IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS UNDER RULE 144A OR (2) NON-U.S. PERSONS OUTSIDE OF THE UNITED STATES

IMPORTANT: You must read the following before continuing. The following applies to the offering circular following this page (the "**Offering Circular**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND SECURITIES IN BEARER FORM ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. THE SECURITIES MAY NOT BE OFFERED, SOLD OR (IN THE CASE OF NOTES IN BEARER FORM) DELIVERED WITHIN THE UNITED STATES, OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**")) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THIS OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY ADDRESS IN THE UNITED STATES. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT, IN WHOLE OR IN PART, IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: In order to be eligible to view the Offering Circular or make an investment decision with respect to the securities, investors must be either (1) Qualified Institutional Buyers ("**QIBs**") (within the meaning of Rule 144A under the Securities Act) or (2) non-U.S. persons (within the meaning of Regulation S) outside the United States. The Offering Circular is being sent at your request and by accepting the e-mail and accessing the Offering Circular, you will be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs or (b) non-U.S. persons and that the electronic mail address that you gave us and to which the Offering Circular has been delivered is not located in the United States and (2) you consent to delivery of the Offering Circular by electronic transmission.

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Offering Circular to any other person.

The materials relating to the offering of securities to which the Offering Circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer (as defined in the Offering Circular) in such jurisdiction.

The Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, Bank of China Limited nor Bank of China (Hong Kong) Limited (together, the "**Arrangers**"), any person who controls any Arranger or Dealer, any director, officer, employee nor agent of the Issuer or any Arranger or Dealer, or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Arrangers or the Dealers.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

BANK OF CHINA LIMITED

(a joint stock company incorporated in the People's Republic of China with limited liability)

中国银行
BANK OF CHINA

U.S.$10,000,000,000
Medium Term Note Programme

Under the U.S.$10,000,000,000 Medium Term Note Programme described in this Offering Circular (the "**Programme**"), Bank of China Limited or such branch of Bank of China Limited (including Bank of China Limited, Hong Kong Branch and Bank of China Limited, London Branch) as specified in the applicable Pricing Supplement (each an "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue medium term notes (the "**Notes**").

Notes may be issued in bearer or registered form. The aggregate nominal amount of Notes outstanding will not at any time exceed U.S.$10,000,000,000 (or its equivalent in other currencies, subject to any duly authorised increase). The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Summary of the Programme*" or any additional Dealer appointed under the Programme from time to time by the Issuer (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Notes.

Application has been made to The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") for the listing of the Programme, and for the permission to deal in, and for the listing of, Notes to be issued under the Programme by way of debt issues to professional investors (as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**")) only during the 12-month period from the date of this Offering Circular on the Hong Kong Stock Exchange. Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Series (as defined under "*Terms and Conditions of the Notes*" and each term therein, a "**Condition**") of Notes will be set out in a pricing supplement (the "**Pricing Supplement**") which, with respect to Notes to be listed on the Hong Kong Stock Exchange, will be delivered to the Hong Kong Stock Exchange, on or before the date of issue of the Notes of such Series. This Offering Circular may not be used to consummate sales of Notes, unless accompanied by a Pricing Supplement.

The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Hong Kong Stock Exchange or any other stock exchange.

Each Series (as defined in "*Summary of the Programme*") of Notes in bearer form ("**Bearer Notes**") will be represented on issue by a temporary global note (each a "**Temporary Global Note**"), and will be sold in an "offshore transaction" within the meaning of Regulation S ("**Regulation S**") under the United States Securities Act of 1933 (the "**Securities Act**"). Interests in Temporary Global Notes generally will be exchangeable for interests in permanent global notes (each a "Permanent Global Note" and, together with the Temporary Global Notes, the "**Global Notes**"), or if so stated in the relevant Pricing Supplement, definitive Notes ("**Definitive Notes**"), after the date falling 40 days after the later of the commencement of the offering and the relevant issue date of such Series, upon certification as to non-U.S. beneficial ownership. Interests in Permanent Global Notes will be exchangeable for Definitive Notes in whole but not in part as described under "*Summary of Provisions Relating to the Notes while in Global Form*".

The Notes of each Series to be issued in registered form ("**Registered Notes**") and which are sold in an "offshore transaction" within the meaning of Regulation S ("**Unrestricted Notes**") will initially be represented by a permanent registered global certificate (each an "**Unrestricted Global Note Certificate**") without interest coupons, which may be deposited on the relevant issue date (a) in the case of a Series intended to be cleared through Euroclear Bank S.A./N.V. ("**Euroclear**") and/or Clearstream Banking, *société anonyme* ("**Clearsteam, Luxembourg**"), with a common depositary on behalf of Euroclear and Clearstream, Luxembourg or (b) in the case of a Series intended to be cleared through the Central Moneymarkets Unit Service (the "**CMU Service**"), operated by the Hong Kong Monetary Authority (the "**HKMA**"), with a sub-custodian for the CMU Service, (c) in the case of a Series intended to be cleared through The Depositary Trust Company ("**DTC**"), registered in the name of Cede & Co. as nominee for DTC and (d) in the case of a Series intended to be cleared through a clearing system other than, or in addition to, Euroclear and/or Clearstream, Luxembourg, DTC and/or the CMU Service, or delivered outside a clearing system, as agreed between the Issuer and the relevant Dealer. Registered Notes which are sold in the United States to "qualified institutional buyers" (each, a "**QIB**") within the meaning of Rule 144A ("**Rule 144A**") under the Securities Act ("**Restricted Notes**") will initially be represented by a permanent registered global certificate (each a "**Restricted Global Note Certificate**" and, together with the relevant Unrestricted Global Note Certificate, the "**Global Note Certificates**"), without interest coupons, which may be deposited on the relevant issue date with a custodian (the "**DTC Custodian**") for, and registered in the name of Cede & Co. as nominee for, DTC or with a common depositary on behalf of Euroclear and Clearstream, Luxembourg. The provisions governing the exchange of interests in Global Notes for other Global Notes and Definitive Notes are described in "*Summary of Provisions Relating to the Notes while in Global Form*".

The Notes have not been, and will not be, registered under the Securities Act or the securities laws of any other jurisdiction. Subject to certain exceptions, the Notes may not be offered, sold or (in the case of Bearer Notes) delivered within the United States or to, or for the account or benefit of, U.S. persons. Accordingly, the Notes may be offered and sold (i) in the United States (as defined in Regulation S) only to QIBs in transactions exempt from registration under the Securities Act and/or (ii) outside the United States to non-U.S. persons in offshore transactions in reliance on Regulation S. Any Series of Notes may be subject to additional selling restrictions. The applicable Pricing Supplement in respect of such Series of Notes will specify any such restrictions. See "*Subscription and Sale*" and the applicable Pricing Supplement. Bearer Notes are subject to U.S. tax requirements.

Moody's Investor Service, Inc. ("**Moody's**") has assigned a rating of "A1" to the Programme and Fitch Ratings Ltd. ("**Fitch**") has assigned a rating of "A" to the Programme. Moody's is expected to rate Senior Notes issued under the Programme "A1" and Fitch is expected to rate Senior Notes issued under the Programme "A". Any rating assigned to Subordinated Notes issued under the Programme by Moody's and/or Fitch would be issued on a case-by-case basis for each Tranche of Subordinated Notes at drawdown. The rating is only correct as at the date of the Offering Circular. Notes issued under the Programme may be rated or unrated. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at anytime by the assigning rating agency.

Investing in Notes issued under the Programme involves certain risks and may not be suitable for all investors. Investors should have sufficient knowledge and experience in financial and business matters to evaluate the information contained in this Offering Circular and in the applicable Pricing Supplement and the merits and risks of investing in a particular issue of Notes in the context of their financial position and particular circumstances. Investors also should have the financial capacity to bear the risks associated with an investment in Notes. Investors should not purchase Notes unless they understand and are able to bear risks associated with Notes. The principal risk factors that may affect the ability of the Issuer to fulfil its obligations in respect of the Notes are discussed under "*Risk Factors*" below.

Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer and the Notes. The Issuer accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

Arranger and Dealer

Bank of China

The date of this Offering Circular is 6 December 2013

Bank of China Limited (the "**Bank**") having made all reasonable enquiries confirms that to its best knowledge and belief (i) this Offering Circular contains all information with respect to the Bank and its subsidiaries taken as a whole (the "**Group**") and the Notes which is material in the context of the issue and offering of the Notes; (ii) the statements contained herein relating to the Bank, the Group and the Notes are in every material respect true and accurate and not misleading and there are no other facts in relation to the Bank, the Group or the Notes, the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Offering Circular misleading in any material respect; (iii) the statements of intention, opinion and belief or expectation contained in this Offering Circular with regard to the Bank and the Group are honestly and reasonably made or held, have been reached after considering all relevant circumstances; and (iv) all reasonable enquiries have been made by the Bank to ascertain such facts and to verify the accuracy of all such information and statements.

Each Series (as defined herein) of Notes will be issued on the terms set out herein under "*Terms and Conditions of the Notes*" as amended and/or supplemented by the Pricing Supplement specific to such Series. This Offering Circular must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein and, in relation to any Series of Notes, must be read and construed together with the relevant Pricing Supplement.

The distribution of this Offering Circular and any Pricing Supplement and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, Bank of China Limited and Bank of China (Hong Kong) Limited (together, "**Arrangers**" and "**Dealers**") to inform themselves about and to observe any such restrictions. None of the Issuer, the Arrangers or the Dealers represents that this Offering Circular or any Pricing Supplement may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Arrangers or the Dealers, which would permit a public offering of any Notes or distribution of this Offering Circular or any Pricing Supplement in any jurisdiction where action for such purposes is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and none of this Offering Circular, any Pricing Supplement or any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

There are restrictions on the offer and sale of the Notes and the circulation of documents relating thereto, in certain jurisdictions including, but not limited to, the United States of America, the European Economic Area, the Netherlands, the United Kingdom, the PRC, Hong Kong, Japan and Singapore, and to persons connected therewith.

The Notes may be offered or sold (i) in the United States only to QIBs in transactions exempt from registration under the Securities Act, in which case each such purchaser must be able to make, and will be deemed to have made, certain acknowledgments, representations, warranties and agreements as set forth in this Offering Circular in respect of such Series of Notes, and/or (ii) outside the United States, to non-U.S. persons in offshore transactions in reliance on Regulation S. Any Series of Notes may be subject to additional selling restrictions. Any additional restrictions on the sale or transfer of any Series of Notes will be specified in the applicable Pricing Supplement for such Notes.

If Notes are being offered or sold to U.S. persons or in the United States, prospective investors are hereby notified that sellers of such Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Arranger and Dealer, through their respective selling agents, may arrange for the offer and resale of such Notes to U.S. persons or persons in the United States who are QIBs in reliance on Rule 144A or pursuant to another exemption from the registration requirements of the Securities Act. For a description of certain restrictions on offers, sales and transfers of Notes and on the distribution of this Offering Circular, see "*Subscription and Sale*".

The Notes have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the United States or any other U.S. regulatory authority, nor has any of the foregoing authorities passed upon or endorsed the merits of the offering of Notes or the accuracy or the adequacy of this Offering Circular. Any representation to the contrary is a criminal offence in the United States.

This Offering Circular is being submitted on a confidential basis in the United States to a limited number of QIBs for informational use solely in connection with the consideration of the purchase of the Notes being offered hereby. Its use for any other purpose in the United States is not authorised. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

This Offering Circular is to be read in conjunction with all documents, which are deemed to be incorporated herein by reference (see "*Information Incorporated by Reference*"). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

Listing of the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Issuer, the Group or the Notes. In making an investment decision, investors must rely on their own examination of the Issuer, the Group and the terms of the offering, including the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Notes.

No person has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other document entered into in relation to the Programme and the sale of Notes and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, any Arranger or any Dealer.

Neither the delivery of this Offering Circular or any Pricing Supplement nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Offering Circular is true subsequent to the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading position of the Issuer since the date thereof or, if later, the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Neither this Offering Circular nor any Pricing Supplement constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Arrangers, the Dealers, the Trustee, the Agents or any director, officer, employee, agent or affiliate of any such person or any of them that any recipient of this Offering Circular or any Pricing Supplement should subscribe for or purchase any Notes. Each recipient of this Offering Circular or any Pricing Supplement shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer.

The maximum aggregate principal amount of Notes outstanding at any one time under the Programme will not exceed U.S.$10,000,000,000 (and for this purpose, any Notes denominated in another currency shall be translated into United States dollars at the date of the agreement to issue such Notes calculated in accordance with the provisions of the Dealer Agreement). The maximum aggregate principal amount of Notes, which may be outstanding at any one time under the Programme, may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement as defined under "*Subscription and Sale*".

In connection with the issue of any Series of Notes, the Dealer(s) (if any) named as the stabilising manager(s) (the "Stabilising Manager(s)") (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Pricing Supplement may, to the extent permitted by applicable laws and rules, over allot the Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Series of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Series of Notes and 60 days after the date of the allotment of the relevant Series of Notes.

None of the Arrangers, the Dealers, the Trustee or any Agents has separately verified the information contained in this Offering Circular. To the fullest extent permitted by law, none of the Arrangers, the Dealers, the Trustee or any Agent or any director, officer, employee, agent or affiliate of any such person makes any representation, warranty or undertaking, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Offering Circular. To the fullest extent permitted by law, none of the Arrangers, the Dealers, the Trustee or any Agent or any director, officer, employee, agent or affiliate of any such person accepts any responsibility for the contents of this Offering Circular or for any other statement made or purported to be made by the Arrangers, the Dealers, the Trustee, any Agent, or any director, officer, employee, agent or affiliate of any such person or on its behalf in connection with the Issuer, the Notes or the issue and offering of the Notes. The Arrangers, the Dealers, the Trustee and each Agent accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

This Offering Circular does not describe all of the risks and investment considerations (including those relating to each investor's particular circumstances) of an investment in Notes of a particular issue. Each potential purchaser of the Notes should refer to and consider carefully the relevant Pricing Supplement for each particular issue of Notes, which may describe additional risks and investment considerations associated with such Notes. The risks and investment considerations identified in this Offering Circular and the applicable Pricing Supplement are provided as general information only. Investors should consult their own financial and legal advisors as to the risks and investment considerations arising from an investment in an issue of Notes and should possess the appropriate resources to analyse such investment and the suitability of such investment in their particular circumstances.

Neither this Offering Circular nor any other information provided or incorporated by reference in connection with the Programme are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Arrangers, the Dealers, the Trustee or the Agents or any director, officer, employee, agent or affiliate of any such person that any recipient, of this Offering Circular or of any such information, should purchase the Notes. Each potential purchaser of the Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Bank and the Group. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of Notes should be based upon such investigation, as it deems necessary. None of the Arrangers, the Dealers, the Trustee or the Agents or any agent or affiliate of any such person undertakes to review the financial condition or affairs of the Bank or the Group during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Arrangers, the Dealers, the Trustee, the Agents or any of them.

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding.

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to the "Bank" are to Bank of China Limited, "U.S.$", "USD" and to "U.S. dollars" are to United States dollars; all references to "HK$" and to "HKD" are to Hong Kong dollars; all references to "pounds sterling" and "£" are to the currency of the United Kingdom; all references to "euro" and "€" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro as amended; all references to "yen" are to Japanese yen; all references to "Renminbi", "CNH", "RMB" and "CNY" are to the currency of the PRC; all references to "United States" or "U.S." are to the United States of America; references to "China", "Mainland China" and the "PRC" in this Offering Circular mean the People's Republic of China and for geographical reference only (unless otherwise stated) exclude Taiwan, Macau and Hong Kong; references to "PRC Government" mean the government of the PRC; references to "Hong Kong" are to the Hong Kong Special Administrative Region of the People's Republic of China; references to "Macau" are to the Macao Special Administrative Region of the People's Republic of China; and all references to "United Kingdom" are to the United Kingdom of Great Britain and Northern Ireland.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT NOR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENCED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSONS, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

FORWARD-LOOKING STATEMENTS

Certain statements under "*Risk Factors*", "*Description of the Bank*" and elsewhere in this Offering Circular constitute "*forward looking statements*". The words including "*believe*", "*expect*", "*plan*", "*anticipate*", "*schedule*", "*estimate*", "*aim*", "*intend*", "*project*", "*seek to*", "*predict*", "*future*", "*goal*" and similar words or expressions identify forward looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the financial position, business strategy, prospects, capital expenditure and investment plans of the Issuer or the Group and the plans and objectives of the management of the Issuer and the Group for its future operations (including development plans and objectives relating to the Group's operations), are forward looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause actual results or performance of the Issuer or the Group to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Issuer's and the Group's present and future business strategies of the Issuer and the Group and the environment in which the Issuer or the Group will operate in the future. The Issuer expressly disclaims any obligation or undertaking to release any updates or revisions to any forward looking statements contained herein to reflect any change in the Issuer's or the Group's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based. This Offering Circular discloses, under "*Risk Factors*" and elsewhere, important factors that could cause actual results to differ materially from the Issuer's expectations. All subsequent written and forward-looking statements attributable to the Issuer or persons acting on behalf of the Issuer are expressly qualified in their entirety by such cautionary statements.

INFORMATION INCORPORATED BY REFERENCE

This Offering Circular should be read and construed in conjunction with each relevant Pricing Supplement, the most recently published audited annual financial statements and any interim financial statements (whether audited or unaudited) published subsequently to such annual financial statements of the Bank from time to time on the Hong Kong Stock Exchange and all amendments and supplements from time to time to this Offering Circular, which shall be deemed to be incorporated in, and to form part of, this Offering Circular and which shall be deemed to modify or supersede the contents of this Offering Circular to the extent that a statement contained in any such document is inconsistent with such contents.

Copies of all such documents which are so deemed to be incorporated in, and to form part of, this Offering Circular will be available free of charge during usual business hours on any weekday (Saturdays and public holidays excepted) from the specified offices of the Paying Agents and the principal office in Hong Kong of the Principal Paying Agent (as defined under "*Summary of the Programme*") (or such other Paying Agent for the time being in Hong Kong) set out at the end of this Offering Circular.

PRESENTATION OF FINANCIAL INFORMATION

The financial information as at and for the years ended 31 December 2010, 2011 and 2012 included in this Offering Circular has been derived from the Group's audited consolidated financial statements. The financial information as at 30 June 2013 and for the six months ended 30 June 2012 and 2013 has been derived from the Bank's unaudited condensed consolidated financial statements. With respect to the unaudited interim financial information as at 30 June 2013 and for the six months ended 30 June 2012 and 2013, included in this Offering Circular, the independent accountants have reported that they applied limited procedures for the review of such information in accordance with the International Financial Reporting Standards ("**IFRS**"). However, their separate review report included in this Offering Circular indicates that they did not audit and they do not express such opinion on such interim financial information.

AVAILABLE INFORMATION

For so long as any of the Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer will, during any period in which the Issuer is neither subject to the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934 (the "**Exchange Act**") nor exempt from the reporting requirements of the Exchange Act under Rule 12g3-2(b) thereunder, provide to the holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, in each case upon the written request of such holder, beneficial owners or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

ENFORCEABILITY OF CIVIL LIABILITIES

The Issuer is incorporated under the laws of the PRC. Most of its directors and officers reside outside the United States (principally in the PRC). A substantial portion of the Issuer's assets and the assets of such persons are or may be located outside the United States. As a result, it may not be possible for investors to effect service of process within the United Stated upon the Issuer or such persons, or to enforce against the Issuer or such persons judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the federal securities laws of the United States. The Issuer has been advised by its PRC counsel, JunZeJun Law Offices, that there is uncertainty or impossible to ascertain as to whether the courts of the PRC would (1) enforce judgments of the U.S. courts obtained against the Issuer or its directors and officers predicated upon the civil liability provisions of the federal securities laws of the United States or the securities laws of any state or territory within the United States or (2) entertain original actions brought in the courts of the PRC against the Issuer or its directors and officers predicated upon these civil liabilities provisions.

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SUMMARY OF THE PROGRAMME

This summary must be read as an introduction to this Offering Circular and any decision to invest in the Notes should be based on a consideration of the Offering Circular as a whole, including any information incorporated by reference. Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Offering Circular have the same meanings in this summary.

Issuer	Bank of China Limited or such branch of Bank of China Limited (including Bank of China Limited, Hong Kong Branch and Bank of China Limited, London Branch) as specified in the applicable Pricing Supplement.
Programme Size	Up to U.S.$10,000,000,000 (or the equivalent in other currencies calculated as described in the Dealer Agreement (as defined in "*Subscription and Sale*")) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
Arrangers	Bank of China Limited and Bank of China (Hong Kong) Limited.
Dealers	Bank of China Limited, Bank of China (Hong Kong) Limited and any other Dealer appointed from time to time by the Issuer either generally in respect of the Programme or in relation to a particular Series of Notes.
Principal Paying Agent, Paying Agent	The Bank of New York Mellon, London Branch (for Notes cleared through Euroclear/Clearstream); The Bank of New York Mellon (for Notes cleared through DTC).
Registrar	The Bank of New York Mellon (Luxembourg) S.A. (for Notes cleared through Euroclear/Clearstream); The Bank of New York Mellon (for Notes cleared through DTC); The Bank of New York Mellon, Hong Kong Branch (for Notes cleared through CMU).
Transfer Agent	The Bank of New York Mellon (Luxembourg) S.A. (for Notes cleared through Euroclear/Clearstream); The Bank of New York Mellon (for Notes cleared through DTC); The Bank of New York Mellon, Hong Kong Branch (for Notes cleared through CMU).
CMU Lodging and Paying Agent .	The Bank of New York Mellon Hong Kong Branch
Trustee	The Bank of New York Mellon, London Branch
Method of Issue	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a "**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest and their issue price), and intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a "**Tranche**") on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment date of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the Pricing Supplement.

Clearing Systems	With respect to Notes (other than CMU Notes), Euroclear, Clearstream, Luxembourg and/or DTC and such other clearing system as shall be agreed between the Issuer, the Agents, the Trustee and the relevant Dealer. With respect to CMU Notes, the CMU (each of Euroclear, Clearstream, Luxembourg, DTC and the CMU, a "**Clearing System**"). See "*Clearing and Settlement*".
Form of Notes	Notes may be issued in bearer form or in registered form. Registered Notes will not be exchangeable for Bearer Notes and *vice versa*. Each Series of Bearer Notes will initially be represented by a Temporary Global Note or a Permanent Global Note, as specified in the applicable Pricing Supplement, which, in each case, may be deposited on the issue date with a common depositary for Euroclear, Clearstream, Luxembourg or any other agreed clearance system compatible with Euroclear and Clearstream, Luxembourg or, in respect of CMU Notes, a sub-custodian for the CMU. A Temporary Global Note will be exchangeable, in whole or in part, as described therein, for interests in a Permanent Global Note as described under "*Form of the Notes*". A Permanent Global Note may be exchanged, in whole but not in part, for Definitive Notes only upon the occurrence of an Exchange Event as described under "*Form of the Notes*". Any interest in a Temporary Global Note or a Permanent Global Note will be transferable only in accordance with the rules and procedures or the time being of Euroclear, Clearstream, Luxembourg, the CMU and/or any other agreed clearance system, as appropriate. Bearer Notes that are issued in compliance with U.S. Treasury Regulations §1.163-5(c)(2)(i)(D) (the "**D Rules**") must be initially represented by a Temporary Global Note. Each Series of Registered Notes, which are sold outside the United States to non-U.S. persons in reliance on Regulation S, will, unless otherwise specified in the applicable Pricing Supplement, be represented by a Global Note Certificate (as defined in the "*Form of the Notes*"), which will be deposited on or about its issue date with a Common Depositary for, and registered in the name of a nominee of, Euroclear and Clearstream, Luxembourg or with a custodian for, and registered in the name of a nominee of, DTC for the accounts of Euroclear and Clearstream, Luxembourg or, in respect of CMU Notes, a sub-custodian for the CMU operated by the HKMA. With respect to all offers or sales by a Dealer of an unsold allotment or subscription and in any case prior to the expiry of the distribution compliance period (as defined in Regulation S), beneficial interests in a Global Note Certificate of such Series may be held only through Euroclear, Clearstream, Luxembourg, DTC for the accounts of Euroclear and Clearstream, Luxembourg or the CMU. Regulation S Global Certificates will be exchangeable for Definitive Notes only upon the occurrence of an Exchange Event as described in "*Form of the Notes*".

	Each Tranche of Registered Notes sold to QIBs in compliance with Rule 144A and subject to the restrictions described in "*Transfer Restrictions*" and "*Subscription and Sale*" and the applicable Pricing Supplement will, unless otherwise specified in the applicable Pricing Supplement, be represented by a Rule 144A Global Certificate, which will be deposited on or about its issue date with a custodian for, and registered in the name of a nominee of, DTC. Rule 144A Global Certificates will be exchangeable for Definitive Notes only upon the occurrence of an Exchange Event as described in "*Form of the Notes*".
	Application will be made to have Global Notes or Global Certificates of any Series accepted for clearance and settlement through the facilities of DTC, Euroclear, Clearstream, Luxembourg and/or the CMU, as appropriate.
Currencies	Notes may be denominated in any currency or currencies, agreed between the Issuer and the relevant Dealer(s) subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.
Status of the Senior Notes	The Senior Notes constitute direct, unsubordinated, unconditional, and unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Issuer under the Notes shall, save for such exceptions as may be provided by applicable legislation, at all times rank at least equally with all of its other present and future unsecured and unsubordinated obligations as described in "*Terms and Conditions of the Notes – Status – Status of Senior Notes*".
Status, Events of Default and other terms of Subordinated Notes	Subordinated Notes will be Dated Subordinated Notes or Undated Subordinated Notes as indicated in the applicable Pricing Supplement. Provisions in relation to the status of the Subordinated Notes and events of default will be set out in the applicable Pricing Supplement.
Issue Price	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes (which are not Subordinated Notes) may be issued, the issue price of which will be payable in two or more instalments.
Maturities	Any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements.

	Where Notes have a maturity of less than one year and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, such Notes must: (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of the Finance Services and Markets Act 2000 ("**FSMA**") by the Issuer.
Redemption	Notes may be redeemable at par or at such other Redemption Amount (detailed in a formula, index or otherwise) as may be specified in the relevant Pricing Supplement. Notes may also be redeemable in two or more instalments on such dates and in such manner as may be specified in the relevant Pricing Supplement. No Subordinated Notes may be redeemed or purchased by the Issuer or its Subsidiaries prior to their respective stated maturity, for tax reasons, regulatory reasons or otherwise, without the prior written consent of the relevant Regulatory Authority as specified in the applicable Pricing Supplement at the relevant time.
Optional Redemption.	Notes may be redeemed before their stated maturity at the option of the Issuer (either in whole or in part) and/or the Noteholders to the extent (if at all) specified in the condition 10(C) (*Redemption at the option of the Issuer*) relevant Pricing Supplement.
Tax Redemption	Except as described in "*Optional Redemption*" above, early redemption of Notes will only be permitted for tax reasons as described in Condition 10(b) (*Redemption for tax reasons*).
Interest	Notes may be interest bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate or other variable rate or be index linked and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series. All such information will be set out in the relevant Pricing Supplement.
Denominations.	Notes will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
Cross Default.	The Senior Notes will contain a cross default provision as further described in Condition 14 (*Events of Default*).

