management system, to accomplish effective test over internal rate of return curve and upgrade capital transaction risk management system.

(iv) Liquidity risk management.

In 2012, the Bank mainly focuses on the liquidity management risks from changes in financial situations, and enhances the elaboration level of liquidity management.

First, maintain the coherent development of asset and liability transaction according to liquidity intensify loan ceiling and deposit to loan ratio management, to keep steady increase of credit scale, adhere to credit granting policy with support and control, to further streamline and strictly control granting rate and mid/long term loan ratio respectively. Meanwhile, Continue to innovate the credit product, unlock new areas of deposit growth point, facilitate the steadily growth of normal deposits, and intensify the inter-bank cooperation to diversify ways of steadily liquidity supply.

Second, intensify liquidity indicator management, further development of liquidity management test system, intensify average daily test of deposit and loan and liquidity ratio, supervise rate of liquidity inefficiency, further intensify the investigation and analysis of liquidity coverage ratio and net stabilized financing ratio, and improve management of liquidity risks.

Third, strengthen contingency management of liquidity, increase the liquidity stress test frequency and design the stress circumstance appropriately, optimize the stress testing system. The Bank strictly implements the contingency management according to the liquidity risk contingency plan, to ensure emergency management is in a timely and effective manner.

II. Insurance of subordinated bond

During the reporting period, the Bank issued 4 billion subordinated bonds in national bank bond market according to the authorization of CBRC Yinjianfu (2010) 649. The subordinate is with 15 years of term and at rate of 6.55%. All of the amounts are recorded into tier 2 capital.

III. Investing during the reporting period

Investment project	Unit: RMB 1,000		
	2011	2010	2009
China UnionPay	8,000	8,000	8,000
Clearing Center for City Commercial Banks	1,500	1,500	1,400
Cherry Huiyin Auto Financing Co., Ltd	100,000	100,000	100,000
Wuwei Huiyin Village Bank Company Limited	40,000	40,000	

REPORT OF THE BOARD OF DIRECTORS

IV. Daily Work of the Board of Directors

(I). Meetings of the Board of Directors and Resolutions Adopted

1. On April 16, 2011, the Second Board Meeting of the Sixth Board of Directors was held in Huangshan, Anhui. 23 proposal and reports was deliberated. Pertinent personnel from State government financial office, Anhui Finance Office, CBRC Anhui Bureau and several senior managers and supervisors of the Bank also attended the meeting. The meeting reviewed and adopted the following resolutions:

- (1) Report on Operation and Management of Huishang Bank in 2010;
- (2) Work Report of the Board of Directors of Huishang Bank in 2010;
- (3) 2010 final report of financial performance;
- (4) 2011 Integrated Operation Plan of Huishang Bank;
- (5) Proposed Scheme for Profit Distribution of Huishang Bank in 2010;
- (6) Proposal on Authorizing the Board of Directors to Change the Annual Comprehensive Operation;
- (7) Proposal on Reviewing " Huishang Bank Corporation Limited IPO Plan";
- (8) 2010 Annual Report of Huishang Bank
- (9) Proposed appointment external auditors for 2011;
- (10) Performance Evaluation Report of Directors and Independent Directors by the Board of Directors;
- (11) Authorization of Huishang Bank Corporation Limited
- (12) Proposed 'Huishang Bank Annuity Plan'
- (13) Proposed Convocation of the 2010 General Meeting of Shareholders
- (14) Proposed Authorization for Board of Directors to make decisions on external investment;
- (15) Proposed Share Purchase Scheme from Anhui Haitai Properties Investment Corporation Limited;
- (16) Proposed Share Purchase Scheme from Anhui Guoyuan Holding (Group) Corporation Limited;
- (17) Resignation of Zhang Youqi as a Director of Huishang Bank Corporation Limited;
- (18) Resignation of Zhang Youqi as a Secretary of Board of Directors of Huishang Bank Corporation Limited;
- (19) Resignation of Su Min from as a Director of Huishang Bank Corporation Limited;
- (20) Nomination of Ci Yaping as a Director on the Second Board of Directors of Huishang Bank Corporation Limited;

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(21) Nomination of Bai Taiping as a Director on the Second Board of Directors of Huishang Bank Corporation Limited;

(22) Appointment of Ci Yaping as a Deputy Director of Huishang Bank Corporation Limited;

(23) Appointment of Hu Dongdong as a Secretary of Board of Directors of Huishang Bank Corporation Limited;

The following resolutions were also approved after reviewing:

2010 Notice of Assessment of Directors and Senior Management by the Board of Directors;

2010 Notice of Implementation of Board of Director Proposals;

Notice of Implementation of 2009 Annual General Meeting Proposals;

2010 Work Summary of Related Party Transactions Management Department of the Board of Directors;

2010 Work Summary of HR Nomination and Remuneration Department of the Board of Directors;

2010 Work Summary of Strategy Development Committee of the Board of Directors;

2010 Work Summary of Risk Management Committee of the Board of Directors;

2010 Work Summary of Audit Committee of the Board of Directors;

2010 Notice of Related Party Transactions Management of Huishang Bank;

Report of 2010 Shareholding Management of Huishang Bank Corporation Limited;

2010 Audit Report;

2010 Audit Plan;

Opinion of Performance Evaluation of Independent Directors of Huishang Bank

2010 Supervision Opinion form CBRC and Rectify and Reform of Huishang Bank;

Proposed Changes of Shareholding of Shanghai Rongzhen Leasing Corporation Limited;

Proposed 2011 Huishang Bank Branches Expansion Scheme;

Proposed 2011 Risk Management and Risk Ceiling Management Scheme were passed by teleconference.

2. On July 3th, 2011, the 7th Board Meeting of the Second Board of Directors was held in Hefei, Anhui. Pertinent personnel from State government financial office, Anhui Finance Office, CBRC Anhui Bureau and several senior managers and supervisors of the Bank also attended the meeting. The meeting reviewed and adopted the following resolutions:

REPORT OF THE BOARD OF DIRECTORS

- (1) Proposal of RMB IPO Ordinary Shares;
- (2) Proposal of RMB IPO Ordinary Shares Funding Raising Feasibility Report;
- (3) Proposal of Authorisation of IPO Matters to Board of Director;
- (4) Proposal of Accumulated Profit Distribution of RMB Pre IPO Ordinary Shares;
- (5) Proposal of Huishang Bank Corporation Limited Capital Scheme;
- (6) Regulation of Huishang Bank Corporation Limited (Drafted Public Listing Rules)
- (7) Proposed Revision of 'General Meeting of Shareholder Regulation' Based on Regulation of Public Listed Companies;
- (8) Proposed Revision of 'Board of Directors Management Code of Conduct' Based on Regulation of Public Listed Companies;
- (9) Proposed Review of 'Huishang Bank President Regulation';
- (10) 2011 1st Half Year Operation Report of Huishang Bank;
- (11) Proposed review of 'Temporary Management Plan of Huishang Bank Subsidiaries';
- (12) Proposed review of 'Expansion of Huishang Bank Subsidiaries Scheme'
- (13) Proposed review of '2011 performance evaluation of Directors and Independent Directors Scheme';
- (14) Proposed review of 'Huishang Bank Compliance Regulation';
- (15) Proposed review of '2010 Huishang Bank Compliance Risk Management';
- (16) Proposal of Jinan Petrochemical Group Corporation Limited Bad debt Written-off;
- (17) Proposed review of Huishang Bank Internal Management Development Scheme;
- (18) Proposed review of Huishang Bank Risk Supervision and Management Evaluation System;
- (19) Proposal of 2011 1st Extraordinary General Meeting;
- (20) Proposal of Supplement Director Bai Taiping as the Commissioner Development Strategy Committee and Risk Management Committee for The Second Board of Directors;
- (21) Proposal of 2010 Net Settlement of Foreign Exchange Profit;
- (22) Report of Ordinary Financial Derivatives Transactions;
- (23) Proposed Authorisation to Deduct Transaction Balances of Southern Securities Corporation Limited by Senior Management;
- (24) Proposed shareholding changes of Xi'an International Trust Corporation Limited

REPORT OF THE BOARD OF DIRECTORS

The following proposals were passed and approved by teleconference:

Proposal of Huishang Bank Corporate Limited Share Trust Scheme

Proposal of Anhui Highway Corporation Limited Credit Guarantee Company Exchange Scheme

Proposal of Director Ci Yaping Initiate Related Party Transaction Control Committee

Proposal of Anhui Guoyuan Holding (Group) Corporation Limited Significant Related Party Transaction

The following reports were approved after reviewing:

- IPO Progress Report;
- Board of Directors Risk Management Committee Implementation of Minutes and Risk Warning Correspondence Report
- Risk Management Committee Credit Transfer Transaction Investigation Report
- Implementation of Anhui Bank Regulatory Commission No.[2011]8 Opinion Letter Report

3. On Sept 23rd, 2011, the 8th Board Meeting of Second Board of Directors was held in Hefei, Anhui. 24 proposal and reports was deliberated and pertinent personnel from State government financial office, Anhui Finance Office, CBRC Anhui Bureau and several senior managers and supervisors of the Bank also attended the meeting. The meeting reviewed and adopted the following resolutions:

- (1) Resignation of Du Changli from as a Director of Huishang Bank Corporation Limited;
- (2) Nomination of Zhang Shenghuai as an Independent Director on the Second Board of Directors of Huishang Bank Corporation Limited;
- (3) Nomination of Wen Jinghui as a Director on the Second Board of Directors of Huishang Bank Corporation Limited;
- (4) Nomination of Wang Shihao as a Director on the Second Board of Directors of Huishang Bank Corporation Limited;
- (5) Proposal of Adjustment of the Second Board of Directors Special Committee Composition
- (6) Appointment of Hu Dongdong as a president assistant of Huishang Bank Corporation Limited;
- (7) Appointment of Yan Dongshun as a president assistant of Huishang Bank Corporation Limited;
- (8) Appointment of Xiao Ming as a Chief Financial Officer of Huishang Bank Corporation Limited;
- (9) Appointment of Liu Mingwei as a Chief Executive Officer of Huishang Bank Corporation Limited;
- (10) Proposal of Investigation of Significant Related Party Transaction of Anhui Xingtai Pawnbroking Corporation Limited;

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- (11) Proposal of Related Party Transaction Management of Huishang Bank Corporation Limited;
- (12) Proposal of Information Disclosure Management of Huishang Bank Corporation Limited;
- (13) Proposal of Fund Raising Management of Huishang Bank Corporation Limited;
- (14) Proposal of Investor Relationship Management of Huishang Bank Corporation Limited;
- (15) Proposal of Independent Director Code of Conduct of Huishang Bank Corporation Limited;
- (16) Proposal of Secretary of Board of Directors Code of Conduct of Huishang Bank Corporation Limited;
- (17) Proposal of Suspended Shareholder's Account Management;
- (18) Proposal of Shares Purchase from Anhui Province Energy Group Corporation Limited;
- (19) Proposal of Shares Purchase from Erdos Xinhua Silicon Metal Corporation Limited;
- (20) Proposal of Shares Purchase from Suzhou Shangcheng Property Management Corporation Limited;
- (21) Proposal of Shares Purchase from Xiuning Xinhua Guarantee Corporation Limited;
- (22) Proposal of Huishang Bank Corporation Limited Financial Statement Internal Control Validity Certification as at June 30, 2011;
- (23) Proposal of the Second Extraordinary General Meeting in 2011;
- (24) Proposal of Establishment of Huishang Bank Corporation Limited Banking Division;

Huishang Bank Corporation Limited had passed and approved the following financial statements and reports from 2008, 2009, 2010 and the period ended June 30, 2011 by teleconference:

- Financial Statement
- Specialized Report of Major Tax Duty
- Specialized Report of Nonrecurring Items
- Specialized Report of Comparison between Original Financial Statements and IPO Filing Financial Statements
- Specialized Report on Return on Net assets and Earnings per Share

4. On December 24th, 2012, the 9th Board Meeting of Second Board of Directors was held in Hefei, Anhui. 12 proposal and reports was deliberated and pertinent personnel from State government financial office, Anhui Finance Office, CBRC Anhui Bureau and several senior managers and supervisors of the Bank also attended the meeting. The meeting reviewed and adopted the following resolutions:

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- (1) Huishang Bank Corporation Limited Operation during January and October 2011 Report;
- (2) Proposed Authorization to Senior Managements of Huishang Bank Corporation Limited Trade Mark Registration;
- (3) Alteration of President Authorization by the Board of Directors Report;
- (4) Proposed Issuance of Macro Enterprises Special Financial Debts;
- (5) Proposed Discussion of Huishang Bank Corporation Limited New Investigation Standard;
- (6) Proposed Disposition of Historical External Investment;
- (7) Proposed written off of Bad Debts for Zhejiang Hualun Communication (Group) Corporation Limited and Zhejiang Dadi Paper (Group) Corporate Limited;
- (8) Proposed Disposal of NPL for Hainan Jinhaian Investment Corporation Limited Debt Equity and Hefei Financial Securities Company;
- (9) Proposed Significant Related Party Transaction of Anhui Highway Corporation Limited;
- (10) Proposed Significant Related Party Transaction of Anhui Province Energy Group Corporation Limited
- (11) Proposed Alteration of Shareholding of Sinopec Financial Corporation Limited;
- (12) Appointment of Ren Xiaming as a president assistant of Huishang Bank Corporation Limited

The following reports were approved after reviewing:

- IPO Application of Huishang Bank Corporation Limited Report;
- Huishang Bank Corporation Limited Liquidity Stress Testing Report;
- 2011 Board of Directors Risk Management Committee Related Risk Management Operation Investigation Report;

(II). Implementation of General Meeting Decision by the Board of Directors.

- (1) 2011 Huishang Bank Corporation Limited Budget Report' was passed and approved in 2010 General Meeting, the Bank enhanced its performance in financial budgeting.
- (2) Proposed Engagement of External Audit institution in 2011' was passed and approved in 2010 General Meeting', the Bank continue engaging PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company for 2011 auditor.
- (3) Proposal of 2010 Huishang Bank Corporation Limited Profit Distribution' was passed and approved in 2010 General Meeting', and successfully accomplished.

REPORT OF THE BOARD OF DIRECTORS

- (4) Proposed Resignation of independent director and nomination of director and independent director was passed and approved in 2010 General Meeting and 2011 second Extraordinary General Meeting, and the newly appointed management served their position.
- (5) Huishang Bank Corporation Limited IPO Plan was passed and approved in 2010 General Meeting, 'Proposal of Accumulated Profit Distribution of RMB Pre-IPO Ordinary Shares' was passed and approved by the first Extraordinary General Meeting in 2011. The IPO is officially launched.
- (6) Huishang Bank Corporation Limited Pension Scheme was passed and approved by the 2010 annual general meeting. The plan is implemented.

V. Proposed Distribution of Company Profit or Capitalizing of Pension.

Please refer to the proposal passed by the general meeting.



HUIZHANG BANK CORPORATION LIMITED

ANNUAL REPORT 2011

Report of the Board of Supervisors



REPORT OF THE BOARD OF SUPERVISORS

I. 2011 Work Review

(i) Meetings

1. On 9 April 2011, the sixth meeting of the Second Board of Supervisors of Huishang Bank was held at Hefei. 7 of the 9 Supervisors who were required to attend were present at the meeting, compliant with regulatory requirement. The meeting was chair by Zhang Zhen, the chairman of the Board of Supervisors. The following resolutions were passed after deliberations:

- (1) 2010 work report of the Board of Supervisors
- (2) 2010 supervision opinions and feedback by the Board of Supervisors
- (3) Performance evaluation of the Board of Directors and Directors
- (4) 2010 performance evaluation of the senior management and its members
- (5) 2010 performance evaluation of the Supervisors, including external supervisors
- (6) 2010 performance evaluation report on Zhang Zhen as the chairman of Board of Supervisors
- (7) Temporary measures arisen from visits to subsidiaries of the Bank and external investments
- (8) 2010 annual report of Huishang Bank Corporation Limited
- (9) 2010 financial accounts of Huishang Bank Corporation Limited
- (10) 2010 work report on operational management
- (11) Proposed 2010 profit distribution scheme
- (12) 2011 comprehensive operational plan

During the meeting, the Board of Supervisors also reviewed "2010 work report of the Board of Directors", "Report on implementations of resolutions approved by General Meeting of Shareholders in 2009", "Report on implementation of resolutions approved by the Board of Directors in 2010", "Report on management of significant related party transactions in 2010", "2010 performance evaluation of executive directors and senior management by the Board of Directors", "2010 performance evaluation of Directors, including independent Directors by the Board of Directors", "Implementation of recommendations made to the Bank by supervising agencies", "2010 work report of the Board of Supervisors Supervisory Committee and 2011 work plan", "2010 work report of the Board of Supervisors Nomination Committee and 2011 work plan".

2. On 31 July 2011, the seventh meeting of the Second Board of Supervisors of Huishang Bank was held at Hefei. All 8 supervisors who were required to attend were present at the meeting, compliant with regulatory requirement. The meeting was chair by Zhang Zhen, the chairman of the Board of Supervisors. The following resolutions and reports were approved after deliberations:

REPORT OF THE BOARD OF SUPERVISORS

- (1) Proposed changes to Rules and Procedures of the Board of Supervisors in accordance with listing requirements
- (2) Proposal arisen from investigation of entrusted loan product development since the establishment of the Bank
- (3) 2011 Interim report on operational results
- (4) Proposed 2011 Huishang Bank Board of Supervisors performance plan

During the meeting, the Board of Supervisors also reviewed and approved "Progress report on initial public offering application", "Implementation of corrective measures arisen from 'Investigation on project development and financial management of Huishang Bank since establishment' ", "Implementation of 2011-8 notice of recommendation issued by Anhui Bank Regulatory Commission".