Withholding Tax	All payments in respect of Notes will be made free and clear of withholding taxes of the Tax Jurisdiction, unless the withholding is required by law. In that event, the Issuer will (subject to certain customary exceptions as described in Condition 13 (*Taxation*)) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes, had no such withholding been required.
Listing and Trading.	Application has been made to the Hong Kong Stock Exchange for the listing of the Programme, and for the permission to deal in, and for the listing of, Notes to be issued under the Programme during the 12-month period from the date of this Offering Circular on the Hong Kong Stock Exchange by way of debt issues to professional investors (as defined in the SFO) only. Notes listed on the Hong Kong Stock Exchange will be traded on the Hong Kong Stock Exchange in a board lot size of at least HK$500,000 (or its equivalent in other currencies). However, unlisted Notes and Notes to be listed, traded or quoted on or by any other competent authority, stock exchange or quotation system may be issued pursuant to the Programme. The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Hong Kong Stock Exchange or listed, traded or quoted on or by any other competent authority, exchange or quotation system.
Governing Law	The Notes, Trust Deed and any non-contractual obligations arising out of or in connection with the Notes or the Trust Deed will be governed by, and shall be construed in accordance with, English law, except that the provisions of the Notes relating to subordination (if any) shall be governed by, and construed in accordance with such law as specified in the relevant Pricing Supplement.
Rating	Moody's has assigned a rating of "A1" to the Programme and Fitch has assigned a rating of "A" to the Programme. Moody's is expected to rate Senior Notes issued under the Programme "A1" and Fitch is expected to rate Senior Notes issued under the Programme "A". Any rating assigned to Subordinated Notes issued under the Programme by Moody's and/or Fitch would be issued on a case-by-case basis for each Tranche of Subordinated Notes at drawdown. Each Series of Notes may be assigned ratings by any of Fitch and/or Moody's, as specified in the applicable Pricing Supplement.
Selling Restrictions	For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering materials in the United States of America, the European Economic Area, the Netherlands, the United Kingdom, the PRC, Hong Kong, Japan and Singapore, see "*Subscription and Sale*" below.

	In connection with the offering and sale of a particular Series of Notes, additional restrictions may be imposed which will be set out in the applicable Pricing Supplement. Bearer Notes will be issued in compliance with the D Rules unless (i) the applicable Pricing Supplement states that the Bearer Notes are issued in compliance with U.S. Treasury Regulation §1.163-5(c)(2)(i)(C) (the "**C Rules**") or (ii) the Bearer Notes are issued other than in compliance with the D Rules or the C Rules but in circumstance in which the Notes will not constitute "registration required obligations" for U.S. federal income tax purposes, which circumstance will be referred to in the applicable "Pricing Supplement"; Bearer Notes with a term of 365 days or less (taking into account unilateral extensions and rollovers) will be issued other than in compliance with the D Rules or the C Rules and will be referred to in the applicable Pricing Supplement as a transaction to which the United States Tax Equity and Fiscal Responsibility Act of 1982 ("**TEFRA**") is not applicable.
Initial Delivery of Notes	On or before the issue date for each Series, the Global Note representing Bearer Notes or the Global Certificate representing Registered Notes may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg or deposited with a sub custodian for the CMU Service or any other clearing system or may be delivered outside any clearing system *provided that* the method of such delivery has been agreed in advance by the Issuer, the Trustee, the Principal Paying Agent and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of, or in the name of a nominee or a sub custodian for, such clearing systems.

SUMMARY FINANCIAL INFORMATION OF THE BANK

The summary financial information set forth below has been extracted from the Group's audited consolidated financial statements as at and for the years ended 31 December 2011 and 31 December 2012, respectively and the Group's unaudited condensed consolidated financial statements as at and for the six months ended 30 June 2013. It should be read in conjunction with the information incorporated into this Offering Circular.

The selected financial information presented below as at and for the year ended 31 December 2010 are extracted from the Group's audited consolidated financial statements for the year ended 31 December 2011. Certain comparative information for 2010 has been reclassified to conform to the presentation for 2011. The reclassified figures for 2010 have been adopted for the purpose of this summary. Please refer to Note II.23 to the audited consolidated financial statements for the year ended 31 December 2011 for more details. The selected financial information presented below as at and for the two years ended 31 December 2011 and 2012 are extracted from the Group's audited consolidated financial statements for the year ended 31 December 2012. In 2012, the Group adopted IAS 12 Amendment – Deferred Tax: Recovery of Underlying Assets (the "IAS 12 Amendment"). Certain comparative information for 2011 has been restated as a result of the adoption of the new accounting standard. The restated figures for 2011 have been adopted for the purpose of this summary. Please refer to Note II.1.1 to the audited consolidated financial statements as at and for the year ended 31 December 2012 for more details. For the purpose of this summary the comparative information for 2010 presented below has not been restated for the effect of IAS 12 Amendment.

The unaudited financial information as at and for the six months ended 30 June 2012 and 2013 were extracted from the Group's unaudited condensed consolidated financial statements as at and for the six months ended 30 June 2013. The Group adopted the IAS 19 Amendments – Employee Benefits (the "IAS 19 Amendments") in 2013. Certain comparative information for 2012 has been restated in the Group's unaudited condensed consolidated financial statements as at and for the six months ended 30 June 2013 as a result of the adoption of the new accounting standard. For the purpose of this summary the restated figures for the six months ended 30 June 2012 have been adopted while the comparative information for 2010, 2011 and 2012 presented below has not been restated for the effect of IAS 19 Amendments. Please refer to Note I to the Group's unaudited condensed consolidated financial statements as at and for the six months ended 30 June 2013 for more details.

Should the financial information for the year ended 31 December 2010 (as included in the Offering Circular) be restated in accordance with IAS 12 Amendment and the financial information for the years ended 31 December 2010, 2011 and 2012 (as included in the Offering Circular) be restated in accordance with IAS 19 Amendments, the restated amounts might be different from the amounts previously reported in the consolidated financial statements as at and for the years ended 31 December 2010, 2011 and 2012 respectively.

Consolidated Income Statement

	For the six months period ended 30 June		For the year ended 31 December		
	2013	2012	2012	2011	2010
	Unaudited	Unaudited (Restated)		(Restated)	
	RMB in millions	*RMB in millions*	*RMB in millions*	*RMB in millions*	*RMB in millions*
Interest income	249,870	253,121	506,528	413,102	313,533
Interest expense	(112,582)	(129,067)	(249,564)	(185,038)	(119,571)
Net interest income	137,288	124,054	256,964	228,064	193,962
Fee and commission income	48,473	36,721	75,198	70,018	59,214
Fee and commission expense	(2,992)	(2,471)	(5,275)	(5,356)	(4,731)
Net fee and commission income	45,481	34,250	69,923	64,662	54,483
Net trading gains	3,918	5,461	8,451	7,858	3,491
Net gains on investment securities	414	1,052	2,288	3,442	3,380
Other operating income	19,150	14,848	28,550	24,272	21,202
Operating income	206,251	179,665	366,176	328,298	276,518
Operating expenses	(82,209)	(73,661)	(160,022)	(140,815)	(122,409)
Impairment losses on assets	(14,142)	(9,237)	(19,387)	(19,355)	(12,993)
Operating Profit	109,900	96,767	186,767	168,128	141,116
Share of results of associates and joint ventures	351	225	613	516	1,029
Profit before income tax	110,251	96,992	187,380	168,644	142,145
Income tax expense	(26,079)	(22,108)	(41,858)	(38,142)	(32,454)
Profit for the period/year	84,172	74,884	145,522	130,502	109,691
Attributable to:					
Equity holders of the Bank	80,721	71,483	139,432	124,276	104,418
Non-controlling interests	3,451	3,401	6,090	6,226	5,273
	84,172	74,884	145,522	130,502	109,691
Earnings per share for profit attributable to equity holders of the Bank during the period/year (Expressed in RMB per ordinary share)					
– Basic	0.29	0.26	0.50	0.45	0.39
– Diluted	0.28	0.25	0.48	0.43	0.39

Consolidated Statement of Financial Position

	As at 30 June	As at 31 December		
	2013	2012	2011	2010
	(Unaudited)		(Restated)	(Restated)
	RMB in millions	*RMB in millions*	*RMB in millions*	*RMB in millions*
ASSETS				
Cash and due from banks and other financial institutions	660,147	775,574	590,964	636,126
Balances with central banks	1,957,640	1,934,297	1,919,651	1,573,922
Placements with and loans to banks and other financial institutions	583,525	447,299	618,366	213,716
Government certificates of indebtedness for bank notes issued	75,638	70,554	56,108	42,469
Precious metals	138,838	150,534	95,907	86,218
Financial assets at fair value through profit or loss	72,317	71,590	73,807	81,237
Derivative financial assets	47,805	40,188	42,757	39,974
Loans and advances to customers, net	7,273,636	6,710,040	6,203,138	5,537,765
Investment securities	2,092,487	2,138,934	1,926,952	1,974,087
– available for sale	680,154	686,400	553,318	656,738
– held to maturity	1,135,720	1,183,080	1,074,116	1,039,386
– loans and receivables	276,613	269,454	299,518	277,963
Investment in associates and joint ventures	12,582	12,382	13,293	12,631
Property and equipment	150,603	150,324	138,234	123,568
Investment properties	17,340	17,142	14,616	13,839
Deferred income tax assets	20,939	21,292	19,264	24,041
Other assets	152,709	140,465	116,732	100,272
Total assets	13,256,206	12,680,615	11,829,789	10,459,865
LIABILITIES				
Due to banks and other financial institutions	1,198,238	1,553,192	1,370,943	1,275,814
Due to central banks	159,785	130,022	81,456	73,415
Bank notes in circulation	75,703	70,733	56,259	42,511
Placements from banks and other financial institutions	422,100	313,004	265,838	230,801
Derivative financial liabilities	41,311	32,457	35,473	35,711
Due to customers	9,876,196	9,173,995	8,817,961	7,733,537
– at amortised cost	9,766,504	9,009,978	8,256,874	7,539,155
– at fair value	109,692	164,017	561,087	194,382
Bonds issued	213,011	199,133	169,902	131,887
Other borrowings	30,637	34,045	26,724	19,499
Current tax liabilities	25,311	34,994	29,353	22,775
Retirement benefit obligations	5,327	5,642	6,086	6,440
Deferred income tax liabilities	3,200	3,838	2,966	3,919
Other liabilities	319,054	268,018	209,691	207,406
Total liabilities	12,369,873	11,819,073	11,072,652	9,783,715

	As at 30 June	As at 31 December		
	2013	2012	2011	2010
	(Unaudited)		(Restated)	(Restated)
	RMB in millions	*RMB in millions*	*RMB in millions*	*RMB in millions*
EQUITY				
Capital and reserves attributable to equity holders of the Bank				
Share capital	279,148	279,147	279,147	279,147
Capital reserve	115,473	115,451	115,403	114,988
Treasury shares	(104)	(15)	(25)	(138)
Statutory reserves	65,550	65,362	52,165	40,227
General and regulatory reserves	132,175	131,909	81,243	71,195
Undistributed profits	274,302	242,899	210,599	148,355
Reserve for fair value changes of available for sale securities	3,959	7,276	3,642	4,015
Currency translation differences	(20,525)	(17,352)	(18,260)	(13,624)
	849,978	824,677	723,914	644,165
Non-controlling interests	36,355	36,865	33,223	31,985
Total equity	886,333	861,542	757,137	676,150
Total equity and liabilities	13,256,206	12,680,615	11,829,789	10,459,865

RISK FACTORS

Prior to making any investment decision, prospective investors should consider carefully all of the information in this Offering Circular, including but not limited to the risks and uncertainties described below. The following factors are contingencies, which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. Any of the risks or uncertainties described below, as well as additional risks or uncertainties, including those which are not currently known to the Issuer or which the Issuer currently deems to be immaterial, may affect the Group's business, financial condition or results of operations or the Issuer's ability to fulfil its obligations under the Notes.

Risk relating to the Global Economy

Uncertainties and instability in global market conditions could adversely affect the Group's business, financial condition and results of operations.

Various sectors of the global credit markets have experienced difficult conditions and volatility since the second half of 2007. The market uncertainty that started from the U.S. residential housing market further expanded to other markets such as those for leveraged finance, collateralised debt obligations and other structured products. In September and October 2008, liquidity and credit concerns and volatility in the global credit and financial markets increased significantly with the bankruptcy or acquisition of, and government assistance to, several major U.S. and European financial institutions, including the bankruptcy filing of Lehman Brothers. These developments have resulted in reduced liquidity, greater volatility, widening of credit spreads and a lack of price transparency in the United States and global credit and financial markets. While the rate of deterioration of the global economy slowed in the second half of 2009, with some signs of stabilisation and improvement in recent years, substantial uncertainties have surfaced in the form of fiscal crisis in several European countries (including Greece, Portugal, Italy, Ireland and Spain), a downgrade in the sovereign credit rating of the United States and signs of cooling of the PRC economy, resulting in continuing uncertainty for the overall prospects for the global economies in 2012 and beyond. Furthermore, while many governments worldwide are implementing "exit strategies", in the form of reduced government spending, higher interest rates or otherwise, with respect to the economic stimulus measures adopted in response to the global financial crisis, such strategies may, for reasons related to timing, magnitude or other factors, have the unintended consequence of prolonging or worsening global economic and financial difficulties. In light of the high level of interdependence of the global economy, any of the foregoing developments could have a material adverse effect on the PRC economy and financial markets, and in turn on the Group's business, financial condition and results of operations.

See also "*The Group is subject to risks associated with its derivative transactions and investment securities*" under "*Risks Relating to the Group's Business*" below for further details.

Risks Relating to the PRC

The Group's business is affected by the PRC's economic, political and social conditions and the prospects of the industries in which its loans are concentrated.

A significant majority of the Group's businesses, assets and operations are located in the PRC. Accordingly, its financial condition, results of operations and business prospects are, to a significant degree, subject to the economic, political, legal and social conditions and developments in the PRC.

The PRC economy was a planned economy. In recent years, the PRC government has instituted broad reform of the PRC's financial markets, including recent reforms following the Third Plenum of the 18th Communist Party of China Central Committee in November 2013. If the Group is unable to adjust its operations in accordance with these reforms, its financial condition and results of operations could be materially and adversely affected.

The PRC Government has the power to implement macroeconomic control measures to regulate the PRC economy. The PRC's GDP growth maintained its rapid pace for years before it slowed down in recent years. In response to the uncertainty and instability in global market conditions, the PRC Government implemented a series of macroeconomic measures and relatively loose monetary policies from the second half of 2008, including a RMB4 trillion economic stimulus package and lower benchmark interest rates. The PRC Government may take measures to prevent the economy of the PRC from overheating following the implementation of the above economic stimulus measures, including restraining investment in industries with excess production capacity, adjusting its tax policy on real estate, adjusting benchmark interest rates, adjusting the reserve requirement ratio or issuing administrative guidelines to control bank lending. Furthermore, there is a risk of a double dip recession in the global economy, including the PRC's economy, and the PRC Government may again implement its macroeconomic control measures accordingly. As the PRC Government continues to regulate the economy by using monetary and fiscal policies, the Group's business, financial condition and results of operations may be materially and adversely affected.

Interpretation and implementation of the PRC laws and regulations may involve uncertainties.

The Bank is incorporated and exists under the laws of the PRC. The PRC legal system is based on written statutes. Since the late 1970s, the PRC has promulgated laws and regulations dealing with legal relations in respect of such economic matters as foreign investment, corporate organisation and governance, commerce, taxation and trade, with a view towards developing a comprehensive system of commercial law. However, as many of these laws and regulations are relatively new and continue to evolve, especially with respect to the PRC banking regulatory regime, these laws and regulations may be subject to different interpretations and inconsistently enforced. In addition, there is only a limited volume of published court decisions, which may be cited for reference but are not binding on subsequent cases and have limited precedential value. These uncertainties relating to the interpretation and implementation of the PRC laws and regulations may adversely affect the legal protections and remedies that are available to the Group in its operations and to holders of the Notes.

The Group is subject to the PRC Government's controls on currency conversion and future movements in foreign currency exchange rates.

A majority of the Group's revenues are denominated in Renminbi and they may need to be converted into other currencies to meet its foreign currency obligations. The value of Renminbi against U.S. dollar and other currencies fluctuates and is affected by many factors, such as changes in political and economic conditions in the PRC and globally. Starting from 1994, the conversion of Renminbi into foreign currencies, including Hong Kong dollar and U.S. dollar, was based on rates set daily by PBOC based on the previous business day's inter-bank foreign exchange market rates and then current exchange rates on the world financial markets. For more than 10 years, the official exchange rate for conversion of Renminbi to U.S. dollars was generally stable. On 21 July 2005, the PRC Government introduced a managed floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of Renminbi appreciated by approximately 2 per cent. against U.S. dollar.

In July 2008, the PRC Government announced that its exchange rate regime would change into a managed floating mechanism based on market supply and demand. Given domestic and overseas economic developments, PBOC decided to further adjust the RMB exchange rate regime in April 2012 to enhance the flexibility of the RMB exchange rate. The PRC Government may make further adjustments to the exchange rate system in the future. Any appreciation of Renminbi against U.S. dollar or any other foreign currency may result in a decrease in the value of the Group's foreign currency-denominated assets.

Conversely, any devaluation of Renminbi may adversely affect the value of the Group's assets in Renminbi terms.

In addition, the Group is required to obtain approval from the State Administration of Foreign Exchange ("**SAFE**") before converting foreign currencies into Renminbi for non-current account transactions, such as the repayment obligations under the Notes by the Bank's head office, in the event that (i) the Bank's head office performs its repayment obligations under the Notes or (ii) the Bank's overseas branch failed to fully perform its repayment obligations under the Notes. All these factors could materially and adversely affect the Group's business, financial condition and results of operations.

Any force majeure events, including future occurrence of natural disasters or outbreaks of contagious diseases in the PRC, may have a material and adverse effect on the Group's business operations, financial condition and results of operations.

Any future force majeure events, such as occurrence of natural disasters or outbreaks of health epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, or SARS, and swine flu caused by H1N1 virus, or H1N1 Flu, may materially and adversely affect the Group's business, financial condition and results of operations. Possible force majeure events may give rise to additional costs to be borne by the Group and have adverse effects on the quality of its assets, business, financial condition and results of operations. An outbreak of a health epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activity in affected areas, which may in turn adversely affect the Group's business. Moreover, the PRC has experienced natural disasters like earthquakes, floods and drought in the past few years. For example, in April 2010, the PRC experienced earthquakes with reported magnitudes of 7.1 on the Richter scale in Qinghai province, resulting in the death of thousands of people. Any future occurrence of severe natural disasters in the PRC may adversely affect its economy and in turn the Group's business. There can be no guarantee that any future occurrence of natural disasters or outbreak of avian influenza, SARS, H1N1 Flu or other epidemics, or the measures taken by the PRC Government or other countries in response to a future outbreak of avian influenza, SARS, H1N1 Flu or other epidemics, will not seriously interrupt the Group's operations or those of its customers, which may have a material and adverse effect on its business, financial condition and results of operations.

Risks Relating to the PRC Banking Industry

The PRC banking regulatory regime is continually evolving and the Group is subject to future regulatory changes.

The Group operates in a highly regulated industry and is subject to laws and regulations governing all aspects of its operations. The principal banking-related statutes and regulations are the PRC Commercial Banking Law and the Law of PRC on Supervision and Administration of Banking Sector and the related implementation rules. The principal regulators of the PRC banking industry are the China Banking Regulatory Commission ("**CBRC**"), PBOC and SAFE.

The PRC banking regulatory regime has been evolving continuously. Some of the changes in the rules and regulations as well as their interpretations may result in additional costs or restrictions on the Group's operations and activities. For example, PBOC, as the central bank of the PRC, exercises significant influence over monetary policies. In addition, the Group may be required to increase its deposit reserves in response to future changes in PBOC rules and regulations. The Group may be required to take additional steps to comply with future changes on a timely basis.

The Group's business and operations are directly affected by changes in the PRC's policies, laws and regulations relating to the banking industry, such as those affecting the extent to which it can engage in specific businesses, as well as changes in other governmental policies. There can be no assurance that the policies, laws and regulations governing the banking industry will not change in the future or that any such changes will not materially and adversely affect the Group's business, financial condition and results of operations nor can there be any assurance that the Group will be able to adapt to all such changes on a timely basis. In addition, there may be uncertainties regarding the interpretation and application of new policies, laws and regulations, which may result in penalties and restrictions on the Group's activities and could also have a significant impact on its business.

The increasingly competitive nature of the PRC banking industry, as well as competition for funds which may arise from the development of the PRC capital markets, could adversely affect the Group's business, financial condition, results of operations and prospects.

The PRC banking industry is becoming increasingly competitive. The Group faces competition from Agricultural Bank of China, China Construction Bank, Industrial and Commercial Bank of China and the Bank of Communications, as well as other domestic and foreign-invested banks and financial institutions. In addition, the Mainland and Hong Kong Closer Economic Partnership Arrangement, which allows Hong Kong banks to operate in the PRC, may also increase competition in the PRC banking industry. These banks and financial institutions compete with the Group for substantially the same loan, deposit and fee customers. Some of these banks may have greater financial, management and technical resources than the Group. Moreover, the PRC Government has, in recent years, implemented a series of measures designed to further liberalise the banking industry, including those relating to interest rates and fee-and commission-based products and services, which are changing the basis on which the Group competes with other banks for customers. The increased competition may:

- reduce the Group's market share in its principal products and services;
- reduce the growth of the Group's loan portfolio or deposit base and other products and services;
- reduce the Group's interest income, increase the interest expenses and decrease its net interest margin;
- reduce the Group's fees and commission income;
- increase the Group's outgoings and expenses, such as marketing and administrative expenses;
- lead to a deterioration of the Group's asset quality; and
- increase the turnover of and competition for senior management and qualified professional personnel.

The Group may not always be able to maintain its competitive advantage or successfully compete in all the business areas in which it currently operates or will in the future operate.

The Group may also face competition for funds from other forms of investment alternatives as the PRC capital market continues to develop. For example, as the PRC capital markets continue to develop and become a more viable and attractive investment alternative, the Group's deposit customers may elect to transfer their funds into bonds, equities and other capital market instruments, which may reduce its deposit base and materially and adversely affect its business, financial condition and results of operations.

The rate of growth of the PRC banking market may not be sustainable.

The Group expects the banking market in the PRC to expand as a result of anticipated growth in the PRC economy, increases in household wealth, continued social welfare improvement, demographic changes and the opening of the PRC banking market to foreign participants. The prospective impact on the PRC banking industry of certain trends and events, such as the pace of economic growth in the PRC and the ongoing reform of the social welfare system, is currently not clear. Consequently, there can be no assurance that the growth and development of the PRC banking market will be sustainable.

The Group's results of operations may be materially and adversely affected if PBOC further expedites the deregulation of interest rates.

In recent years, PBOC has adopted reform measures to liberalise the PRC's interest rate regime. For example, in October 2004, PBOC eliminated restrictions in respect of the maximum interest rate for Renminbi-denominated loans and the minimum interest rate for Renminbi-denominated deposits. In the most recent reform, PBOC has eliminated the minimum interest rate for loans, which is 70 per cent. of the relevant PBOC benchmark lending rate (other than for individual residential mortgage loans). Under current PBOC regulations, commercial banks in the PRC cannot set interest rates (1) below 70 per cent. of the relevant PBOC benchmark lending rate for individual residential mortgage loans, which is subject to increase from time to time during the government's campaign to control real estate prices or (2) above 110 per cent. of the relevant PBOC benchmark rate for Renminbi-denominated deposits. PBOC may further liberalise the existing interest rate restrictions on Renminbi-denominated loans and deposits. If the existing regulations are substantially liberalised or eliminated, competition in the PRC's banking industry will likely intensify as the PRC's commercial banks seek to offer more attractive interest rates to customers. Further liberalisation by PBOC may result in the narrowing of the spread in the average interest rates between Renminbi-denominated loans and Renminbi-denominated deposits, thereby materially and adversely affecting the Group's business, financial condition and results of operations.

The PRC regulations impose limitations on the types of investments the Group may make and, as a result, the Group has limited ability to seek optimal investment returns to diversify its investment portfolio and to hedge the risks of its Renminbi-denominated assets.

The PRC Government has imposed limitations on what a commercial bank may invest in. Substantially all of the Renminbi-denominated investment assets of the PRC commercial banks are concentrated in the investments permitted by the PRC Government. These permitted investments include:

- the PRC treasury bonds;
- financial debentures issued by the PRC policy banks;
- notes issued by PBOC;
- subordinated bonds issued by specified financial institutions; and
- corporate bonds.

These investment restrictions limit the Group's ability to seek optimal returns on its investments. The restrictions may also expose the Group to significantly greater risk of investment loss in the event that a particular type of investment it holds suffers a decrease in value. For example, the Group holds a substantial amount of fixed income debt securities that have fixed interest rates, and a general increase in interest rates may result in a significant decline in the value of these securities. In addition, due to the limited hedging tools available to it, the Group's ability to manage market and credit risks relating to its Renminbi-denominated assets is limited and any resulting decline in the value of its Renminbi-denominated assets may materially and adversely affect its business, financial condition and results of operations.

The effectiveness of the Group's credit risk management is affected by the quality and scope of information available in the PRC.

National credit information databases developed by PBOC have been in operation since January 2006.

However, as the information infrastructure in the PRC is still under development and there remains limitations on the availability of information, national credit information databases are generally under-developed and are not able to provide complete credit information on many of the Group's credit applicants. Until the PRC has more fully developed and implemented its nationwide unified credit information database on corporate borrowers, the Group has to rely on other publicly available resources and its internal resources to supplement what is currently available on the nationwide unified credit information database for enterprises. These sources of data and information are not sufficiently complete or effective for the robust credit risk management system that the Group attempts to build. Therefore, there can be no assurance that the Group's assessment of the credit risks associated with any particular customer is based on complete, accurate and reliable information. As a result, the Group's ability to effectively manage its credit risk may be materially and adversely affected.

The Group is subject to certain operational requirements as well as guidelines set by the PRC banking regulatory authorities, such as maintaining a satisfactory loan to deposit ratio and a capital adequacy ratio.

The Group is subject to certain operational requirements and guidelines set by the PRC banking regulatory authorities. CBRC requires all commercial banks in the PRC to maintain certain financial ratios throughout its operations. In particular, it requires all commercial banks in the PRC to maintain a loan to deposit ratio of not more than 75 per cent. pursuant to the PRC Commercial Banking Law. Based on the regulatory returns reported to CBRC, as at 31 December 2012 and 30 June 2013, the Group's loan to deposit ratios were 71.99 per cent. and 72.63 per cent., respectively. Although the Group endeavours to comply with the loan to deposit ratio stipulated by CBRC, the continued growth of its customer deposits is affected by a number of factors, many of which are beyond its control. There can be no assurance that the Group will continue to maintain its loan to deposit ratio of not more than 75 per cent. at all times or at all. If the Group fails to maintain such ratio, the Group may be subject to prudential supervisory measures imposed by CBRC, such as suspension of any applications for the operation of new businesses and the establishment of new branches or sub-branches and, accordingly, its business, financial condition and results of operations may be adversely affected.

In recent years, CBRC has issued several regulations and guidelines governing capital adequacy requirements applicable to commercial banks in the PRC. In 2004, CBRC implemented capital adequacy guidelines applicable to all commercial banks in the PRC. The guidelines, the Capital Adequacy Measures which is now overdue, provided for a phase-in period whereby all domestic banks must have met minimum capital adequacy ratios by 1 January 2007. On 3 July 2007, CBRC amended the Capital Adequacy Measures issued in March 2004 to set forth new and more stringent capital adequacy guidelines which must be complied with from 3 July 2007 to 1 January 2013. In April 2011, CBRC promulgated the *Guideline Concerning the Implementation of New Regulatory Standards* for the PRC Banking Industry to clarify the direction for future regulations and the requirement for prudent regulatory requirements. In June 2012, CBRC promulgated the *Administrative Measures for the Capital of Commercial Banks (Trial)* (the "**CBRC Measures**") which sets out the new requirements for capital adequacy. According to the CBRC Measures promulgated by CBRC in June 2012 which became effective on 1 January 2013, the minimum capital adequacy ratio, tier 1 capital adequacy ratio and core tier 1 capital adequacy ratio for commercial banks are 8 per cent., 6 per cent. and 5 per cent., respectively. In November 30, 2012, CBRC issued the *Notice of the China Banking Regulatory Commission on Issues concerning Transitional Arrangements for the Implementation of the Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)*, which sets out the requirements for capital adequacy ratio during the phase-in period. As at 30 June 2013, the Group's capital adequacy ratio, tier 1 capital adequacy ratio and core tier 1 capital adequacy ratio (calculated in accordance with the CBRC Measures) were 12.14 per cent., 9.28 per cent. and 9.27 per cent., respectively.

Although the Group is currently in compliance with the capital adequacy requirement, there can be no assurance that CBRC will not issue new regulations to heighten the capital adequacy ratio requirements, particularly in the light of the implementation of the new Basel III Capital Accord. Any change in calculation of capital adequacy ratios by CBRC may also affect the Group's compliance with capital adequacy ratios. There can be no assurance that the Group will be able to meet these requirements in the future at all times. If the Bank fails to meet the capital adequacy requirements, CBRC may require the Bank to take corrective measures, such as restricting the growth of its loans and other assets or restricting its declaration or distribution of dividends. These measures could adversely affect the Bank's reputation, business, financial condition and results of operations.

In order to support its steady growth and development, the Group may need to raise more capital to ensure that its capital adequacy ratios comply with or exceed the minimum regulatory requirements. In its future plans to raise capital, the Group may issue any share securities that can contribute towards core capital or any debt securities that can contribute towards supplementary capital. Any share securities issued by the Group may dilute the interest and benefits of its shareholders. The Group's capital-raising ability may be restricted by the Group's future business, financial condition and results of operations, the Group's credit rating, regulatory approvals and overall market conditions, including Chinese and global economic, political and other conditions at the time of capital raising.

The PRC regulators have implemented measures relating to lending to small and medium-sized enterprises and the Group may be affected by future regulatory changes.

CBRC promulgated a series of measures, including the *Guidance on Issues Relevant to Establishing Special Agencies for Small Business Lending by Banks*, *Notice on Further Supporting Commercial Banks' Improvement of Financial Services to Small Enterprises* (《中國銀監會關於支持商業銀行進一步改進小企業金融服務的通知》), Opinions on Deepening the Financial Services for Small-and Micro-sized Enterprises (《中國銀監會關於深化小微企業金融服務的意見》); Guidance on Further Performing the Financial Services for Small-and Micro-sized Enterprises (《中國銀行業監督管理委員會關於進一步做好小微企業金融服務工作的指導意見》) to encourage banking institutions to implement the PRC Government's macroeconomic policies, and, in particular, to proactively support continued healthy economic growth by increasing lending activities to small and medium-sized enterprises while effectively controlling risk.

There can be no assurance that the policies, laws and regulations governing the PRC banking industry, in particular, those relating to lending to small and medium-sized enterprises, will not change in the future or that any such changes will not materially and adversely affect the Group's business, financial condition and results of operations.

Risks Relating to the Group's Business

If the Group is unable to effectively control and reduce the level of impaired loans and advances in its current loan portfolio and in new loans the Group extends in the future, or if the Group's allowance for impairment losses on loans and advances is insufficient to cover actual loan losses, its financial condition and results of operations may be materially and adversely affected.

The Group's results of operations have been and will continue to be negatively impacted by its impaired loans. Under IFRS, the accounting principles that are applicable to the Group, loans are impaired if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of loans. As at 31 December 2012 and 30 June 2013, the Group's non-performing loans were RMB65,448 million and RMB69,467 million, respectively, representing a non-performing loan ratio of 0.95 per cent. and 0.93 per cent., respectively. The Group seeks to continue to improve its credit risk management policies, procedures and systems, and has been able to effectively control the level of its impaired loans in recent years, despite the recent financial turmoil in world markets.

The amount of the Group's reported impaired loans and the ratio of the Group's impaired loans to its loans and advances to customers may increase in the future for a variety of reasons, including factors which are beyond the Group's control, such as a slowdown in economic growth and other adverse macroeconomic trends in the PRC or a deterioration in the financial condition or results of operations of the Group's borrowers, which could impair the ability of the Group's borrowers to service their debt. There can be no assurance that the Group will be able to maintain or lower its current impaired loan ratio in the future or that the quality of its existing or future loans and advances to borrowers will not deteriorate. As a result of the PRC Government's economic stimulus programmes, many PRC banks, including the Group, experienced high growth in their loan balances in the past. This increase in bank loans may lead to elevated impaired loan ratios and loan loss provisions as well as increasing strain on the Group's risk management resources, which may affect the quality of its loan portfolio.

The Group's allowance for impairment losses on loans and advances is affected by various factors, including the quality of the Group's loan portfolio, the Group's borrowers' financial condition, repayment ability and repayment intention, the realisable value of any collateral, the extent of any guarantees, the industry in which the borrower operates in, as well as general economic and business conditions.

Many of these factors are beyond the Group's control. Furthermore, the adequacy of the Group's allowance for impairment losses depends to a significant extent on the reliability of, and its skills in utilising, its model for determining the level of allowance, as well as its system of data collection. The limitations of the Group's model, its experience in using the model and deficiencies in its data collection system may result in inaccurate and insufficient allowance for impairment losses. As a result, the Group's actual impairment losses could prove to be materially different from its estimates and could materially exceed its allowance. If the Group's allowance for impairment losses on loans and advances proves insufficient to cover actual losses, it may need to make additional allowance for losses, which could significantly reduce its profit and materially and adversely affect its business, financial condition and results of operations.

If the Group is unable to realise the collateral or guarantees securing its loans to cover the outstanding principal and interest balance of its loans, its financial condition and results of operations may be adversely affected.

A substantial portion of the Group's loans is secured by collateral. The Group's loan collateral primarily includes real estate and other financial and non-financial assets located in the PRC, the value of which may fluctuate due to factors beyond the Group's control, including macroeconomic factors affecting the PRC economy. In particular, an economic slowdown in the PRC may lead to a downturn in the PRC real estate market, which may in turn result in declines in the value of the collateral securing many of the Group's loans to levels below the outstanding principal balance of such loans. Any significant decline in the value of the collateral securing the Group's loans may result in a reduction in the amount the Group can recover from collateral realisation and an increase in its impairment losses.

In addition, a substantial portion of the Group's domestic loans and advances are backed by guarantees. The Group's exposure to guarantors is generally unsecured, and a significant deterioration in the financial condition of these guarantors increases the risk that the Group may not be able to recover the full or any amount of such guarantees if and when required.

Furthermore, the guarantee provided by such guarantors may be determined by the court as invalid if the relevant guarantor fails to comply with certain regulations in the PRC, including the Property Law of the PRC and the Security Law of the PRC.

The Group has granted loans to the real estate sector and local government financing platforms ("LGFPs") and any significant or extended downturn in or change in national policies towards the real estate sector and LGFPs may adversely affect the Group's financial condition and results of operations.

Real Estate Sector

The Group's loans and advances to the real estate sector primarily comprise loans issued to real estate companies and individual housing loans. Its loans issued to real estate companies include, among others, loans for real estate development, land reservation loans and asset-backed loans.

With respect to its real estate loans, the Group follows strictly its credit risk management procedures, including ongoing credit monitoring of borrowers' financial information, and strictly enforcing repayment schedules. In addition, the Group has established a regional risk alert system and loan policy adjustment mechanism applicable to the real estate sector. The Group has instructed its branches to strengthen research of regional and local real estate market conditions, adjust credit guidelines applicable to real estate loans and implement different credit limits to reflect different levels of risk for these loans.

The PRC real estate market is subject to volatility and property prices have experienced significant fluctuations in recent years. The PRC Government has plans to and has already implemented certain macroeconomic control and other adjustment measures aiming at managing these fluctuations and preventing the real estate market from over-heating. These policies may have an adverse effect on the growth of the Group's loans to the real estate industry, the quality of loans extended to the real estate industry and the quality of the Group's mortgage loan portfolio. In addition, if the real estate market in the PRC experiences a significant downturn, the value of the real estate securing the Group's loans may decrease, resulting in a reduction in the amount the Group can recover on its loans in the event of default. This may in turn materially and adversely affect the Group's asset quality, business, financial condition and results of operations.

LGFPs

LGFPs primarily comprise state-owned or state-run investment and financing institutions whose financing activities principally consist of infrastructure and quasi-public social welfare government investment projects. Loans to LGFPs are a part of the loan portfolio of commercial banks in PRC, including the Group's. A portion of the Group's loans to these entities are fully or partially indemnified or guaranteed by local government financial authorities or are for projects which have stable cash flows. The Group's loans to LGFPs on average have terms of less than 10 years and primarily include provincial- and municipal-level loans for construction of roads and bridges, railway transportation, parks and land reserves.

The Group attaches great importance to the credit management of LGFPs and have undertaken a series of measures, such as access lists, industry quotas, debt limitation models and regular review, to reduce credit risks associated with loans to LGFPs. The Group intends to further strengthen the risk management of LGFPs. Although the Group has taken a variety of credit risk management measures, it may not discover all potential risks associated with irregular operations, large debts and unsustainable revenues of LGFPs or the potential reform or elimination of non-compliant entities by local governments. In addition, local government revenues are primarily derived from taxes and land premiums. Therefore, economic cycles and fluctuations in the real estate market may also adversely affect the quality of such loans.

There can be no assurance that the LGFPs will be able to fulfil their obligations under the terms of the loans on time or at all. Any failure by these LGFPs to fulfil their loan obligations may have a material and adverse effect on the Group's business, financial condition and results of operations.

Any deficiencies in the Group's risk management and internal control system may materially and adversely affect the Group's financial condition and results of operations.

With the expansion of its business, products and services, the Group may face significant challenges in risk management and may need to further improve its risk management system. For example, in addition to commercial banking services, the Group provides investment banking and insurance services. The risks related to these services are significantly different from those related to commercial banking services. The Group has adopted measures, policies and procedures to improve its risk management and internal control system and strengthen consolidated balance sheet risk management. However, such measures, policies and procedures may not be effective in managing the relevant risks. As a result, the Group's risk management and internal control system may still need to be improved. Any deficiencies in the Group's risk management system may adversely affect the Group's ability to respond to these risks. If the Group is unable to effectively manage relevant risks, its financial condition and results of operations may be adversely affected.

The Group assesses specific risks as well as its overall credit risk through an internal credit assessment system. Its credit rating system involves detailed analysis of its borrowers' credit risk, taking into account both quantitative and qualitative factors. Therefore, the Group may be exposed to risks associated with inaccurate assessments. The Group's credit rating system is also limited by the information available to it and the credit history of its borrowers. The Group has improved its credit policies and guidelines to better process potential risks relating to certain industries, including the real estate industry, and certain borrowers, including affiliated companies and group enterprises. However, the Group may fail to identify these risks on a timely basis given the resources and tools available to it. In addition, the Group's employees may fail to enforce its credit policies and guidelines, such as monitoring loans after they are issued, which may increase the Group's credit risk. If the Group fails to effectively enforce or improve its credit risk management policies and guidelines, its business operations, financial results and reputation may be materially and adversely affected.

The Group continues to improve its internal control system. The Group's Risk Management and Internal Control Committee under its senior management as well as the risk management and internal control committees of the Group's branches are responsible for ensuring the effective performance of the Group's internal control system. The Group continues to expend significant effort on the development of its internal control system, including improvement of internal control review procedures, modification and monitoring of workflow, periodic testing of compliance and standardisation of management procedures.

The Group continues to strengthen monitoring of key internal control measures and key positions. In addition, the Group continues to increase the independence of its internal audit function, and strengthen communication between its internal audit committee and external auditor as well as between its internal audit committee and management. However, if the Group's internal control system is not effectively implemented or consistently applied, the Group's business operations, financial results and reputation may be materially and adversely affected.

The Group may encounter difficulties in effectively implementing centralised management and supervision of its branches and subsidiaries, as well as consistent application of its policies throughout the Bank, and may not be able to timely detect or prevent fraud or other misconduct by its employees or third parties.

The Group's branches and subsidiaries historically had significant autonomy in relation to their respective operations and managements. In the past, the Group was not always able to timely detect or effectively prevent failures in management at the branch or subsidiary level. In addition, due to limitations in information systems and differences between domestic and overseas regulatory policies, the Group's efforts in detecting or preventing such failures may not be implemented consistently and may not be sufficient to prevent all irregular transactions or incidents.

The Group may be subject to fraud and other misconduct committed by its employees, customers or other third parties, which could adversely affect its business operations, financial results and reputation. Common weaknesses that facilitate fraud include inadequate segregation of duties, insufficient access controls and certain actions taken by employees which are not consistent with the Group's internal control policies. While the Group has implemented measures aimed at detecting and minimising employees' and third parties' misconduct and fraud, it may not always be able to timely detect or prevent such misconduct, and it may need to continue to improve its current, and implement new, policies and measures. If the Group is unable to effectively manage and supervise its branches and subsidiaries, it may not be able to detect or prevent fraud or other misconduct of its employees or third parties in a timely manner, which may result in damage to its reputation and an adverse effect on its business, financial condition and results of operations.

The Group is subject to fluctuations in interest rates and currency exchange rates and other market risks.

The Group's results of operations significantly depend on its net interest income. Fluctuations in interest rates could materially affect the Group's financial condition and results of operations in different ways. Moreover, the PRC Government has gradually liberalised the regulation of interest rates in recent years.

Further liberalisation may result in greater interest rate volatility as well as intensified competition, both in deposit and lending businesses. Such competition could result in an increase in cost of funds and a decrease in pricing on loans, which in turn could lead to a decrease in the Group's net interest income. In addition, despite the liberalisation of interest rate regulation which allows the Group to charge different interest rates to borrowers with different credit ratings, the Group may not be able to benefit from such liberalisation because it takes time for the Group to change its lending practice and culture. A significant portion of the Group's outstanding interest-earning assets and, interest-bearing liabilities are denominated in foreign currencies. As a result, the Group's financial condition and results of operations are also affected by fluctuations in the interest rates associated with these foreign currencies.

The Group has endeavoured to increase its Renminbi-denominated investments and properly adjust its investments in foreign currency-denominated debt securities in response to changes in global financial markets and its need for prudent asset and liability management. However, a significant portion of the Group's assets and liabilities is currently denominated in foreign currencies. The Group also engages in a wide range of foreign exchange transactions and derives a significant amount of its income in foreign currencies. The Group's overseas operations also require capital in foreign currencies. The Group tries to minimise its foreign currency mismatch by managing the source and use of capital in foreign currencies. The Group's ability to manage its foreign currency exposure is constrained by the limited market risk management and hedging tools available to it and the fact that Renminbi is not yet freely convertible. To the extent the Group's foreign currency-denominated assets and liabilities are not matched in the same currency or appropriately hedged, fluctuations in foreign currency exchange rates against Renminbi may adversely affect the Group's financial condition, including its capital adequacy ratios and may create foreign currency translation losses.

A number of factors could potentially affect the PRC overall economy, including appreciation of Renminbi against U.S. dollar and Euro, which could adversely affect the PRC exports. The PRC economy could also be impacted by past or future global financial crises and tightening of the global credit markets, which have in the past and may once again result in extreme volatility and dislocation of the global capital markets. Continued market uncertainties may also lead to more volatility in interest and foreign currency exchange rates. There can be no assurance that the Group's business, financial condition and results of operations will not be materially and adversely affected by liquidity shortages and credit market disruptions as a result of events impacting the global economy, global markets and the PRC economy.

There are operational risks associated with the Group's industry which, if realised, may have an adverse impact on its business.

Like all other financial institutions, the Group is exposed to many types of operational risks, including the risk of fraud, unauthorised transactions or other misconduct by employees (including the violation of regulations for the prevention of corrupt practices, and other regulations governing the Group's business activities), or operational errors, including clerical or record keeping errors or errors resulting from faulty computer or telecommunications systems. The Group is further exposed to the risk that external vendors may be unable to fulfil their contractual obligations to it (or will be subject to the same risk of fraud or operational errors by their employees). For example, the Group uses direct marketing associates to market its retail credit products, and the Group also outsources some functions to other agencies. Moreover, the Group is exposed to the risk that its (or its vendors') business continuity and data security systems prove not to be sufficient in case of a system failure or natural disaster.

Given the Group's high volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. In addition, the Group's dependence upon automated systems to record and process transactions may further increase the risk of technical system flaws or employee tampering or manipulation of those systems that will result in losses that may be difficult to detect. The Group may also be subject to disruptions of its operating systems, arising from events that are wholly or partially beyond its control (including, for example, computer viruses or electrical or telecommunication outages), which may give rise to a deterioration in customer service and to loss or liability to it. The Group also faces the risk that the design of its controls and procedures may prove inadequate or are circumvented, thereby causing delays in detection of errors in information. Although, like all banks, the Group maintains a system of controls designed to reduce operational risks to a reasonably low level, the Group has suffered losses from operational risks and there can be no assurance that the Group will not suffer material losses from operational risks in the future. The Group's reputation could be adversely affected by the occurrence of any such events involving its employees, customers or third parties. In addition to internal factors that may affect the Group's operations, the rapid growth and expansion of its business in recent years as compared to other banks may have also resulted in increasing complexity in its internal and external control systems and risk management measures, which may add to its operational risks.

The Group's expanding range of products and services exposes it to new risks.

The Group has been expanding and intends to continue to expand the range of its products and services.

Expansion of its business activities and product range exposes the Group to a number of risks and challenges, including the following:

- the Group may not have sufficient experience or expertise in certain new products and services and may not compete effectively in these areas;

- the new products and services may not be accepted by the Group's customers or meet its expectations for profitability;

- the new products and services may give rise to potential disputes or claims from customers;

- the Group may not be able to hire or retrain personnel who are able to conduct new business activities;

- the Group may fail to obtain regulatory approval for its new products or services; and

- the Group may not be successful in enhancing its risk management capabilities and information technology systems to support a broader range of products and services.

If the Group is unable to achieve the intended results from the expansion of its range of products and services, its business, financial condition and results of operations may be materially and adversely affected. In addition, if the Group fails to promptly identify and expand into new areas of business to meet the increasing demand for certain products and services, the Group may fail to maintain its market share or lose some of its existing customers.

The Group is subject to credit and funding risks with respect to certain off-balance sheet commitments.

In the normal course of its business, the Group makes commitments and guarantees which are not reflected as liabilities on its balance sheet, including commitments, certain guarantees and letters of credit relating to the performance of its customers. The Group is subject to the credit risk of its customers as a result of these off-balance sheet undertakings. Over time, the creditworthiness of the Group's customers may deteriorate and the Group may be called upon to fulfil its commitments and guarantees in case any of its customers fail to perform their obligations owed to third parties. If the Group is unable to obtain payment or other indemnification from its customers in respect of these commitments and guarantees, its business, financial condition and results of operations may be adversely affected.

The Group is subject to the supervision and inspection of regulators in jurisdictions where it operates.

The Group is subject to regular and irregular supervision and inspection by the PRC's regulatory institutions, including the Ministry of Finance ("**MOF**"), PBOC, CBRC, the China Securities Regulatory Commission ("**CSRC**"), the China Insurance Regulatory Commission ("**CIRC**"), the State Administration of Taxation, the State Administration of Industry & Commerce, SAFE, the National Development and Reform Commission of the PRC ("**NDRC**") and the National Audit Office and their local counterparts. The Group's branches and sub-branches must follow local laws, regulations and regulatory requirements of relevant local regulatory institutions. There can be no assurance that the Group's branches and sub-branches will be able to meet the applicable laws and regulatory requirements at all times. Any failure of the Group to meet these requirements may result in fines, penalties or sanctions which may materially and adversely affect the Group's operations, reputation, business, financial position and results of operations.

The Group may be subject to sanctions if it conducts transactions in violation of the relevant sanctions regulations.

The U.S. currently imposes various economic sanctions, which are administered by the U.S. Treasury Department's Office of Foreign Assets Control and the U.S. State Department and which apply only to U.S. persons and, in certain cases, to foreign subsidiaries of U.S. persons or to transactions involving certain items subject to U.S. jurisdiction. Similar sanctions are administered by the United Kingdom, the

European Union, United Nations Security Council and other applicable jurisdictions. These sanctions are intended to address a variety of policy concerns, primarily denying certain countries, including Cuba, Iran, Libya, Myanmar, North Korea, Syria and Sudan, and certain individuals and entities in these and other countries, the ability to support international terrorism and, in the case of Iran, North Korea and Syria, as well as certain individuals and entities in these and other countries, to pursue weapons of mass destruction and missile programmes. The Group does not believe that its activities violate any applicable sanction regulations. However, if it was otherwise determined that any of the Group's transactions violated applicable sanctions regulations, the Group could be subject to penalties and its reputation and ability to conduct future business in the U.S. or other relevant jurisdictions or with U.S. persons or other relevant persons could be adversely affected.

The Group is subject to risks associated with its derivative transactions and investment securities.

The Group enters into derivative transactions primarily for trading, asset and liability management, and on behalf of its customers. There are, among others, credit, market and operational risks associated with these transactions. In addition, despite the relatively well-developed market practice and documentation for derivative transactions in the international financial markets, the PRC's derivative transactions system still remains in its early development stage and the PRC courts have limited experience in dealing with issues related to derivative transactions. This may further increase the risks associated with these transactions. In addition, the Group's ability to adequately monitor, analyse and report these derivative transactions is subject to the development of the Group's information technology system. As a result, the Group's financial condition and results of operations may be adversely affected by these derivative transactions.

The Group may, from time to time, invest in securities including bonds, debentures or other financial instruments, both domestically issued in the PRC and offshore. Such investments are subject to credit, market, liquidity and other types of risks associated with such investments.

As at 31 December 2012 and 30 June 2013, the carrying value of U.S. subprime-mortgage related debt securities, U.S. Alt-A mortgage-backed securities and Non-Agency U.S. mortgage-backed securities held by the Group amounted to U.S.$1,103 million and U.S.$934 million, respectively, and the related impairment allowance was U.S.$599 million and U.S.$519 million, respectively.

As at 31 December 2012 and 30 June 2013, the Group's carrying value of debt securities issued by the US agencies Freddie Mac and Fannie Mae together with debt securities guaranteed by the two agencies amounted to U.S.$46 million and U.S.$39 million, respectively. As at 31 December 2012 and 30 June 2013, the total carrying value of debt securities issued by European governments and institutions held by the Group was RMB45.571 billion and RMB37.365 billion, respectively, of which 95.72 per cent. and 95.33 per cent., respectively, related to the United Kingdom, Germany, the Netherlands, France and Switzerland. The Group did not hold any debt securities issued by the governments and institutions of Greece, Portugal, Ireland, Italy, or Spain.

The Group will continue to closely follow the developments in the international financial markets and assess impairment allowances on related assets in a prudent manner in accordance with IFRS.

Any non-performance or default by the Bank such securities or volatility of the markets or liquidity of the markets in which the relevant securities are traded may have an adverse effect on the Group's financial condition and results of operations.

The Group's liquidity may be adversely affected if it fails to maintain its deposit growth or if there is a significant decrease in its deposits.

Most of the funding requirements of the Group's commercial banking operations are met through short-term funding, principally in the form of deposits, including customer and inter-bank deposits. Although the Group has established a liquid assets investment portfolio to supplement its ongoing liquidity needs since 2004, it continues to rely primarily on customer deposits to meet its funding needs. While the Group's short-term customer deposits have been a stable and predictable source of funding, there can be no assurance that the Group will always be able to rely on this source of funding. If the Group fails to maintain its deposit growth or if there is a significant decrease in its deposits, the Group's liquidity position, business, financial condition and results of operations may be materially and adversely affected. Should any of these events occur, the Group may need to seek more expensive sources of funding to meet its funding requirements.

In addition, the Group may experience shortages of cash flow from time to time as a result of mismatches between the maturity of its income-generating assets and the maturity of its debts or funding needs. If the mismatches between the maturity of its assets and the maturity of its debts or funding needs widen significantly, the Group's liquidity position could be materially and adversely affected. There can be no assurance that the Group will be able to obtain additional capital source financing based on acceptable terms or at all. The Group may need to seek alternative sources of short-term or long-term funding to finance its operations, which may be more expensive than existing deposits. Furthermore, the Group's ability to obtain additional funds may also be affected by other factors, including factors beyond the Group's control, such as the deterioration of overall market conditions, disturbances to the financial markets or a downturn in the industries where it has substantial credit exposure. All of these factors may result in significant adverse effects on the Group's liquidity, business, financial position and results of operations. See also "*Risks Relating to the PRC Banking Industry*" for additional information relating to the PRC banking regulatory regime.

The Group's provisioning policies and loan classification may be different in certain respects from those applicable to banks in certain other countries or regions.

The Group determines a level of allowance for impairment losses and recognises any related provisions made in a year using the concept of impairment under International Accounting Standards and their interpretations ("**IAS 39**"). The Group's provisioning policies may be different in certain respects from those of banks incorporated in certain other countries or regions which do not assess loans under IAS 39. As a result, the Group's allowance for impairment losses, as determined under those provisioning policies, may differ from those that would be reported if it was incorporated in those countries or regions.

The Group classifies its loans as "pass", "special-mention", "substandard", "doubtful" and "loss" by using the five-category classification system according to requirements of CBRC. Its five-category classification system may be different in certain respects from those of banks incorporated in certain other countries or regions. As a result, it may reflect a different degree of risk than what would be reported if the Group was incorporated in those countries or regions.

Future amendments to IAS 39 and interpretive guidance on its application may require the Group to change its provisioning practice.

The Group assesses its loans and investment assets for impairment under IAS 39, as amended from time to time. The International Accounting Standards Board ("**IASB**") issued an exposure draft in November 2009 on amortised cost and impairment proposing the expected loss model. After further discussion, the IASB and the Financial Accounting Standards Board ("**FASB**") issued a joint supplement to ED/2009/12 in March 2011 which suggested a "good book/bad book approach". In June 2011, the Boards proposed a new "three-bucket impairment" model to replace the "good book/bad book approach". In March 2013, IASB published the exposure draft "IFRS9 – Financial Instruments: Expected Credit Losses", proposed to replace the "incurred loss model" of IAS 39 Financial Instrument. Because the incurred credit loss impairment model ('incurred loss model') that is currently in existence delays the recognition of credit losses until a credit loss event occurs, IASB recommended exploring alternatives to the incurred loss model that would use information that is more forward-looking. The complexity of having multiple impairment models was identified as an additional weakness of existing accounting standards. There are three stages in the main proposals to reflect the general pattern of the deterioration of a financial instrument that ultimately defaults. The differences in accounting relate to the recognition of expected credit losses and, for financial assets, the calculation and presentation of interest revenue. Any further amendment to the accounting standard may require the Group to change its current provisioning practice and may, as a result, materially affect the Group's business, financial conditions and result of operations. In addition, the International Financial Reporting Interpretations Committee and other relevant accounting standard-setting bodies and regulators have been asked by their constituents to consider providing interpretive guidance relating to the application of IAS 39. Any future amendments to IAS 39 and interpretive guidance on the application of IAS 39 may require the Group to change its current provisioning practice and may, as a result, materially affect the Group's business, financial condition and results of operations.

The Group may not be able to detect money laundering and other illegal or improper activities, which could expose it to additional liability and harm its business.

The Group is required to comply with applicable anti-money laundering laws, anti-terrorism laws and other regulations in the PRC and other jurisdictions in which it has operations. These laws and regulations require the Group, among other things, to adopt and enforce "know your customer" policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities in different jurisdictions.

If the Group fails to fully comply with the applicable anti-money laundering laws and regulations, the relevant government supervisory bodies have the power and authority to impose fines and other penalties on it. While the Group has adopted policies and procedures aimed at detecting and preventing the use of its banking network for money laundering activities or by terrorists and terrorist-related organisations and individuals generally, such policies and procedures may not completely eliminate instances where the Group may be used by other parties to engage in money laundering or other illegal or improper activities. To the extent the Group may fail to fully comply with applicable laws and regulations, the relevant government agencies to whom the Group reports have the power and authority to impose fines and other penalties on the Group, which may materially and adversely affect the Group's reputation, business, financial condition and results of operation.

The Group's business is highly dependent on the proper functioning and improvement of its information technology systems.

The Group is highly dependent on the ability of its information technology systems to accurately process a large number of transactions across numerous and diverse markets and products in a timely manner. The proper functioning of the Group's financial control, risk management, accounting, customer service and other data processing systems, together with the communication networks among the Group's various branches and sub-branches and its main data processing centres, are critical to the Group's business operations and its ability to compete effectively. The Group maintains backup data for key data processing systems and has established a disaster recovery centre to maintain principal functions in the event of a catastrophe or a failure of the Group's primary systems. However, the Group's operations may be materially disrupted if there is a partial or complete failure of any of these primary information technology systems or communications networks. Such failures could be caused by, among other things, software bugs, computer viruses, attacks by computer hackers or conversion errors due to system upgrading. In addition, any security breach caused by unauthorised access to information or systems, loss or corruption of data and malfunction of software, hardware or other computer equipment could have a material and adverse effect on the Group's reputation, business, financial condition and results of operations.