3. On 23 September 2011, the eighth meeting of the Second Board of Supervisors of Huishang Bank was held at Hefei. 6 of the 8 supervisors who were required to attend were present at the meeting, compliant with regulatory requirement. The meeting was chair by Zhang Zhen, the chairman of the Board of Supervisors. The following resolutions were approved after deliberations:

- (1) Proposed nomination of Fang Xiao as a Supervisor candidate for the Second Board of Supervisors
- (2) Proposed appointment of Xu Chongding as additional committee member on the Nomination Committee
- (3) Report on Wuwei Huiyin Village Bank

During the meeting, the Board of Supervisors also reviewed proposals from eighth meeting of the Second Board of Directors.

4. On 23 December 2011, the ninth meeting of the Second Board of Supervisors of Huishang Bank was held at Hefei. 7 of the 9 supervisors who were required to attend were present at the meeting, compliant with regulatory requirement. The meeting was chair by Zhang Zhen, the chairman of the Board of Supervisors. The following resolutions were approved after deliberations:

- (1) Investigation report on the entrusted loan products by the Board of Supervisors
- (2) Proposed work plan for 2011 performance evaluation of Board of Directors and all Directors, senior management and its members and all Supervisors.

During the meeting, the Board of Supervisors also reviewed "Report on operation results from January 2011 to October 2011", "Progress report on initial public offering application", "the Board of Supervisors 2011 work summary and 2012 work plan (draft)", and all proposals from ninth meeting of the Second Board of Directors.

REPORT OF THE BOARD OF SUPERVISORS

(ii) Attendance at the General Meeting of Shareholders

On 10 May 2011, Chairman Zhang Zhen and Supervisor Xu Chongding, Fan Xiaohui attended 2010 Annual General Meeting of shareholders. During the meeting, Chairman Zhang delivered the 2010 work report of the Board of Supervisors to the shareholders. As the Chief overseer, Chairman Zhang Zhen supervised the meeting and voting proceedings.

On 19 August 2011, Supervisor Xu Chongding attended 2011 First Extraordinary General Meeting of shareholders. As the chief overseer, Supervisor Xu Chongding supervised the meeting and voting proceedings.

On 12 October 2011, Chairman Zhang Zhen and Supervisor Xu Chongding attended 2011 Second Extraordinary General Meeting of shareholders. As the Chief overseer, Chairman Zhang Zhen supervised the meeting and voting proceedings.

(iii) Supervision of performance of the Board of Directors and senior management in accordance with relevant law and regulations

1. Attendance at meetings of the Board of Directors and special committee meetings.

In 2011, the Board of Supervisors attended the sixth to ninth meetings of the Second Board of Directors, first to fifth meetings of the Board of Directors Risk Management Committee. At the meeting, the Board of Supervisors supervised the decision making, deliberation procedures and performance of duty by the Directors.

2. Attendance at Senior Management meetings.

In 2011, the Board of Supervisors attended over 20 senior management meetings held by the President of the Bank. The Board of Supervisors also attended meetings of asset and liability management committee, risk management committee and internal control committee.

3. Annual performance evaluation of the Board of Directors and Directors, Senior Management and its members and Supervisors

In 2010, the Board of Supervisors held interviews with shareholder representatives, branch managers and head office department's managers, sought out comments from members of senior management, and obtained feedbacks on the work of the Board of Directors, the senior management and the Supervisors. Based on the findings from these meetings and daily observations, the Board of Supervisors formulated "2010 Supervision Opinions and Feedback by the Board of Supervisors. After deliberations at the sixth meeting of the Second Board of Supervisors, the feedback was provided to the Board of Directors and senior management.

REPORT OF THE BOARD OF SUPERVISORS

4. Facilitated Directors, Supervisors and Senior Management Diligence and Integrity record management

In accordance with "Huishang Bank Directors Diligence and Integrity Record Management Policies" "Huishang Bank Supervisors Diligence and Integrity Record Management Policies" and Huishang Bank Senior Management Diligence and Integrity Record Management Policies", in 2011 the Board of Supervisors updated the existing records based on changes of Directors, Supervisors and Senior Management personnel.

5. Established policies and procedures regarding offsite visit to external investments.

In 2011, the Board of Supervisors introduced policies and procedures regarding offsite visits of subsidiaries and external investments, strengthened the supervisory control over external investments. During the year, the Board completed offsite visits to all external investments, including a visit to Chery Huiyin Auto Finance Company in June, and a visit to Wuwei Huiyin Village bank in August. Subsequent to the visit, the Board compiled a special report and presented the report to the Board of Directors and Senior Management for review.

6. Investigation and review of critical business areas

In 2011, the Board of Supervisors initiated a special scrutiny of entrusted loan since the establishment of the Bank. The investigation enabled the Board of Supervisors to systematically and comprehensive understand the development of entrusted loan business within the Bank, and status of compliance with relevant law and regulations, policies and procedures. Based on past achievement and experience, the Board of Supervisors were able identify process weaknesses and make recommendations on future improvements. The Board of Supervisors proactively reported the results to the Board of Directors and senior management.

II. Independent Opinions of the Board of Supervisors

1. Legally compliant operation

In 2011, the Bank fully complied with relevant laws and regulations, and adopted a balanced approach to manage scale, growth, structure, quality and profit. Both risk management capability and performances had significant improvement since the Bank restructured the operation. The Board of Director's decision making process meets the industry standard and requirements of laws and regulations. The senior management strictly adhered to the Bank's procedures and relevant laws and regulations when managing the business of the Bank. We are not aware any significant breaches of the law and regulation or any act committed that is detrimental to the interest of shareholders.

2. Financial statement is true and fair

2011 financial statements of the Bank accurately, completely and objectively reflected the status of the

REPORT OF THE BOARD OF SUPERVISORS

Bank's financial operations and results. It has been audited by PwC and PwC issued clean audit report.

3. Related Party Transactions

In 2011, related party transactions mostly relates to loan lending practices. For ordinary related party transactions, the transactions are reported by the senior management to the Board of Directors Related Party Transaction control committee for reference. For significant related party transactions, the transactions are reported by the senior management to the Board of Directors Related Party Transaction control committee for review, and require approval from the Board of Directors. No related party transactions from last year were found to have adverse effect on the interests of shareholders and the Bank.

4. Development of Internal Control System

In 2011, the Bank continued to improve risk management and facilitate internal controls across all areas. The Bank introduced a risk supervision and evaluation system, further strengthening the functionality of the risk management system. The Board was able to sustain the quality of the asset and continue to lower non-performing loans for the sixth straight year, achieving "both decrease". This raised the Bank's risk management capability and assisted formation of an appropriate risk culture.

5. Credit Risk Management

In 2011, the Bank continued to improve credit risk management. The Bank strengthened controls over quality of assets, installed additional safeguards to limit and prevent any increase on non-performing loans, refined portfolio risk management and accelerated credit products restructure process. Additional emphasis was placed over risk identification and supervision. The Bank carry out credit risk review consecutively, facilitated credit limit controls, and periodically performed stress test. This further increased management's credit risk management capability.

6. Operational Risk management

In 2011, the Bank intensified the effects on operational risk management and employee training programs. The Bank increased the risk reporting coverage, continued to implement operational risk identification and supervision system and installed operational risk prevention measures in key business areas. Effort over operational risk management will be continued in the future.

7. Market Risk Management

In 2011, the Bank focused on design and implementation of market risk management framework and relevant policies and procedures. The Bank improved mechanism of daily supervision and management of market risk. Progress were made on preparation of Value at Risk (VaR) model deployment, VaR will be the basis of future market risk management system. Equipped with multiple analysis tools, the Bank increased its risk measured and management capability.



REPORT OF THE BOARD OF SUPERVISORS

8. Liquidity Risk Management

In 2011, the Bank positively reacted to the increase in requirement in relation to liquidity risk, updated the policies and procedures, and refined management process to meet the requirement of regulatory commission. The Bank also performed liquidity stress test, and established additional liquidity dynamic management mechanisms and improved liquidity management framework throughout the Bank. All liquidity ratios have full met the requirements of regulatory commission.

9. Litigation Risk Management

In 2011, the litigation risk controls operated smoothly. There were no litigations or penalties imposed by the regulatory commissions, arisen from breaches or negligence of the laws and regulations. There was no financial loss or damages to reputation.

10. Reputational Risk Management

In accordance with the regulatory requirements and risk management policies, the Bank introduced "Huishang Bank Significant Event Reporting Policies and Procedures", developed new methodology and optimized reputational risk management controls and system. During the year there was no significant event that affected the reputation of the the Bank.

11. Compliance Risk Management

The Bank has consistently pushed for a "compliance first" corporate culture. The Bank strongly endorsed the "compliance operation" principle and actively promoted awareness of compliance. The compliance culture is deeply embedded in the work environment. It formulates the foundation for our corporate culture of "Honest, Righteous, Law Biding and Compliant".

12. Information Technology Risk Management

The Bank adopted a comprehensive information technologies safety policies and procedures. Majority of the safety measures have been formalized and implemented. Relevant documentations are also available. Operation is compliant with information securities measures.



HUSHANG BANK CORPORATION LIMITED

ANNUAL REPORT 2011

【 Significant Events 】



SIGNIFICANT EVENTS

I. Significant Litigations and Arbitration

(1) The Bank as Plaintiff

During the reporting period, the Bank acted as the plaintiff in 509 loan related litigations and claims, total claimed amount is RMB 319 million. During the period, the Bank recovered RMB 61 million from settlement of non-performing loan.

In 2011, the top 10 cases with the Bank as the plaintiff are shown in the table below:

Unit: RMB 10,000						
No	Borrower	Means of Guarantee	Borrowing Date	Due Date	Principal Balance (as at 31 December 2011)	Case Update
1	Eastern Ship Construction Co Ltd	Mortgage and Guarantee	2010.04.30	2011.10.29	14825.58	Application made to Court for asset preservation. The proceeding has begun, judgement pending.
2	Committee of Henqin Xin District, Zhuhai City	\	\	\	2066.00	First instance judgement favourable to the Bank
3	Anhui Ankai Car Manufacturing Co., Ltd.	Guarantee	2007.09.05	2010.09.05	2000.00	Application for execution of Guarantee
4	Henghao Group Co Ltd	Mortgage and Guarantee	2008.12.15	2009.03.15	1623.21	No progress on application for execution of guarantee. The Bank has initiated legal proceedings against the Guarantor, China Credit Guarantee Company
5	Huainan Zhongyu Co., Ltd	Mortgage	2007.06.25	2008.06.25	646.67	No update on application of execution.
6	Ma' Anshan Yingzhen Electronics Co., Ltd	Guarantee	2008.05.20	2009.05.20	641.72	No update on application of execution.
7	Anhui Litian Jinggong Steel Structure Co. Ltd	Guarantee	2008.10.29	2009.10.29	599.39	No update on application of execution.
8	Anqing Rongguang Glasses Group Co. Ltd	Guarante	2005.08.30	2006.08.29	595.02	The group declared bankruptcy. Awaiting distribution from clearing
9	Anhui Fuyang MeiLu Food Co.Ltd	Guarante	2005.10.27	2008.10.20	520.00	Applied for guarantee execution.
10	Anqing Sanli Industry Co., Ltd	Guarante	2001.03.02	2005.10.27	500.00	Applied for guarantee execution.
	Subtotal				24017.59	

SIGNIFICANT EVENTS

(2) The Bank as Defendant

During the period, the top 3 cases with the Bank named as the defended are shown in table below

During the period, the top 3 cases with the Bank named as the defended are shown in table below

No	Plaintiff	Cause of Dispute	Subject of the Actions	Trial Authority	Case Status
1	Anhui Anzhen Investment Co,	Dispute over shareholder status	2.2447 million ordinary shares	Intermediate People's Court of Hefei	Awaiting the opening of first trial
2	Jiangsu Hengkai Electronics Co. Ltd	Patent Infringement	1.7670 million	Higher People's Court of Anhui Province	Judgement of first instance and second instance in favour of the Bank. Awaiting the opening of trial at the Higher People's Court.
3	Anhui Elderly Workers in Finance Association	Dispute over Contract	0.9 million	Intermediate People's Court of Hefei	Judgement of first instance awarded 0.4 million principle and interests to the plaintiff. The Bank appealed. Awaiting the opening of second trial.

II. Top 10 Shareholders and Their Status Changes During the Reporting Period

Please refer to "Changes in Equity and Shareholders" section of this report Report.

III. Increase or Reduction of Registered Capital, Division and Merger

During the reporting period, the Bank did not increase or reduce registered capital, or undertakes division or merger.

IV. Related Party Transactions

In relation to related party transactions, the Bank strictly adhered to relevant laws and regulations, internal policies and procedures, and observed integrity and fair dealing principle, carried out related party transactions at arm's length.

In 2011, the Bank implemented related party transactions policies and related party transactions quarterly reporting, utilized the related party transaction database, increased oversight on related party transaction approval and normal related party transactions documentation, and optimized management of related party transactions.

SIGNIFICANT EVENTS

(i) Significant Related Party Transactions

The Bank does not have any controlling shareholder. The related parties that hold more than 5% (including 5%) of the total shares are: Anhui Energy Group Co. Ltd, Anhui Credit Guarantee Group Ltd, Anhui Guoyuan Holding (Group) Co. Ltd, Anhui Highway Holdings Co. Ltd, Zhongjing Sihai Co. Ltd and Hefei Xingtai Holding Group Ltd.

As of the end of the reporting period, related party loans with the above parties and their subsidiaries are as follows

1. Anhui Energy Group Co. Ltd

Anhui Energy Group Co. Ltd holds 9.85% of the Bank's share. The company has no current credit facilities from the Bank. The subsidiaries of the Group that have credit facilities from the Bank are: Hefei Wanneng Power Generation Co. Ltd, Anhui Ma'anshan Wannengda Power Generation Co. Ltd, Tongling Wangneng Power Generation Co. Ltd and Linhuan Zhongli Power Generation Co. Ltd. The Bank deems these parties to be related parties and have been included them in the related party management.

Hefei Wanneng Power Generation Co. Ltd had three related party transactions, with a remaining balance of RMB 140 million, 5-category credit rating being Special Mention; Anhui Ma'anshan Wannengda Power Generation Co. Ltd had one related party transaction, with a remaining balance of RMB 50 million, 5-category credit rating being Special Mention; Linhuan Zhongli; Tongling Wangneng Power Generation Co. Ltd had two related party transactions, with a remaining balance of RMB 50 million, 5-category credit rating being Pass; Linhuan Zhongli Power Generation Co. Ltd had three related party transactions, 5-category credit rating being Pass. Compare to prior period, RMB 40.8569 million of the outstanding balance has been repaid. Additionally the Bank purchased 2 corporate bonds from Anhui Energy Group Co. Ltd, outstanding balance being RMB 50 million.

2. Anhui Credit Guarantee Group Ltd

Anhui Credit Guarantee Group Ltd holds 9.81% of the total shares. The entity has no current credit facility from the Bank. The original RMB 500 million loan was fully repaid in May.

3. Anhui Guoyuan Holding (Group) Co. Ltd

Anhui Guoyuan Holding (Group) Co.Ltd holds 8.32% of the shares. Both the parent Anhui Guoyuan Holding (Group) Co. Ltd and one of its subsidiaries Wuhu Guoxin Hotel have outstanding credit facilities from the Bank. The Bank deems both parties to be related parties and have been included them in the related party management.

Anhui Guoyuan Holding (Group) Co. Ltd had 1 related party transaction, with a remaining balance of RMB 20 million, 5-category credit rating being Pass; Wuhu Guoxin Hotel had 2 related party transactions, with a remaining balance RMB 16.32 million, 5-category credit rating being Pass.

SIGNIFICANT EVENTS

4. Anhui Highway Holdings Co. Ltd

Anhui Highway Holdings Co. Ltd holds 6.12% of the shares. Both the parent Anhui Highway Holdings Co. Ltd and one of its subsidiaries Anhui Highway Real Estate Co. Ltd have outstanding credit facilities from the Bank

Anhui Highway Holdings Co. Ltd had 2 related party transactions, with a remaining balance of RMB 40 million, 5-category credit rating being Pass. Anhui Highway Real Estate Co. Ltd had 1 related party transaction, with a remaining balance of RMB 50 million, 5-category credit rating being Pass.

5. Hefei Xingtai Holding Group Ltd

Hefei Xingtai Holding Group Ltd holds 4.44% of the shares. A related party of the entity Jianxin Trust Co. Ltd holds 2.78% of the Bank's shares. From a conservative perspective, we considered any transactions between us and Hefei Xingtai Holding Group Ltd or its related party entity to be significant related party transactions. Within the group, the parent entity Hefei Xingtai Holding Group Ltd and 2 of its related parties, Anhui Xingtai Rental Co. Ltd and Hefei Xingtai Equity Investment Co. Ltd have outstanding credit facilities from the Bank.

Hefei Xingtai Holding Group Ltd had 2 related part transactions, with a remaining balance of RMB 200 million. Anhui Xingtai Rental Co. Ltd had 2 related party transactions, with a remaining balance of RMB 100 million. Hefei Xingtai Equity Investment Co. Ltd had 1 related party transaction, with a remaining balance of RMB 48.7169 million. All above transactions have a 5-category credit rating of Pass.

6. Zhongjing Sihai Co. Ltd

Zhongjing Sihai Co. Ltd holds 5.44% of the shares. The entity and its related parties had no credit facility transactions with us in 2011.

All transactions with above mentioned entities after they became a related party of the Bank are at arm's length and approved by both Loan Review Committee at the head office and Related Party Transactions Control Committee of the Board of Directors.

SIGNIFICANT EVENTS

Please refer to below for a detailed listing of the significant related party transactions.