The Group's ability to remain competitive will depend in part on its ability to upgrade its information technology systems on a timely and cost-effective basis. In addition, the information available to and received by the Group through its existing information technology systems may not be timely or sufficient enough for it to manage risks and plan for, and respond to, market changes and other developments in its current operating environment. As a result, the Group is making and intends to continue making investments to improve or upgrade its information technology systems. Any substantial failure to improve or upgrade its information technology systems effectively or on a timely basis could materially and adversely affect the Group's competitiveness, business, financial condition and results of operations.

Internet banking services involve risks of security breaches.

Internet banking activities involve the electronic storage and transmission of confidential information, which are vulnerable to unauthorised access, computer viruses and other disruptions. These possible security breaches could expose the Group to liability and damage its reputation. Costs incurred in rectifying security breaches may be high and may materially and adversely affect the Group's business, financial condition and results of operations. Rectifying security breaches may also result in interruptions, delays or termination of service to users accessing the Group's internet banking services. Undetected defects in software products that the Group uses in providing its internet banking services and the Group's inability to sustain a high volume of internet traffic may have a material and adverse effect on the Group's internet banking business.

There can be no assurance of the accuracy or comparability of facts, forecasts and statistics contained in this Offering Circular with respect to the Bank, the Group, the PRC, its economy or its banking industry.

Certain facts, forecasts and statistics in this Offering Circular relating to the PRC, the PRC's economy, the PRC and global banking industries and the Bank's market share and ranking are derived from various official and other publicly available sources which are generally believed to be reliable. However, the Bank cannot guarantee the quality and reliability of such source materials. In addition, these facts, forecasts and statistics have not been independently verified by the Bank, the Group, or any of their respective directors, employees, representatives, affiliates or advisers and, therefore, none of them makes any representation as to the accuracy or fairness of such facts, forecasts and statistics, which may not be consistent with other information compiled within or outside the PRC and may not be complete or up to date. The Bank has taken reasonable care in reproducing or extracting the information from such sources.

However, because of possibly flawed or ineffective methodologies underlying the published information or discrepancies between the published information and market practice and other problems, these facts, forecasts and other statistics may be inaccurate or may not be comparable from period to period or be comparable to facts, forecasts or statistics produced for other economies and should not be unduly relied upon.

Risks Relating to the Market Generally

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

Notes issued under the Programme have no current active trading market and may trade at a discount to their initial offering price and/or with limited liquidity.

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Series, such Series is to be consolidated with and form a single series with a Series of Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. If the Notes are trading at a discount, investors may not be able to receive a favourable price for their Notes, and in some circumstances investors may not be able to sell their Notes at all or at their fair market value. Although application has been made to the Hong Kong Stock Exchange for the Notes issued under the Programme to be admitted to listing on the Hong Kong Stock Exchange, there is no assurance that such application will be accepted, that any particular Series of Notes will be so admitted or that an active trading market will develop. In addition, the market for investment grade has been subject to disruptions that have caused volatility in prices of securities similar to the Notes issued under the Programme. Accordingly, there is no assurance as to the development or liquidity of any trading market, or that disruptions will not occur, for any particular Series of Notes.

Exchange rate risks and exchange controls may result in investors receiving less interest or principal than expected.

The Issuer will pay principal and interest on the Notes in the currency specified in the relevant Pricing Supplement (the "**Specified Currency**"). This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes, and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Changes in market interest rates may adversely affect the value of Fixed Rate Notes.

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of Fixed Rate Notes.

Credit ratings may not reflect all risks.

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Risks Relating to Subordinated Notes Issued under the Programme

Basel III and related reforms.

The Basel Committee has proposed a number of fundamental reforms to the regulatory capital framework for internationally active banks which are designed, in part, to ensure that capital instruments issued by such banks fully absorb losses before taxpayers are exposed to loss (the "**Basel III Reforms**"), the principal elements of which are set out in its papers dated 16 December 2010 (as revised in June 2011) and its press release dated 13 January 2011. The implementation of the Basel III Reforms in the PRC are currently under way by the CBRC. The PBOC may also be involved in the process as the appropriate authority regarding certain issues.

CBRC adopted Basel III risk-based capital regulations in June 2012, which is the CBRC Measures, and brought them into force on 1 January 2013. The CBRC Measures apply to all 511 commercial banks registered in the PRC, including small and medium-sized commercial banks that are not internationally active. The CBRC Measures follow the implementation schedule stipulated by the Basel Committee. In November 2012, supplementary documents were published by the CBRC, including additional requirements on capital instrument innovation, transitional arrangements, and capital adequacy ratio reporting. Based in part on the Regulatory Consistency Assessment Programme assessment process that began in January 2013, the CBRC issued a number of additional regulatory notices in July 2013 that further align the domestic regulations with Basel standards. The main changes related to the treatment of banks' exposures to central counterparties and the disclosure requirements for capital instruments. In addition, the CBRC issued a set of technical clarifications and requirements to complete important parts of the Chinese capital regulations and make them consistent with the international Basel III standards.

In accordance with the CBRC Measures, all Tier 2 instruments which do not contain any contractual terms providing for their writing off or conversion into ordinary shares, at the option of the CBRC and upon the occurrence of a Non-Viability Event (as defined below), will not be eligible to count in full as Tier 2 capital from 1 January 2013.

As used above, "Non-Viability Event" means the earlier of (a) a decision that a write-off or conversion into shares, without which the relevant bank would become non-viable, is necessary as determined by the CBRC; and (b) the decision to make a public sector injection of capital, or equivalent support, without which the relevant bank would become non-viable, as determined by the relevant regulatory authority in the PRC.

The Subordinated Notes may contain certain non-viability loss absorption provisions; it is also possible that the powers which may result from any future change to the CBRC Measures or 2012 Guiding Opinions (defined below) or the application of relevant laws, including those arising from the Basel III Reforms (including CBRC's implementation of the Basel III Reforms) or other similar regulatory proposals, could be used in such a way as to result in the Notes absorbing losses in the manner described above. The determination that all or part of the principal amount of the Notes will be subject to loss absorption is likely to be inherently unpredictable and may depend on a number of factors which may be outside of the Issuer's control. Because of this inherent uncertainty, it will be difficult to predict when, if at all, a principal write off or conversion to equity will occur. Accordingly, trading behaviour in respect of the Notes is not necessarily expected to follow the trading behaviour associated with other types of securities. Potential investors in the Notes should consider the risk that a holder may lose all of its investment, including the principal amount plus any accrued interest, if such statutory loss absorption measures are acted upon.

Furthermore, there can be no assurance that, prior to their implementation, the Basel Committee will not amend the Basel III Reforms. Furthermore, the relevant regulatory authority may implement the Basel III Reforms, including the provisions relating to terms which capital instruments are required to have, in a manner that is different from that which is currently envisaged or may impose more onerous requirements. Until fully implemented, the Issuer cannot predict the precise effect of the changes that will result from the implementation of the Basel III Reforms on the pricing or market value of the Notes. In addition, further changes in law after the date hereof may affect the rights of holders of the Notes as well as the market value of the Notes.

On 6 June 2012, the European Commission published a legislative proposal for a directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms, known as the Recovery and Resolution Directive (the "**RRD**"). The stated aim of the draft RRD is to provide supervisory authorities with common tools and powers to address banking crisis pre-emptively in order to safeguard financial stability and minimise taxpayers' exposure to losses. The powers proposed to be granted to supervisory authorities under the draft RRD include a "bail-in" tool, which would give such authorities the power to write down or write off the claims (potentially including the Notes) of certain unsecured creditors of a failing institution and/or to convert certain debt claims to equity. Except for the general bail-in tool, which is expected to be implemented by 1 January 2018, it is currently contemplated that the measures set out in the draft RRD (including the power of authorities to write off Tier 2 instruments) will be implemented with effect from 1 January 2015. However, the RRD is not in final form and changes may be made to it in the course of the legislative process.

The terms of Subordinated Notes may contain non-viability loss absorption provisions, and the occurrence of a non-viability event may be inherently unpredictable or may depend on a number of factors which may be outside of the Issuer's control.

To the extent that any series of Subordinated Notes contains provisions relating to loss absorption upon the occurrence of a Non-Viability Event of the Issuer as determined by the relevant Regulatory Authority as specified in the applicable Pricing Supplement, additional provisions relating to the mechanics of the loss absorption and the respective roles of the Trustee and the Agents may have to be added to the Conditions of such series, the Trust Deed and the Agency Agreement and the Issuer may be required, subject to the terms of the relevant series of Subordinated Notes, irrevocably (without the need for the consent of the holders of the Subordinated Notes) to effect a full write-off of the outstanding principal and accrued and unpaid interest in respect of such Subordinated Notes. Any written-off amount shall be irrevocably lost and holders of such Subordinated Notes will cease to have any claims for any principal amount and accrued but unpaid interest which has been subject to write-off.

The occurrence of a Non-Viability Event is dependent on a determination by the relevant Regulatory Authority (a) that a write-off, without which the Issuer would become non-viable, is necessary; or (b) to make a public sector injection of capital, or equivalent support, without which the Issuer would have become non-viable. As a result, the relevant Regulatory Authority may require or may cause a write-off in circumstances that are beyond the control of the Issuer and with which the Issuer may not agree.

Because of the inherent uncertainty regarding the determination of whether a Non-Viability Event exists, it will be difficult to predict when, if at all, a write-off will occur. Accordingly, trading behaviour in respect of Subordinated Notes which have the non-viability loss absorption feature is not necessarily expected to follow trading behaviour associated with other types of securities. Any indication that the Issuer is trending towards a Non-Viability Event could have an adverse effect on the market price of the relevant Subordinated Notes.

Potential investors should consider the risk that a holder of Subordinated Notes which have the non-viability loss absorption feature may lose all of its investment in such Subordinated Notes, including the principal amount plus any accrued but unpaid interest, in the event that a Non-Viability Event occurs.

There is no assurance that any contractual provisions with non-viability loss absorption features, to the extent applicable, will be sufficient to satisfy the Basel III-compliant requirements that the Relevant Authorities may implement in the future. There is a risk that the Relevant Authorities may deviate from the Basel III proposals by implementing reforms which differ from those envisaged by the Basel Committee.

Regulations on non-viability loss absorption are new, untested and subject to interpretation and application by regulations in the PRC.

The regulations on non-viability loss absorption are new and untested, and will be subject to the interpretation and application by the relevant authorities in the PRC. It is uncertain how the relevant Regulatory Authority (as specified in the Pricing Supplement) would determine the occurrence of a Non-Viability Event, and it is possible that the grounds that constitute Non-Viability Events may change (including that additional grounds are introduced). Accordingly, the operation of any such future legislation may have an adverse effect on the position of holders of the Subordinated Notes.

A potential investor should not invest in the Subordinated Notes unless it has the knowledge and expertise to evaluate how the Subordinated Notes will perform under changing conditions, the resulting effects on the likelihood of a write-off and the value of the Subordinated Notes, and the impact this investment will have on the potential investor's overall investment portfolio. Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this Offering Circular and in the applicable Pricing Supplement.

No limitation on issuing senior or pari passu securities in respect of Subordinated Notes.

There is no restriction on the amount of securities which the Issuer may issue and which rank senior to, or *pari passu* with, the Subordinated Notes. The issue of any such securities may reduce the amount recoverable by holders of Subordinated Notes in case of a winding-up of the Issuer. The Subordinated Notes are subordinated obligations of the Issuer. Accordingly, in the winding-up of the Issuer, there may not be a sufficient amount to satisfy the amounts owing to the holders of Subordinated Notes.

Risks Relating to Notes Issued under the Programme

Notes may not be a suitable investment for all investors.

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets;

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks; and

(vi) have sufficient knowledge and expertise (either alone or with a financial adviser) to evaluate the effect or the likelihood of the occurrence of a Non-Viability Event for Subordinated Notes which feature loss absorption.

Considerations related to FATCA Tax Provisions.

In order to receive payments free of U.S. withholding tax under Sections 1471 through 1474 of the U.S. Internal Revenue Code (commonly referred to as "**FATCA**"), the Issuer and financial institutions through which payments on the Notes are made may be required to withhold at a rate of up to 30 per cent. on all, or a portion of, payments in respect of the Notes made after 31 December 2016. This withholding does not apply to payments on Notes that are issued prior to 1 July 2014 (or, if later, the date that is six months after the date on which the final regulations that define "foreign pass thru payments" are published) unless the Notes are "materially modified" (as that term is used in FATCA) after the end of the grandfathering period or are characterized as equity for U.S. federal income tax purposes. If a series of Notes are eligible for the grandfathering rule and the Issuer issues further Notes in such series after the end of the grandfathering period, this could have a negative impact on the grandfathered status of the grandfathered Notes unless such further issuance qualifies as a "qualified reopening" for U.S. federal income tax purposes. Whilst the Notes are in global form and held within the clearing systems, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the clearing systems. See "*Taxation – United States – FATCA*". However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer's obligations under the Notes are discharged once it has paid the common depositary for the clearing systems (as registered holder of the Notes) and the Issuer has therefore no responsibility for any amount thereafter transmitted through hands of the clearing systems and custodians or intermediaries.

Investors shall pay attention to any modification, waivers and substitution.

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions may be amended, modified, or varied in relation to any Series of Notes by the terms of the relevant Pricing Supplement in relation to such Series.

The Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to (a) any modification (except such modifications in respect of which an increased quorum is required as mentioned above) of the Notes, the Receipts, the Coupons, the Trust Deed or the Agency Agreement which is not prejudicial to the interests of the Noteholders; or (b) any modification of the Notes, the Receipts, the Coupons, the Trust Deed or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law as described in Condition 19.

Investors shall be aware of the effect of change of law.

The Conditions of the Notes are based on English law (except that the provisions of the Notes relating to subordination shall be governed by, and construed in accordance with, the laws as specified in the Pricing Supplement in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law or the laws as specified in the Pricing Supplement, or administrative practices after the date of this Offering Circular.

Considerations related to a particular issue of Notes.

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

Notes subject to optional redemption by the Issuer

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes will generally not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor would generally not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index Linked Notes and Dual Currency Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each a "**Relevant Factor**"). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

(i) the market price of such Notes may be volatile;

(ii) they may receive no interest;

(iii) the payment of principal or interest may occur at a different time or in a different currency than expected;

(iv) the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero;

(v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

(vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable will likely be magnified; and

(vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Partly-paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of such Notes are typically more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Risks Relating to Renminbi Denominated Notes

Notes denominated in Renminbi (the "**Renminbi Notes**") may be issued under the Programme. Renminbi Notes contain particular risks for potential investors.

Investment in the Renminbi Notes is subject to exchange rate risks

The value of Renminbi against the Hong Kong dollar and other foreign currencies fluctuates from time to time and is affected by changes in the PRC and international political and economic conditions as well as many other factors. The Issuer will make all payments of interest and principal with respect to the Renminbi Notes in Renminbi. As a result, the value of these Renminbi payments may vary with the changes in the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against the Hong Kong dollar or other foreign currencies, the value of the investment made by a holder of the Renminbi Notes in Hong Kong dollars or any other foreign currency terms will decline.

Investment in the Renminbi Notes is subject to interest rate risks

The PRC government has gradually liberalised its regulation of interest rates in recent years. Further liberalisation may increase interest rate volatility. The trading price of the Renminbi Notes will vary with the fluctuations in the Renminbi interest rates. If holders of the Renminbi Notes propose to sell their Renminbi Notes before their maturity, they may receive an offer lower than the amount they have invested.

Renminbi is not freely convertible; there are significant restrictions on the remittance of Renminbi into and outside of the PRC.

Renminbi is not freely convertible at present. The PRC Government continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar, despite significant reduction in control by it in recent years over trade transactions involving import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items. Participating banks in Hong Kong, Singapore and Taiwan have been permitted to engage in the settlement of current account trade transactions in Renminbi under certain pilot schemes. However, remittance of Renminbi by foreign investors into the PRC for purposes known as capital account items, such as capital contributions, is generally permitted only upon obtaining specific approvals from relevant authorities on a case-by-case basis and subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into the PRC for settlement of capital account items is developing gradually.

On 12 October 2011, the Ministry of Commerce of the PRC ("**MOFCOM**") promulgated the "Circular on Certain Issues Concerning Direct Investment Involving Cross-border Renminbi" (商務部關於跨境人民幣直接投資有關問題的通知) (the "**MOFCOM Circular**"). Pursuant to the MOFCOM Circular, the appropriate office of MOFCOM and/or its local counterparts were authorised to approve Renminbi foreign direct investments ("**FDI**") with certain exceptions based on, among others, the size and industry of the investment. The MOFCOM Circular also stipulates that the proceeds of FDI may not be used towards investment in securities, financial derivatives or entrustment loans in the PRC, except for investments in domestic companies listed in the PRC through private placements or share transfers by agreement.

On 13 October 2011, PBOC promulgated the "Administrative Measures on Renminbi Settlement of Foreign Direct Investment" (外商直接投資人民幣結算業務管理辦法) (the "**PBOC FDI Measures**") as part of the implementation of PBOC's detailed FDI Renminbi accounts administration system. The system covers some aspects in relation to Renminbi-denominated FDI, including capital injections, payments for the acquisition of PRC domestic enterprises, repatriation of dividends and other distributions, as well as Renminbi denominated cross-border loans. On 14 June 2012, PBOC further issued the implementing rules for the PBOC FDI Measures. Under the PBOC FDI Measures, special approval for Renminbi-denominated FDI and Renminbi-denominated shareholder loans from PBOC, which was previously required, is no longer necessary. In some cases however, post-event filing with PBOC is still necessary. As the MOFCOM Circular and the PBOC FDI Measures are relatively new circulars, their interpretation and application may vary among different authorities during the course of implementation.

On 5 July 2013, PBOC published Circular on the Simplification of Renminbi Cross-border Business Processes and the Improvement of Relevant Policies (Yin Fa [2013] No. 168) (關於簡化跨境人民幣業務流程和完善有關政策的通知), pursuant to which on the basis of three principles of "know your customer", "Know your business", and "due diligence", domestic banks can directly handle the cross-border settlement by virtual of business vouchers provided by enterprises.

Although the PRC Government is liberalising the control over cross-border Renminbi remittances (especially given the goal to achieve full convertibility of capital accounts (if the risk is under control) and promote convenient cross-border Renminbi flow in the China (Shanghai) Pilot Free Trade Zone), there is no assurance that the PRC Government will continue to gradually liberalise control over cross border remittance of Renminbi in the future, that the pilot schemes introduced in Hong Kong, Singapore and Taiwan will not be discontinued or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC. In the event that funds cannot be repatriated outside the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the Issuer to source Renminbi to finance its obligations under Notes denominated in Renminbi.

In addition, on 31 August 2012, the Taiwan government and the PRC government signed the Renminbi Settlement Memorandum for the purposes of settling Renminbi. Accordingly, on 25 January 2013, the Bank of China, Taipei Branch entered into the Settlement Agreement on the Clearing of RMB Business with the PBOC to further expand the scope of Renminbi business for participating banks in Taiwan. As of 5 February 2013, there were 46 Taiwanese banks that had signed the settlement agreement and become participating banks in order to open Renminbi settlement accounts with the Bank of China, Taipei Branch.

Investors may be required to provide certifications and other information (including Renminbi account information) in order to be allowed to receive payments in Renminbi in accordance with the Renminbi clearing and settlement system for participating banks in Taiwan.

See also "*Risks Relating to the PRC – The Group is subject to the PRC Government's controls on currency conversion and future movements in foreign currency exchange rates*".

There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of the Renminbi Notes and the Issuer's ability to source Renminbi outside the PRC to service the Renminbi Notes.

As a result of the restrictions by the PRC Government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited.

As at 30 September 2013, the total amount of Renminbi deposits held by institutions authorised to engage in Renminbi banking business in Hong Kong amounted to approximately RMB730 billion.

While the PBOC has established Renminbi clearing and settlement mechanisms for participating banks in Hong Kong, Singapore and Taiwan through settlement agreements on the clearing of Renminbi business (the "**Settlement Agreements**") with Bank of China (Hong Kong) Limited in Hong Kong, Industrial and Commercial Bank of China, Singapore Branch in Singapore and Bank of China Limited, Taipei Branch in Taiwan (each, a "**Renminbi Clearing Bank**"), the current size of Renminbi-denominated financial assets outside the PRC is limited.

There are restrictions imposed by the PBOC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC. The Renminbi Clearing Banks only have access to onshore liquidity support from the PBOC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In such cases, the participating banks will need to source Renminbi from outside the PRC to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Agreements will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of the Renminbi Notes. To the extent the Issuer is required to source Renminbi outside the PRC to service the Renminbi Notes, there is no assurance that the Issuer will be able to source such Renminbi on satisfactory terms, if at all.

Payments in respect of Renminbi Notes will only be made to investors in the manner specified in such Renminbi Notes.

All payments to investors in respect of Renminbi Notes cleared through the CMU Service will be made solely by (i) when Renminbi Notes are represented by Global Notes or Global Certificates cleared through the CMU Service, transfer to a Renminbi bank account maintained in Hong Kong in accordance with the prevailing rules and procedures of the CMU Service, or (ii) when Renminbi Notes are in definitive form, transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and regulations. The Issuer cannot be required to make payment by any other means (including in any other currency or in bank notes, by cheque or draft or by transfer to a bank account in China).

USE OF PROCEEDS

The net proceeds from each issue of Notes will be used by the relevant Issuer for general corporate purposes. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Pricing Supplement.

FORMS OF THE NOTES

Bearer Notes

Each Series of Notes to be issued in bearer form ("**Bearer Notes**") will initially be in the form of either a temporary global note in bearer form (the "**Temporary Global Note**"), without interest coupons, or a permanent global note in bearer form (the "**Permanent Global Note**", together with the Temporary Global Note, the "**Global Note**"), without interest coupons, in each case as specified in the relevant Pricing Supplement. Each Temporary Global Note or, as the case may be, Permanent Global Note will be deposited on or around the issue date of the relevant Series of the Notes with a depositary or a common depositary for Euroclear as operator of the Euroclear System and/or Clearstream, Luxembourg and/or any other relevant clearing system and/or a sub-custodian for the CMU Service.

In the case of each Series of Bearer Notes, the relevant Pricing Supplement will also specify whether the "C Rules" or the "D Rules are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days, that neither the C Rules nor the D Rules are applicable.

Temporary Global Note exchangeable for Permanent Global Note

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for a Permanent Global Note", then the Notes will initially be issued in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, not earlier than 40 days after the issue date of the relevant Series of the Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure (in the case of first exchange) the delivery of a Permanent Global Note, to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

(i) presentation and (in the case of final exchange) presentation and surrender of the Temporary Global Note to or to the order of the Principal Paying Agent; and

(ii) receipt by the Principal Paying Agent of a certificate or certificates of non-U.S. beneficial ownership,

within seven days of the bearer requesting such exchange.

Temporary Global Note exchangeable for Definitive Notes

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the C Rules are applicable or that neither the C Rules nor the D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Series of the Notes.

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the D Rules are applicable, then the Notes will initially be issued in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Series of the Notes upon, certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note to or to the order of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

Permanent Global Note exchangeable for Definitive Notes

If the relevant Pricing Supplement specifies the form of Notes as being "Permanent Global Note exchangeable for Definitive Notes", then the Notes will initially be issued in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes:

(i) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or

(ii) at any time, if so specified in the relevant Pricing Supplement; or

(iii) if the relevant Pricing Supplement specifies "in the limited circumstances described in the Permanent Global Note", then if either of the following event occurs:

(a) Euroclear or Clearstream, Luxembourg, the CMU Service or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or

(b) any of the circumstances described in Condition 15 (Events of Default) occurs in respect of any Note of the relevant Series.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Pricing Supplement which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

Legend concerning United States persons

In the case of any Series of Bearer Notes having a maturity of more than 365 days, each Bearer Note and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

"ANY UNITED STATES PERSON (AS DEFINED IN THE INTERNAL REVENUE CODE OF THE UNITED STATES) WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(J) AND 1287(A) OF THE INTERNAL REVENUE CODE."

Registered Notes

Each Series of Notes in registered form ("**Registered Notes**") will be represented by either:

(i) individual Note Certificates in registered form ("**Individual Note Certificates**"); or

(ii) one or more unrestricted global note certificates ("Unrestricted Global Note Certificate(s)") in the case of Registered Notes sold outside the United States to non-U.S. persons in reliance on Regulation S ("**Unrestricted Notes**") and/or one or more restricted global note certificates ("**Restricted Global Note Certificates**") in the case of Registered Notes sold to QIBs in reliance on Rule 144A ("**Restricted Notes**"),

in each case as specified in the relevant Pricing Supplement, and references in this Offering Circular to "Global Note Certificates" shall be construed as a reference to Unrestricted Global Note Certificates and/or Restricted Global Note Certificates.

Each Note represented by a Restricted Global Note Certificate will be registered in the name of Cede & Co. (or such other entity as is specified in the applicable Pricing Supplement) as nominee for DTC or, as the case may be, in the name of the common depositary (or its nominee) for Euroclear and/or Clearstream, Luxembourg and the relevant Restricted Global Note Certificate will be deposited on or about the issue date with the custodian for DTC (the "**DTC Custodian**") or a depositary of the common depositary for Euroclear and/or Clearstream, Luxembourg. Beneficial interests in Notes represented by a Restricted Global Note Certificate may be held through DTC or, as the case may be, Euroclear and/or Clearstream, Luxembourg at any time.

Each Note represented by an Unrestricted Global Note Certificate will be registered in the name of a common depositary (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system or in the name of Cede & Co. as nominee for DTC, and the relevant Unrestricted Global Note Certificate will be deposited on or about the issue date with the common depositary or the DTC Custodian.

If the relevant Pricing Supplement specifies the form of Notes as being "Individual Note Certificates", then the Notes will at all times be represented by Individual Note Certificates issued to each Noteholder in respect of their respective holdings.

Global Note Certificate exchangeable for Individual Note Certificates

If the relevant Pricing Supplement specifies the form of Notes as being "Global Note Certificate exchangeable for Individual Note Certificates", then the Notes will initially be represented by one or more Global Note Certificates, each of which will be exchangeable in whole, but not in part, for Individual Note Certificates:

(i) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or

(ii) at any time, if so specified in the relevant Pricing Supplement; or

(iii) if the relevant Pricing Supplement specifies "in the limited circumstances described in the Global Note Certificate", then:

(a) in the case of any Global Note Certificate held by or on behalf of DTC, if DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Note Certificate or DTC ceases to be a "clearing agency" registered under the Exchange Act or if at any time DTC is no longer eligible to act as such, and the relevant Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC;

(b) in the case of any Unrestricted Global Note Certificate held by or on behalf of, Euroclear and/or Clearstream, Luxembourg and/or any other clearing system (other than DTC), if Euroclear, Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; and

(c) in any case, if any of the circumstances described in Condition 14 (*Events of Default*) occurs in respect of any Note of the relevant Series.

Whenever a Global Note Certificate is to be exchanged for Individual Note Certificates, each person having an interest in a Global Note Certificate must provide the Registrar (through the relevant clearing system) with such information as the Issuer and the Registrar may require to complete and deliver Individual Note Certificates (including the name and address of each person in which the Notes represented by the Individual Note Certificates are to be registered and the principal amount of each such person's holding). In addition, whenever a Restricted Global Note Certificate is to be exchanged for Individual Note Certificates, each person having an interest in the Restricted Global Note Certificate must provide the Registrar (through the relevant clearing system) with a certificate given by or on behalf of the holder of each beneficial interest in the Restricted Global Note Certificate stating either (i) that such holder is not transferring its interest at the time of such exchange or (ii) that the transfer or exchange of such interest has been made in compliance with the transfer restrictions applicable to the Notes and that the person transferring such interest reasonably believes that the person acquiring such interest is a QIB and is obtaining such beneficial interest in a transaction meeting the requirements of Rule 144A. Individual Note Certificates issued in exchange for interests in the Restricted Global Note Certificate will bear the legends and be subject to the transfer restrictions set out under "*Transfer Restrictions*".

Whenever a Global Note Certificate is to be exchanged for Individual Note Certificates, the Issuer shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered holder of the Global Note Certificate to the Registrar of such information as is required to complete and deliver such Individual Note Certificates against the surrender of the Global Note Certificate at the specified office of the Registrar.

Such exchange will be effected in accordance with the provisions of the Trust Deed and the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled to the Agency Agreement and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Individual Note Certificate will be endorsed on that Individual Note Certificate and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Pricing Supplement which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Global Note Certificate will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, as supplemented, amended and/or replaced by the relevant Pricing Supplement, will be endorsed on each Note in definitive form issued under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes while in Global Form" below.

1. Introduction

(a) ***Programme***: Bank of China Limited (the "**Bank**") has established a Medium Term Note Programme (the "**Programme**") for the issuance of up to US$10,000,000,000 in aggregate principal amount of notes (the "**Notes**").

(b) ***Pricing Supplement***: Notes issued under the Programme are issued in series (each a "**Series**") and each Series may comprise one or more tranches (each a "**Tranche**") of Notes issued by the Issuer (as defined below). The terms and conditions applicable to any particular Tranche of Notes are set out in the relevant pricing supplement (the "**Pricing Supplement**") which supplements, amends and/or replaces these terms and conditions (the "**Conditions**"). In the event of any inconsistency between these Conditions and the relevant Pricing Supplement, the relevant Pricing Supplement shall prevail.

(c) ***Trust Deed:*** The Notes are constituted by, are subject to, and have the benefit of, a trust deed dated 6 December 2013 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and The Bank of New York Mellon, London Branch as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed).

(d) ***Agency Agreement***: The Notes are the subject of an issue and paying agency agreement dated 6 December 2013 (the "**Agency Agreement**") between the Issuer, The Bank of New York Mellon, London Branch and The Bank of New York Mellon as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), The Bank Of New York Mellon (Luxembourg) S.A., The Bank of New York Mellon and The Bank of New York Mellon, Hong Kong Branch as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), The Bank of New York Mellon, Hong Kong Branch as CMU lodging agent (the "**CMU Lodging Agent**", which expression includes any successor CMU lodging agent appointed from time to time in connection with the Notes), the paying agents named therein (together with the Principal Paying Agent and the CMU Lodging Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes), the transfer agents named therein (together with the Registrar, the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes) and the Trustee. In these Conditions references to the "**Agents**" are to the Paying Agents and the Transfer Agents and any reference to an "**Agent**" is to any one of them.

For the purposes of these Conditions, all references (other than in relation to the determination of interest and other amounts payable in respect of the Notes) to the Principal Paying Agent shall, with respect to a Series of Notes to be held in the CMU Service (as defined below), be deemed to be a reference to the CMU Lodging Agent and all such reference shall be construed accordingly.

(e) ***The Notes***: The Notes may be issued in bearer form ("**Bearer Notes**"), or in registered form ("**Registered Notes**"). All subsequent references in these Conditions to "Notes" are to the Notes which are the subject of the relevant Pricing Supplement. Copies of the relevant Pricing Supplement are available for viewing and copies may be obtained from the Specified Office of each of the Paying Agents and Transfer Agents.

(f) ***Summaries***: Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and are subject to their detailed provisions. Noteholders and the holders of the related interest coupons, if any, (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection by Noteholders during normal business hours at the Specified Offices of the Paying Agents and the principal office in Hong Kong of the Principal Paying Agent.

2. Interpretation

(a) ***Definitions***: In these Conditions the following expressions have the following meanings:

"**Accrual Yield**" has the meaning given in the relevant Pricing Supplement;

"**Additional Business Centre(s)**" means the city or cities specified as such in the relevant Pricing Supplement;

"**Additional Financial Centre(s)**" means the city or cities specified as such in the relevant Pricing Supplement;

"**Business Day**", other than in Condition 3(g) (*Registration and delivery of Note Certificates*) means:

(i) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre;

(ii) in relation to any sum payable in a currency other than euro and Renminbi, a day on which commercial banks and foreign exchange markets settle payments generally, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre; and

(iii) for the purposes of Notes denominated in Renminbi only, any day (other than a Sunday or a Saturday) on which commercial banks and foreign exchange markets are open for business and settle Renminbi payments in Hong Kong and are not authorised or obligated by law or executive order to be closed;

"**Business Day Convention**", in relation to any particular date, has the meaning given in the relevant Pricing Supplement and, if so specified in the relevant Pricing Supplement, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

(i) **"Following Business Day Convention"** means that the relevant date shall be postponed to the first following day that is a Business Day;

(ii) **"Modified Following Business Day Convention"** or **"Modified Business Day Convention"** means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;

(iii) "**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

(iv) "**FRN Convention**", "**Floating Rate Convention**" or "**Eurodollar Convention**" means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Pricing Supplement as the Specified Period after the calendar month in which the preceding such date occurred **provided**, **however**, **that**:

(A) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;

(B) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

(C) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and

(v) "**No Adjustment**" means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

"**Calculation Agent**" means the Principal Paying Agent or such other Person, in each case as specified in the relevant Pricing Supplement as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Pricing Supplement;

"**Calculation Amount**" has the meaning given in the relevant Pricing Supplement;

"**CMU Service**" means the Central Moneymarkets Unit Service, operated by the Hong Kong Monetary Authority;

"**Coupon Sheet**" means, in respect of a Note, a coupon sheet relating to the Note;

"**Dated Subordinated Notes**" means Notes specified in the applicable Pricing Supplement as dated subordinated notes;

"**Day Count Fraction**" means, in respect of the calculation of an amount for any period of time(the "**Calculation Period**"), such day count fraction as may be specified in these Conditions or the relevant Pricing Supplement and:

(i) if "**Actual/Actual** (**ICMA**)" is so specified, means:

(A) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(B) where the Calculation Period is longer than one Regular Period, the sum of:

(1) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (a) the actual number of days in such Regular Period and (b) the number of Regular Periods in any year; and

(2) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (b) the number of Regular Periods in any year;

(ii) if "**Actual/365**" or "**Actual/Actual (ISDA)**" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(iii) if "**Actual/365 (Fixed)**" is so specified, means the actual number of days in the Calculation Period divided by 365;

(iv) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;

(v) if "**30/360**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and "$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(vi) if "**30E/360**" or "**Eurobond Basis**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and "$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D_2 will be 30; and

(vii) if "**30E/360 (ISDA)**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30,

provided, **however**, **that** in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period;

"**DTC**" means The Depository Trust Company;

"**Early Redemption Amount (Tax)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**Early Termination Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions or the relevant Pricing Supplement;

"**Extraordinary Resolution**" has the meaning ascribed to it in the Trust Deed;

"**Final Redemption Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**First Interest Payment Date**" means the date specified in the relevant Pricing Supplement;

"**Fixed Coupon Amount**" has the meaning given in the relevant Pricing Supplement;

"**Holder**", in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form*, *Denomination*, *Title and Transfer-Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer-Title to Registered Notes*);

"**Hong Kong**" means the Hong Kong Special Administrative Region of the People's Republic of China;

"**Interest Amount**" means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

"**Interest Commencement Date**" means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Pricing Supplement;

"**Interest Determination Date**" has the meaning given in the relevant Pricing Supplement;

"**Interest Payment Date**" means the First Interest Payment Date and any date or dates specified as such in, or determined in accordance with the provisions of, the relevant Pricing Supplement and, if a Business Day Convention is specified in the relevant Pricing Supplement:

(i) as the same may be adjusted in accordance with the relevant Business Day Convention; or

(ii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Pricing Supplement as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

"**Interest Period**" means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

"**ISDA Definitions**" means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Pricing Supplement) as published by the International Swaps and Derivatives Association, Inc.) unless otherwise specified in the relevant Pricing Supplement;

"**Issue Date**" has the meaning given in the relevant Pricing Supplement;

"**Issuer**" means the Bank or, in respect of any Tranche of Notes issued by a branch of the Bank, such branch of the Bank as specified in the relevant Pricing Supplement;

"**Macau**" means the Macau Special Administrative Region of the People's Republic of China;

"**Margin**" has the meaning given in the relevant Pricing Supplement;

"**Material Subsidiary**" means a Subsidiary of the Issuer whose total assets or total revenue as at the date at which its latest audited financial statements were prepared or, as the case may be, for the financial period to which the audited financial statements relate, account for 5 per cent. or more of the consolidated assets or consolidated revenue of the Issuer as at such date or for such period. If a Material Subsidiary transfers all of its assets and business to another Subsidiary of the Issuer, the transferee shall become a Material Subsidiary and the transferor shall cease to be a Material Subsidiary on completion of such transfer;

"**Maturity Date**" has the meaning given in the relevant Pricing Supplement;

"**Maximum Redemption Amount**" has the meaning given in the relevant Pricing Supplement;

"**Minimum Redemption Amount**" has the meaning given in the relevant Pricing Supplement;

"**Noteholder**", in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form*, *Denomination*, *Title and Transfer – Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer – Title to Registered Notes*);

"**Optional Redemption Amount (Call)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**Optional Redemption Amount (Put)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**Optional Redemption Date (Call)**" has the meaning given in the relevant Pricing Supplement;

"**Optional Redemption Date (Put)**" has the meaning given in the relevant Pricing Supplement;

"**Participating Member State**" means a Member State of the European Communities which adopts the euro as its lawful currency in accordance with the Treaty;

"**Payment Business Day**" means:

(i) if the currency of payment is euro, any day which is:

(A) a day on which (a) banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and (b) a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Principal Paying Agent or, as the case may be, the CMU Lodging and Paying Agent has its Specified Office; and

(B) in the case of payment by transfer to an account, (a) a TARGET Settlement Day and (b) a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

(ii) if the currency of payment is not euro, any day which is:

(A) a day on which (a) banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies and (b) a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Principal Paying Agent or, as the case may be, the CMU Lodging and Paying Agent has its Specified Office; and

(B) in the case of payment by transfer to an account, a day on which dealings in foreign currencies (including, in the case of Notes denominated in Renminbi, settlement of Renminbi payments) may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**PRC**" means, for the purpose of these Conditions, the People's Republic of China excluding Hong Kong, Macau and Taiwan;

"**Principal Financial Centre**" means, in relation to any currency, the principal financial centre for that currency **provided**, **however**, **that**:

(i) in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

(ii) in relation to Australian dollars, it means Sydney and in relation to New Zealand dollars, it means Auckland, in each case as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent or, in each case, the principal financial centre as is specified in the applicable Pricing Supplement; and

(iii) in relation to Renminbi, it means Hong Kong or the principal financial centre as is specified in the applicable Pricing Supplement;

"**Public External Indebtedness**" means any indebtedness of the Issuer (or, for the purposes of Condition 15, any Subsidiary), or any guarantee or indemnity by the Issuer of indebtedness, for money borrowed which, (i) is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market) outside the PRC (without regard, however, to whether or not such instruments are sold through public offerings or private placements); and (ii) has an original maturity of more than 365 days;

"**Put Option Notice**" means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"**Put Option Receipt**" means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"**Rate of Interest**" means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Pricing Supplement or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Pricing Supplement;

"**Redemption Amount**" means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the relevant Pricing Supplement;

"**Reference Banks**" has the meaning given in the relevant Pricing Supplement or, if none, four major banks selected by the Issuer in the market that is most closely connected with the Reference Rate;

"**Reference Price**" has the meaning given in the relevant Pricing Supplement;

"**Reference Rate**" has the meaning given in the relevant Pricing Supplement;

"**Regular Period**" means:

(i) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;

(ii) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls; and

(iii) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period.

"**Relevant Date**" means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

"**Relevant Financial Centre**" has the meaning given in the relevant Pricing Supplement;

"**Relevant Screen Page**" means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Pricing Supplement, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

"**Relevant Time**" has the meaning given in the relevant Pricing Supplement;

"**Reserved Matter**" means any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

"**Securities Act**" means the United States Securities Act of 1933, as amended;

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

"**Senior Notes**" means Notes specified in the applicable Pricing Supplement as senior notes;

"**Specified Currency**" has the meaning given in the relevant Pricing Supplement;

"**Specified Denomination(s)** "has the meaning given in the relevant Pricing Supplement;

"**Specified Office**" has the meaning given in the Agency Agreement;

"**Specified Period**" has the meaning given in the relevant Pricing Supplement;

"**Subordinated Notes**" means Notes specified in the applicable Pricing Supplement as subordinated notes, which are either Dated Subordinated Notes or Undated Subordinated Notes;

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**"):

(a) of which the first Person controls or has the power to control, 50 per cent. or more of the share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such person; or

(b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person;

"**Talon**" means a talon for further Coupons;

"**TARGET Settlement Day**" means any day on which TARGET2 is open for the settlement of payments in euro;

"**TARGET2**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

"**Tax Jurisdiction**" means the PRC and the relevant tax jurisdiction of the Issuer specified in the applicable Pricing Supplement, or in each case any political subdivision or any authority thereof or therein having power to tax payments made by the Issuer of principal or interest on the Notes, Receipts or Coupons;

"**Treaty**" means the Treaty establishing the European Communities, as amended;

"**Undated Subordinated Notes**" means Notes specified in the applicable Pricing Supplement as undated subordinated notes; and

"**Zero Coupon Note**" means a Note specified as such in the relevant Pricing Supplement.

(b) ***Interpretation***: In these Conditions:

(i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;

(ii) if Talons are specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;

(iii) if Talons are not specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Talons are not applicable;

(iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 14 (*Taxation*), any undertaking given in addition to or substitution for Condition 14 (*Taxation*) pursuant to the Trust Deed, any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;

(v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 14 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;

(vi) references to Notes being "**outstanding**" shall be construed in accordance with the Trust Deed;

(vii) if an expression is stated in Condition 2(a) (*Interpretation-Definitions*) to have the meaning given in the relevant Pricing Supplement, but the relevant Pricing Supplement gives no such meaning or specifies that such expression is "**not applicable**" then such expression is not applicable to the Notes; and

(viii) any reference to the Trust Deed or the Agency Agreement shall be construed as a reference to the Trust Deed or the Agency Agreement, as the case may be, as amended and/or supplemented up to and including the Issue Date of the Notes.

3. Form, Denomination, Title and Transfer

(a) ***Bearer Notes***: Bearer Notes are in the Specified Denomination(s) with Coupons and, if specified in the relevant Pricing Supplement, Talons attached at the time of issue. In the case of a Series of Bearer Notes with more than one Specified Denomination, Bearer Notes of one Specified Denomination will not be exchangeable for Bearer Notes of another Specified Denomination.

(b) ***Title to Bearer Notes***: Title to Bearer Notes and the Coupons will pass by delivery. In the case of Bearer Notes, "**Holder**" means the holder of such Bearer Note and "**Noteholder**" and "**Couponholder**" shall be construed accordingly.

(c) ***Registered Notes***: Registered Notes are in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Pricing Supplement and higher integral multiples of a smaller amount specified in the relevant Pricing Supplement.

(d) ***Title to Registered Notes***: The Registrar will maintain a register outside the United Kingdom in accordance with the provisions of the Agency Agreement. A certificate (each, a "**Note Certificate**") will be issued to each Holder of Registered Notes in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the register (the "**Register**"). In the case of Registered Notes, "**Holder**" means the person in whose name such Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

(e) ***Ownership***: The Holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or, in the case of Registered Notes, on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Note or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

(f) ***Transfers of Registered Notes***: Subject to paragraphs (i) (*Closed periods*) and (j) (*Regulations concerning transfers and registration*) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; **provided**, **however**, **that** a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Specified Denominations. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Registered Notes will be issued to the transferor.

(g) ***Registration and delivery of Note Certificates***: Within five business days of the surrender of a Note Certificate in accordance with paragraph (f) (*Transfers of Registered Notes*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Registered Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(h) ***No charge***: The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer or the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(i) ***Closed periods***: Noteholders may not require transfers to be registered:

(i) during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Notes;

(ii) during the period of 15 days ending on any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 11(b) (*Redemption for tax reasons*) or Condition 11(c) (*Redemption at the option of the Issuer*); and

(iii) after a Put Option Notice has been delivered in respect of the relevant Note(s) in accordance with Condition 11(e) (*Redemption of the Senior Notes or the Dated Subordinated Notes at the option of the Noteholders*).

(j) ***Regulations concerning transfers and registration***: All transfers of Registered Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

4. Status

(a) ***Status of the Senior Notes***: The Senior Notes and any related Receipts and Coupons constitute direct, general, unsecured, unconditional and unsubordinated obligations of the Issuer which will at all times rank *pari passu* without any preference among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(b) ***Status of the Subordinated Notes***: Provisions relating to the status of Subordinated Notes will be set out in the relevant Pricing Supplement.

5. **Covenant to Maintain Ratings:** So long as any Note remains outstanding, save with the approval of an Extraordinary Resolution of holder of the Notes, the Issuer undertakes that it will use all its reasonable endeavours to maintain the rating on the Notes by a Rating Agency specified in the relevant Pricing Supplement.

6. Fixed Rate Note Provisions

(a) ***Application***: This Condition 6 is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) ***Accrual of interest***: The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Conditions 12 (*Payments – Bearer Notes*) and 13 (*Payments – Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the

Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) ***Fixed Coupon Amount***: The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

(d) ***Calculation of interest amount***: The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

7. Floating Rate Note and Index-Linked Interest Note Provisions

(a) ***Application***: This Condition 7 is applicable to the Notes only if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) ***Accrual of interest***: The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Conditions 12 (*Payments – Bearer Notes*) and 13 (*Payments – Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Principal Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) ***Screen Rate Determination***: If Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:

(i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(ii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(iii) if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:

(A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean of such quotations; and

(iv) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Issuer, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; **provided**, **however**, **that** if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

(v) notwithstanding the foregoing, if the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as CNH HIBOR:

(A) the Rate of Interest for each Interest Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears on the Relevant Screen Page as at 11.15 a.m. (Hong Kong time) or if, at or around that time it is notified that the fixing will be published at 2.30 p.m. (Hong Kong time), then 2.30 p.m. (Hong Kong time) on the Interest Determination Date in question as determined by the Calculation Agent.

(B) and the Relevant Screen Page is not available or, if sub-paragraph (v)(A)(1) above applies and no such offered quotation appears on the Relevant Screen Page, or, if subparagraph (v)(A)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page, in each case as at the time specified above, subject as provided below, the Calculation Agent shall request the principal Hong Kong office of each of the Reference Banks to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately 11.15 a.m. (Hong Kong time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent. If all four Reference Banks provide the Calculation Agent with such offered quotations, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations;

(C) if subparagraph (v)(B) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered at approximately 11.15 a.m. (Hong Kong time) on the relevant Interest Determination Date, deposits in CNH for a period equal to that which would have been used for the Reference Rate by leading banks in the Hong Kong inter-bank market. If fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the Rate of Interest shall be (i) the offered rate for deposits in CNH for a period equal to that which would have been used for the Reference Rate by a bank, or (ii) the arithmetic mean of the offered rates for deposits in CNH for a period equal to that which would have been used for the Reference Rate by two or more banks, in each case as informed to the Calculation

Agent by such bank or banks (which shall be such bank or banks being in the opinion of the Bank suitable for such purpose) as being quoted by each such bank at approximately 11.15 a.m. (Hong Kong time) on the relevant Interest Determination Date to leading banks in the Hong Kong inter-bank market, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Period); and

(D) in no event shall the Rate of Interest be less than zero per cent. per annum.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than CNH HIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

(d) ***ISDA Determination***: If ISDA Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "**ISDA Rate**" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Pricing Supplement;

(ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Pricing Supplement; and

(iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on (x) the London inter-bank offered rate (LIBOR), (y) the Eurozone inter-bank offered rate (EURIBOR) or (z) the Hong Kong inter-bank offered rate (HIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Pricing Supplement.

(e) ***Index-Linked Interest***: If the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable, the Rate(s) of Interest applicable to the Notes for each Interest Period will be determined in the manner specified in the relevant Pricing Supplement.

(f) ***Maximum or Minimum Rate of Interest***: If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Pricing Supplement, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

(g) ***Calculation of Interest Amount***: The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

(h) ***Calculation of other amounts***: If the relevant Pricing Supplement specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Pricing Supplement.

(i) ***Publication***: The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents and each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.

(j) ***Notifications etc***: All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

8. Deferral of Interest on Undated Subordinated Notes:

Provisions relating to the deferral of interest on Undated Subordinated Notes will be set out in the relevant Pricing Supplement.

9. Zero Coupon Note Provisions

(a) ***Application***: This Condition 9 is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) ***Late payment on Zero Coupon Notes***: If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:

  (i) the Reference Price; and

  (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (A) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (B) the day which is seven days after the Principal Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

10. Dual Currency Note Provisions

(a) ***Application***: This Condition 10 is applicable to the Notes only if the Dual Currency Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) ***Rate of Interest***: If the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the relevant Pricing Supplement.

11. Redemption and Purchase

(a) ***Scheduled redemption***: Unless previously redeemed, or purchased and cancelled, each Note which is not an Undated Subordinated Note will be redeemed at its Final Redemption Amount on the Maturity Date, subject as provided in Conditions 12 (*Payments – Bearer Notes*) and 13 (*Payments – Registered Notes*). If such Note is an Undated Subordinated Note, it has no final maturity and is only redeemable in accordance with the following provisions of this Condition 11 or Condition 15(b).

(b) ***Redemption for tax reasons***: Subject (in the case of Subordinated Notes) to Condition 11(h), where the Issuer is a branch of the Bank, the Notes may be redeemed at the option of the Issuer in whole, but not in part:

(i) at any time (if neither the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable); or

(ii) on any Interest Payment Date (if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that:

(A) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 14 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes;

(B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; and

(C) in the case of Subordinated Notes, the prior written approval of the Regulatory Authority(ies) specified in the relevant Pricing Supplement shall have been obtained;

provided, **however**, **that** no such notice of redemption shall be given earlier than:

(1) where the Notes may be redeemed at any time, 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due; or

(2) where the Notes may be redeemed only on an Interest Payment Date, 60 days prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall procure that there is delivered to the Trustee (A) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and (B) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment and, further (C) in the case of Subordinated Notes, a copy of the written approval of the Regulatory Authority(ies) specified in the applicable Pricing Supplement.

The Trustee shall be entitled without further enquiry to accept such written approval (where applicable), certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out above, in which event they shall be conclusive and binding on the holders of the Notes, Receipts and Coupons.

Upon the expiry of any such notice as is referred to in this Condition 11(b), the Issuer shall be bound to redeem the Notes accordingly.

(c) ***Redemption at the option of the Issuer***: Subject (in the case of Subordinated Notes) to Condition 11(h), if the Call Option is specified in the relevant Pricing Supplement as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Pricing Supplement, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's having (1) in the case of Subordinated Notes, obtained the prior written approval from the Regulatory Authority(ies) specified in the applicable Pricing Supplement, and (2) given:

(i) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 22 (*Notices*); and

(ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Principal Paying Agent and, in the case of a redemption of Registered Notes, the Registrar;

(which notices shall be irrevocable and shall specify the fixed date for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date (Call) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date (Call); **provided**, **however**, **that**, in the case of Subordinated Notes, such redemption shall be subject to the prior written approval of the relevant Regulatory Authority(ies) pursuant to the relevant regulations, as set out in the applicable Pricing Supplement, in effect at the applicable time.

(d) ***Partial redemption***: If the Notes are to be redeemed in part only on any date in accordance with Condition 11(c) (*Redemption at the option of the Issuer*), in the case of Bearer Notes, the Notes to be redeemed shall be selected by the drawing of lots in such place as the Principal Paying Agent approves and in such manner as the Principal Paying Agent considers appropriate, subject to compliance with applicable law, the rules of each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the notice to Noteholders referred to in Condition 11(c) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed, and, in the case of Registered Notes, each Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant Optional Redemption Date (Call) bears to the aggregate principal amount of outstanding Notes on such date. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Pricing Supplement, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

(e) ***Redemption of the Senior Notes or the Dated Subordinated Notes at the option of the Noteholders***: Subject (in the case of Subordinated Notes) to Condition 11(h), if the Put Option is specified in the relevant Pricing Supplement as being applicable, the Issuer shall, at the option of the Holder of any Senior Note or, as the case may be, any Dated Subordinated Note, redeem such Senior Note or, as the case may be, any Dated Subordinated Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 11(e), the Holder of a Senior Note or a Dated Subordinated Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put), deposit with any Paying Agent such Senior Note or, as the case may be, such Dated Subordinated Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Senior Note or, as the case may be, or a Dated Subordinated Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Senior Noteholder or Dated Subordinated Noteholder. No Senior Note or Dated Subordinated Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 11(e), may be withdrawn; **provided, however, that** if, prior to the relevant Optional Redemption Date (Put), any such Senior Note or Dated Subordinated Note becomes immediately due and payable or, upon due presentation of any such Senior Note or Dated Subordinated Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Senior Noteholder or Dated Subordinated Noteholder at such address as may have been given by such Senior Noteholder or such Dated Subordinated Noteholder in the relevant Put Option Notice and shall hold such Senior Note or such Dated Subordinated Note at its Specified Office for collection by the depositing Senior Noteholder or Dated Subordinated Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Senior Note or Dated Subordinated Note is held by a Paying Agent in accordance with this Condition 11(e), the depositor of such Senior Note or such Dated Subordinated Note and not the Paying Agent shall be deemed to be the Holder of such Senior Note or such Dated Subordinated Note for all purposes. Any Put Option Notice given by a Holder pursuant to this paragraph shall be irrevocable except where prior to the due date of redemption an Event of Default shall have occurred in which event such Holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this paragraph and instead to declare such Senior Note or Dated Subordinated Note forthwith due and payable pursuant to Condition 15 (*Events of Default*).

(f) ***Early redemption of Zero Coupon Notes***: Unless otherwise specified in the relevant Pricing Supplement, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Pricing Supplement for the purposes of this Condition 11(f) or, if none is so specified, a Day Count Fraction of 30E/360.

(g) ***Purchase***: The Issuer or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, **provided that** all unmatured Coupons are purchased therewith. The Notes so purchased, while held by or on behalf of the Issuer or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 19(a) (*Meetings of Noteholders*).

(h) ***Additional Conditions for Redemption of Subordinated Notes:*** The additional conditions for redemption of Subordinated Notes (including, but not limited to, conditions for redemption of Subordinated Notes for regulatory reasons) will be specified in the applicable Pricing Supplement.

12. Payments – Bearer Notes

This Condition 12 is only applicable to Bearer Notes.

(a) ***Principal***: Payments of principal shall be made only against presentation and (**provided that** payment is made in full) surrender of Bearer Notes at the Specified Office of any Paying Agent outside the United States (i) in the case of a currency other than Renminbi, by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency, and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in the Principal Financial Centre of that currency.

(b) ***Interest***: Payments of interest shall, subject to paragraph (h) below, be made only against presentation and (**provided that** payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.

Payments of principal and interest in respect of Bearer Notes held in the CMU Service will be made to the person(s) for whose account(s) interests in the relevant Bearer Note are credited as being held with the CMU Service in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time as notified to the CMU Lodging and Paying Agent by the CMU Service in a relevant CMU Instrument Position Report (as defined in the Agency Agreement) or any other relevant notification by the CMU Service, which notification shall be conclusive evidence of the records of the CMU Service (save in the case of manifest or proven error) and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

(c) ***Payments in New York City***: Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.

(d) ***Payments subject to fiscal laws***: All payments in respect of the Bearer Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 14 (*Taxation*), and (ii) notwithstanding the provisions of Condition 14 (*Taxation*), any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the US Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof or (without prejudice to the provisions of Condition 14 (*Taxation*) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) ***Deductions for unmatured Coupons***: If the relevant Pricing Supplement specifies that the Fixed Rate Note Provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; **provided**, **however**, **that** if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; **provided**, **however**, **that** where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; **provided**, **however**, **that**, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and (**provided that** payment is made in full) surrender of the relevant missing Coupons.