Name of the related party	Name of the party receiving credit facility	Nature of the Transaction	Credit Facility Category	Transaction Amount (RMB 10,000)	Means of Guarantee	Date of Issue	Date of Closure
Anhui Energy Group Co. Ltd	Hefei Wanneng Power Generation Co. Ltd	Significant Related Party Transactions	Working Capital Loan	3000	Mortgage	2011-1-26	
	Tongling Wangneng Power Generation Co. Ltd	Significant Related Party Transactions	Working Capital Loan	2,000	Mortgage	2011-1-28	
	Anhui Ma'anshan Wannengda Power Generation Co. Ltd	Significant Related Party Transactions	Working Capital Loan	5,000	Guarantee	2011-1-4	2011-9-1
	Anhui Ma'anshan Wannengda Power Generation Co. Ltd	Significant Related Party Transactions	Working Capital Loan	5,000	Guarantee	2011-1-4	
	Anhui Power Generation Materials Co. Ltd	Significant Related Party Transactions	Discount Loan against Bank Accepted Bill of Exchange	600	Collateral	2011-5-9	2011-5-20
	Anhui Power Generation Materials Co. Ltd	Significant Related Party Transactions	Discount Loan against Bank Accepted Bill of Exchange	400	Collateral	2011-5-30	2011-6-22
	Anhui Power Generation Materials Co. Ltd	Significant Related Party Transactions	Discount Loan against Bank Accepted Bill of Exchange	500	Collateral	2011-8-17	2011-08-31
Anhui Guoyuan Holding (Group) Co.Ltd	Anhui Guoyuan Holding (Group) Co.Ltd	Significant Related Party Transactions	Working Capital Loan	20,000	Collateral	2011-9-30	
	Wuhu Guoxin Hotel	Significant Related Party Transactions	Working Capital Loan	1,600	Guarantee	2011-8-11	
	Wuhu Guoxin Hotel	Significant Related Party Transactions	Discount Loan against Bank Accepted Bill of Exchange	23	Collateral	2011-12-29	

SIGNIFICANT EVENTS

Name of the related party	Name of the party receiving credit facility	Nature of the Transaction	Credit Facility Category	Transaction Amount (RMB 10,000)	Means of Guarantee	Date of Issue	Date of Closure
Anhui Highway Holdings Co. Ltd	Anhui Highway Holdings Co. Ltd	Significant Related Party Transactions	Project Funding	5,000	Guarantee	2011-8-31	
Hefei Xingtai Holding Group Ltd	Hefei Xingtai Holding Group Ltd	Significant Related Party Transactions	Working Capital Loan	10,000	Guarantee	2011-1-13	
	Hefei Xingtai Holding Group Ltd	Significant Related Party Transactions	Working Capital Loan	10,000	Guarantee	2011-5-9	

(ii) Other related party loan information

At end of the reporting period, the Directors, Supervisors, senior management and their related persons do not directly, or indirectly control or have significant influence over related parties.

(iii) Ordinary related party transactions

At end of reporting period, the Bank entered into 287 related party transactions with related nature persons, amount to RMB 69.3255 million (90 transactions were completed in 2011, amount to \$32.984 million). Lending procedures are in accordance with policies and procedures, including the documentation requirement on all ordinary related party transactions. The loans were mostly for personal consumption, such as for house and automobiles. The loans 5 categories credit ratings are all Pass.

V. Material Custody, Sub-contracts and Leases

During the reporting period, the Bank did not transact, take custody of, sub-contract or lease any material business assets from other companies that are outside the normal course of business, or allow its material business assets to be subject to such arrangements.

VI. Material Guarantees

All guarantees provided by the Bank are within normal course of business. During the reporting period, with the exception of transactions within the scope of guarantee business as approved by PBOC and CBRC, there are no other significant guarantees that requires disclosure.

VII. Significant Contracts and Their Performance

During the reporting period, all litigations and claims in relation to materials contracts have been disclosed under Significant Litigations and Arbitrations section. There are no other disputes over material contracts.



SIGNIFICANT EVENTS

VIII. Appointment and Discharge of Accounting Firm

The Bank appointed PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company as its auditor for financial statements prepared in accordance with China Accounting Standards.

HUSHANG BANK CORPORATION LIMITED

ANNUAL REPORT 2011

Financial Statements and
Documents for Reference





FINANCIAL STATEMENTS AND DOCUMENTS FOR REFERENCE

I. Financial Statements

II. Documents for reference

1. Financial statements endorsed with the signatures and stamps of the legal representatives and the finance manager of the Bank;
2. Original auditor reports endorsed with the stamp of the accounting firm and the signatures and stamps of the certified public accountants;
3. Original Annual Report endorsed with the signature and stamp of the Chairman of the Board of Directors of the Bank;
4. Original copies of the documents and announcements released by the Bank within the reporting period;
5. "Articles of Association of Huishang Bank Corporation Limited".

HUSHANG BANK CORPORATION LIMITED

ANNUAL REPORT 2011

【FINANCIAL STATEMENTS】



Auditor's Report

PwC ZT Shen Zi(2012)No.21704

To the Shareholders of Huishang Bank Co., LTD.

We have audited the accompanying financial statements of Huishang Bank Co., LTD. (hereinafter "Huishang Bank"), which comprise the balance sheets as at 31 December 2011, the income statement, the cash flow statement and the statement of changes in equity for the year then ended and the notes to the financial statements.

Management's Responsibility for the Financial Statements

Management of Huishang Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of Accounting Standards for Business Enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 China Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 and fair presentation 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 accompanying financial statements present fairly, in all material respects, the financial position of Huishang Bank as at 31 December 2011, and its financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises.

PricewaterhouseCoopers Zhong Tian
CPAs Limited Company



Shanghai, the People's
Republic of China, 18 March 2012

Certified Public
Accountant


ZHU Yu



Certified Public
Accountant


ZHANG Wu



FINANCIAL STATEMENTS

BALANCE SHEET AS AT 31 DECEMBER 2011 (Amount in thousands of Renminbi, unless otherwise stated)

BALANCE SHEET

ASSETS	Note	31 December 2011	31 December 2010
Cash and balances at central bank	VI .1	55,828,644	34,579,526
Due from banks and other financial institutions	VI .2	7,076,208	1,496,352
Placements with banks and other financial institutions	VI .3	3,581,172	1,237,152
Trading financial assets	VI .4	5,035,807	2,717,898
Reverse repurchase agreements	VI .5	5,317,376	10,542,884
Interests receivables	VI .6	1,043,979	796,087
Loans and advances to customers	VI .7	133,922,883	114,058,443
Available-for-sale financial assets	VI .8	18,356,903	20,865,630
Held-to-maturity investments	VI .9	20,604,548	13,190,678
Loans-and-receivables investments	VI .10	3,815,116	6,888,458
Long-term equity investments	VI .11	185,190	153,440
Property and equipment	VI .12	1,132,688	1,060,235
Construction in progress		53,401	90,235
Intangible assets		88,944	101,663
Deferred income tax assets	VI .13	751,470	681,674
Other assets	VI .14	187,227	515,793
Total Assets		256,981,556	208,976,148

FINANCIAL STATEMENTS

BALANCE SHEET AS AT 31 DECEMBER 2011 (Amount in thousands of Renminbi, unless otherwise stated)

BALANCE SHEET(Continued)

LIABILITIES	Note	31 December 2011	31 December 2010
Due to banks and other financial institutions	VI .16	9,323,486	9,822,442
Placements from banks and other financial institutions	VI .17	3,534,522	1,263,140
Repurchase agreements	VI .18	16,184,796	20,797,969
Due to customers	VI .19	203,579,704	159,582,006
Employee benefits	VI .20	1,177,612	1,076,156
Taxes payable	VI .21	404,877	532,773
Interest payable	VI .22	1,277,746	632,650
Bonds issued	VI .23	3,991,461	-
Other liabilities	VI .24	423,826	911,719
Total liabilities		239,898,030	194,618,855
EQUITY			
Share capital	VI .25	8,174,819	8,174,819
Capital surplus	VI .25	1,772,530	1,721,425
Surplus reserve	VI .26	1,308,399	688,903
General and regulatory reserves	VI .27	1,277,380	1,077,380
Undistributed profits	VI .28	4,550,398	2,694,766
Total equity		17,083,526	14,357,293
TOTAL EQUITY AND LIABILITIES		256,981,556	208,976,148

The accompanying notes form an integral part of the financial statements.

Chairman: Wang Xiaoxin

President: Wu Xuemin

Vice President in charge of Finance: Ci Yaping

General Manager of Finance Department: Xia Min

FINANCIAL STATEMENTS

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

(Amount in thousands of Renminbi, unless otherwise stated)

INCOME STATEMENT

	Note	2011	2010
Interest income	VI.29	9,367,334	6,823,385
Interest expense	VI.29	(4,163,893)	(2,239,411)
Net interest income		5,203,441	4,583,974
Fee and commission income	VI.30	461,172	294,024
Fee and commission expense	VI.30	(48,411)	(42,749)
Net fee and commission income		412,761	251,275
Net gain on investments	VI.31	1,949,614	1,414,323
Including: share of profit or loss of associates		31,750	13,440
Gains or losses on changes in fair value		34,499	(53,524)
Foreign exchange gains		17,448	21,463
Other operating income		78,394	38,613
Operating income		7,696,157	6,256,124
Tax and surcharges		(506,972)	(389,570)
Operating expenses	VI.32	(1,978,823)	(1,807,361)
Impairment losses on assets	VI.33	(578,853)	(578,375)
Other operating cost		(106,192)	(31,310)
Operating cost		(3,170,840)	(2,806,616)
Operating profit		4,525,317	3,449,508
Add: Non-operating income		92,909	58,683
Less: Non-operating expenses		(14,579)	(6,118)
Total Profit		4,603,647	3,502,073
Less: Income tax expense	VI.34	(1,111,037)	(799,720)
Net Profit		3,492,610	2,702,353
Other comprehensive income	VI.35	51,105	(336,814)
Comprehensive income		3,543,715	2,365,539

The accompanying notes form an integral part of the financial statements.

Chairman: Wang Xiaoxin

President: Wu Xuemin

Vice President in charge of Finance: Ci Yaping

General Manager of Finance Department: Xia Min

FINANCIAL STATEMENTS

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011
(All amounts expressed in thousands of RMB unless otherwise stated)

CASH FLOW STATEMENT

Item	Note	2011	2010
I Cash flows from operating activities:			
Net increase in due to customers		43,997,698	27,021,322
Net decrease in trading financial assets		-	54,973
Net decrease in placements with banks and other financial institutions	-	1,252,480	
Net increase in reverse repurchase agreements		-	13,759,939
Net increase in due to banks and other financial institutions		-	4,851,666
Net increase in placements from banks and other financial institutions		584,824	-
Net decrease in reverse repurchase agreements		5,225,508	-
Interest received		9,249,484	6,758,366
Fee and commission received		461,172	294,024
Cash inflow from other operating activities	101,460	88,330	
Cash from operating activities		59,620,146	54,081,100
Net increase in loans and advances to customers		(18,760,642)	(20,534,833)
Net increase in balances at central bank		(10,671,392)	(8,222,716)
Net increase in reverse repurchase agreements		-	(6,728,197)
Net decrease in placements from banks and other financial institutions	-	(1,224,798)	
Net decrease in due to banks and other financial institutions		(498,956)	-
Net increase in placements with banks and other financial institutions		(2,344,020)	-
Net increase in trading financial assets		(2,283,410)	-
Net decrease in repurchase agreements		(4,613,173)	-
Interests paid		(3,518,536)	(2,166,890)
Fee and commission paid		(48,411)	(42,749)
Employee benefits paid		(898,695)	(703,870)
Taxes paid		(1,832,735)	(1,242,525)
Cash outflow from other operating activities		(917,008)	(903,484)
Cash used in operating activities		(46,386,978)	(41,770,062)
Net cash from operating activities	VI.36	13,233,168	12,311,038

FINANCIAL STATEMENTS

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

(All amounts expressed in thousands of RMB unless otherwise stated)

CASH FLOW STATEMENT(Continued)

Item	Note	2011	2010
II Net cash flows from investing activities			
Cash received from investments		10,299,437	10,016,735
Proceeds from disposal of property and equipment and other long-term assets		104,525	45,727
Proceeds from sale and redemption of investments		1,772,037	1,363,796
Cash from investing activities		12,175,999	11,426,258
Purchases of financial investments		(12,199,377)	(21,234,340)
Purchase of property and equipment, and other long-term assets		(230,895)	(168,340)
Net cash used in investing activities		(12,430,272)	(21,402,680)
Net cash used in investing activities		(254,273)	(9,976,422)
III Net cash flows from financing activities			
Proceeds from issuance of subordinated bonds		3,991,200	-
Dividends paid		(812,513)	(926,622)
Net cash from/(used in) financing activities		3,178,687	(926,622)
IV Net increase in cash and cash equivalents		16,157,582	1,407,994
Add: Cash and cash equivalents at beginning of the year		12,676,225	11,268,231
V Cash and cash equivalents at end of the year	VI.36	28,833,807	12,676,225

The accompanying notes form an integral part of the financial statements.

Chairman: Wang Xiaoxin

President: Wu Xuemin

Vice President in charge of Finance: Ci Yaping

General Manager of Finance Department: Xia Min

FINANCIAL STATEMENTS

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011
(All amounts expressed in thousands of RMB unless otherwise stated)

STATEMENTS OF CHANGES IN EQUITY

Item	Share capita VI.25	Capital surplus VI.25	Surplus reserve VI.26	General and regulatory reserves VI.27	Undistributed profits VI.28	Total equity
Balance as at 1 January 2010	8,174,819	2,058,239	418,668	1,077,380	1,080,130	12,809,236
Profit for the year	-	-	-	-	2,702,353	2,702,353
Other comprehensive income	-	(336,814)	-	-	-	(336,814)
Profit Appropriation						
Dividends paid	-	-	-	-	(817,482)	(817,482)
Appropriation to general and regulatory surplus reserves	-	-	270,235	-	(270,235)	-
Balance as at 31 December 2010	8,174,819	1,721,425	688,903	1,077,380	2,694,766	14,357,293
Balance as at 1 January 2011	8,174,819	1,721,425	688,903	1,077,380	2,694,766	14,357,293
Profit for the year	-	-	-	-	3,492,610	3,492,610
Other comprehensive income	-	51,105	-	-	-	51,105
Profit Appropriation						
Dividends paid	-	-	-	-	(817,482)	(817,482)
Appropriation to statutory surplus reserves	-	-	349,261	-	(349,261)	-
Appropriation to discretionary surplus reserves	-	-	270,235	-	(270,235)	-
Appropriation to general and regulatory reserves	-	-	-	200,000	(200,000)	-
Balance as at 31 December 2011	8,174,819	1,772,530	1,308,399	1,277,380	4,550,398	17,083,526

The accompanying notes form an integral part of the financial statements.

Chairman: Wang Xiaoxin

President: Wu Xuemin

Vice President in charge of Finance: Ci Yaping

General Manager of Finance Department: Xia Min



NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011(Amount in thousands of Renminbi, unless otherwise stated)

I GENERAL INFORMATION AND PRINCIPAL ACTIVITIES

Huishang Bank Corporation Limited (the "Bank") is a joint stock limited financial institution registered with the Anhui Provincial Administration of Industry and Commerce, the People's Republic of China. The Bank was originally named as Hefei City Commercial Bank. Approved by China Banking Regulatory Commission Anhui Branch ("CBRC Anhui Branch"), the Bank renamed itself as Huishang Bank Corporation Limited on 30 November 2005. Approved by CBRC Anhui Branch, the Bank acquired five city commercial banks of Wuhu, Ma' anshan, Anqing, Huaibei and Bengbu and seven urban credit unions of Lu' an, Huainan, Tongling, Fuyang Technology, Xinying, Yinhe and Jinda on 31 December 2005 which were formerly incorporated in Anhui Province and began to operate in the name of Huishang Bank Corporation Limited on 1 January 2006. The Bank holds the financial institution licence B0162H234010001 from CBRC Anhui Branch and an updated legal entity business licence No. 340000000026144(1-1) from Anhui Provincial Administration of Industry and Commerce. The registered address of the Bank is No. 79, Anqing Road, Hefei, Anhui Province.

As at 31 December 2011, the registered capital of the Bank was 8.18 billion RMB. The top five shareholders with 5% or above of the Bank's ordinary shares are Anhui Energy Group Company Limited, Anhui Credit Guarantee Group Limited, Anhui Guoyuan Holding (Group) Company Limited, Anhui Highway Company, and Zhongjing Sihai Company Limited, representing 9.85%, 9.81%, 8.32%, 6.12% and 5.44% of the Bank's ordinary shares respectively. The Bank has no subsidiary or joint venture. For associated businesses, please refer to Note VI.11.

The Bank's main business scope covers: due to customer deposits; foreign currency customer deposits, foreign currency lending and remittance; exchange, settlement and sales of foreign currencies; international settlement; short, medium and long-term loans; domestic settlement; bill discounting; issuing financial bonds; agency service in the issuance, encashment and underwriting of government bonds; proprietary trading of government bonds; inter-bank placements and borrowings; provision of guarantee facilities; collection and payment; bancassurance; provision of safe box custodian services; provision of consignment loans of local fiscal revolving fund and other business approved by CBRC in accordance with relevant laws, administrative rules and regulations.

The financial statements were authorized for issue by the board of directors of the Bank on 18th March 2012.

II BASIS OF PREPARATION

The Bank adopted the Basic Standard and 38 specific standards of the *Accounting Standards for Business Enterprises* issued by the Ministry of Finance on 15 February 2006, and the *Application Guidance for Accounting Standards for Business Enterprises, Interpretations of Accounting Standards for Business*

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Enterprises and other relevant regulations issued thereafter (hereafter referred to as "the Accounting Standards for Business Enterprises" or "CAS").