(f) ***Unmatured Coupons void***: If the relevant Pricing Supplement specifies that this Condition 12(f) is applicable or that the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are applicable, on the due date for final redemption of any Note or early redemption in whole of such Note pursuant to Condition 11(b) (*Redemption and Purchase-Redemption for tax reasons*), Condition 11(c) (*Redemption and Purchase-Redemption at the option of the Issuer*), Condition 11(e) (*Redemption and Purchase-Redemption of the Senior Notes or the Dated Subordinated Notes at the option of the Noteholders*) or Condition 15 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(g) ***Payments on business days***: If the due date for payment of any amount in respect of any Bearer Note or Coupon is not a Payment Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

(h) ***Payments other than in respect of matured Coupons***: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph (c) above).

(i) ***Partial payments***: If a Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

(j) ***Exchange of Talons***: On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Principal Paying Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 16 (*Prescription*). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

13. Payments – Registered Notes

This Condition 13 is only applicable to Registered Notes.

(a) ***Principal***: Payments of principal shall be made (i) in the case of a currency other than Renminbi, by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London), and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in Hong Kong, and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) ***Interest***: Payments of interest shall be made (i) in the case of a currency other than Renminbi, by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London), and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in Hong Kong, and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

Payments of principal and interest in respect of Registered Notes held in the CMU Service will be made to the person(s) for whose account(s) interests in the relevant Registered Note are credited as being held with the CMU Service in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time as notified to the CMU Lodging and Paying Agent by the CMU Service in a relevant CMU Instrument Position Report (as defined in the Agency Agreement) or any other relevant notification by the CMU Service, which notification shall be conclusive evidence of the records of the CMU Service (save in the case of manifest or proven error) and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

(c) ***Payments subject to fiscal laws***: All payments in respect of the Registered Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 14 (*Taxation*), and (ii) notwithstanding the provisions of Condition 14 (*Taxation*), any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof or (without prejudice to the provisions of Condition 14 (*Taxation*) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) ***Payments on business days***: Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 13 arriving after the due date for payment or being lost in the mail.

(e) ***Partial payments***: If a Paying Agent makes a partial payment in respect of any Registered Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(f) ***Record date***: Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifth (in the case of Renminbi) and fifteenth (in the case of a currency other than Renminbi) day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Registered Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

14. Taxation

(a) All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of a Tax Jurisdiction or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon:

   (i) held by or on behalf of a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon; or

   (ii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, this Directive; or

   (iii) held by or on behalf of a Holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the EU; or

   (iv) where the relevant Note or Coupon or Note Certificate is presented or surrendered for payment more than 30 days after the Relevant Date except to the extent that the Holder of such Note or Coupon would have been entitled to such additional amounts on presenting or surrendering such Note or Coupon or Note Certificate for payment on the last day of such period of 30 days.

(b) If the Issuer becomes subject at any time to any taxing jurisdiction other than the Tax Jurisdiction(s), references in these Conditions to the Tax Jurisdiction(s) shall be construed as references to the Tax Jurisdiction(s) and/or such other jurisdiction.

15. Events of Default

(a) Events of Default relating to Senior Notes

If any of the following events occurs and is continuing, then the Trustee at its discretion may and, if so requested in writing by Holders of at least one quarter of the aggregate principal amount of the outstanding Senior Notes or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified and/or provided with security and/or pre-funded to its satisfaction) give written notice to the Issuer declaring the Senior Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their Early Termination Amount together with accrued interest (if any) without further action or formality:

(i) *Non-Payment:* the Issuer fails to pay the principal of, or any interest on, any of the Notes when due and such failure continues for a period of 30 days;

(ii) *Breach of Other Obligations*: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes, the Trust Deed or the Agency Agreement and such default remains unremedied for 45 days after written notice has been delivered to the Issuer;

(iii) Cross-Default:

a. any other present or future Public External Indebtedness of the Issuer or any of its Subsidiaries becomes due and payable prior to its stated maturity by reason of any default, event of default or the like (howsoever described) in respect of the terms thereof; or

b. any such Public External Indebtedness is not paid when due or, as the case may be, within any applicable grace period,

provided that the aggregate amount of the relevant Public External Indebtedness in respect of which one or more of the events mentioned above in this Condition 15(a)(iii) have occurred equals or exceeds US$25,000,000 or its equivalent;

(iv) *Insolvency*: the Issuer or any of its Material Subsidiaries is insolvent or bankrupt or unable to pay its debts, stops or suspends payment of all or a material part of its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all or a material part of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or a material part of the debts of the Issuer or any of its Material Subsidiaries;

(v) *Winding-up*: an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or any of its Material Subsidiaries, or the Issuer ceases to carry on all or a material part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (a) on terms approved by an Extraordinary Resolution of the Noteholders, or (b) in the case of a Material Subsidiary, whereby the undertaking and assets of the Material Subsidiary are transferred to or otherwise vested in the Issuer or another of its Subsidiaries; or

(vi) *Illegality*: it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Notes, Coupons, or the Trust Deed.

(b) ***Events of Default relating to Subordinated Notes***:

Events of Default relating to Subordinated Notes will be set out in the relevant Pricing Supplement.

16. Prescription

Claims for principal in respect of Bearer Notes shall become void unless the relevant Bearer Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest in respect of Bearer Notes shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date. Claims for principal and interest on redemption in respect of Registered Notes shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

17. Replacement of Notes and Coupons

If any Note, Note Certificate or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent, in the case of Bearer Notes, or the Registrar, in the case of Registered Notes (and, if the Notes are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Note Certificates or Coupons must be surrendered before replacements will be issued.

18. Trustee and Agents

Under the Trust Deed, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual Holders of Notes as a result of such Holders being connected in any way with a particular territory or taxing jurisdiction.

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Pricing Supplement. The Issuer reserves the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent or registrar or Calculation Agent and additional or successor paying agents; **provided**, **however**, **that**:

(i) the Issuer shall at all times maintain a principal paying agent and a registrar; and

(ii) the Issuer shall at all times maintain a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC; and

(iii) if a Calculation Agent is specified in the relevant Pricing Supplement, the Issuer shall at all times maintain a Calculation Agent; and

(iv) the Issuer shall at all times maintain a CMU Lodging and Paying Agent in relation to Notes accepted for clearance through the CMU Service; and

(v) if and for so long as the Notes are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent and/or a Transfer Agent in any particular place, the Issuer shall maintain a Paying Agent and/or a Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

19. Meetings of Noteholders; Modification and Waiver

(a) ***Meetings of Noteholders***: The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or by the Trustee and shall be convened by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; **provided, however, that** Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more Persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in aggregate principal amount of Notes outstanding will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification and waiver:* The Trustee may, but shall not be obliged to, without the consent of the Noteholders, agree to any modification of these Conditions or the Trust Deed (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, but shall not be obliged to, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders as soon as practicable thereafter.

20. Enforcement

The Trustee may at any time, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

(i) it has been so requested in writing by the Holders of at least one quarter of the aggregate principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

(ii) it has been indemnified and/or pre-funded and/or provided with security to its satisfaction.

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

21. Further Issues

The Issuer may from time to time, without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the Issue Date and first Interest Payment Date) so as to form a single series with the Notes. The Issuer may from time to time create and issue other series of notes having the benefit of the Trust Deed.

22. Notices

(a) ***Bearer Notes***: Notices to the Holders of Bearer Notes shall be valid if published in a leading English language daily newspaper published in Hong Kong or if such publication is not practicable, in a leading English language daily newspaper having general circulation in Asia. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Notes.

(b) ***Registered Notes***: Notices to the Holders of Registered Notes shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

So long as the Notes are represented by a Global Note or a Global Note Certificate and such Global Note or Global Note Certificate is held on behalf of (i) Euroclear or Clearstream, Luxembourg, The Depositary Trust Company or any other clearing system (except as provided in (ii) below), notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or (ii) the CMU Service, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the Persons shown in a CMU Instrument Position Report issued by the Hong Kong Monetary Authority on the business day preceding the date of despatch of such notice.

23. Currency Indemnity

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Principal Paying Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

24. Rounding

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Pricing Supplement), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

25. Governing Law and Jurisdiction

(a) *Governing law*: The Notes, the Trust Deed and any non-contractual obligations arising out of or in connection with the Notes and the Trust Deed are governed by English law except that subordination provisions relating to Subordinated Notes and provisions in the applicable Pricing Supplement are governed by, and shall be construed in accordance with such law as specified in the applicable Pricing Supplement.

(b) *Jurisdiction:* The Issuer has in the Trust Deed (i) agreed for the benefit of the Trustee and the Noteholders that the courts of Hong Kong shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes); (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient; and (iii) designated a person in Hong Kong to accept service of any process on its behalf.

(c) *Waiver of immunity*: To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

(d) *Consent to enforcement, etc*: The Issuer irrevocably and generally consents in respect of any proceedings anywhere to the giving of any relief or the issue and service on it of any process in connection with those proceedings including, without limitation, the making, enforcement or execution against any assets whatsoever (irrespective of their use or intended use) of any order or judgment which may be made or given in those proceedings.

FORM OF PRICING SUPPLEMENT

[*The Pricing Supplement in respect of each Series of Notes will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue.*]

Pricing Supplement dated [●]

Bank of China Limited/[*specify other foreign branch*]

**Issue of [Aggregate Nominal Amount of Series] [Title of Notes]
under the U.S.$10,000,000,000 Medium Term Note Programme**

The document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Offering Circular dated 6 December 2013. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular [and the supplemental Offering Circular dated [*date*]].

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Pricing Supplement.]

1.	Issuer:		Bank of China Limited/[*specify other foreign branch*]
2.	[(i)	Series Number:]	[●]
	[(ii)	Tranche Number:	[●]
	(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).]		
3.	Specified Currency or Currencies:		[●]
4.	Aggregate Nominal Amount:		[●]
	[(i)]	[Series]:	[●]
	[(ii)	Tranche:	[●]]
5.	(i)	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*in the case of fungible issues only, if applicable*)]
	(ii)	Net Proceeds	[●] [(Required only for listed issues)]

6. (i)	Specified Denominations[1, 2]:	[●]
(ii)	Calculation Amount:	[●]
7. (i)	Issue Date:	[●]
(ii)	Interest Commencement Date:	[*Specify*/Issue Date/Not Applicable]
8.	Maturity Date:	*[Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]*[3] *[If the Maturity Date is less than one year from the Issue Date and either (a) the issue proceeds are received by the Issuer in the United Kingdom, or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, (i) the Notes must have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be sold only to "professional investors" or (ii) another applicable exemption from section 19 of the FSMA must be available.]*
9.	Interest Basis:	[[●] per cent. Fixed Rate] [[*Specify* reference rate] +/- [●] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Other (*Specify*)] (further particulars specified below)

1 Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year and must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

2 If the specified denomination is expressed to be €50,000 (or €100,000, to the extent that Directive 2010/73/EU has been implemented in the relevant Member State) or its equivalent and multiples of a lower principal amount (for example €1,000), insert the additional wording as follows: €50,000 (or 100,000, to the extent that Directive 2010/73/EU has been implemented in the relevant Member State) and integral multiples of [€1,000] in excess thereof up to and including [€99,000]/[€199,000]. No Notes in definitive form will be issued with a denomination above [€99,000]/[€199,000]. In relation to any issue of Notes which are a "Global Note exchangeable for Definitive Notes" in circumstances other than "in the limited circumstances specified in the Global Notes", such Notes may only be issued in denominations equal to, or greater than, €100,000 (or equivalent) and multiples thereof.

3 Note that for Renminbi or Hong Kong dollar denominated Fixed Rate Notes where Interest Payment Dates are subject to modification it will be necessary to use the second option here.

10.	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency] [Partly Paid] [Instalment] [Other (*Specify*)]
11.	Change of Interest or Redemption/Payment Basis:	*[Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]*
12.	Put/Call Options:	[Investor Put] [Issuer Call] [(further particulars specified below)]
13.	Listing:	[Hong Kong/Other *(specify)*/None] (For Notes to be listed on the [Hong Kong Stock Exchange], insert the expected effective listing date of the Notes)
14.	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15.	**Fixed Rate Note Provisions**	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly/ other (s*pecify*)] in arrear]
	(ii) Interest Payment Date(s):	[●] in each year [adjusted in accordance with *[specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]/*not adjusted]
	(iii) Fixed Coupon Amount[(s)]:	[●] per Calculation Amount[4]
	(iv) Broken Amount(s):	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
	(v) Day Count Fraction:	[30/360/Actual/Actual (ICMA/ISDA)/other]

4 For Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, CNY0.005 for the case of Renminbi denominated Fixed Rate Notes to the nearest HK$0.01, HK$0.005 for the case of Hong Kong dollar denominated Fixed Rate Notes, being rounded upwards.

(vi)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/*give details*]
16.	**Floating Rate Note Provisions**	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
(i)	Interest Period(s):	[●]
(ii)	Specified Period:	[●] *(Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable")*
(iii)	Specified Interest Payment Dates:	[●] *(Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable")*
(iv)	First Interest Payment Date:	[●]
(v)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
(vi)	Additional Business Centre(s):	[Not Applicable/*give details*]
(vii)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (*give details*)]
(viii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Principal Paying Agent]):	[[*Name*] shall be the Calculation Agent *(no need to specify if the Principal Paying Agent is to perform this function)*]
(ix)	Screen Rate Determination:	
	• Reference Rate:	[*For example, LIBOR or EURIBOR*]
	• Interest Determination Date(s):	[●]
	• Relevant Screen Page:	[*For example, Reuters LIBOR 01/EURIBOR 01*]
	• Relevant Time:	[*For example, 11.00 a.m. London time/Brussels time*]

		• Relevant Financial Centre:	[*For example, London/Euro-zone (where Euro-zone means the region comprised of the countries whose lawful currency is the euro*]
	(x)	ISDA Determination:	
		• Floating Rate Option:	[●]
		• Designated Maturity:	[●]
		• Reset Date:	[●]
	(xi)	Margin(s):	[+/-][●] per cent. per annum
	(xii)	Minimum Rate of Interest:	[●] per cent. per annum
	(xiii)	Maximum Rate of Interest:	[●] per cent. per annum
	(xiv)	Day Count Fraction:	[●]
	(xv)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]
17.	**Zero Coupon Note Provisions**		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Accrual Yield:	[●] per cent. per annum
	(ii)	Reference Price:	[●]
	(iii)	Any other formula/basis of determining amount payable:	[*Consider whether it is necessary to specify a Day Count Fraction for the purposes of Condition [11(f)]*]
18.	**Index-Linked Interest Note/other variable-linked interest Note Provisions**		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Index/Formula/other variable:	[*give or annex details*]
	(ii)	Calculation Agent responsible for calculating the interest due:	[●]
	(iii)	Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable:	[●]
	(iv)	Interest Determination Date(s):	[●]

(v)	Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[●]
(vi)	Interest or calculation period(s):	[●]
(vii)	Specified Period:	[●] *(Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable")*
(viii)	Specified Interest Payment Dates:	[●] *(Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable")*
(ix)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
(x)	Additional Business Centre(s) :	[●]
(xi)	Minimum Rate/Amount of Interest:	[●] per cent. per annum
(xii)	Maximum Rate/Amount of Interest:	[●] per cent. per annum
(xiii)	Day Count Fraction:	[●]

19.	**Dual Currency Note Provisions**	[Applicable/Not Applicable]
		(If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i) Rate of Exchange/method of calculating Rate of Exchange:	*[give details]*
	(ii) Calculation Agent, if any, responsible for calculating the principal and/or interest due:	[●]
	(iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[●]
	(iv) Person at whose option Specified Currency(ies) is/are payable:	[●]

PROVISIONS RELATING TO REDEMPTION

20.	**Call Option**	[Applicable/Not Applicable]
		(If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[●] per Calculation Amount
	(b) Maximum Redemption Amount	[●] per Calculation Amount
	(iv) Notice period:	[●]
21.	**Put Option**	[Applicable/Not Applicable]
		(If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) Notice period:	[●]

22.	**Final Redemption Amount of each Note**	[●] per Calculation Amount
	In cases where the Final Redemption Amount is Index-Linked or other variable-linked:	
	(i) Index/Formula/variable:	[*give or annex details*]
	(ii) Calculation Agent responsible for calculating the Final Redemption Amount:	[●]
	(iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable:	[●]
	(iv) Date for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable:	[●]
	(v) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[●]
	(vi) [Payment Date]:	[●]
	(vii) Minimum Final Redemption Amount:	[●] per Calculation Amount
	(viii) Maximum Final Redemption Amount:	[●] per Calculation Amount
23.	**Early Redemption Amount**	[Not Applicable
	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):	*(If each of the Early Redemption Amount (Tax) and the Early Termination Amount are the principal amount of the Notes/specify the Early Redemption Amount (Tax) and/or the Early Termination Amount if different from the principal amount of the Notes)*]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24.	**Form of Notes:**	**Bearer Notes:**
		[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note]

		[Temporary Global Note exchangeable for Definitive Notes on [●] days' notice][5] [Permanent Global Note exchangeable for Definitive Notes on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note] **Registered Notes**: [Global Note Certificate exchangeable for Individual Note Certificates on [●] days' notice/at any time/in the limited circumstances described in the Global Note Certificate]
25.	Additional Financial Centre(s) or other special provisions relating to payment dates:	[Not Applicable/*give details*. *Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub paragraphs 16(vi) and 18(x) relate]*
26.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
27.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made [and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment]:	[Not Applicable/*give details*]
28.	Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:	[Not Applicable/*give details*]
29.	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
30.	Consolidation provisions:	The provisions in Condition 21 (*Further Issues*)] [annexed to this Pricing Supplement] apply]
31.	Any applicable currency disruption/fallback provisions:	[Not Applicable/*give details*]
32.	Other terms or special conditions:	[Not Applicable/*give details*] [*Insert provisions for Subordinated Notes]*

[5] if the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "[€50,000]/[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€99,000]/[€199,000]", the Temporary Global Note shall not be exchangeable on [●] days notice.

DISTRIBUTION

33.	(i) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii) Stabilising Manager(s) (if any):	[Not Applicable/*give name*]
34.	If non-syndicated, name and address of Dealer:	[Not Applicable/*give name and address*]
35.	Total commission and concession:	[●] per cent. of the Aggregate Nominal Amount
36.	U.S. Selling Restrictions:	[Reg. S Category [1/2/3]]/[Rule 144A]; *(In the case of Bearer Notes)* – [RULES C/ RULES D/TEFRA not applicable] *(In the case of Registered Notes)* – Not Applicable
37.	Additional selling restrictions:	[Not Applicable/*give details*]

OPERATIONAL INFORMATION

38.	ISIN Code:	[●]
39.	Common Code:	[●]
40.	CUSIP:	[●]
41.	CMU Instrument Number:	[●]
42.	Any clearing system(s) other than Euroclear/Luxembourg, DTC and the CMU Service and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
43.	Delivery:	Delivery [against/free of] payment
44.	Additional Paying Agent(s) (if any):	[●]

GENERAL

45.	The aggregate principal amount of Notes issued has been translated into United States dollars at the rate of [●], producing a sum of (for Notes not denominated in United States dollars):	[Not Applicable/U.S.$]

46. [Ratings: The Notes to be issued have been rated:

[Moody's: [●]];

[Fitch:[●]]; [and]

(each a "Rating Agency").

If any Rating Agency shall not make a rating of the Notes publicly available, the Issuer shall select and substitute them with [●] or [●] and its successors.]

[USE OF PROCEEDS

Give details if different from the "Use of Proceeds" section in the Offering Circular.]

STABILISING

In connection with this issue, [insert name of Stabilising Manager] (the "**Stabilising Manager**") (or persons acting on behalf of any Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager (or persons acting on behalf of any Stabilising Manager) in accordance with all applicable laws and rules.]

PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the final terms required for issue and admission to trading on the Hong Kong Stock Exchange of the Notes described herein pursuant to the U.S.$10,000,000,000 Medium Term Note Programme of the Issuer.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

The Issuer acknowledges that it will be bound by the provisions of the Trust Deed.

Signed on behalf of Bank of China Limited/[*specify foreign branch*]

By: ....
Duly authorised

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Clearing System Accountholders

In relation to any Series of Notes represented by a Global Note, references in the Conditions of the Notes to "Noteholder" are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and/or a sub-custodian for the CMU Service, will be that depositary, common depositary or, as the case may be, sub-custodian.

In relation to any Series of Notes represented by one or more Global Note Certificates, references in the Conditions of the Notes to "Noteholder" are references to the person in whose name the relevant Global Note Certificate is for the time being registered in the Register which (a) in the case of a Restricted Global Note Certificate held by or on behalf of DTC will be Cede & Co. (or such other entity as is specified in the applicable Pricing Supplement) as nominee for DTC and (b) in the case of any Unrestricted Global Note Certificate which is held by or on behalf of a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or a nominee for that depositary or common depositary.

Each of the persons shown in the records of DTC, Euroclear, Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note or a Global Note Certificate (each an "**Accountholder**") must look solely to DTC, Euroclear, Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer to the holder of such Global Note or Global Note Certificate and in relation to all other rights arising under such Global Note or Global Note Certificate. The extent to which, and the manner in which, Accountholders may exercise any rights arising under a Global Note or Global Note Certificate will be determined by the respective rules and procedures of DTC, Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by a Global Note or Global Note Certificate, Accountholders shall have no claim directly against the Issuer in respect of payments due under the Notes and such obligations of the Issuer will be discharged by payment to the holder of such Global Note or Global Note Certificate.

If a Global Note or a Global Registered Note is lodged with a sub-custodian for or registered with the CMU Service, the person(s) for whose account(s) interests in such Global Note or Global Registered Note are credited as being held in the CMU Service in accordance with the CMU Rules as notified by the CMU Service to the CMU Lodging and Paying Agent in a relevant CMU Instrument Position Report or any other relevant notification by the CMU Service (which notification, in either case, shall be conclusive evidence of the records of the CMU Service save in the case of manifest error) shall be the only person(s) entitled or in the case of Registered Notes, directed or deemed by the CMU Service as entitled to receive payments in respect of Notes represented by such Global Note or Global Registered Note and the Issuer will be discharged by payment to, or to the order of, such person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU Service in respect of each amount so paid. Each of the persons shown in the records of the CMU Service, as the beneficial holder of a particular nominal amount of Notes represented by such Global Note or Global Registered Note must look solely to the CMU Lodging and Paying Agent for his share of each payment so made by the Issuer in respect of such Global Note or Global Registered Note.

Transfers of Interests in Global Notes and Global Note Certificates

Transfers of interests in Global Notes and Global Note Certificates within DTC, Euroclear and Clearstream, Luxembourg or any other relevant clearing system will be in accordance with their respective rules and operating procedures. None of the Issuer, the Trustee, the Registrar, the Dealer or the Agents will have any responsibility or liability for any aspect of the records of any DTC, Euroclear and Clearstream, Luxembourg or any other relevant clearing system or any of their respective participants relating to payments made on account of beneficial ownership interests in a Global Note or Global Note Certificate or for maintaining, supervising or reviewing any of the records of DTC, Euroclear and Clearstream, Luxembourg or any other relevant clearing system or the records of their respective participants relating to such beneficial ownership interests.

The laws of some states of the United States require that certain persons receive individual certificates in respect of their holdings of Notes. Consequently, the ability to transfer interests in a Global Note Certificate to such persons will be limited. Because clearing systems only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Note Certificate to pledge such interest to persons or entities which do not participate in the relevant clearing systems, or otherwise take actions in respect of such interest, may be affected by the lack of an Individual Note Certificate representing such interest.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under "*Transfer Restrictions*", transfers between DTC participants, on the one hand, and Euroclear or Clearstream, Luxembourg accountholders, on the other will be effected by the relevant clearing systems in accordance with their respective rules and through action taken by the DTC Custodian, the Registrar and the Principal Paying Agent.

On or after the issue date for any Series, transfers of Notes of such Series between accountholders in Euroclear and/or Clearstream, Luxembourg and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Transfers between DTC participants, on the one hand, and Euroclear or Clearstream, Luxembourg accountholders, on the other will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Euroclear and Clearstream, Luxembourg, on the other, transfers of interests in the relevant Global Note Certificates will be effected through the Principal Paying Agent, the DTC Custodian, the relevant Registrar and any applicable Transfer Agent receiving instructions (and where appropriate certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. Transfers will be effected on the later of (i) three business days after the trade date for the disposal of the interest in the relevant Global Note Certificate resulting in such transfer and (ii) two business days after receipt by the Principal Paying Agent or the Registrar, as the case may be, of the necessary certification or information to effect such transfer. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately. The customary arrangements for delivery versus payment between Euroclear and Clearstream, Luxembourg account holders or between DTC participants are not affected.

For a further description of restrictions on the transfer of Notes, see "*Subscription and Sale*" and "*Transfer Restrictions*".

Upon the issue of a Restricted Global Note Certificate to be held by or on behalf of DTC, DTC or the DTC Custodian will credit the respective nominal amounts of the individual beneficial interests represented by such Global Note Certificate to the account of DTC participants. Ownership of beneficial interests in such Global Note Certificate will be held through participants of DTC, including the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in such Global Note Certificate will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee. DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Registered Notes represented by a Global Note Certificate held by or on behalf of DTC (including, without limitation, the presentation of such Global Note Certificates for exchange as described above) only at the direction of one or more participants in whose account with DTC interests in such Global Note Certificate are credited, and only in respect of such portion of the aggregate nominal amount of such Global Note Certificate as to which such participant or participants has or have given such direction. However, in certain circumstances, DTC will exchange the relevant Global Note Certificate for Individual Note Certificates (which will bear the relevant legends set out in "*Transfer Restrictions*").

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Note Certificates among participants and account holders of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Trustee, the Registrar, the Dealer or the Agents will have any responsibility for the performance by DTC, Euroclear or Clearstream, Luxembourg or their respective direct or indirect participants or account holders of their respective obligations under the rules and procedures governing their respective operations.

While a Global Note Certificate is lodged with DTC, Euroclear, Clearstream, Luxembourg or any relevant clearing system, Individual Note Certificates for the relevant Series of Notes will not be eligible for clearing and settlement through such clearing systems.

Conditions applicable to Global Notes

Each Global Note and Global Note Certificate will contain provisions which modify the Conditions of the Notes as they apply to the Global Note or Global Note Certificate. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Global Note or Global Note Certificate which, according to the Conditions of the Notes, require presentation and/or surrender of a Note, Note Certificate or Coupon will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note or Global Note Certificate to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Issuer shall procure that in respect of a CGN the payment is noted in a schedule thereto and in respect of an NGN the payment is entered pro rata in the records of Euroclear and Clearstream, Luxembourg.

Payment Business Day: in the case of a Global Note or a Global Note Certificate, shall be: if the currency of payment is euro, any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or, if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

Payment Record Date: Each payment in respect of a Global Note Certificate will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "Clearing System Business Day" means a day on which each clearing system for which the Global Note Certificate is being held is open for business.

Exercise of put option: In order to exercise the option contained in Condition 11(e) (*Redemption of the Senior Notes or the Dated Subordinated Notes at the option of the Noteholders:*) the bearer of a Permanent Global Note or the holder of a Global Note Certificate must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Principal Paying Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 11(c) (*Redemption at the option of the Issuer*) in relation to some only of the Notes, the Permanent Global Note or Global Note Certificate may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of DTC, Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of DTC, Euroclear and/or Clearstream, Luxembourg as either a pool factor or a reduction in principal amount, at their discretion).

Notices: Notwithstanding Condition 22 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) or a Global Note Certificate and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are), or the Global Note Certificate is, registered in the name of DTC's nominee or deposited with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system or a common safekeeper, notices to Noteholders may be given by delivery of the relevant notice to DTC and/or Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 22 (*Notices*) on the date of delivery to DTC and/or Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the Group's unaudited consolidated debt and capitalisation as of 30 June 2013. Please read this table in conjunction with the Group's unaudited consolidated financial information and the accompanying notes included elsewhere in this Offering Circular.

	As at 30 June 2013
	(Unaudited)
	(RMB million)
Debt[(1)]	
Bonds issued	213,011
Other borrowings	30,637
Total debt	243,648
Equity	
Capital and reserves attributable to equity holders of the Bank	
Share capital	279,148
Capital reserve	115,473
Treasury shares	(104)
Statutory reserves	65,550
General and regulatory reserves	132,175
Undistributed profits	274,302
Reserve for fair value changes of available-for-sale securities	3,959
Currency translation differences	(20,525)
	849,978
Non-controlling interests	36,355
Total equity	886,333
Total equity and liabilities	13,256,206

Note:

(1) In addition, as at 30 June 2013, the Group had borrowings from central banks, deposits and money market deposits from customers and other banks, certificates of deposits, securities sold under repurchase agreements, credit commitments, acceptances, issued letters of guarantee and letters of credit, financial lease commitments and other commitments and contingencies, including outstanding litigation, that arise from its ordinary course of business.