III STATEMENT OF COMPLIANCE WITH THE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The financial statements of the Bank for the year ended 31 December 2011 were in compliance with the Accounting Standards for Business Enterprises, and truly and completely presented the financial position of the Bank as of 31 December 2011 and of its financial performance and cash flows for the year then ended.

IV SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

A Summary of significant accounting policies

1. Accounting year

The Bank's accounting year starts on 1 January and ends on 31 December.

2. Function currency

The function currency is Renminbi (RMB).

3. Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the applicable exchange rates prevailing at the balance sheet date. Exchange differences arising from the translation are recognized in the income statement. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates prevailing at the dates of the initial transactions.

4. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents comprise cash and assets with original maturities of three months or less from the date of acquisition including: due from banks and other financial institutions, placements with banks and other financial institutions and surplus reserve with the central bank.

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5. Financial instruments

Recognition and Derecognition of financial instruments

A financial asset or financial liability or equity instrument is recognised on trade-date, the date when the Bank becomes a party to the contractual provisions of the instrument.

Financial assets purchased and sold in the conventional way are recognized and de-recognized in accordance with trade date accounting. Financial assets purchased and sold in the conventional way are financial assets collected or delivered in accordance with contract terms within the period required by law or general practices. Trade date is the date on which the Bank commits to purchase or sell the asset.

Financial assets are derecognized when they satisfy such conditions: (1) when the rights to receive cash flows from the investments have expired; (2) when the Bank has transferred substantially all risks and rewards of ownership; (3) when the Bank neither transfers nor retains substantially all risks or rewards of ownership of the financial asset but has not retained control of the financial asset.

When a financial asset is de-recognized, the difference between its carrying amount and the sum of received consideration plus aggregate fair value movement in shareholders' equity shall be recorded in the item of profit and loss.

When the present liabilities are entirely or partially released, the financial liabilities will be de-recognized entirely or partially accordingly. The difference between the carrying amount of the de-recognized part and the payment consideration is recorded in the item of profit and loss

Classification and measurement

Financial assets are classified into the following categories at initial recognition: financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held-to-maturity investments. Financial Liabilities are classified into the following categories at initial recognition: financial liabilities at fair value through profit and loss and other financial liabilities. The classification of financial assets depends on the Bank's intention and ability to hold the financial assets.

Financial assets at fair value through profit or loss

These include financial assets that the entity either holds for trading purposes or upon initial recognition it designates as at fair value through profit or loss.

Financial assets are classified as held for trading if the entity acquired it for the purpose of selling it in the near future or on initial recognition 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 at fair value through profit or loss are initially recognised at fair value on the balance

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sheet. The related transaction costs incurred at the time of acquisition are recognised in profit or loss for the current period. They subsequently measured at fair value. Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognised in profit or loss. Interests and cash dividends received during the period in which such financial assets are held, as well as the gains or losses arising from disposal of these assets are recognised in profit or loss for the current period.

The bank did not hold any financial assets that initial recognition they designate as at fair value through profit or loss.

Loans and receivables

Loan and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets will be classified as loans and receivables when the Bank provides funds or services directly to customers and does not sell them intentionally. Loan and receivables are recognised initially at fair value and transaction costs that are attributable to the acquisition of the financial assets are also included in their initially recognised amounts. Loan and receivables are subsequently measured at amortised cost using effective interest method

Held-to-maturity Investments

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that management has the positive intention and ability to hold to maturity. Held-to-maturity investments are initially recognized at fair value plus related transaction costs at time of acquisition, and are measured subsequently at amortized cost using the effective interest method.

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.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories at initial recognition. 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 equity, until the financial assets are de-recognized or impaired at which time the cumulative gain or loss previously recognized in equity should be recognized in the income statement. Interest income of available-for-sale debt instrument calculated using effective interest method and dividend income declared are recognized in the income statement.



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Financial liabilities at fair value through profit or loss

These include financial liabilities that the entity either holds for trading purposes or upon initial recognition it designates as at fair value through profit or loss. Financial liabilities are classified as held for trading if the entity acquired it for the purpose of selling it in the near future or on initial recognition 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 liabilities at fair value through profit or loss are initially recognised at fair value on the balance sheet. The related transaction costs incurred at the time of acquisition are recognised in profit or loss for the current period. Financial liabilities at fair value through profit or loss are subsequently measured at fair value. Gains or losses arising from change in the fair value of financial liabilities at fair value through profit or loss are recognised in profit or loss.

The Bank did not hold any financial liabilities at fair value through profit or loss during this period.

Other financial liabilities

The fair value is the prices from recent arm's length market transactions between knowledgeable and willing parties. The Bank adopts current bid prices as fair value of financial instrument if there has active markets, as appropriate. Current bid prices are the prices that are readily and regularly available from an exchange, dealer, broker, industry group, or pricing service agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If there is no active market, the Bank establishes fair value by using valuation techniques.

Valuation techniques include the use of recent arm's length transactions, discounted cash flow models and option pricing models, and other valuation techniques commonly used by market participants. The Bank makes use of all factors that market participants would consider in setting a price, and incorporates these into its chosen valuation technique and tests for validity using prices from any observable current market transactions in the same instruments.

6. Impairment of financial assets

Financial assets measured at amortise 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 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 (a "loss event") 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. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

- (i) the borrower is in severe financial difficulty;

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- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (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 recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate and shall include the value of any relevant collateral. The carrying amount of the asset is reduced through the use of an impairment provision account and the amount of the loss is recognised in the income statement.

As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price. 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 assessment 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 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



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of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a financial asset is uncollectible, it is written off against the related allowance for impairment after all the necessary procedures have been completed. Subsequent recoveries of amounts previously written off are recognised 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 recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account and recognised in the income statement.

Available for sale financial assets

If objective evidence of impairment exists for available for sale financial assets, the cumulative loss recognised in "Fair value changes of available for sale securities" is reclassified from equity to the income statement and is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in the 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 recognised in the income statement, the impairment loss is reversed through the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised as other comprehensive income.

7. Reverse repurchase agreements and Repurchase agreements transactions

Assets purchased under agreements to resell at a specified future date ("reverse repos") are not recognised on the statement of financial position. The corresponding cash paid is recognised on the balance sheet as a "reverse repurchase agreement". Conversely, assets sold under agreements to repurchase at a specified future date ("repos") are not derecognised. The corresponding cash received is recognised on the balance sheet as a "repurchase agreement", reflecting its economic substance as a loan to the Group.

The difference between the purchase and resale prices is treated as an interest income and is accrued over the life of the agreement using the effective interest rate method.

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8. Offsetting of financial instruments

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

- (i) the Bank has a legally enforceable right to offset the recognized amounts
- (ii) the Bank has intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

9. Long-term equity investment

Long-term equity investment concerns the investment made by the Bank on its associated businesses. An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Bank has the power to exercise significant influence.

The Bank's investments in associates are accounted for under the equity method of accounting. Where the initial investment cost exceeds the Bank's share of the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially measured at cost. Where the initial investment cost is less than the Bank's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is included in profit or loss for the current period and the cost of the long-term equity investment is adjusted upwards accordingly.

Under the equity method of accounting, the Bank recognises the investment income according to its share of net profit or loss of the investee. The Bank discontinues recognising its share of net losses of an investee after the carrying amount of the long-term equity investment together with any long-term interests that, in substance, form part of the investor's net investment in the investee are reduced to zero. However, if the Bank has obligations for additional losses and the criteria with respect to recognition of provisions under the accounting standards on contingencies are satisfied, the Bank continues recognising the investment losses and the provisions. For changes in owners' equity of the investee other than those arising from its net profit or loss, the Bank records its proportionate share directly into capital surplus, provided that the Bank's proportion of shareholding in the investee remains unchanged. The carrying amount of the investment is reduced by the Bank's share of the profit distribution or cash dividends declared by an investee. The unrealised profits or losses arising from the intra-bank transactions amongst the Bank and its investees are eliminated in proportion to the Bank's equity interest in the investees, and then based on which the investment gain or losses are recognised. For the loss on the intra-bank transaction amongst the Bank and its investees attributable to asset impairment, any unrealised loss is not eliminated.

Where the carrying amount of a long-term entity investment is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (Note IV. (1)(15)).

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10. Property and equipment

The Bank's fixed assets are properties, office equipment and motor vehicles that are used for operation purpose and have useful lives of more than one year. Fixed assets purchased or constructed by the Bank are initially measured at cost at the time of acquisition. Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the associated economic benefits will flow to the Bank and the related cost can be reliably measured. The carrying amount of the replaced part is derecognised. All the other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. For the fixed assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives. The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates of fixed assets are as follows:

	Estimated useful lives	Estimated residual values	Annual depreciation rates
Buildings	20years	3%	4.85%
Motor vehicles	5years	3%	19.40%
Computer and electronic equipment	5-10years	3%	9.7%~19.40%

The estimated useful life, net residual value and the depreciation method applied to the asset are reviewed, and adjusted as appropriate by the Bank at each year-end.

A fixed asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current period. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (Note IV. (1)(15)).

11. Construction in progress

Construction in progress refers to assets being constructed or installed and is measured at the actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. Where the carrying amount of construction in progress is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (Note IV. (1)(15)).

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12. Intangible assets

Intangible assets mainly include land use rights and computer software, and are measured at cost. The land use rights are amortised using the straight-line basis over the period of the leases. If the acquisition costs of the land use rights and the buildings located thereon cannot be reasonably allocated between the land use rights and the buildings, all of the acquisition costs are recognised as fixed assets. Computer software are amortised on a straight-line basis over their estimated useful lives with the amortisation recognised in the income statement. For an intangible asset with a finite useful life, review of its useful life and amortisation method is performed at each year-end, with adjustment made as appropriate.

Where the carrying amount of intangible asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (Note IV. (1)(15)).

13. Long-term prepaid expenses

Long-term prepaid expenses include the expenditure for leasehold improvements, and other expenditures that have been incurred but should be recognised as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortised on the straight-line basis over the expected beneficial period and are presented at actual expenditure net of accumulated amortisation.

14. Foreclosed assets

Foreclosed assets are measured at the fair value on the date of acquisition and are recognized by the lower of the book value and the recoverable amount. The impairment allowance is accrued in accordance with the excess amount of carrying amount over net realizable value.

The difference between the amount obtained from the disposal of foreclosed assets (minus any corresponding fees incurred in the disposal process) and the net book value is recorded in non-operating income or expense. The impairment allowance is reversed.

15. Impairment of long-term assets

Fixed assets, construction in progress, intangible assets with finite useful lives, and investments in associates are tested for impairment if there is any indication that the assets may be impaired at the balance sheet date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset.

If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a



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group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows. Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

16. Employee benefits

Employee benefits mainly include wages or salaries, bonuses, allowances and subsidies, staff welfare, social security contributions, housing funds, labour union funds, employee education funds and other expenditures incurred in exchange for service rendered by employees. Employee benefits payable are recognised as liabilities in the accounting period of services rendered and are capitalised in business and overhead costs.

In accordance with the relevant laws and regulations, domestic employees of the Bank participate in various social insurance schemes like basic pension insurance, medical insurance, and housing fund schemes administered by the local government authorities.

The Bank calculates and contributes to the local government agencies the above pension and insurance schemes using applicable contribution basis and rates stipulated in the relevant local regulations in the period the employees providing their services to the Bank. Contributions to these plans are recognised in the income statement as incurred.

Early retirement benefits have been paid to those employees who accept voluntary retirement before the normal retirement date, as approved by management. The Bank has recorded a liability for its obligation to employees retired before normal retirement age, which is the present value of the Bank's future payment obligation, calculated by discounting the expected cash outflow based on the treasury bond interest rate for the term similar to that of the liability.

17. Interest Income and Expense

Interest income and expense for all interest-bearing financial assets and liabilities are recognised in the income statement using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that 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 (not consider future credit losses).

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18. Fee and Commission Income

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

19. Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognised for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax assets are only recognised for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

Deferred income tax related to fair value re-measurement of available-for-sale financial assets is charged or credited directly to equity and is subsequently recognized in the income statement when the financial assets are transferred.

The Bank's deferred tax assets and liabilities are netted as the Bank pay income tax to one taxation authority; and the Bank has a legally enforceable right to offset current tax assets against current tax liabilities.

20. Operating Leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

Lease payments under an operating lease are recognised on a straight-line basis over the period of the lease, and are either capitalised as part of the cost of related assets, or charged as an expense for the current period.

21. Contingent Liabilities

uncertain future events not wholly within the control of the Bank. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.



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22. Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at fair value on the date the guarantee was given. Subsequently, the liabilities are measured at the higher of the initial fair value less cumulative amortisation and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

23. Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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 by discounting the related future cash flows. The carrying amount of provisions is reviewed, and adjusted if appropriate, to reflect the best estimates at each balance sheet date.

24. Fiduciary activities

Where the Bank acts in a fiduciary capacity such as custodian or agent, assets arising thereon together with related undertakings to return such assets to customers are excluded from the balance sheet.

25. Segment reporting

The senior management reviews the Bank's business performance in light of the economic differences between regions within its network. As all branches and sub-branches mainly serve customers within their own regions, operating segments are defined by geographic location of assets. As most of the Bank's assets, liabilities, revenue and profit come from Anhui province, there is no need for the Bank to disclose any segment information.

B Significant Accounting Judgments and estimates

The Bank continually evaluates the significant accounting estimates and key judgments applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting period

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are outlined below. It is possible that actual results may be materially different from the estimates and judgments referred to below.

1. Impairment allowances on loans and advances

The Bank reviews its loan portfolio to assess impairment on a periodic basis, unless known circumstances indicate that impairment may have occurred as of an interim date. 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.

2. Fair value of financial instruments

If the market for a financial instrument is not active, the Bank establishes fair value by using a valuation technique. Valuation techniques include using such as discounted cash flow analysis and option pricing models. To the extent practicable, valuation technique makes maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on areas such as credit risk (both own and counterparty), volatilities and correlations. Changes in assumptions about these factors could affect reported fair value of financial instruments.

3. Held- to- maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments when the Bank has the positive intention and ability to hold the investments to maturity. Accordingly, in evaluating whether a financial asset shall be classified as a held-to-maturity investment, significant management judgment is required. If the Bank fails to correctly assess its intention and ability to hold the investments to maturity, the Bank shall reclassify the whole held-to-maturity investment portfolio as available for sale.

4. Income Taxes

The Bank is subject to income taxes in numerous jurisdictions. There are many transactions and events

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for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgment is required from the Bank in determining the provision for income taxes in each of these jurisdictions. Regarding expectable taxation matters, the Bank recognizes liabilities based on estimate of the need to pay extra tax. Taxation matters such as tax deductible due to asset impairment loss are subject to the decision of taxation authorities. 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.

V TAXATION

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

	Tax basis	Tax rate
Corporate income tax	Taxable profit	25%
Business tax	Taxable operating income	5%
City construction and maintenance tax	Business tax paid	7%
Educational surcharge	Business tax paid	3%

VI NOTES TO THE FINANCIAL STATEMENTS

1. Cash and Cash and balances at central bank

	31 December 2011	31 December 2010
Cash on hand		
Mandatory reserves	856,095	719,379
Surplus reserves	33,620,828	23,399,653
	21,351,721	10,460,494
	55,828,644	34,579,526

The Bank places mandatory reserve funds with the People's Bank of China (the "PBOC") and the mandatory deposit reserves are not available for use by the Bank for its day-to-day operations. As at 31 December 2011, mandatory reserve funds placed with the PBOC were calculated at 19% (2010: 16.5%) and 5% (2010: 5%) of eligible RMB deposits and foreign currency deposits from customers respectively.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011 (Amount in thousands of Renminbi, unless otherwise stated)

2. Due from banks and other financial institutions

	31 December 2011	31 December 2010
Due from domestic banks	6,923,202	1,357,706
Due from overseas banks	159,009	144,649
	7,082,211	1,502,355
Allowance for impairment losses	(6,003)	(6,003)
Net Value	7,076,208	1,496,352

3. Placements with banks and other financial institutions

	31 December 2011	31 December 2010
Placements with other domestic financial institutions	48,081	48,081
Re-discount	3,581,172	1,237,574
	3,629,253	1,285,655
Allowance for impairment losses	(48,081)	(48,503)
Net Value	3,581,172	1,237,152

4. Trading financial assets

	31 December 2011	31 December 2010
Government bonds	960,323	281,693
Central bank bills	138,655	132,952
Financial bonds	1,470,065	360,840
Corporate bonds	2,466,764	1,942,413
	5,035,807	2,717,898

There has no significant restriction for liquidating of the Bank's trading financial assets.