DESCRIPTION OF THE BANK

Overview

The Bank is one of the four largest commercial banks in the PRC in terms of total assets with the most extensive international branch network among PRC commercial banks. The Bank has also been listed by the Financial Stability Board as one of the global systemically important financial institutions since 2011. The Bank provides a comprehensive range of financial services to customers across mainland China, Hong Kong, Macau, Taiwan and 37 overseas countries. The Bank's scope of business encompasses three main areas, namely commercial banking, investment banking and insurance. Commercial banking is the Bank's traditional core business. It includes corporate banking, personal banking and financial market business (mainly treasury operations). The combination of commercial banking, investment banking and insurance businesses has created a universal banking platform that allows the Bank to provide integrated services to its customers.

The Bank was incorporated as a joint stock company in the PRC on 26 August 2004. The Bank is headquartered in Beijing with operations in mainland China, Hong Kong, Macau, Taiwan and 37 overseas countries. The Group's operating profits were RMB168,128 million, RMB186,767 million and RMB109,900 million for the years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, respectively. For the year ended 31 December 2012, the Group's corporate banking, personal banking, treasury operations and investment banking and insurance lines of business before inter-segment elimination accounted for 55.75 per cent., 21.00 per cent., 19.82 per cent. and 1.06 per cent. of its profit before tax, respectively. For the six months ended 30 June 2013, the Group's corporate banking, personal banking, treasury operations and investment banking and insurance lines of business before inter-segment elimination accounted for 53.88 per cent., 20.83 per cent., 21.28 per cent. and 1.64 per cent. of its profit before tax, respectively.

The table below sets forth the key financial ratios of the Group for the periods indicated:

	For the six months ended 30 June		For the year ended 31 December	
	2013	2012	2012	2011
Return on average total assets (%)(1)	1.30	1.21	1.19	1.17
Return on average equity (%)(2)	18.93	18.96	18.10	18.27
Net interest margin (%)(3)	2.23	2.10	2.15	2.12
Non-interest income to operating income (%)(4)	33.44	30.95	29.83	30.53
Cost to income ratio (calculated under domestic regulations %)(5)	27.67	28.84	31.81	32.58
Loan to deposit ratio (%)(6)	72.63	71.99	71.99	68.77
Credit cost (%)(7)	0.39	0.28	0.29	0.32

Notes:

(1) (for the figures of the year ended 31 December 2011 and 2012) Return on average total assets = profit for the year ÷ average total assets. Average total assets = (total assets at the beginning of year + total assets at the end of year) ÷ 2. (for the figures of the six months period ended 30 June 2012 and 2013) Return on average total assets = profit for the period ÷ average total assets. Average total assets = (total assets at the beginning of reporting period + total assets at the end of reporting period) ÷ 2, annualised.

(2) (for the figures of the year ended 31 December 2011 and 2012) Return on average equity = profit attributable to equity holders of the Bank ÷ average owner's equity. It is calculated according to No. 9 Preparation and Reporting Rules of Information Disclosure of Public Offering Companies – Calculation and Disclosure of Return on Average Equity and Earnings per Share (Revised in 2010) (CSRC Announcement [2010] No. 2) issued by the CSRC. (for the figures of the six months period ended 30 June 2012 and 2013) Return on average equity = profit attributable to the equity holders of the Bank ÷ weighted average capital and reserves attributable to equity holders of the Bank, annualised. It is calculated according to No. 9 Preparation and Reporting Rules of Information Disclosure of Public Offering Companies – Calculation and Disclosure of Return on Average Equity and Earnings per Share (Revised in 2010) (CSRC Announcement [2010] No. 2) issued by CSRC.

(3) (for the figures of the year ended 31 December 2011 and 2012) Net interest margin = net interest income ÷ average balance of interest earnings assets. Average balance is average daily balance derived from the Bank's management accounts (unreviewed). (for the figures of the six months period ended 30 June 2012 and 2013) Net interest margin = net interest income ÷ average balance of interest-earning assets, annualised. Average balance is average daily balance derived from the Bank's management accounts (unreviewed).

(4) Non-interest income to operating income = non-interest income ÷ operating income.

(5) Cost to income ratio is calculated according to the Measures of the Performance Evaluation of Financial Enterprises (Cai Jin [2011] No. 50) formulated by the MOF.

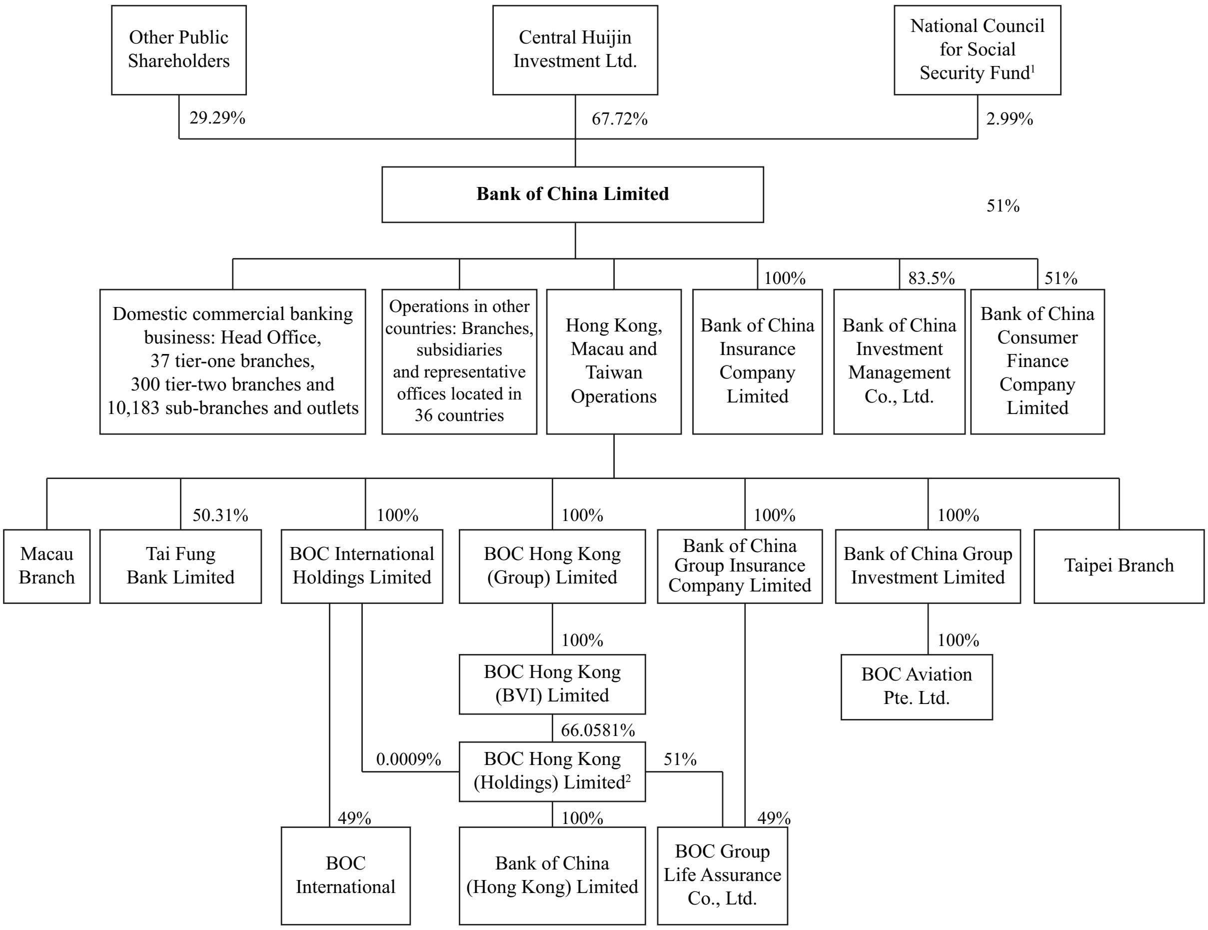
(6) Loan to deposit ratio = outstanding loans ÷ balance of deposits. It is calculated according to relevant provisions of the PBOC. Of which, the balance of deposits include liabilities due to customers and due to financial institutions such as financial holding companies and insurance companies.

(7) (for the figures of the year ended 31 December 2011 and 2012) Credit cost = impairment losses on loans ÷ average balance of loans. Average balance of loans = (balance of loans at the beginning of the year + balance of loans at the end of year) ÷ 2. (for the figures of the six months period ended 30 June 2012 and 2013) Credit cost = impairment losses on loans ÷ average balance of loans. Average balance of loans = (balance of loans at the beginning of reporting period + balance of loans at the end of reporting period) ÷ 2, annualised.

The Bank is a market leader in the PRC in a number of areas. The Bank was the largest foreign currency-denominated corporate loan provider among PRC commercial banks, with a market share of approximately 12.97 per cent. as at 30 June 2013.

Organisational Chart

The Group's organisational chart as at 31 December 2012, based on the interests recorded in the Bank's register maintained pursuant to section 336 of the Securities and Futures Ordinance (Cap. 571) of Hong Kong ("**SFO**"), was as follows:



Notes:

1 The proportion of H Shares held by NCSSF is based on the interest recorded in the register maintained by the Bank pursuant to section 336 of the SFO. For details, please refer to the section "Changes in Share Capital and Shareholding of Substantial Shareholders – Substantial Shareholder Interests".

2 Listed on the Hong Kong Stock Exchange.

The Bank's Strengths

The Bank's principal strengths include:

Well-Recognised Brand Name

Established in 1912, the Bank is one of the best-known commercial banks in the PRC. In the Bank's 101 year history, the Bank has successfully built one of the most recognised brand names in the PRC through its contribution to the evolution of the PRC commercial banking industry.

Below is a summary list of the honours and accolades awarded to the Bank in recent years:

The Banker

- China Bank of the Year (2012)

Euromoney

- Best Debt House in China (2012)
- Best Private Banking in China (2012)
- Best Domestic Cash Manager in China (2012)
- Best Domestic Debt Underwriter in China (2012)

The Asian Banker

- Best Trade Finance Bank in China (2012)
- Best Mobile Phone Banking Application in China (2012)

FORTUNE

- Ranked 93rd in Fortune Global 500 (2012)

WPP Group

- The BrandZ Top 50 Most Valuable Chinese Brands (2012)

China Banking Association

- Most Socially Responsible Financial Institution Award (2012)
- Social Responsibility – Best Charitable Contribution Award (2012)

Largest and Rationally Distributed Overseas Network Complementing an Extensive Domestic Network

As at 30 June 2013, the Bank had a total of 11,409 domestic and overseas branches, subsidiaries and outlets, which include 10,786 branches, subsidiaries and outlets in mainland China and 623 branches, subsidiaries and representative offices in Hong Kong, Macau, Taiwan and other overseas countries and regions. In respect of the commercial banking business in mainland China, there were 37 tier-one and direct branches, 306 tier-two branches and 10,279 outlets.

The Bank's extensive domestic and overseas network enables it to structure and deliver products and services to serve its customers on a global basis, and allows it to capture the business opportunities arising from the increasing integration of the PRC into the global economy.

Solid Customer Base and Strong Presence in Attractive Customer Segments

In the PRC, foreign exchange services tend to be utilised by large corporate customers and affluent individuals. Capitalising on the Bank's position as one of the most experienced foreign exchange banks in the PRC and its extensive global network, the Bank has established and continued to maintain strong relationships with leading domestic and international corporations and financial institutions. The Bank also has a strong presence in the retail customer segment.

Universal Banking Platform

In addition to commercial banking, the Bank provides investment banking, insurance and other services through the Bank's wholly-owned subsidiaries, namely, BOC International Holdings Limited ("**BOCI**"), BOC International (China) Limited ("**BOCI China**"), Bank of China Group Insurance Company Limited ("**BOCG Insurance**"), BOC Group Life Assurance Company Limited ("**BOCG Life**"), BOC Insurance Company Limited ("**BOC Insurance**"), Bank of China Group Investment Limited ("**BOCG Investment**") and BOC Aviation Pte. Ltd ("**BOC Aviation**"). The combination of these businesses has created a universal banking platform that provides the Bank with the ability to offer a broad range of financial products and services and enables it to establish stronger relationship with strategically targeted customers and strengthen customer loyalty.

Through these subsidiaries, the Bank believes it is well positioned to benefit from the significant growth potential in the investment banking and insurance businesses. In addition, this business structure enables the Bank to diversify its sources of income.

Leader in Non-Interest Income and Treasury Businesses with Strong Product Innovation Capabilities

The Bank believes its diversified products and innovation capabilities have enabled it to generate a higher level of non-interest income, thus reducing its reliance on its traditional bank lending business. The Group's operating income comprises net interest income and non-interest income. For the year ended 31 December 2012, the Group reported a non-interest income of RMB109.212 billion, representing an increase of RMB8.978 billion or 8.96 per cent. compared with the year ended 31 December 2011. Non-interest income accounted for 29.83 per cent. of the Group's operating income for the year ended 31 December 2012, representing a decrease of 0.70 per cent compared with the year ended 31 December 2011. For the six months ended 30 June 2013, the Group reported a non-interest income of RMB68.963 billion, representing an increase of RMB13.352 billion or 24.01 per cent. compared with the six months ended 30 June 2012. Non-interest income accounted for 33.44 per cent. of the Group's operating income for the six months ended 30 June 2013, representing an increase of 2.49 percentage points compared with the six months ended 30 June 2012. Non-interest income includes net fee and commission income, net trading gains/(losses), net gains/(losses) on investment securities and other operating income.

In recent years, the Bank has further built upon its strengths in the trade finance business, and co-ordinated the development of traditional businesses such as international settlement, and emerging businesses, such as cross-border Renminbi business and supply chain financing. The Bank also experienced a substantial growth in revenue from the letter of credit, factoring and trade finance-related businesses. In addition, the accelerated development of the domestic settlement business has promoted the income growth of settlement and clearing businesses. The Bank also further developed its insurance agency and pension businesses, which resulted in a substantial increase in income related to agency commission fees. The Bank became the first RMB clearing bank to be recognised by the Government of Luxembourg and the Bank's Taipei branch was formally nominated as a RMB clearing bank in Taiwan. For the year ended 31 December 2012, the Group recorded a net fee and commission income of RMB69.923 billion, representing an increase of RMB5.261 billion or 8.14 per cent. compared with the year ended 31 December 2011. For the six months ended 30 June 2013, the Group recorded a net fee and commission income of RMB45.481 billion, representing an increase of RMB11.231 billion or 32.79 per cent. compared with the six months ended 30 June 2012.

Through its global markets department, the Bank offers a broad range of treasury products and services for different customer groups, as well as conducting settlement and related quotation, and 24-hour daily treasury activities through its five trading centres located in Hong Kong, London, New York, Beijing and Shanghai. The Bank believes its ability to offer innovative financial solutions to its customers provides it with a competitive advantage over other PRC commercial banks.

Experienced Senior Management Team

The Bank's senior management team has extensive experience in the banking and financial services, with an average of 25 years of relevant experience. In particular, the Bank's chairman, Mr Tian Guoli has more than 30 years of experience in the banking industry and was vice chairman of China CITIC Group prior to joining the Bank in 2013. The Bank's president, Mr Li Lihui, has more than 30 years of experience in the banking industry and has held a number of senior management positions in key financial institutions, including as vice president of ICBC. Approximately 50 per cent. of the Bank's management personnel at or above the level of assistant general manager in the Bank's head office have overseas working experience.

Principal Business Activities

The Group's principal lines of business consist of commercial banking, investment banking and insurance. Commercial banking is further split into corporate banking, personal banking and financial market business (primarily treasury operations). The following table sets forth the profit before income tax attributable to each of the Group's principal lines of business for the periods indicated:

Profit before Income Tax by Business Lines

	For the six months period ended 30 June				For the year ended 31 December			
	2013		2012		2012		2011	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB million, except percentages)							
Commercial banking business including:								
Corporate banking business	59,398	53.88	59,303	61.14	104,472	55.75	101,887	60.42
Personal banking business	22,967	20.83	20,852	21.50	39,344	21.00	37,523	22.25
Treasury operations	23,465	21.28	13,441	13.86	37,143	19.82	19,166	11.36
Investment banking and insurance	1,813	1.64	1,218	1.26	1,987	1.06	2,674	1.59
Others and elimination	2,608	2.37	2,178	2.24	4,434	2.37	7,394	4.38
Total	110,251	100.00	96,992	100.00	187,380	100.00	168,644	100.00

The Group conducts its business activities in mainland China, Hong Kong, Macau and Taiwan and 37 other overseas countries. The following table sets forth a geographical analysis of the profit before income tax of the Group for the periods indicated:

Profit before Income Tax by Geographical Segments

	For the six months period ended		For the year ended 31 December	
	2013	2012	2012	2011
	(RMB million)		*(RMB million)*	
Chinese Mainland	89,992	78,458	152,497	133,421
Hong Kong, Macau and Taiwan	15,702	14,350	26,696	29,287
Other countries and regions	4,557	4,184	8,187	6,666
Elimination	–	–	–	(730)
Total	110,251	96,992	187,380	168,644

For the year ended 31 December 2012, the Group's operations in mainland China recorded a profit before income tax and intragroup elimination of RMB152.497 billion, representing an increase of RMB19.076 billion or 14.30 per cent. compared with the year ended 31 December 2011. This segment accounted for 81.38 per cent. of the Group's profit before income tax and intragroup elimination for the year ended 31 December 2012. For the six months ended 30 June 2013, the Group's operations in mainland China recorded a profit before income tax and intragroup elimination of RMB89.992 billion, representing an increase of RMB11.534 billion or 14.70 per cent. compared with the corresponding period in the previous year. This segment accounted for 81.62 per cent. of the Group's profit before income tax and intragroup elimination for the six months ended 30 June 2013.

For the year ended 31 December 2012, the Group's operations in Hong Kong, Macau and Taiwan recorded a profit before income tax and intragroup elimination of RMB26.696 billion, representing a decrease of RMB2.591 billion or 8.85 per cent. compared with the year ended 31 December 2011. This segment accounted for 14.25 per cent. of the Group's profit before income tax and intragroup elimination for the year ended 31 December 2012. For the six months ended 30 June 2013, the Group's operations in Hong Kong, Macau and Taiwan recorded a profit before income tax and intragroup elimination of RMB15.702 billion, representing an increase of RMB1.352 billion or 9.42 per cent. compared with the corresponding period in the previous year. This segment accounted for 14.24 per cent. of the Group's profit before income tax and intragroup elimination for the six months ended 30 June 2013.

For the year ended 31 December 2012, the Group's operations in other countries and regions recorded a profit before income tax and intragroup elimination) of RMB8.187 billion, representing an increase of RMB1.521 billion or 22.82 per cent. compared with the year ended 31 December 2011. This segment accounted for 4.37 per cent. of the Group's profit before income tax and intragroup elimination) for the year ended 31 December 2012. For the six months ended 30 June 2013, the Group's operations in other countries and regions recorded a profit before income tax and intragroup elimination) of RMB4.557 billion, representing an increase of RMB0.373 billion or 8.91 per cent. compared with the corresponding period in the previous year. This segment accounted for 4.13 per cent. of the Group's profit before income tax and intragroup elimination) for the six months ended 30 June 2013.

The Group's operating income comprises net interest income and non-interest income. For the year ended 31 December 2012, the Group reported a net interest income of RMB256.964 billion, representing an increase of RMB28.900 billion or 12.67 per cent. compared with the year ended 31 December 2011. For the six months ended 30 June 2013, the Group reported a net interest income of RMB137.288 billion, representing an increase of RMB13.234 billion or 10.67 per cent. compared with the six months ended 30 June 2012. The following table sets forth the net interest income of the Group for the periods indicated:

	Six months period ended 30 June		**Year ended 31 December**	
	2013	**2012**	**2012**	**2011**
	(RMB million)			
Interest income[1]				
Loans and advances to customers	185,061	182,328	371,394	296,913
Investment securities and financial assets at fair value through profit or loss	32,580	31,359	64,973	56,728
Due from central banks	13,129	13,884	26,996	25,177
Due from and placements with and loans to banks and other financial institutions	19,100	25,550	43,165	34,284
Subtotal	249,870	253,121	506,528	413,102
Interest expense[1]				
Due to customers	(87,110)	(96,270)	(186,667)	(139,905)
Due to and placements from banks and other financial institutions	(20,860)	(28,913)	(54,858)	(38,227)
Bonds issued and others	(4,612)	(3,884)	(8,039)	(6,906)
Subtotal	(112,582)	(129,067)	(249,564)	(185,038)
Net interest income[2]	137,288	124,054	256,964	228,064
Interest income accrued on impaired financial assets (included within interest income	382	289	557	666

Notes:

(1) Interest income on "Investment securities" and "Financial assets at fair value through profit or loss" is principally derived from debt securities listed on China Domestic Interbank Bond Market and unlisted debt securities in Hong Kong, Macau, Taiwan and other countries and regions.

(2) (for the figures of the year ended 31 December 2012) Included within "Interest income" and "Interest expense" are RMB504,318 million (2011: RMB410,913 million) and RMB224,727 million (2011: RMB169,535 million) for financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

(for the figures of the six months period ended 30 June 2013) Included within "interest income" and "interest expense" are RMB248,794 million (2012: RMB252,025 million) and RMB110,802 million (2012: RMB113,378 million) for financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

Commercial Banking

Commercial banking business is the Bank's traditional core business. It comprises of three major lines of business, namely corporate banking business, personal banking business and financial market business (mainly treasury operations). For the year ended 31 December 2012, the Bank's domestic commercial banking business recorded an operating income of RMB301.223 billion, representing an increase of RMB31.530 billion or 11.69 per cent. compared with the year ended 31 December 2011. For the six months ended 30 June 2013, the Bank's domestic banking business recorded an operating income of RMB170.373 billion, representing an increase of RMB22.670 billion or 15.35 per cent. compared with the six months ended 30 June 2012. The principal components are set forth below:

	For the six month period ended 30 June				For the year ended 31 December			
	2013		2012		2012		2011	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB million, except percentages)				*(RMB million, except percentages)*			
Corporate banking business	91,844	53.91%	88,292	59.78%	167,788	55.70%	164,597	61.03%
Personal banking business	55,709	32.70%	47,701	32.29%	96,981	32.20%	86,445	32.05%
Treasury operations	22,820	13.39%	11,710	7.93%	36,172	12.01%	18,682	6.93%
Others	–	–	–	–	282	0.09%	(31)	(0.01%)
Total	170,373	100.00%	147,703	100.00%	301,223	100.00%	269,693	100.00%

The Bank grants loans denominated in Renminbi or in foreign currencies. The Bank determines the interest rates on loans denominated in Renminbi for domestic operations by reference to the rates set by PBOC which are based on, among other factors, macroeconomic factors. PBOC sets Renminbi benchmark lending rates from time to time with respect to different types of loans of varying maturities.

Changes in the PRC Government's monetary policy or in the Renminbi benchmark lending rates would affect the Bank's lending operations. For loans denominated in foreign currencies, the Bank determines the interest rates in accordance with prevailing rates in the international capital markets plus a premium. In order to minimise its exposure to foreign exchange and interest rate risks, the Groups seeks to match its loans and guarantees to liabilities denominated in the same currencies and to engage in such economic hedging transactions through interest rate and cross currency swaps.

Corporate Banking Business

The Bank offers a broad range of corporate banking products and services to its corporate customers, including state-owned enterprises, private enterprises, foreign-invested enterprises, financial institutions and government agencies. These products and services include loans and advances, deposits, financial institutional banking business, bill discounting, trade-related services and trade finance and other fee-based products and services. Corporate banking contributes the majority of the Bank's profit. In recent years, the Bank pushed for the transformation of its corporate banking business and expanded its customer base, further optimised its customer and industry mix and constantly improved its service delivery for customers. At the same time, the Bank maintained a strong focus on product innovation, promoted integration and consolidated its competitive strengths in trade finance. For the year ended 31 December 2012, the domestic corporate banking business recorded an operating income of RMB167.788 billion, representing an increase of RMB3.191 billion compared with the year ended 31 December 2011. For the six months ended 30 June 2013, the domestic corporate banking business recorded an operating income of RMB91.844 billion, representing an increase of RMB3.552 billion compared to the corresponding period of the previous year.

The Bank offers the following corporate banking products and services in Renminbi and foreign currencies:

Corporate Deposits

The Bank accepts deposits from its corporate customers in Renminbi and major foreign currencies such as U.S. dollar, Hong Kong dollar, Euro, Japanese Yen and British pound. With the rapid growth of the PRC economy, the Bank has proactively adjusted its currency deposit structure and has taken in more corporate deposits denominated in Renminbi.

In recent years, the Bank has strengthened its proactive liability management and strived to improve its liability structure and consolidate the stable growth of its core deposits. The Bank has also boosted its supply chain financing business in key sectors such as the automotive, engineering machinery and steel industries. Focusing on core enterprises and key business projects, the Bank has expanded its upstream and downstream deposit base and promoted fund circulation within the Bank. In addition, the Bank has intensified product innovation and process reengineering, and has taken advantage of its strengths in cash management, corporate wealth management and trade finance. By improving the service systems supporting its tailored products offering, the Bank maintained rapid growth in deposits from administrative institutions. At the same time, the Bank explored new funding sources by seizing opportunities on the financing of corporate bonds and the establishment of financial companies, thus achieving growth in corporate deposits.

As at 30 June 2013, the Bank's domestic RMB-denominated corporate deposits totalled RMB4,141.762 billion, representing an increase of RMB386.136 billion compared with 31 December 2012. As at the 30 June 2013, the Bank's domestic foreign currency denominated corporate deposits reached U.S.$44.919 billion, representing a decrease of U.S.$952 million compared with 31 December 2012.

Corporate Loans

The Bank's principal corporate loan products include Renminbi-denominated and foreign currency-denominated loans. These corporate loan products mainly take the form of fixed asset loans, working capital loans, bill discounting and trade finance. The Bank provides fixed asset loans to its corporate customers to meet their funding needs for infrastructure projects, acquisition of machinery and equipment and real property development. Working capital loans are extended to meet the Bank's corporate customers' working capital or cash flow needs. Bill discounting involves providing the Bank's customers with short-term financing in exchange for their bills of exchange issued or accepted by other commercial banks and corporations. The Bank may rediscount these bills with PBOC or other authorised financial institutions. The Bank also provides trade finance to its customers. The Bank took steps to increase business with small and medium-sized enterprises ("**SMEs**"), establishing a business model based on needs of SMEs and underpinned by revenue-based risk management.

In recent years, the Bank has made an effort to support the key regions identified by the PRC Government's economic development plan and assist in the development of the PRC's strategic emerging industries such as energy conservation and environmental protection, cultural industries, modern agriculture and other key industries. The Bank continued to support industrial transformation and upgrading and technical reform projects and intensified its financial support to infrastructure construction, industrial development and other areas related to urbanisation. The Bank also achieved developments in low carbon financing, supporting energy conserving and environmental enterprises as well as new energy projects. It intensified the credit risk management of loans granted to LGFPs and the real estate industry, and strictly controlled lending to industries experiencing overcapacity. It enhanced the offering of integrated global corporate financial services by its outlets through improved marketing and launching of new products and enhanced e-banking services, which led to a balanced growth across its large-, medium- and small-sized customer bases. In addition, the Bank accelerated the integrated development of its domestic and overseas operations, growing its base of overseas corporate customers while continuing to support the PRC's "Going Global" enterprises. The Bank has also continually improved its overseas syndicated loan centre to maintain its position in the Asia-Pacific overseas syndicated loan market.

The Bank has developed its "Green Credit" business, improving measurement standards for assessing environmental and social risks and actively adapting to market volatility in the energy conservation industry. By enhancing support to the "Green Credit" business, the Bank's credit scale has increased.