5. Reverse repurchase agreements

	31 December 2011	31 December 2010
Bonds purchased under reverse repurchase agreements	5,317,376	2,314,164
Bills purchased under reverse repurchase agreements	-	8,228,720
	5,317,376	10,542,884

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011(Amount in thousands of Renminbi, unless otherwise stated)

6. Interest Receivables

	31 December 2011	31 December 2010
Loans and advances to customers	296,329	211,889
Security investments	716,172	570,345
Reverse repurchase agreements	5,726	665
Due from banks and other financial institutions	25,752	13,188
	1,043,979	796,087

	2011	2010
Balance at beginning of the year	796,087	698,916
Accrued	10,816,379	8,050,341
Received	(10,568,487)	(7,953,170)
Balance at end of the year	1,043,979	796,087

7. Loans and advances to customers

	31 December 2011	31 December 2010
Corporate loans and advances		
Loans and advances	100,336,691	87,550,463
Discounted bills	6,460,288	4,554,797
	106,796,979	92,105,260
Individual loans and advances		
Mortgages	22,836,915	17,783,001
Revolving loans	4,560,461	3,657,308
Other	3,218,654	3,488,449
	30,616,030	24,928,758
Total loans and advances	137,413,009	117,034,018
Allowance for impairment losses		
Individually assessed	(247,919)	(254,489)
Collectively assessed	(3,242,207)	(2,721,086)
	(3,490,126)	(2,975,575)
Loans and advances to customers, net	133,922,883	114,058,443

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011 (Amount in thousands of Renminbi, unless otherwise stated)

(1) Analysis of loans and advances to customers by collective and individual allowance assessments

As at 31 December 2011	Un-impaired loans and advances for which allowance is collectively assessed	Impaired loans and advances			Total
		for which allowance is collectively assessed	for which allowance is individually assessed	Subtotal	
Total loans and Advances					
— Corporate loans	106,226,316	128,103	442,560	570,663	106,796,979
— Individual loans	30,532,295	83,735	-	83,735	30,616,030
Allowance for impairment losses	(3,073,341)	(168,866)	(247,919)	(416,785)	(3,490,126)
Net	133,685,270	42,972	194,641	237,613	133,922,883

As at 31 December 2010	Un-impaired loans and advances for which allowance is collectively assessed	Impaired loans and advances			Total
		for which allowance is collectively assessed	for which allowance is individually assessed	Subtotal	
Total loans and advances					
— Corporate loans	91,513,089	164,612	427,559	592,171	92,105,260
— Personal loans	24,823,752	105,006	-	105,006	24,928,758
Allowance for impairment losses	(2,517,896)	(203,190)	(254,489)	(457,679)	(2,975,575)
Net	113,818,945	66,428	173,070	239,498	114,058,443

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011(Amount in thousands of Renminbi, unless otherwise stated)

(2) Analysis of loans and advances to customers by industry

	31 December 2011		31 December 2010	
	Amount	% of total	Amount	% of total
Manufacturing	31,512,125	22	23,725,970	20
Commerce and services	23,455,046	17	17,440,211	15
Public utilities	19,253,367	14	23,879,820	22
Construction	7,588,935	6	5,038,631	4
Real estate	6,187,552	5	6,028,255	5
Energy and chemical	4,741,864	3	3,880,258	3
Transportation and logistics	3,283,519	2	3,533,670	3
Education and media	1,479,091	1	1,621,430	1
Catering and tourism	1,335,544	1	1,154,559	1
Financial services	802,700	1	746,400	1
Other	696,948	1	501,259	0
Total corporate loans and advances	100,336,691	73	87,550,463	75
Discounted bills of exchange accepted by banks	5,632,221	4	3,743,567	3
Discounted bills of exchange accepted by corporate clients	828,067	1	811,230	1
Total discounted bills	6,460,288	5	4,554,797	4
Total individual loans	30,616,030	22	24,928,758	21
Total loans and advances to customers, net	137,413,009	100	117,034,018	100

(3) Analysis of loans and advances to customers by collateral type

	31 December 2011	31 December 2010
Unsecured loans	16,248,166	13,725,365
Guaranteed loans	48,251,102	41,992,044
Secured loans	61,193,961	54,556,336
Pledged loans	11,719,780	6,760,273
Total loans and advances to customers, net	137,413,009	117,034,018

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011 (Amount in thousands of Renminbi, unless otherwise stated)

(4) Analysis of overdue loans and advances to customers by collateral type and overdue days

As at 31 December 2011					
	Past due up to 90 days (inclusive)	Past due 91-360 days (inclusive)	Past due 361 days-3 year (inclusive)	Past due over 3 years	Total
Unsecured loans	1,917	253	447	30,886	33,503
Guaranteed loans	6,020	8,675	27,605	38,888	81,188
Secured loans	241,822	44,832	64,215	68,065	418,934
Pledged loans	-	-	-	18,966	18,966
	249,759	53,760	92,267	156,805	552,591

As at 31 December 2010					
	Past due up to 90 days (inclusive)	Past due 91-360 days (inclusive)	Past due 361 days-3 year (inclusive)	Past due over 3 years	Total
Unsecured loans	1,546	834	3,550	54,241	60,171
Guaranteed loans	23,918	28,155	12,466	73,248	137,787
Secured loans	76,541	68,910	48,619	66,628	260,698
Pledged loans	1,182	25,102	9,238	17,713	53,235
	103,187	123,001	73,873	211,830	511,891

(5) Allowance for impairment losses on loans and advances:

	2011		Total
	Individually Assessed allowance	Collectively Assessed allowance	
Balance as at 1 January 2011	254,489	2,721,086	2,975,575
Impairment losses for the year (Note VI.33)	35,420	563,125	598,545
Written off	(30,719)	(37,490)	(68,209)
Reversal due to increase of discounted present value	(11,271)	(4,514)	(15,785)
Balance as at 31 December 2011	247,919	3,242,207	3,490,126

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011(Amount in thousands of Renminbi, unless otherwise stated)

	2011		Total
	Individually Assessed allowance	Collectively Assessed allowance	
Balance as at 1 January 2010	268,339	2,165,385	2,433,724
Impairment losses for the year (Note VI.33)	15,192	566,394	581,586
Written off	(12,870)	(8,490)	(21,360)
Reversal due to increase of discounted present value	(16,172)	(2,203)	(18,375)
Balance as at 31 December 2010	254,489	2,721,086	2,975,575

8. Available-for-sale financial assets

	31 December 2011	31 December 2010
Bonds		
Government bonds	4,010,859	4,461,792
Central bank bonds	1,662,501	3,606,431
Financial bonds	6,091,088	9,393,695
Corporate bonds	4,291,562	3,263,238
Trust products	2,281,910	125,930
Equity securities	18,983	14,544
	18,356,903	20,865,630

9. Held-to-maturity Investments

	31 December 2011	31 December 2010
Government bonds	8,803,967	5,839,272
Central bank bonds	4,487,531	397,317
Financial bonds	6,651,329	6,663,698
Corporate bonds	661,721	290,391
	20,604,548	13,190,678

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011 (Amount in thousands of Renminbi, unless otherwise stated)

10. Loans-and-receivables investments

	31 December 2011	31 December 2010
Government bonds	301,886	433,546
Financial bonds	-	-
Wealth management products	3,513,230	6,454,912
	3,815,116	6,888,458

The underlying assets of wealth management products issued by other banks are all debt financial assets.

11. Long-term Equity Investment

	31 December 2011	31 December 2010
Associates		
- Unlisted	185,190	153,440

The Bank does not have significant restrictions for realization of long-term equity investment

(a) Associates measured by the equity method

Company name	Initial cost	Carrying value at 1 January 2011	Movements in 2011		Carrying value at 31 December 2011
			Addition of cost	Net profit adjustment by the equity method	
Chery Huiyin Auto Finance Company Limited	100,000	113,225	-	25,809	139,034
Wuwei Huiyin Rural Bank Company Limited	40,000	40,215	-	5,941	46,156
	140,000	153,440	-	31,750	185,190

Company name	Initial cost	Carrying value at 1 January 2010	Movements in 2011		Carrying value at 31 December 2010
			Addition of cost	Net profit adjustment by the equity method	
Chery Huiyin Auto Finance Company Limited	100,000	100,000	-	13,225	113,225
Wuwei Huiyin Rural Bank Company Limited	40,000	-	40,000	215	40,215
	140,000	100,000	40,000	13,440	153,440

There is no objective evidence to represent impairment of long-term equity investment, therefore the Bank did not make impairment provisions as at 31 December 2011.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011(Amount in thousands of Renminbi, unless otherwise stated)

(b) Financial information of the Bank's associates

Company name	Registration place	Registration Capital	Share Proportion	Voting Right Proportion
Chery Huiyin Auto Finance Company Limited	Wu Hu City	500,000	20%	20%
Wuwei Huiyin Rural Bank Company Limited	Wuwei County	100,000	40%	40%

	As at 31 December 2011			2011	
	Total Assets	Total Liabilities	Net Assets	Operating Revenue	Net Profit
Chery Huiyin Auto Finance Company Limited	3,893,568	3,207,539	686,029	250,580	119,901
Wuwei Huiyin Rural Bank Company Limited	979,665	864,843	114,822	42,495	14,285

	As at 31 December 2011			2011	
	Total Assets	Total Liabilities	Net Assets	Operating Revenue	Net Profit
Chery Huiyin Auto Finance Company Limited	2,350,088	1,783,960	566,128	125,772	57,816
Wuwei Huiyin Rural Bank Company Limited	403,864	303,328	100,536	15,971	536

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011 (Amount in thousands of Renminbi, unless otherwise stated)

12. Property and equipment

	As at 1 January 2011	Additions			Disposals	As at 31 December 2011
		Additions	Transferred from CIP	Total		
Total Cost	1,631,505	148,101	89,299	237,400	(82,765)	1,786,140
Buildings	1,119,041	3,174	81,430	84,604	(44,766)	1,158,879
Motor vehicles	75,773	12,610	-	12,610	(36,522)	51,861
Electronic and other equipment	436,691	132,317	7,869	140,186	(1,477)	575,400
Total Accumulated depreciation	(571,270)	(126,805)	-	(126,805)	44,623	(653,452)
Buildings	(289,040)	(46,719)	-	(46,719)	7,303	(328,456)
Motor vehicles	(63,874)	(4,018)	-	(4,018)	36,352	(31,540)
Electronic and other equipment	(218,356)	(76,068)	-	(76,068)	968	(293,456)
Total Net book value	1,060,235	-	-	-	-	1,132,688
Buildings	830,001	-	-	-	-	830,423
Motor vehicles	11,899	-	-	-	-	20,321
Electronic and other equipment	218,335	-	-	-	-	281,944

Total depreciation of the Bank is RMB 126.81 million in 2011.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011(Amount in thousands of Renminbi, unless otherwise stated)

	As at 1	Additions			Disposals	As at 31
	January 2010	Additions	Transferred from CIP	Total		December 2010
Total Cost	1,530,269	92,439	64,454	156,893	(55,657)	1,631,505
Buildings	1,060,574	27,031	63,980	91,011	(32,544)	1,119,041
Motor vehicles	57,374	23,705	-	23,705	(5,306)	75,773
Electronic and other equipment	412,321	41,703	474	42,177	(17,807)	436,691
Total Accumulated depreciation	(465,424)	(132,110)	-	(132,110)	26,264	(571,270)
Buildings	(239,817)	(62,614)	-	(62,614)	13,391	(289,040)
Motor vehicles	(38,985)	(28,894)	-	(28,894)	4,005	(63,874)
Electronic and other equipment	(186,622)	(40,602)	-	(40,602)	8,868	(218,356)
Total Net book value	1,064,845	-	-	-	-	1,060,235
Buildings	820,757	-	-	-	-	830,001
Motor vehicles	18,389	-	-	-	-	11,899
Electronic and other equipment	225,699	-	-	-	-	218,335

Total depreciation of the Bank is RMB 132.11 million in 2010.

As at 31 December 2011, properties and buildings with net book values RMB 7.92 million (original value of 13.65 million) have not obtained the property and land ownership certificates. Those with net book value of RMB 62.93 million (original value of 128.19 million) have obtained property ownership certificates but not for the land certificates. They are still in the process of obtaining certificates. Management is of the view that the aforesaid matter would not affect the rights of the Bank to these assets nor have any significant impact on the business operation of the Bank.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011 (Amount in thousands of Renminbi, unless otherwise stated)

13. Deferred income tax assets

The movements of the deferred income tax assets are as follows:

	2011	2010
Balance at beginning of the year	681,674	412,054
Credited/(charged) to income statement (Note VI.34)	86,830	157,349
Credited to equity (Note VI.25)		
- Fair value changes of available for sale financial assets	(21,977)	111,319
- Amortization of revaluation reserve due to reclassification of available-for-sale financial assets as held-to-maturity investments	4,943	952
Balance at end of the year	751,470	681,674

Deferred income tax assets include:

	As at 31 December 2011	
	Deferred income tax assets	Deductible temporary differences
Impairment losses on assets	518,747	2,074,987
Employee benefits	211,235	844,938
Unrealized loss on available-for-sale financial assets	11,390	45,560
Unrealized loss on trading financial assets	3,174	12,697
Others	6,924	27,698
Total	751,470	3,005,880
Net	751,470	3,005,880

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011(Amount in thousands of Renminbi, unless otherwise stated)

	As at 31 December 2010	
	Deferred income tax assets	Deductible temporary differences
Impairment losses on assets	457,983	1,831,929
Employee benefits	176,364	705,457
Unrealized loss on available-for-sale financial assets	33,367	133,470
Unrealized loss on trading financial assets	11,799	47,196
Others	10,464	41,857
Total	689,977	2,759,909
	Deferred income tax assets	Deductible temporary differences
Amortization of revaluation reserve due to reclassification of available-for-sale financial assets as held-to-maturity investments	(4,943)	(19,770)
Others	(3,360)	(13,440)
Total	(8,303)	(33,210)
Net	681,674	2,726,699

14. Other assets

	31 December 2011	31 December 2010
Long-term prepaid expenses (1)	119,165	92,453
Other receivables (2)	53,254	14,121
Foreclosed assets	1,007	5,192
Trade finance settlement receivables (3)	-	401,502
Others	13,801	2,525
	187,227	515,793

(1) Long-term prepaid expenses include the expenditure for improvements to fixed assets held under operating leases and room decoration expenditure.

(2) Other receivables

	31 December 2011	31 December 2010
Total	134,822	145,632
Allowance for impairment losses	(81,568)	(131,511)
Net value	53,254	14,121

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011 (Amount in thousands of Renminbi, unless otherwise stated)

(3) Trade finance settlement receivables are receivables from customers which other banks pay for trade finance settlement on behalf of the Bank.

15. Allowance for impairment losses

	As at 1 January 2011	Additions	Disposals		As at 31 December 2011
			Transfer back	Write off	
Allowance for impairment losses					
-Loans and advances to customers	(2,975,575)	(598,545)	15,785	68,209	(3,490,126)
-Due from banks and other financial institutions	(6,003)	-	-	-	(6,003)
-Placements with banks and other financial institutions	(48,503)	-	422	-	(48,081)
-Foreclosed assets	(37,009)	-	17,509	17,213	(2,287)
-Available for sale financial assets	(6,563)	-	-	1,624	(4,939)
-Other receivable	(131,511)	-	-	49,943	(81,568)
	(3,205,164)	(598,545)	33,716	136,989	(3,633,004)

	As at 1 January 2010	Additions	Disposals		As at 31 December 2010
			Transfer back	Write off	
Allowance for impairment losses	(2,433,724)	(581,586)	18,375	21,360	(2,975,575)
-Loans and advances to customers	(6,003)	-	-	-	(6,003)
-Due from bank and other financial institutions	(48,503)	-	-	-	(48,503)
-Placements with banks and other financial institutions	(38,641)	-	-	1,632	(37,009)
-Foreclosed assets	(6,563)	-	-	-	(6,563)
-Available for sale financial assets	(166,989)	-	-	35,478	(131,511)
	(2,700,423)	(581,586)	18,375	58,470	(3,205,164)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011(Amount in thousands of Renminbi, unless otherwise stated)

16. Due to banks and other financial institutions

	31 December 2011	31 December 2010
Due to domestic banks	8,482,066	9,375,238
Due to other domestic financial institutions	771,788	447,204
Due to overseas banks	69,632	-
	9,323,486	9,822,442

17. Placements from banks and other financial institutions

	31 December 2011	31 December 2010
Placements from domestic banks	3,534,522	1,263,140

18. Repurchase agreements

	31 December 2011	31 December 2010
Bonds sold under repurchase agreements	15,877,000	14,429,700
Bills sold under repurchase agreements	307,796	6,368,269
	16,184,796	20,797,969

19. Due to Customers

	31 December 2011	31 December 2010
Demand deposits		
— Corporate deposits	97,479,656	83,747,305
— Individual deposits	19,077,590	15,998,930
Time deposits		
— Corporate deposits	38,982,776	27,134,372
— Individual deposits	22,815,234	16,700,148
Certificates of deposits	24,851,681	15,714,121
Other deposits	372,767	287,130
	203,579,704	159,582,006

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011 (Amount in thousands of Renminbi, unless otherwise stated)

20. Employee benefits

	As at 1 January 2011	Accrued	Paid	As at 31 December 2011
Salary, bonus, allowance and subsidy	959,758	836,209	(637,999)	1,157,968
Staff welfare	17,988	-	(17,988)	-
Social insurance	81,792	135,458	(205,222)	12,028
Labour union expense and staff education expense	16,618	12,197	(21,199)	7,616
	1,076,156	983,864	(882,408)	1,177,612

	As at 1 January 2010	Accrued	Paid	As at 31 December 2010
Salary, bonus, allowance and subsidy	684,378	746,702	(471,322)	959,758
Staff welfare	24,332	77,949	(84,293)	17,988
Social insurance	86,686	98,963	(103,857)	81,792
Labour union expense and staff education expense	19,844	22,648	(25,874)	16,618
	815,240	946,262	(685,346)	1,076,156

The Bank does not have any non-monetary welfare. As 31 December 2011, employee benefits payable of the Bank will be paid stage by stage in next three years.

21. Taxes payable

	31 December 2011	31 December 2010
Enterprise income tax payable	187,650	364,600
Business tax and surcharges	201,399	147,332
Others	15,828	20,841
	404,877	532,773

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FOR THE YEAR ENDED 31 DECEMBER 2011(Amount in thousands of Renminbi, unless otherwise stated)

22. Interest payable

	31 December 2011	31 December 2010
Due to customers	961,154	593,996
Subordinated bonds	196,679	-
Due to and placements from banks and other financial institutions	108,858	27,430
Repurchase agreement	11,055	11,224
	1,277,746	632,650

23. Bonds issued

	31 December 2011	31 December 2010
Subordinated bonds issued	3,991,461	-

Interest of Bonds issued are summarize as below:

	Accrued Interest			As at 31 December 2011
	As at 1 January 2011	Accrued Interest	Interest Paid	
11 HSB bond	-	196,679	-	196,679

On 2 April 2011, the Bank issued subordinated bonds through open market bidding in an aggregate nominal amount of RMB 40 billion with a fixed interest rate of 6.55% for 15 years period and pay interest annually. The Bank has the option to redeem all of the bonds at face value on the last date of the 10th interest-bearing year.

24. Other Liabilities

	31 December 2011	31 December 2010
Clearing payables	165,241	127,705
Dividends payable	72,126	67,157
Balance of dormant customer account	31,813	33,966
Promissory notes	23,975	907
Project expense payable	19,096	26,008
Bill of exchange	16,204	525,592
Redemption of government bonds payable	8,879	33,947
Others	86,492	96,437
	423,826	911,719

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011 (Amount in thousands of Renminbi, unless otherwise stated)

25. Share capital and capital surplus

	31 December 2011	31 December 2010
Number of shares issued (thousands)	8,174,819	8,174,819
Share capital	8,174,819	8,174,819

Capital surplus	Capital premium	Other	Total
Balance as at 1 January 2011	1,806,700	(85,275)	1,721,425
Increase in current year	-	51,105	51,105
Balance as at 31 December 2011	1,806,700	(34,170)	1,772,530
Balance as at 1 January 2010	1,806,700	251,539	2,058,239
Decrease in current year	-	(336,814)	(336,814)
Balance as at 31 December 2010	1,806,700	(85,275)	1,721,425

The movement of other capital surplus

	2011	2010
Balance at beginning of the year	(85,275)	251,539
Changes in fair value of available-for-sale financial assets	87,910	(445,279)
Deferred income taxes (Note VI.13)	(21,977)	111,319
Amortization of revaluation reserve due to reclassification of available-for-sale financial assets as held-to-maturity investments	(19,771)	(3,806)
Deferred income taxes (Note VI.13)	4,943	952
Balance at end of the year	(34,170)	(85,275)

26. Surplus reserve

	Statutory surplus reserve	Discretionary surplus reserve	Total
Balance as at 1 January 2011	688,903	-	688,903
Distribution of profit (Note VI. 28)	349,261	270,235	619,496
Balance as at 31 December 2011	1,038,164	270,235	1,308,399
Balance as at 1 January 2010	418,668	-	418,668
Distribution of profit	270,235	-	270,235
Balance as at 31 December 2010	688,903	-	688,903

In accordance with the Company Law, the Bank should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Bank can cease appropriation when the statutory surplus reserve

NOTES TO FINANCIAL STATEMENTS

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accumulated to more than 50% of the registered capital.

The Bank appropriates for the discretionary surplus reserve after the shareholders' meeting approves the proposal from the Board of Directors. The discretionary surplus reserve can be used to make up for the loss or increase the paid in capital after approval from the appropriate authorities.

27. General and regulatory reserves

	2011	2010
Balance at beginning of the year	1,077,380	1,077,380
Distribution of profit (Note VI.28)	200,000	-
Balance at end of the year	1,277,380	1,077,380

Pursuant to Caijin [2005] No. 49 "Measures on General Provision for Bad and Doubtful Debts for Financial Institutions" and Caijin [2005] No. 90 "Notice on Related Issues of Provision for Non performing Debts" issued by MOF in addition to the specific allowance for impairment losses, the Bank is required to establish and maintain a general reserve within shareholders' equity, through the appropriation of profit to address unidentified potential impairment losses. The general reserve should not be less than 1% of the aggregate amount of risk assets as defined by this policy.

28. Undistributed profits

	2011	2010
Balance at beginning of the year	2,694,766	1,080,130
Net Profit	3,492,610	2,702,353
Statutory surplus reserve	(349,261)	(270,235)
Discretionary surplus reserve	(270,235)	-
General and regulatory reserves	(200,000)	-
Dividend payable	(817,482)	(817,482)
Balance at end of the year	4,550,398	2,694,766

In accordance with the resolution of 2009 annual general meeting of shareholders dated on 30 April 2011, the Bank proposed a dividend in the amount of RMB 817.48 million (including tax) to the shareholders after drawing statutory surplus reserve and generic risk reserve from the profits of 2009..

In accordance with the resolution of 2010 annual general meeting of shareholders dated on 10 May 2011, the Bank proposed a dividend in the amount of RMB 817.48 million (including tax) to the shareholders after drawing statutory surplus reserve of RMB 270.24 million and generic risk reserve of RMB 200 million from the profits of 2010.

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29. Net interest income

	2011	2010
Interest income		
Corporate loans	6,123,359	4,701,643
Individual loans	1,637,281	1,151,248
Discounted and Re-discounted bills	436,220	254,944
Due from banks and other financial institutions	99,562	32,656
Deposit with central bank	498,816	351,212
Reverse repurchase agreements	572,096	331,682
	9,367,334	6,823,385
Interest expense		
Due to customers	(2,490,715)	(1,587,348)
Due to banks and other financial institutions	(597,312)	(220,263)
Placements from banks and other financial institutions and repurchase agreements	(878,926)	(431,800)
Bond Issued	(196,940)	-
	(4,163,893)	(2,239,411)
Net interest income	5,203,441	4,583,974

30. Net fee and commission income

	2011	2010
Fee and commission income		
Consultancy and advisory fees	234,356	113,430
Settlement and clearing fees	74,445	52,626
Agency commissions	73,182	59,277
Bank card fees	46,311	27,437
Custodian and other fiduciary service fees	21,180	10,773
Other	11,698	30,481
	461,172	294,024
Fee and commission expense	(48,411)	(42,749)
Net fee and commission income	412,761	251,275

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011(Amount in thousands of Renminbi, unless otherwise stated)

31. Net gain on investment

	2011	2010
Net gain of bonds	1,915,615	1,400,540
Net gains of long-term equity investment under equity method	31,750	13,440
Dividend income	2,249	343
	1,949,614	1,414,323

There are no significant restrictions of transferring back of net gains of long-term equity investment under equity method for the Bank.

32. Operating expenses

	2011	2010
Salaries, social insurances and welfare expenses	(1,000,151)	(964,786)
General operating and administrative expenses	(733,600)	(619,180)
Depreciation of fixed assets (Note VI. 12)	(126,805)	(132,110)
Operating lease expenses	(75,219)	(57,645)
Amortization of intangible assets and other long-term assets	(43,048)	(33,640)
	(1,978,823)	(1,807,361)

33. Impairment losses on assets

	2011	2010
Loans and advances to customers (Note VI. 7(5))	(598,545)	(581,586)
Collection of previous year's written-off loans	1,761	3,211
	(596,784)	(578,375)
Reverse of allowance for impairment loss of foreclosed assets	17,509	-
Reverse of allowance for impairment loss of placements with banks and other financial institutions	422	-
	(578,853)	(578,375)

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34. Income tax expense

	2011	2010
Current income tax	(1,197,867)	(957,069)
Deferred income tax (Note VI. 13)	86,830	157,349
	(1,111,037)	(799,720)

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the financial statements to the income tax expenses is listed below:

	2011	2010
Profit before income tax	4,603,647	3,502,073
Tax calculated at applicable statutory tax rate 25%	(1,150,912)	(875,518)
Effect of income from government bonds interests not subject to tax	102,658	87,858
Items not deductible for tax purposes	(33,154)	(45,206)
Difference of prior year tax clearing	(29,629)	33,146
Income tax expense	(1,111,037)	(799,720)

35. Other comprehensive income

	2011	2010
Fair value gains/(losses) on available for sale financial assets	87,910	(445,279)
Amortization of revaluation reserve due to reclassification of available-for-sale financial assets as held-to-maturity investments	(19,771)	(3,806)
Less: related income tax impact	(17,034)	112,271
	51,105	(336,814)

36. Notes to consolidated cash flow statement

(1) Cash and Cash Equivalents

	31 December 2011	31 December 2010
Cash in hand	856,095	719,379
Surplus reserves at central bank	21,351,721	10,460,494
Due from banks that matures within three months after the date of purchase	6,625,991	1,496,352
Balance as at 31 December 2011	28,833,807	12,676,225

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011(Amount in thousands of Renminbi, unless otherwise stated)

(2) Reconciliation from net profit to cash flows from operating activities

Item	Note	2011	2010
Net profit		3,492,610	2,702,353
Add/(Less):			
Allowance for impairment losses on loans and advances to customers	VI.33	598,545	581,586
Reverse of allowance for impairment losses on other assets	VI.33	(17,931)	-
Depreciation of fixed assets	VI.33	126,805	132,110
Amortisation of intangible assets and long-term prepaid expenses	VI.33	43,048	33,640
Investment income		(1,949,614)	(1,414,323)
Losses on changes in fair value		(34,499)	53,524
Gains on disposal of fixed assets		(66,383)	-
Interest expenses of bond issued		196,940	-
Deferred income tax		(86,830)	(157,349)
Increase in operating receivables		(30,155,589)	(34,661,087)
Increase in operating payables		41,086,066	45,040,584
Net cash flows from operating activities		13,233,168	12,311,038

(3) The Bank did not have significant investing and financing activities without involving cash receipts and payments in 2011.(2010: Nil)

(4) Net increase / (decrease) in cash and cash equivalents

	2011	2010
Cash at end of the year	28,833,807	12,676,225
Less: cash at beginning of the year	(12,676,225)	(11,268,231)
Net increase in cash and cash equivalents	16,157,582	1,407,994

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011(Amount in thousands of Renminbi, unless otherwise stated)

VII. CONTINGENT LIABILITIES AND COMMITMENTS

1. Credit commitments

	31 December 2011	31 December 2010
Bank bill acceptance	38,087,308	27,467,421
Letters of credit issued	3,053,143	1,682,903
Letters of guarantee issued	1,752,715	1,656,332
Loan commitments	298,000	52,000
Unused credit card limit	543,609	515,590
	43,734,775	31,374,246

2. Operating leases commitments

Under irrevocable operating lease contracts, the minimum rental payments that should be paid by the Bank in the future are summarised as follows:

	31 December 2011	31 December 2010
Within 1 year	67,833	34,534
1-5 years	187,133	91,298
Above 5 years	33,157	47,776
	288,123	173,608

3. Capital commitments

	31 December 2011	31 December 2010
Authorised but not contracted for		
Within 1 year	2,737	7,695
Contracted but not provided for		
Within 1 year	11,674	16,662
1-5 years	-	1,651
	11,674	18,313
	14,411	26,008

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4. Assets Pledged:

Assets pledged by the Bank as collateral for repurchase agreements and treasury deposit.

	31 December 2011	31 December 2010
Trading financial assets	668,947	129,918
Available-for-sale financial assets	7,578,239	10,888,191
Held-to-maturity investments	14,278,498	5,902,436
Bonds purchased under reverse repurchase agreements	1,004,344	-
Bills purchased under reverse repurchase agreements	-	6,287,399
	23,530,028	23,207,944

5. Treasury bond redemption commitments

The Bank is entrusted by the MOF to underwrite certain Treasury bonds. The investors of these Treasury bonds have a right to redeem the bonds at any time prior to maturity and the Bank is committed to redeem these treasury bonds. The redemption price is the principal value of the bonds plus unpaid interest in accordance with the early redemption arrangement.

As at 31 December 2011, the outstanding principal value of the treasury bonds sold by the Bank amounted to RMB 1.87 billion (31 December 2010: RMB 1.62 billion)

6. Legal proceedings and claim

As at 31 December 2011, the Bank was not involved in any legal proceedings and claims as a defendant. (2010: nil)

VIII. FIDUCIARY ACTIVITIES

The Bank provides custodian and trust services to its customers. Assets held by the Bank under custodian and trust services are not included in the balance sheet.

	31 December 2011	31 December 2010
Entrusted loan	9,780,024	6,180,386
Wealth management funds	-	177,912

NOTES TO FINANCIAL STATEMENTS

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IX. EVENTS AFTER THE FINANCIAL REPORTING DATE

In accordance with the resolution at the Board of Directors' meeting, dated on 18 May 2012, the board of directors proposed a dividend in the amount of RMB 817.48 million to the shareholders, after drawing to the discretionary surplus reserve of RMB 349.26 million and generic risk reserve of RMB 195 million from the profits of 2011. It also proposed the Bank should appropriate 10% of net profit for the year to the statutory surplus reserve. The proposal is pending for the approval of the shareholders' meeting.

X. RELATED PARTY TRANSACTIONS

A Related Party Relationships

During the reporting period, the Bank did not involve any controlling relationship with related parties, subsidiaries or joint ventures.

The Bank's related parties mainly include major shareholders with 5% or above of the Bank's total shares, associates, key management personnel (including directors, supervisors and senior management) and their close family members and the companies that key management personnel and their close family members could control, joint control or having significant influence on them.

1. As at 31 December 2011, shareholders with 5% (directly or indirectly) or above of the Bank's total shares is listed below:

	As at 31 December 2011		Principal business
	Shares (1000,shares)	Percentage %	
Anhui Province Energy Group Company Limited	805,315	9.85%	Finance and investment management for energy projects
Anhui Credit Guarantee Group Company Limited	802,094	9.81%	Finance guarantee
Anhui Guoyuan Holding (Group) Company Limited	680,000	8.32%	Capital and asset management
Anhui Expressway Holding(Group) Company Limited	500,000	6.12%	Infrastructure construction and management
Zhongjing Sihai Company Limited	444,696	5.44%	Industrial investment
	3,232,105	39.54%	

2. Associates

Information of associates is disclosed in Note VI.11.

NOTES TO FINANCIAL STATEMENTS

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B Related Party Transactions and Balances

The major transactions entered by the Bank with its related parties are loans and deposits. The terms of loans and deposits with related parties are in line with commercial terms arranged in the ordinary course of the Bank's business and the same pricing principle.

1. Loan to related parties

	31 December 2011	31 December 2010
Major shareholders:		
Anhui Credit Guarantee Group Company Limited	-	500,000
Anhui Expressway Holding(Group) Company Limited	40,000	240,000
Anhui Guoyuan Holding (Group) Company Limited	200,000	-
Companies that key management personnel and their family members could control, joint control or having significant influence		
Wuhu construction and investment Company Limited (1)	1,175,000	N/A
Hefei Xintai Holding Group Company Limited	200,000	300,000
Linhuai joinlion Power Company Limited	168,143	218,000
Wanneng Hefei Power Company Limited	140,000	-
Anhui Xintai Financial Leasing Company Limited	100,000	100,000
Tongling Nonferrous Metals Group Holding Company Limited	100,000	-
Anhui Maanshan Wannengda Power Generation Company Limited	50,000	-
Wanneng Tongling Power Generation Company Limited	50,000	-
Anhui Expressway RealEstate Company Limited	50,000	-
HeFei Xintai Equity Investment Management Company Limited	48,717	-
Wuhu Guoxin Hotel Company Limited	16,000	16,000
Hefei Wanneng Power Generation Company Limited	-	140,000
Anhui Maanshan Wanda Power Generation Company Limited	-	50,000
Anhui Guoyuan Diandang Company Limited	-	30,000
Anhui Investment Group Holdings Company Limited (1)	N/A	1,400,000
Close family members of key management personnel	205	-
	2,338,065	2,994,000
	2011	2010
Interest income of related party loans	150,947	181,152

(1) These companies are not the related parties of the Bank due to the change of the Bank's board of directors and supervisory. Therefore, these companies' loans are not disclosed as related party transaction.

NOTES TO FINANCIAL STATEMENTS

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2. Due to related parties

	31 December 2011	31 December 2010
Guoyuan Securities Company Limited	582,838	300,000
Wuwei Huiyin Rural Bank Company Limited	199,155	52,379
Guoyuan Agricultural Insurance Company Limited	105,274	421
Chery Huiyin Auto Finance Company Limited	11,148	192,048
Anhui Guoyuan Trust Company Limited	4,993	74,054
	903,408	618,902

3. Deposits from related parties

	31 December 2011	31 December 2010
Deposits from related parties	1,621,991	696,964

	31 December 2011	31 December 2010
Income expense	6,410	3,310

4. Balances of bank bill with related parties

	31 December 2011	31 December 2010
Hefei xinshi Shoes Company Limited	2,030	1,180
Wuhu Guoxin Hotel Company Limited	230	-
	2,260	1,180

5. Balances of bonds issued by related parties

	31 December 2011	31 December 2010
Available-for-sale financial assets:		
Anhui Province Energy Group Company Limited	48,977	-
Tongling Nonferrous Metals Group Holding Company Limited	37,167	-
Wuhu construction and investment Company Limited	18,699	29,536
Trading financial assets		
Wuhu construction and investment Company Limited	196,316	40,522
Tongling Nonferrous Metals Group Holding Company Limited	11,538	-
	312,697	70,058

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011(Amount in thousands of Renminbi, unless otherwise stated)

6 Balances of re-discounted

	31 December 2011	31 December 2010
Wuwei Huiyin Rural Bank Company Limited	1,344,648	518,091

7 Transaction with key management personnel:

In 2011, salaries and other short-term benefits paid to the key management was RMB 10.33 million (2010: RMB 6 million). The Bank did not provide post-employment benefits, termination benefits or other long-term benefits to the key management in 2011.

XI. FINANCIAL RISK MANAGEMENT

1. Overview

The Bank's activities expose it to a variety of financial 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 has designed a series of risk management policies and has set up controls to identify, analyse, monitor and report risks by means of relevant and up-to-date information systems.

The most significant types of risks to the Bank are credit risk, market risk and liquidity risk. Market risk includes currency risk and interest rate risk.

The Board of Directors is responsible for establishing the overall risk appetite of the Bank and reviewing and approving the risk management objectives and strategies. Within this framework, the Bank's senior management has overall responsibility for managing all aspects of risks, including implementing risk management strategies for currency risk, interest rate risk and credit risk, and measures and procedures related to risk management.

2. Credit Risk

The Bank takes on exposure to credit risk, which is the risk that a customer or counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risks will increase if the counterparties concentrate in similar industries or geographic locations. Credit risk exposures arise principally in lending activities, debt securities investment activities and inter-bank businesses and there is also credit risk in off-balance sheet financial instruments. As the Bank's business mainly concentrates in Anhui Province, there are concentration risks in its credit risk that is susceptible to changes in the regional economy. As such, the management adopts a prudent approach to managing credit risk exposure. The

NOTES TO FINANCIAL STATEMENTS

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Bank's overall credit risks are managed by the Risk Management Department of its head office that reports regularly to the senior management.

(1) Credit Risk Measurement

(i) Loans and credit commitment

The Bank measures and manages the credit quality of loans and advances to corporate and individual customers based on the "Guideline for Loan Credit Risk Classification" (the "Guideline") issued by the CBRC, which requires commercial banks to classify their corporate and personal loans into five categories: pass, special mention, substandard, doubtful and loss, among which loans classified in the substandard, doubtful and loss categories are regarded as non-performing loans.

The five categories are defined as follows:

- Pass: loans for which borrowers can honour the terms of the contracts, and there is no reason to doubt their ability to repay principal and interest of loans in full and on a timely basis.
- Special-mention: loans for which borrowers are still able to service the loans currently, although the repayment of loans might be adversely affected by some factors.
- Substandard: loans for which borrowers' ability to service loans is apparently in question, and borrowers cannot depend on their normal business revenues to pay back the principal and interest of loans. Certain losses might be incurred by the Bank even when guarantees are executed.
- Doubtful: loans for which borrowers cannot pay back principal and interest of loans in full and significant losses will be incurred by the Bank even when guarantees are executed.
- Loss: principal and interest of loans cannot be recovered or only a small portion can be recovered after taking all possible measures and resorting to necessary legal procedures.

(ii) Debt securities and other bills

The Bank manages the credit risk exposure of bonds and others bills by limiting the issuers of these instruments. Currently, the Bank holds no foreign currency bonds and bills. The Bank does not purchase debt securities from private companies.

(iii) Placements with banks and other financial institutions

The head office periodically reviews and manages credit risks of individual financial institutions. The Bank applies different credit quotas to different individual banks or non-bank institutions that it has business with.

NOTES TO FINANCIAL STATEMENTS

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(2) Risk Limit Control and Mitigation Policies

The Bank manages limits and controls concentrations of credit risk in particular, to individual customers, to groups, to industries and to regions. In order to manage the exposure to credit risk, the Bank has established related mechanism that lending limits set for individual customers and review it once a year at least.

The Bank sets its head office as an only legal person and established an authorization system for the management of branches, sub-branches and other departments. Based on the economic levels of different localities, the management levels of branches, types of products in the credit business, credit ratings of clients, means of guarantee, scales of clients and other factors, the headquarters would perform dynamic authorization in credit business for all branches annually and monitor and supervise the branches in their business so as to ensure compliance to relevant rules.

(i) Credit risk mitigation policies

The Bank has a range of policies and practices intended to mitigate credit risk. The most prevalent of these is the taking of security for funds advances (collateral) and guarantees, which is common practice.

The Bank implements guidelines on the acceptability of specific classes of collateral. The principal collateral types for corporate loans and advances

- Housing and land use rights
- Property
- Time deposits, debt securities and equities

The amount of acceptable collateral at the time of loan origination is determined by the professional evaluation institutions and is subject to loan-to-value ratio limits based on type (loan amount versus fair value of the collateral).The principal collateral types for corporate loans and advances are:

Collateral	Maximum loan-to-value ratio
Housing and land use rights	70%
Office Building	60%
Property	50%
Deposit, promissory note and government bonds	90%
PRC financial institution bonds	80%
warehouse warrant	60%

For loans guaranteed by a third party guarantor, the Bank will assess the guarantor's credit rating, financial condition, credit history and ability to meet obligations.

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(ii) Credit commitment

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 equivalent to the total amount of credit commitments.

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

	31 December 2011	31 December 2010
Balance sheet items:		
Balances at central bank	54,972,549	33,860,147
Due from banks and other financial institutions	7,076,208	1,496,352
Placements with banks and other financial institutions	3,581,172	1,237,152
Trading financial assets	5,035,807	2,717,898
Reverse repurchase agreements	5,317,376	10,542,884
Interests receivables	1,043,979	796,087
Loans and advances to customers	133,922,883	114,058,443
Available-for-sale financial assets	18,337,920	20,851,086
Held-to-maturity investments	20,604,548	13,190,678
Loans-and-receivables investments	3,815,116	6,888,458
Other receivables	53,254	415,623
	253,760,812	206,054,808
Off-balance sheet items:		
Bank bill acceptance	38,087,308	27,467,421
Letters of credit issued	3,053,143	1,682,903
Letters of guarantee issued	1,752,715	1,656,332
Loan commitments	298,000	52,000
unused credit card limit	543,609	515,590
	43,734,775	31,374,246
Total	297,495,587	237,429,054

The table above represents a worst case scenario of credit risk exposure of the Bank, without taking account of any collateral held or other credit enhancements attached.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011(Amount in thousands of Renminbi, unless otherwise stated)

(4) Placements with banks and other financial institutions and reverse repurchase agreements

	31 December 2011	31 December 2010
(i) Neither past due nor impaired (i)	8,898,548	11,780,458
(ii) Impaired (ii)	48,081	48,081
	8,946,629	11,828,539
Allowance for impairment loss	(48,081)	(48,503)
Net Value	8,898,548	11,780,036

(i) Neither past due nor impaired

The credit risk of placements with banks and other financial institutions and reverse repurchase agreements that were neither past due nor impaired can be assessed based on the nature of counterparties.

	31 December 2011	31 December 2010
Domestic commercial banks	6,861,070	4,464,816
Other domestic financial institutions	2,037,478	7,315,642
	8,898,548	11,780,458

(ii) Impaired

The Bank has made provisions for impairment losses in full amount to placements with banks and other financial assets and reverse repurchase agreements as of 31 December 2011.

(5) Loans and advances to customers

	31 December 2011	31 December 2010
(i) Neither past due nor impaired (i)	136,532,555	116,240,241
(ii) past due but not impaired(ii)	226,056	96,600
(iii) Impaired (iii)	654,398	697,177
Total	137,413,009	117,034,018
Allowance for impairment loss	(3,490,126)	(2,975,575)
Net Value	133,922,883	114,058,443

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(i) Neither past due nor impaired

The loans and advances neither past due nor impaired are classified by reference to the 5 rating classification system adopted by the Bank.

	Corporate loans	Individual loans	Total
As at 31 December 2011			
Pass	103,621,564	30,313,320	133,934,884
Special-mention	2,596,554	1,117	2,597,671
	106,218,118	30,314,437	136,532,555
As at 31 December 2010			
Pass	86,704,748	24,745,736	111,450,484
Special-mention	4,788,478	1,279	4,789,757
	91,493,226	24,747,015	116,240,241

(ii) Past due but not impaired

The breakdown of due days of loans and advances to customers that were past due but not impaired is as follows

	Past due Up to 30 days	Past due 30-60 days	Past due 60-90 days	Past due over 90 days	Total
31 December 2011					
Corporate loans	3,293	4,905	-	-	8,198
Individual loans	133,764	38,929	18,420	26,745	217,858
	137,057	43,834	18,420	26,745	226,056
31 December 2010					
Corporate loans	15,783	4,000	-	80	19,863
Individual loans	5,054	29,898	20,042	21,743	76,737
	20,837	33,898	20,042	21,823	96,600

As at 31 December 2011, fair value of collaterals and pledges for corporate loans past due but not impaired was RMB 4.09 million (2010: zero). Fair value of collaterals and pledges for individual loans past due but not impaired was RMB 541.79 million (2010: 149.91 million).

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(iii) Impaired

	31 December 2011	31 December 2010
Corporate loans	570,663	592,171
Personal loans	83,735	105,006
	654,398	697,177

As of 31 December 2011, fair value of collaterals and pledges was RMB 411.44 million for impaired corporate loans (2010: RMB 394.08 million) and RMB 70.12 million for impaired individual loans. (2010: RMB 85.09 million)

(iv) Loans and advances restructured

Restructuring (referring to loans and other assets that have been restructured and renegotiated) is a voluntary or, to a limited extent, court-supervised procedure, through which the Bank and a borrower and/or its guarantor, if any, restructure credit terms as a result of deterioration in the borrower's financial condition or of the borrower's inability to make payments when due.

	31 December 2011	31 December 2010
Net Value	-	770

(6) Debt securities

The table below represents an analysis of the Bank's investment securities by PBOC-approved rating agencies. Credit risks of unrated investment securities can be assessed by the nature of counterparties.

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31 December 2011	Trading	Available for sale	Hold to maturity	Loans and receivables	Total
Mid- and long-term bonds					
AAA	199,641	1,238,278	1,265,550	-	2,703,469
AA+	305,224	2,617,581	269,968	-	3,192,773
AA	1,076,008	631,352	941,503	-	2,648,863
AA-	-	138,078	-	-	138,078
A-1	15,693	17,204	-	-	32,897
Short-term bonds					
A-1	870,198	134,338	-	-	1,004,536
Unrated bonds					
Treasury bonds	960,323	4,010,859	8,803,967	301,886	14,077,035
central bank bill	138,655	1,662,500	4,487,531	-	6,288,686
Policy financial bond	1,470,065	5,605,820	4,836,029	-	11,911,914
Trust products					
AAA	-	472,820	-	-	472,820
AA+	-	881,310	-	-	881,310
AA	-	637,950	-	-	637,950
A-1	-	289,830	-	-	289,830
Wealth management products issued by:					
Joint-stock commercial banks	-	-	-	1,505,310	1,505,310
City commercial banks	-	-	-	2,007,920	2,007,920
	5,035,807	18,337,920	20,604,548	3,815,116	47,793,391

The Bank invested the funds received from wealth management products which the Bank committed the safety of principal into trust product issued by trust companies. The underlying assets are government bond, financial bonds and corporate bonds. As at 31 December 2011, all the trust products have invested into corporate bonds.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011(Amount in thousands of Renminbi, unless otherwise stated)

31 December 2010	Trading	Available for sale	Hold to maturity	Loans and receivables	Total
Mid- and long-term bonds					
AAA	99,063	1,433,889	1,414,675	-	2,947,627
AA+	128,450	1,781,993	269,946	-	2,180,389
AA	1,501,936	445,679	600,000	-	2,547,615
A-1	-	20,000	-	-	20,000
Short-term bonds					
A-1	212,964	71,623	20,085	-	304,672
Unrated bonds					
Treasury bonds	281,693	4,461,792	5,839,272	433,546	11,016,303
Central bank bill	132,954	3,606,432	397,317	-	4,136,703
Policy financial bond	360,838	8,903,748	4,649,383	-	13,913,969
Trust products:					
AA+	-	125,930	-	-	125,930
Wealth management products issued by other banks:					
State-Owned commercial banks	-	-	-	500,688	500,688
Joint-stock commercial banks	-	-	-	3,824,364	3,824,364
City commercial banks	-	-	-	1,924,275	1,924,275
Foreign banks	-	-	-	205,585	205,585
	2,717,898	20,851,086	13,190,678	6,888,458	43,648,120

3. Market risk

The Bank is exposed to market risks that may cause losses to the fair value or future cash flows of a financial instrument as a result of adverse changes in market prices. Market risk arises from open positions in the trading and banking books in interest rate, exchange rate, equities and commodities.

The risk management department manages the Bank's market risks. The finance department takes as a monitor role in controlling all market risks of non-trading book facing by the Bank. The financial market department plays its roles in implementing control of trading book of the Bank and non-trading book of its own. The Bank built a market risks analysis systems that identifying, measuring, and controlling the market risks by daily, monthly and quarterly. The finance department and financial market department are responsible for review material affairs and monitoring market risks and reporting them to risk management department and senior management on a regular basis.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011 (Amount in thousands of Renminbi, unless otherwise stated)

(1) Market risk measurement techniques

The Bank performs sensitivity analysis by measuring the impact of a change in interest rates on net interest income. This analysis assumes that yield curves change in parallel while the structure of assets and liabilities remains unchanged, and does not take changes in customer behaviour, basis risk or any prepayment options on debt securities into consideration

(2) Foreign currency risk

The Bank is exposed to foreign exchange risk arising from the recognised assets and liabilities, and future transactions denominated in foreign currencies.

The Bank endeavours to manage its sources and uses of foreign currencies to minimize potential mismatches with assets and liabilities, and to maintain exchange rate risk within established limits. In accordance with the guidelines from the risk management committee, relevant rules and regulations of the authorities and the assessment of the management on the current environment, the Bank has set risk limits for exposure of each currency and works hard to reduce the mismatch between the assets and liabilities through arranging the source and application of foreign exchanges in a scientific way. The forex risk exposure will be managed based on types of business and the authority of traders.

The table below summarizes the Bank's exposure to foreign currency exchange rate risk at the end of each reporting period. Included in the table are The Bank's assets and liabilities at carrying amounts in RMB, categorized by the original currency.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011(Amount in thousands of Renminbi, unless otherwise stated)

At at 31 December 2011	RMB	USD	EURO	Other currencies	Total
Assets					
Cash and balance at central bank	55,816,847	11,259	76	462	55,828,644
Due from bank and other financial institutions	6,632,536	351,458	78,305	13,909	7,076,208
Placements with banks and other financial institutions	3,581,172	-	-	-	3,581,172
Trading financial assets	5,035,807	-	-	-	5,035,807
Reverse repurchase agreements	5,317,376	-	-	-	5,317,376
Interest receivables	1,043,961	13	3	2	1,043,979
Loans and advances to Customers	133,133,762	739,815	8,008	41,298	133,922,883
Available-for-sale financial assets	18,356,903	-	-	-	18,356,903
Held to maturity investments	20,604,548	-	-	-	20,604,548
Loans-and-receivables investments	3,815,116	-	-	-	3,815,116
Other financial assets	53,254	-	-	-	53,254
Total financial assets	253,391,282	1,102,545	86,392	55,671	254,635,890
Liabilities					
Due to banks and other financial institutions	(9,323,486)	-	-	-	(9,323,486)
Placement from banks and other financial institutions	(3,361,082)	(135,765)	-	(37,675)	(3,534,522)
Repurchase agreements	(16,184,796)	-	-	-	(16,184,796)
Due to Customer	(202,986,421)	(565,697)	(15,148)	(12,438)	(203,579,704)
Interest payables	(1,277,162)	(558)	(17)	(9)	(1,277,746)
Bond issued	(3,991,461)	-	-	-	(3,991,461)
Other financial liabilities	(327,362)	(9,971)	-	(1)	(337,334)
Total financial liabilities	(237,451,770)	(711,991)	(15,165)	(50,123)	(238,229,049)
Net on-balance sheet position	15,939,512	390,554	71,227	5,548	16,406,841
Credit commitments	40,557,283	2,764,708	340,230	72,554	43,734,775

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011 (Amount in thousands of Renminbi, unless otherwise stated)

At at 31 December 2010	RMB	USD	EURO	Other currencies	Total
Assets					
Cash and balances at central bank	34,566,800	12,180	109	437	34,579,526
Due from bank and other financial institutions	1,040,768	407,968	34,899	12,717	1,496,352
Placements with banks and other financial institutions	1,237,152	-	-	-	1,237,152
Trading financial assets	2,717,898	-	-	-	2,717,898
Reverse repurchase agreements	10,542,884	-	-	-	10,542,884
Interest receivables	795,946	139	2	-	796,087
Loans and advances to customers	113,828,647	212,844	7,238	9,714	114,058,443
Available for sale financial assets	20,865,630	-	-	-	20,865,630
Held to maturity investments	13,190,678	-	-	-	13,190,678
Loans and receivables investments	6,888,458	-	-	-	6,888,458
Other financial assets	14,121	389,996	-	11,506	415,623
Total financial assets	205,688,982	1,023,127	42,248	34,374	206,788,731
Liabilities					
Due to banks and other financial institutions	(9,822,442)	-	-	-	(9,822,442)
Placements from banks and other financial institutions	(828,320)	(434,820)	-	-	(1,263,140)
Repurchase agreements	(20,797,969)	-	-	-	(20,797,969)
Due to Customers	(159,258,300)	(268,879)	(34,072)	(20,755)	(159,582,006)
Interest payables	(632,335)	(206)	(103)	(6)	(632,650)
Other financial liabilities	(815,282)	-	-	-	(815,282)
Total financial liabilities	(192,154,648)	(703,905)	(34,175)	(20,761)	(192,913,489)
Net on-balance sheet position	13,534,334	319,222	8,073	13,613	13,875,242
Credit commitments	29,624,737	1,379,489	41,497	328,523	31,374,246

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011(Amount in thousands of Renminbi, unless otherwise stated)

The foreign currency risk of the Bank is not significant and main currencies are dollar and euro. The table below illustrates the potential impact of an appreciation or depreciation of other currencies against RMB by 1% on the Bank's net profit.

	31 December 2011	31 December 2010
Appreciation of other currencies by 1%	3,505	2,557
Depreciation of other currencies by 1%	(3,505)	(2,557)

The Bank conducts sensitivity analysis on the net foreign currency position, such analysis does not take into account the following things:

- Any further actions that may have been or could be taken by management after the financial reporting date
- Customers' reactions to the exchange rate movements;
- Impact on the market prices of assets and liabilities
- The necessary actions to be taken by the Bank in response to exchange rate movements

Due to these limitations of the Bank's approach, actual impact on the Bank's net profit from exchange rate fluctuation may vary from the analysis above.

(3) 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.

Currently, benchmark interest rates for RMB loans and deposits in China mainland are set by the PBOC and the Bank's operations in China mainland are subject to an interest rate scheme regulated by the PBOC. It is normal practice for the interest rates of both interest-earning assets and interest bearing liabilities to move in tandem, although the timing and extent of such movements may not be synchronised.

According to the PBOC regulations, loan interest rates can be set at up to 10% below the corresponding PBOC benchmark interest rates. Interest rates for discounted bills are market driven. However, such interest rates cannot be set below the PBOC interest rate for re-discounted bills. Interest rate of customer deposit cannot be set above the PBOC benchmark interest rate.

The tables below summarise the Bank's exposure to interest rate risks. It includes the the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011 (Amount in thousands of Renminbi, unless otherwise stated)

31 December 2011	Within 1 month	1 - 3 months	3 -12 months	1 - 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances at central bank	54,959,174	-	-	-	-	869,470	55,828,644
Due from financial institutions	5,323,058	1,303,180	449,970	-	-	-	7,076,208
Placements with financial institutions	1,564,611	301,617	1,714,944	-	-	-	3,581,172
Trading financial assets	244,805	881,953	815,907	2,350,361	742,781	-	5,035,807
Reverse repurchase agreements	2,316,442	3,000,934	-	-	-	-	5,317,376
Loans and advances to customers	48,313,682	10,990,019	69,637,013	4,027,603	954,566	-	133,922,883
Available for sale financial assets	1,257,134	2,177,075	3,592,733	8,042,070	3,268,908	18,983	18,356,903
Held to maturity investments	550,676	991,428	3,045,655	10,176,955	5,839,834	-	20,604,548
Loans and receivables investments	-	3,091,887	552,254	170,975	-	-	3,815,116
Interest receivables	-	-	-	-	-	1,043,979	1,043,979
Other financial assets	-	-	-	-	-	53,254	53,254
Total financial assets	114,529,582	22,738,093	79,808,476	24,767,964	10,806,089	1,985,686	254,635,890
Liabilities							
Due to financial institutions	(2,183,855)	(2,570,000)	(4,569,631)	-	-	-	(9,323,486)
Placements from financial institutions	(2,369,588)	(664,934)	(500,000)	-	-	-	(3,534,522)
Repurchase agreements	(15,885,517)	(15,829)	(283,450)	-	-	-	(16,184,796)
Due to customers	(136,645,157)	(16,868,455)	(38,862,103)	(11,203,989)	-	-	(203,579,704)
Interest payables	-	-	-	-	-	(1,277,746)	(1,277,746)
Bond issued	-	-	-	-	(3,991,461)	-	(3,991,461)
Other financial liabilities	-	-	-	-	-	(337,334)	(337,334)
Total financial liabilities	(157,084,117)	(20,119,218)	(44,215,184)	(11,203,989)	(3,991,461)	(1,615,080)	(238,229,049)
Total Interest sensitivity gap	(42,554,535)	2,618,875	35,593,292	13,563,975	6,814,628	370,606	16,406,841

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011(Amount in thousands of Renminbi, unless otherwise stated)

31 December 2010	Within 1 month	1 - 3 months	3 -12 months	1 - 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances at central bank	33,856,953	-	-	-	-	722,573	34,579,526
Due from financial institutions	1,496,352	-	-	-	-	-	1,496,352
Placements with financial institutions	547,453	244,649	445,050	-	-	-	1,237,152
Trading financial assets	30,913	811,243	459,041	985,433	431,268	-	2,717,898
Reverse repurchase agreements	3,371,311	2,445,078	4,726,495	-	-	-	10,542,884
Loans and advances to customers	56,431,266	9,840,188	41,687,141	5,233,489	866,359	-	114,058,443
Available for sale financial assets	371,821	2,493,422	5,113,382	8,981,312	3,891,149	14,544	20,865,630
Held to maturity investments	499,624	49,000	2,165,483	6,490,824	3,985,747	-	13,190,678
Loans and receivables investments	300,043	297,471	6,063,778	227,166	-	-	6,888,458
Interest receivables	-	-	-	-	-	796,087	796,087
Other financial assets	-	401,502	-	-	-	14,121	415,623
Total financial assets	96,905,736	16,582,553	60,660,370	21,918,224	9,174,523	1,547,325	206,788,731
Liabilities							
Due to financial institutions	(1,819,206)	(50,000)	(5,853,236)	(2,100,000)	-	-	(9,822,442)
Placements from financial institutions	(643,840)	(373,600)	(245,700)	-	-	-	(1,263,140)
Repurchase agreements	(11,871,042)	(4,457,900)	(4,469,027)	-	-	-	(20,797,969)
Interest payables	-	-	-	-	-	(632,650)	(632,650)
Due to Customers	(113,975,759)	(14,600,297)	(28,143,370)	(2,862,574)	(6)	-	(159,582,006)
Other financial liabilities	-	-	-	-	-	(815,282)	(815,282)
Total financial liabilities	(128,309,847)	(19,481,797)	(38,711,333)	(4,962,574)	(6)	(1,447,932)	(192,913,489)
Total interest sensitivity gap	(31,404,111)	(2,899,244)	21,949,037	16,955,650	9,174,517	99,393	13,875,242

The Bank takes approaches to shorten the re-pricing time lag and duration of investments, in order to minimize the interest sensitivity gap between assets and liabilities.

The table below illustrates the potential impact of a 100 basis point interest rate move on the net interest at the balance sheet date in next fiscal year:

	31 December 2011	31 December 2010
+ 100 basis point parallel move in all yield curves	648,369	534,820
- 100 basis point parallel move in all yield curves	(648,369)	(534,820)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011 (Amount in thousands of Renminbi, unless otherwise stated)

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

- The interest rate fluctuations on different assets and liabilities are same;
- Current deposits are not re-priced;
- Interest rates are re-priced in the middle of each specified time period;
- There are no significant changes in business operations after balance sheet date;
- Customers' responses to interest rate movement are not considered;
- Impact from interest rate movement on market prices of assets and liabilities are not considered;
- 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

It is essential for the Bank to address liquidity emergencies by optimizing asset and liability structure and improving the match and symmetry of assets and liabilities. It is difficult for banks to match and symmetry of assets and liabilities well due to uncertainties of periods and types of transactions. Mismatch of assets of liability may improve revenue but increase the risks of losses at the mean time.

The ability to match assets and liabilities within the due date and exchange the costs of overdue payments of liabilities are the key indicators for assessing liquidity risk of the Bank.

Liquidity risk may arise from the following events or factors: overnight deposits, current deposits, due to pay time deposit, bond payable, drawing of loans by customers, guarantee and other payables of cash-based derivatives financial instruments. According to historical experiences, most of deposits are not withdraw by the customers on the due day. Therefore, the Bank sets the minimum level of saving of cash in order to satisfy unpredictable requirements of cash in the future.

(1) Undiscounted cash flows of non-derivative financial assets and financial liabilities

The tables below present the cash flows of the Bank of non-derivative financial assets and financial liabilities and derivative financial instruments that will be settled on a net basis and on a gross basis by remaining contractual maturities at the financial reporting date. The amounts disclosed in the table are the contractual undiscounted cash flow, whereas the Bank manages its liquidity risk based on expected undiscounted cash inflows.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011(Amount in thousands of Renminbi, unless otherwise stated)

	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
31 December 2011						
Assets						
Cash and balances at central bank	55,828,644	-	-	-	-	55,828,644
Due from financial institutions	5,358,308	1,313,280	453,457	-	-	7,125,045
Placements with financial institutions	1,571,186	306,086	1,784,034	-	-	3,661,306
Trading financial assets	250,130	940,394	980,870	2,876,337	884,194	5,931,925
Reverse repurchase agreements	2,319,197	3,021,901	-	-	-	5,341,098
Loans and advances to customers	8,729,152	14,629,871	64,701,551	38,608,604	30,302,615	156,971,793
Available for sale financial assets	1,294,216	2,305,158	4,158,151	9,818,451	3,697,513	21,273,489
Held to maturity investments	603,457	1,102,079	3,502,218	12,037,742	6,814,399	24,059,895
Loans and receivables investments	-	3,194,674	602,246	215,529	-	4,012,449
Other financial assets	53,254	-	-	-	-	53,254
Total financial assets (contractual maturity dates)	76,007,544	26,813,443	76,182,527	63,556,663	41,698,721	284,258,898
Liabilities						
Due to financial institutions	(2,214,593)	(2,702,290)	(4,708,424)	-	-	(9,625,307)
Placements from financial institutions	(2,369,862)	(665,417)	(500,000)	-	-	(3,535,279)
Repurchase agreements	(15,906,232)	(15,898)	(285,728)	-	-	(16,207,858)
Due to Customers	(136,653,187)	(16,965,064)	(39,524,808)	(12,792,541)	-	(205,935,600)
Interest payables	-	-	(262,000)	(1,048,000)	(5,310,000)	(6,620,000)
Other financial liabilities	-	-	(337,334)	-	-	(337,334)
Total financial liabilities(contractual maturity dates)	(157,143,874)	(20,348,669)	(45,618,294)	(13,840,541)	(5,310,000)	(242,261,378)
Net Liquidity	(81,136,330)	6,464,774	30,564,233	49,716,122	36,388,721	41,997,520

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011(Amount in thousands of Renminbi, unless otherwise stated)

	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
31 December 2010						
Assets						
Cash and balances at central bank	34,591,719	-	-	-	-	34,591,719
Due from financial institutions	1,497,346	-	-	-	-	1,497,346
Placements with financial institutions	548,788	246,644	453,725	-	-	1,249,157
Trading financial assets	31,957	873,380	526,712	1,364,757	520,622	3,317,428
Reverse repurchase agreements	3,376,789	2,465,077	4,796,805	-	-	10,638,671
Loans and advances to customers	7,756,085	11,944,931	51,538,815	42,655,124	23,033,825	136,928,780
Available for sale financial assets	402,709	2,620,299	5,703,841	10,837,329	4,429,196	23,993,374
Held to maturity investments	529,236	113,391	2,512,078	7,798,236	4,805,828	15,758,769
Loans and receivables investments	300,000	343,773	6,215,730	299,599	-	7,159,102
Other financial assets	-	-	401,502	14,121	-	415,623
Total financial assets(contractual maturity dates)	49,034,629	18,607,495	72,149,208	62,969,166	32,789,471	235,549,969
Liabilities						
Due to financial institutions	(1,819,206)	(119,416)	(5,957,822)	(2,122,693)	-	(10,019,137)
Placements from financial institutions	(674,822)	(292,525)	(273,972)	(378,655)	-	(1,619,974)
Repurchase agreements	(11,884,267)	(4,500,775)	(4,528,905)	-	-	(20,913,947)
Due to Customers	(113,982,963)	(14,855,460)	(28,434,000)	(3,018,407)	(6)	(160,290,836)
Other financial liabilities	-	-	(815,282)	-	-	(815,282)
Total financial liabilities(contractual maturity dates)	(128,361,258)	(19,768,176)	(40,009,981)	(5,519,755)	(6)	(193,659,176)
Net Liquidity	(79,326,629)	(1,160,681)	32,139,227	57,449,411	32,789,465	41,890,793

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011(Amount in thousands of Renminbi, unless otherwise stated)

(2) Off-balance sheet items

The Bank provides guarantees and issues letters of credit based on a third party's creditworthiness and deposit amount. Liquidity requirements to support calls under guarantees and letters of credit are considerably less than the amounts under commitments because the Bank does not generally expect the third party to draw funds under those agreements. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

	Less than 1 year	1-5 year	Over 5 years	Total
As at 31 December 2011				
Bank bill acceptance	38,087,308	-	-	38,087,308
Letters of credit issued	2,529,126	524,017	-	3,053,143
Letters of guarantee issued	975,762	776,753	200	1,752,715
Loan commitments	168,903	129,097	-	298,000
unused credit card limit	271,805	271,804	-	543,609
Operating lease commitments	67,833	187,133	33,157	288,123
Capital commitments	14,411	-	-	14,411
	42,115,148	1,888,804	33,357	44,037,309
As at 31 December 2010				
Bank bill acceptance	27,467,421	-	-	27,467,421
Letters of credit issued	1,558,210	124,693	-	1,682,903
Letters of guarantee issued	904,764	748,889	2,679	1,656,332
Loan commitments	1,000	51,000	-	52,000
unused credit card limit	257,795	257,795	-	515,590
Operating lease commitments	34,534	91,298	47,776	173,608
Capital commitments	24,357	1,651	-	26,008
	30,248,081	1,275,326	50,455	31,573,862

5. Fair Values of Financial Assets and Liabilities

(1) Financial instruments not measured at fair value

Financial assets and liabilities not presented at their fair value on the balance sheet mainly include balances with central bank, due from and placements with banks and other financial institutions, reverse repurchase agreements, loans and advances to customers, held to maturity investments, loans and receivables, due to and placements from banks and other financial institutions, repurchase agreements and due to customer.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011 (Amount in thousands of Renminbi, unless otherwise stated)

The table below illustrates the carrying amounts and fair values of those financial instruments whose respective carrying values are different with their fair values on 31 December 2011.

	31 December 2011	
	Fair value	Carrying value
Financial assets		
Held to maturity investments	20,615,724	20,604,548
Loans and receivables	3,814,564	3,815,116
Financial liabilities		
Due to Customers	(204,250,133)	(204,540,858)
Bond issued	(3,595,860)	(3,991,461)

	31 December 2010	
	Fair value	Carrying value
Financial assets		
Held to maturity investments	13,026,324	13,190,678
Loans and receivables	6,850,449	6,888,458
Financial liabilities		
Due to Customers	(160,030,220)	(160,176,002)

Note: The carrying value of due to customers include due to customers and interest payables of deposit.

(i) Loans and receivables and Held to maturity investments

Fair value of held to maturity securities is based on market prices or broker/dealer price quotations. Where this information for held to maturity securities and loans and receivables is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

(ii) Due to customers

The fair value of checking accounts, savings accounts and short-term fund is the amount payable on demand at the reporting date. The estimated fair value of fixed interest-bearing time deposits is based on discounted cash flows using interest rates for existing time deposits with similar remaining maturity.

(2) Levels of fair value

There are three levels of fair value based on the lowest inputs of material importance to the overall measurement:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities, including listed

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equity securities on exchange or debt instrument issued by certain governments.

Level 2: Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. This level includes the majority of the over-the-counter derivative contracts and debt securities. Data of yield curves or input parameters on counterparty credit risks are from Bloomberg and chinaboard.com.cn.

Level 3: Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

As at 31 December 2011	Level 1	Level 2	Level 3	Total
Trading financial assets				
— Bonds	-	5,035,807	-	5,035,807
Available for sale financial assets				
— Bonds	-	16,056,010	-	16,056,010
— Equity securities	8,825	-	10,158	18,983
— Trust products	-	2,281,910	-	2,281,910
	8,825	23,373,727	10,158	23,392,710

As at 31 December 2010	Level 1	Level 2	Level 3	Total
Trading financial assets				
— Bonds	-	2,717,898	-	2,717,898
Available for sale financial assets				
— Bonds	-	20,725,156	-	20,725,156
— Equity securities	5,660	-	8,884	14,544
— Trust products	-	125,930	-	125,930
	5,660	23,568,984	8,884	23,583,528

No major transfer between Level 1 and Level 2.

Level 3 financial instruments of the Bank include equities of unlisted financial institutions. The fair value of a financial instrument that is not traded in an active market by the Bank is determined by using a valuation technique. Valuation techniques include using prices of recent market transactions between knowledgeable and willing parties, reference to the current fair value of another financial asset that is substantially the same with this instrument, and discounted cash flow analysis.

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The changes in level 3 financial assets are analysed below:

	Available for sale financial assets
	Equity securities
Balance as at 1 January 2011	8,884
Changes in fair value recognised directly in equity	1,274
Balance as at 31 December 2011	10,158
Profit or loss from assets still held on 31 December 2011	2,249

	Available for sale financial assets
	Equity securities
Balance as at 1 January 2010	10,249
Disposal	(1,365)
Balance as at 31 December 2010	8,884
Profit or loss from assets still held on 31 December 2010	343

6. Capital management

The objectives of the Bank's capital management include: (1) satisfy the requirements of external supervisory bodies and create the best returns for the shareholders; (2) making reasonable use of various capital instruments, optimizing the aggregate amount of capital.

Based on changes in the economy and the risks it is faced with, the Bank is going to actively adjust its capital structure by adjusting its dividend policies, transfer to paid-in capital and issuance of new bonds.

Capital adequacy and regulatory capital are monitored by the Bank's management, employing techniques based on the guidelines of "The Rules on Capital Adequacy Ratios of Commercial Banks " amended by the CBRC on 28 December 2006 and other regulatory requirements for supervisory purposes.

The tables below summarise the capital adequacy ratios of the Bank for the years ended 31 December 2011:

	31 December 2011	31 December 2010
Total capital base before deductions	22,022,300	15,532,549
Core capital:	16,266,044	14,357,293
Supplementary capital	5,756,256	1,175,256
Unconsolidated equity investments	(140,000)	(151,104)
Net capital base	21,822,300	15,381,445
Net core capital base	16,196,044	14,281,741
Risk-weighted assets	149,054,582	127,581,010
Capital adequacy ratio	14.68%	12.06%
Core Capital adequacy ratio	10.87%	11.19%



徽商银行

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