As at 30 June 2013, the Bank's domestic RMB-denominated corporate loans totalled RMB3,572.078 billion, representing an increase of RMB120.074 billion compared with the prior year-end, and its domestic foreign currency-denominated corporate loans totalled U.S.$93.811 billion, representing an increase of U.S.$16.090 billion compared with 31 December 2012.

Domestic Settlement and Cash Management

The Bank continues to focus its efforts on product innovation and promotion, launching products such as "Credit on Checks", "Settlement Card for Corporate Customers", "Bills Pool" and "Bank Bill Acceptance Guaranteed by Margin and Interests" and "Voucher Printing through Self-service Terminals", and promoting a series of domestic settlement services, such as "Online Capital Verification", "Agency Service for Central Treasury" and various service solutions for the retail industry. The Bank has optimised its global cash management system and innovated its cross-border pooling mechanism for overseas export exchange deposits, and has been seeking to obtain cooperative bank eligibilities for a second pilot batch of multinational companies to take part in the centralised management of foreign exchange funds.

By offering efficient fund collection and allocation across its domestic and overseas operations, as well as an integrated display of customers' worldwide bank accounts, the Bank seeks to help customers to improve the effectiveness and efficiency of their financial management.

International Settlement and Trade Finance Business

The Bank was the first PRC bank to offer and has been providing trade-related services since 1915. The Bank's key products and services include international settlement, trade finance, factoring, letters of guarantee and forfaiting.

The Bank's representatives have been elected to key positions in certain international organisations in the industry. Since 1999, successful Bank representatives have served as the vice chairman of the International Chamber of Commerce ("ICC") Banking Commission, member of ICC World Council Executive Board, and member of ICC Banking Commission Advisory Board, and has played a significant role in enhancing international economic and trade relations and co-operation through active participation in the development and promotion of the ICC international standards. In addition, as of the Bank's representatives became an executive director of the International Forfaiting Association, as well as serving as chairman of its Northeast Asia Council. The Bank's representatives have also served a number of positions within the Society for Worldwide Interbank Financial Telecommunication, including as chairman of its PRC users association and as members of its Asia Pacific standards council, the trade finance business working group and the trade services utility working group.

The Bank believes that the experience it has accumulated from its long history in the trade finance business makes it well positioned to capture any growth opportunities from expanding domestic and international trade so as to maintain its leading position in the domestic market.

By leveraging the advantages of its group-wide integrated business operations, the Bank has further accelerated product innovation and enhanced its core competitiveness in trade finance. The Bank also utilised its advantages as a diversified platform, and actively provided clients with comprehensive and customised services, including commodity international settlement, financing and hedging. Based on the Bank's understanding of customers' needs in the "1+N" supply chain finance, the Bank tailored its offering by delivering supply chain finance services and facilitating customers' trading activities worldwide. The Bank continued the construction of trade finance online channels such as the direct bank-enterprise connection project, and continuously optimised the client experience.

The Bank's international settlement business had developed steadily. The transaction volume of international settlement business conducted by the Group reached U.S.$1.56 trillion for the six months ended 30 June 2013 and U.S.$2.78 trillion for the year ended 31 December 2012.

The Bank is one of the leaders in the trade finance market and achieved growth in its overseas trade finance volumes. In 2012 and 2013, the Bank was and had been recognised as the "Best Trade Finance Bank in China" by various local and international media, such as Global Finance and Global Trade Review. The Bank was the only commercial bank in the PRC to be honoured with the "Best Structuralised Trade Financing Solution" award by The Asset.

The Bank has sought to enhance its brand reputation through constant innovation in its trade finance products. In response to changes in the market conditions and in customer demand, the Bank launched innovative products such as accounts receivable pool financing, Export Credit Agency ("**ECA**") financing, ECA Forfaiting and E-Taxation Guarantee. Moreover, the Bank has sought to grasp market opportunities arising from the rapid development of large-scale commodity trading across the world by offering financing solutions to support large-sized commodity trades in the petroleum, non-ferrous metals and agriculture industries. The Bank further developed the innovative business model of "Rong Huo Da + Forward Commodity Hedge", and launched the standard warehouse receipt pledge financing with a hedging component. The Bank also promoted the application of TSU globally and established the Forfaiting Centre (Singapore) and the Commodity Financing Centre (Singapore), so as to provide integrated trade finance services for global customers through its network of overseas institutions.

In addition, the Bank's cross-border RMB business developed rapidly and the Bank maintained a leading position in the market. Through fully utilising its first-mover advantage and professional strengths in the cross-border RMB business, the Bank continued to improve its cross-border RMB business and product scheme. The Bank became the first RMB clearing bank to be recognised by the Government of Luxembourg and the Bank's Taipei branch formally provided services as a RMB clearing bank.

Financial Institutional Business

The Bank's financial institutional business includes local and foreign currency deposit taking, local and foreign currency clearing, custody, fund distribution, asset management services, insurance agency business, securities and futures clearing, bond distribution, clearing agency and foreign currency note services for financial institutions and correspondent banking services.

In recent years, the Bank strengthened its co-operation with other financial institutions through innovation and experienced a steady growth in its Renminbi deposits from financial institutions. By deepening inter-bank cooperation, the Bank leveraged the advantages of its global network of more than 1,600 correspondent banks by building a comprehensive platform of financial services in fields such as international settlement, bond financing and global cash management for multinational enterprises, thus supporting inward investors and "Going Global" companies. The Bank's bancassurance and third-party custodian business continued to improve and the Bank is a dominant player in the B-share clearing network. The Bank is also active in the domestic market in terms of incoming international settlement business volume directed to the Bank by overseas correspondent banks. The Bank signed a Memorandum of Understanding regarding strategic cooperation with the London Metal Exchange (LME) and HKEx. The Bank also initiated the External RMB Payment Agent Service, breaking new ground in cross-border RMB business in the Hengqin area. In addition, overseas correspondent banks from a total of 81 countries and regions have opened 900 cross-border Renminbi-denominated clearing accounts with the Bank. The Bank has promoted its "China Desk" model, with new China Desks established in the United Arab Emirates and Chile, in addition to those already in operation in Oman, Peru and Ghana, all providing tailored services to "Going Global" Chinese enterprises. Meanwhile, the Bank signed Memorandums of Understanding with eight banks in Taiwan, actively expanding its businesses in areas such as cross-border Renminbi trade settlement, syndicated loans, inter-bank lending and services to Qualified Foreign Institutional Investors.

Medium and Small Business Finance

The Bank continuously optimised its medium and small business finance model, constructing a differential business process, credit authorisation and product system in order to provide efficient and convenient financial services to small and medium enterprises ("SMEs"). The Bank devoted efforts to deeply integrating information technology and core financial business to create a "mobile, electronic, and intelligent" credit factory model. By providing a 7*24, self-service-featured, and comprehensive financial services offering, the Bank continuously enhanced customer experience, enriched product structures, and gradually improved risk control capability.

Investment Banking Business

The Bank offers a comprehensive range of investment banking services including debt financing, commercial loans with embedded equity options, asset-backed structured financing and mergers and acquisitions ("**M&A**") advisory.

In recent years, the Bank has prudently developed its wealth management services, continually transformed its wealth management products and improved profitability. By integrating the operations of its domestic and overseas branches and subsidiaries, the Bank managed to assist its key clients in issuing stocks and bonds and completing cross-border M&A projects. In addition, the Bank continued the research and development of products such as "SIFA" (Structured Investing and Financing Advisory) to better serve diversified client needs. The Bank is also a pioneer in providing alternative solutions such as treasury management, asset liquidation, asset structure adjustment as well as investment referral advisory.

Pension Business

The Bank commits itself to the development of the PRC's national social security system and has gradually enlarged the scope of its pension business, extending its product offering from corporate pensions to occupational pensions, social security, employee benefits planning and other fields.

As at the end of June 2013, the number of the Bank's pension customers exceeded 6,900. The number of individual pension accounts reached 2.1821 million, capital in custody amounted to RMB66.756 billion.

Other Corporate Banking Business

The Bank offers a wide range of payment and settlement services to corporate customers, including bank drafts, promissory notes, checks, remittances, banker's acceptances, collections, simplified orders for multi-payments, bulk payments, receipt of funds and custody of bills.

Personal Banking Business

The Bank offers a broad range of personal banking products and services, including loans, deposits, wealth management services, foreign exchange services and card services. In recent years, the Bank has enlarged its customer base, with the focus on middle and high-end customers, as well as strengthened the innovation of its products and services. It has enhanced its business transformation and channel construction and increased efforts in cross-border development, leading to an improvement in the Bank's personal banking business and steady growth in operating results.

For the year ended 31 December 2012, the Bank's domestic personal banking business recorded an operating income of RMB96.981 billion, representing an increase of RMB10.536 billion compared with the year ended 31 December 2011. For the six months ended 30 June 2013, the Bank's domestic personal banking business recorded an operating income of RMB55.709 billion, representing an increase of RMB8.008 billion compared with the corresponding period of the previous year.

Personal Deposits

The Bank accepts deposits in Renminbi as well as certain major foreign currencies. The Bank's range of foreign currencies available for deposit products are amongst the most comprehensive within PRC commercial banks. The Bank mainly offers demand deposits and time deposits to its personal banking customers.

In recent years, the Bank continued its efforts to develop innovative products in its deposits business in order to meet the diverse needs of its customers. The Bank comprehensively promoted the MoneyGram remittance business and extended coverage of its deposit account short message service ("**SMS**") notification service. By actively exploring the market in central and western China and cultivating new areas for business growth, the Bank promoted the development of and achieved further growth in the Bank's personal deposits business. As at 31 December 2012 and 30 June 2013, the balance of domestic Renminbi-denominated personal deposits amounted to RMB3,170.306 billion and RMB3,501.494 billion, respectively. As at 31 December 2012 and 30 June 2013, the balance of domestic foreign currency-denominated personal deposits amounted to U.S.$28.661 billion and U.S.$30.831 billion, respectively.

Personal Loans

Personal loans and advances primarily consist of mortgage loans, automobile loans, credit card loans, loans for business purposes, educational loans and revolving credit lines.

In recent years, the Bank actively implemented the PRC Government's macro-economic regulatory policies and carried out differentiated housing loans policy and assisted residents in purchasing their first houses for own use. The Bank maintained its personal housing loans business at a steady level. It strived to consolidate its position in secondary residential mortgage loans, personal auto loans and sponsored student loans, and emphasised innovative products such as personal loans for commercial premises, personal business loans (including "Yi Nong Dai") and personal loans for studying abroad. The Bank also actively developed online financing and electronic channels for personal loans in order to enhance customer service quality. As at 31 December 2012 and 30 June 2013, domestic RMB-denominated personal loans of the Bank stood at RMB1,617.123 billion and RMB1,799.372 billion, respectively.

Wealth Management and Private Banking

The wealth management and private banking business is a key focus of the Bank's personal banking business. The Bank believes that its long history of providing foreign exchange services, its extensive international network, strong brand name and well-recognised customer relationship provide it with advantages in attracting and retaining wealth management and private banking customers.

In recent years, the Bank actively promoted the transformation of its wealth management and personal banking business into a comprehensive service model and accelerated the construction of service channels under its three-tier wealth management structure. As at 30 June 2013, the Bank had established 5,742 wealth management centres, 229 prestigious wealth management centres and 22 private banking centres in mainland China, while also making initial progress in developing Asia-Pacific and European wealth management platforms. The Group expanded its wealth management product lines to meet the diverse needs of its clients, introducing variety of financial products in recent years, including the BOC-Changyu Wine Trust, and a series of alternative investments in assets such as chinaware, jade, and ceramics. The Bank concentrated on accelerating the development of its private banking business, fostering a strong brand reputation in high net worth individual services, provided prestigious global private banking services and enriched its overseas asset management services under the brand of "Onshore and Offshore Balances Wealth Management". The Bank established and further improved the offering of its advisory service and information platform so as to broaden its range of value-added services and improved its expertise and service capabilities for middle and high-end customers.

In addition, the Group made full use of its global service network and provided its clients with comprehensive, diversified and customised global services. The Bank built service networks across mainland China, established private banking operations in Hong Kong and Macau and provided banking and non-banking customised financial products and services to high-end customers worldwide. As at 30 of June 2013, the number of the Group's private banking clients exceeded 50,000, and the value of financial assets under management was over RMB500 billion.

Bank Card Business

The Bank provides various types of bank card products and services in response to different customer needs, including single credit cards denominated in dual currencies, quasi-credit cards, debit cards and agent services for cards issued by other issuers.

In recent years, the Bank further improved its bank card products structure and enhanced the functions and services of its bank card products, providing unique and comprehensive services to its clients. The Bank leveraged the advantages of the Great Wall Global Card's multi-functional status in an effort to develop its customer base. The Bank has also focused on customer upgrades via promoting platinum cards and launching the Bank of China American Express Card, the first product in the PRC to be specially designed for private banking customers. The Bank has also established a platform for overseas card issuance, with credit cards issued in the United Kingdom and Thailand in recent years. To guarantee the safety of on-line transactions, the Bank took the lead in providing a series of new services including China UnionPay CNP and 3D Secure online payment. Through the application of credit scorecards, application fraud detection and 7x24 transaction monitoring techniques, the Bank constantly improved the effectiveness of its risk management techniques. The Bank launched NFC mobile payment products and Flash Mini Cards, and promoted online payment products and Virtual Cards products targeting the youth segment.

In addition, the Bank extended the range of IC debit card products such as the Great Wall Travelling Card, UnionPay Non-card Payment and China Railway Payment Card, which are accepted by various channels, in order to enrich and develop the debit card product line and expand its range of application. The Bank promoted financial service system related to people's welfare and participated in more than 170 social insurance card projects in nearly 30 provinces and municipalities of China. By issuing an All-hospital Great Wall Health Card, the Bank provided all-purpose hospital-visiting services such as registration and payment in more than 50 hospitals. The Bank internationalised its debit card business, and released products in 15 overseas branches.

Financial Market Business

The financial market business mainly includes proprietary trading of local and foreign currency instruments and franchise trading, investments in local and foreign currency securities or indices, debt market business, agency wealth management and asset management, the financial agency business and custody business. The Bank conducts its treasury operations mainly through its five trading centres, located in Beijing, Shanghai, Hong Kong, London and New York.

In recent years, the Bank continued to adjust its business structure, improve the operating effectiveness of its product lines, strengthen product innovation, cultivate new growth areas and promote its overseas Renminbi business, further consolidating the competitiveness of its financial markets business.

Investments

The Bank's securities investments business consists of both Renminbi-denominated and foreign currency-denominated investments. As at 31 December 2012 and 30 June 2013, the Group held investment securities, including available for sale securities, held to maturity securities, securities classified as loans and receivables, and financial assets at fair value through profit or loss, totalling RMB2,210.524 billion and RMB2,164.804 billion, respectively.

The Bank's Renminbi-denominated investments mainly comprised of treasury bonds, PBOC bills, financial institutions bonds and debenture bonds. As at 31 December 2012 and 30 June 2013, the total amount of Renminbi-denominated investment securities held by the Group amounted to RMB1,586.336 billion and RMB1,594.027 billion, respectively.

The Bank's foreign currency-denominated investments mainly comprised of government bonds, debenture bonds and structured bonds. As at 31 December 2012 and 30 June 2013, the total amount of foreign currency-denominated investment securities held by the Group amounted to U.S.$99.306 billion and U.S.$92.378 billion, respectively. In recent years, in response to changes in global financial markets and its need for prudent asset and liability management, the Bank continued to reduce its holdings in foreign currency-denominated structured bonds, adopted effective measures to prevent sovereign risks and further optimised the structure of its foreign currency-denominated bond portfolio.

The following table sets forth, at the date indicated, the Group's investment securities categorised by issuer type:

	As at 30 June 2013	As at 31 December 2012
	(RMB million)	
Investment securities available for sale		
Debt securities		
Issuers in Chinese mainland:		
– Government	65,831	80,361
– Public sector and quasi-governments	3,533	2,950
– Policy banks	80,796	77,224
– Financial institutions	56,746	45,852
– Corporate	128,515	81,716
Issuers in Hong Kong, Macau, Taiwan and other countries and regions:		
– Governments	104,992	171,057
– Public sector and quasi-governments	41,965	40,156
– Financial institutions	133,971	129,297
– Corporate	31,540	26,106
	647,889	654,719
Equity securities	24,361	24,041
Fund investments and other	7,904	7,640
Total investment securities available for sale	680,154	686,400
Debt securities held to maturity		
Issuers in Chinese mainland:		
– Government	631,707	645,607
– Public sector and quasi-governments	15,760	15,350
– Policy banks	248,908	259,900
– Financial institutions	37,380	38,969
– Corporate	127,608	141,317
Issuers in Hong Kong, Macau, Taiwan and other countries and regions:		
– Governments	60,951	64,561
– Public sector and quasi-governments	4,183	4,439
– Financial institutions	6,465	10,613
– Corporate	3,035	2,630
	1,135,997	1,183,386
Allowance for impairment losses	(277)	(306)
Total debt securities held to maturity	1,135,720	1,183,080
Debt securities classified as loans and receivables		
Issuers in Chinese mainland:		
– China Orient Bond	160,000	160,000
– Special Purpose Treasury Bond	42,500	42,500
– Financial institutions	27,284	20,979
– Certificate and Saving-type Treasury Bonds and others	32,565	32,492
Issuers in Hong Kong, Macau, Taiwan and other countries and regions:		
– Public sector and quasi-governments	13,802	11,638
– Financial institutions	518	1,319
– Corporate	9	591
	276,678	269,519
Allowance for impairment losses	(65)	(65)
Total debt securities classified as loans and receivables	276,613	269,454
Total investment securities	2,092,487	2,138,934

Notes:

(for figures as at 31 December 2012)

(1) The Group's accumulated impairment charge on debt and equity securities available for sale held as at 31 December 2012 amounted to RMB3,591 million and RMB4,260 million, respectively (31 December 2011: RMB9,135 million and RMB3,788 million, respectively).

(2) The Bank transferred certain non-performing assets to China Orient Asset Management Corporation ("China Orient") in 1999 and 2000. On 1 July 2000, China Orient issued a ten-year bond ("Orient Bond") with a par value or RMB160,000 million and interest rate of 2.25% to the Bank as consideration. During the year ended 31 December 2010, the maturity of this bond was extended to 30 June 2020 with the other terms unchanged. The MOF shall continue to provide funding support for the principal and interest of the Orient Bond held by the Bank pursuant to Caijin [2004] No. 87 "Notice of the MOF Regarding Relevant Issues Relating to the Principal and Interest of Debt Securities of Financial Asset Management Companies Held by Bank of China and China Construction Bank".

(3) On 18 August 1998, a Special Purpose Treasury Bond was issued by the MOF with a par value of RMB42,500 million maturing on 18 August 2028. This bond was originally issued with an annual coupon rate of 7.20% and its coupon rate was restricted to 2.25% per annum from 1 December 2004.

(4) The Target Bills issued by the PBOC in 2011 amounted to RMB23,000 million matured in 2012 and the Bank received the principal and interest amount in full.

(5) The Group underwrites certain Treasury bonds issued by the MOF and undertakes the role of a distributor of these Treasury bonds through its branch network earning commission income on bonds sold. The investors of these 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 balance of these bonds held by the Group and the Bank as at 31 December 2012 amounted to RMB16,266 million (31 December 2011: RMB33,217 million). During the year, the total distribution of these Treasury bonds amounted to RMB7,876 million (2011: RMB16,800 million) and commission income amounted to RMB197 million (2011: RMB231 million).

Trading

The Bank's global trading primarily consists of proprietary and market-making businesses.

In recent years, the Bank has strived to push forward its overseas Renminbi business as part of the Renminbi globalisation process. As part of this, the Bank developed a quotation service for Renminbi overseas trades and actively promoted the integrated development of its domestic and overseas Renminbi businesses. The Bank has continued to refine its market-making quotation, client-based and proprietary trading business. It introduced a public quotation business for a variety of non-U.S.$ currencies against Renminbi into the PRC's inter-bank market, including the first quotation for exchange rates between Renminbi and Thailand Baht in the regional inter-bank market. The Bank was one of the first banks licensed to deal in RMB-foreign currency options with customers and to offer volatility quotes for RMB-foreign currency options in the inter-bank market. It also formally introduced a purchase and sale business for the spot exchange of Renminbi against the Kazakhstan Tenge.

In addition, the Bank accelerated the development of certain targeted products, such as foreign exchange forwards and precious metals.

In the first half of 2013, the Bank ranked second in market share in RMB-denominated bond business volumes, which amounted to RMB8 trillion, while its gold transaction volume accounted for a 9.7% market share in the Shanghai Gold Exchange, ranking second in the market.

Client Business

In recent years, the Bank intensified product development and upgraded product structure, offering new products such as the wealth management product "BOC Zhihui". Being prudent and compliant in its operations, the Bank strengthened the co-ordinated and comprehensive management of its wealth management business. The Bank implemented a business strategy for the comprehensive development of its fee-based business and was one of the first banks to issue super commercial paper and private placement notes. It continued to strengthen its product line construction and management, enhanced its professional competence in debt underwriting and built up its bond distribution network. Moreover, the Bank had successfully completed multiple cross-border risk management transactions and promoted its commodity hedging business to clients, further strengthening its overall customer service capabilities.

Custody Business

The Bank actively markets for quality customers and continuously promotes product innovation, delivering growth in the Bank's custody and fund distribution business. In recent years, the Bank further reinforced cooperation with key customers including fund management companies, the National Council for Social Security Fund and insurance companies. The Bank also boosted custody service levels and information technology abilities and enhanced its overall customer relationship management performance. The Bank actively researched, developed and promoted innovative custody services for infrastructure debt investment planning, Renminbi Qualified Foreign Institutional Investors and cross-border exchange traded funds. It was also the first institution in the PRC banking industry to introduce a one-stop global custody service and to provide a yield benchmark comparison service for enterprise annuities. Furthermore, the Bank launched a global custody system in its key overseas branches. As at 30 June 2013, the assets under custody of the Group exceeded RMB4 trillion, maintaining its leading position in the industry.

Village Bank

The Bank has continued to explore innovative business models to serve the PRC's agriculture, rural areas and farmers. In 2011, the Bank and its strategic investor Fullerton Financial Holdings had jointly established 18 BOC Fullerton Community Banks.

Adopting a "simple, convenient and fast" community banking model, BOC Fullerton Community Banks have focused on providing world-class financial services to customers and with an emphasis on differentiated customer value proposition and business innovation. Regarding the specific financial needs of customers in rural areas, the Bank has introduced various products covering the growth cycle of rural households, micro and small enterprises and individual customers, and effectively resolving their difficulties in obtaining letters of guarantee and loans. The Bank has taken specific steps to aid the development of new infrastructure for rural areas and demonstrated a strong sense of social care and responsibility by contributing to local communities, thus winning unanimous recognition and compliments from the public and media.

As at the end of June 2013, the Bank owned 32 village banks and seven sub-branches. The balance of their deposits reached RMB2.83 billion and the loan balance amounted to RMB2.55 billion.

Overseas Commercial Banking Business

In recent years, faced with complex and volatile international financial markets, the Bank's overseas businesses adhered to the approach of "specialised operations, intensive management, and integrated development of domestic and overseas businesses". Seizing the historic opportunities of the government's "Going Global" strategy and cross-border Renminbi business development, the Bank further leveraged its consolidated strengths and transformed their business models, quickening the pace of global network extension and improving cross-border financial services. With strengthened core competitiveness and greater capability for sustainable development, the overall efficiency of the Bank's overseas operations were enhanced.

The Bank strengthened the balanced management of its overseas assets and liabilities, and optimised its business mix and customer structure. The Bank's customer deposits experienced growth through the continuous expansion of its overseas funding sources, while overseas customer loans experienced steady growth through the execution of "Going Global" projects and the loans to key local customers. The Bank's overseas institutions are increasingly capable of self-driven business growth and the Bank's development has become more integrated and globalised.

As at 31 December 2012 and 30 June 2013, total assets of the Bank's commercial banking operations in Hong Kong, Macau, Taiwan and other countries reached U.S.$466.186 billion and US$489.643 billion, respectively. For the year ended 31 December 2012, the Bank's overseas businesses achieved profit before income tax of US$4.879 billion, an increase of 5.36 per cent. compared with the prior year. For the six months ended 30 June 2013, the Bank's overseas businesses achieved profit before income tax of US$2.799 billion, an increase of 7.74 per cent. compared with the corresponding period of the previous year.

The Bank has also built up its globalised customer service model and improved its global relationship managers system with a view to widening its customer base. By enhancing the globalised nature of its operations, the Bank was able to provide comprehensive services to the "Going Global" enterprises, Fortune 500 companies and other overseas enterprises. The Bank also continued to promote its traditional strengths in products such as overseas syndicated loans, export credit, trade finance and international settlement, while developing highly value added products and services. The Bank provided one-stop financial services for cross-border customers, including Chinese citizens working and studying abroad, business travellers, Chinese emigrants and visitors to the PRC, by developing its overseas card business and integrating the resources underpinning its quality products and services. The Bank also maintained a market leading position in cross-border RMB business, providing a cross-border RMB product system covering deposits, loans, international settlement, cash delivery, clearing, treasury operation, credit card, insurance and fund management, etc. Customers of this system are distributed in over 200 countries and regions, covering electric engineering, communication equipment, electronic products, transportation, chemical engineering, manufacturing, wholesale &retail and other industries. The Bank has become the first clearing bank for RMB business recognised by the Government of Luxembourg. The Taipei Branch formally provided services as a RMB clearing bank.

The Bank also achieved progress in its key business platform development with the opening of Bulk Commodity Financing Centre (Singapore) and Forfaiting Centre (Singapore), becoming the first Chinese-funded bank that set up such platforms outside the PRC. This helped the Bank further integrate regional business resources within the region and enhance its customer service capabilities.

In 2013, the Bank set up a total of 12 new overseas institutions, which enlarged a global network that now covers Hong Kong, Macau, Taiwan and 37 countries. The Bank also fully utilised the resources of its correspondent banks.

BOCHK

The Bank conducts its commercial banking business in Hong Kong through the Bank's subsidiary Bank of China (Hong Kong) Limited ("**BOCHK**"). BOCHK's place of business in Hong Kong is located at Bank of China Tower, 1 Garden Road, Central, Hong Kong. As a major commercial bank in Hong Kong, BOCHK offers a comprehensive range of financial products and services to personal and corporate customers through an extensive service network in Hong Kong and other distribution channels. BOCHK is one of the three note-issuing banks in Hong Kong. As at 30 June 2013, the BOCHK Group (comprising BOCHK, Nanyang Commercial Bank and Chiyu Banking Corporation) and its subsidiaries have 38 branches and sub-branches in the PRC to provide cross-border banking services to customers in Hong Kong and the PRC. BOC Hong Kong (Holdings) Limited ("**BOCHK Holdings**"), which holds the entire equity interest in BOCHK, was listed on the main board of the Hong Kong Stock Exchange on 25 July 2002. As at 30 June 2013, the Bank owned 66.06 per cent. of the shareholding of BOCHK Holdings.

In recent years, BOCHK continued to actively pursue its balanced growth strategy. It achieved broad-based growth by consolidating its advantages in traditional businesses, whilst constructing new business platforms and enhancing its productivity of various business channels. Closely following the "Going Global" strategy for Renminbi, BOCHK expanded its Renminbi fund deployment channels and further improved its competitiveness. Active collaboration was fostered within the Group and BOCHK's one-stop service capability has been greatly enhanced. For the six months ended 30 June 2012 and 2013, BOCHK recorded profit before taxation of HK$13.825 billion and HK$13.948 billion, respectively. For the year ended 31 December 2011 and 2012, BOCHK recorded profit before taxation of HK$24.680 billion and HK$25.521 billion, respectively.

BOCHK's core banking businesses experienced growth and its competitiveness has been enhanced. Amid strong market competition, BOCHK maintained a stable growth in total deposits by strengthening its marketing campaigns and optimising its product mix. BOCHK achieved balanced and healthy growth in its lending business through a selective strategy and improved pricing on new loans. It is one of the key players in residential mortgage and in the China UnionPay card issuing business.

BOCHK continued to boost its Renminbi clearing business. In recent years, BOCHK was successfully reappointed as the designated clearing bank for Renminbi in Hong Kong. By leveraging the unique advantage of being an RMB clearing bank, BOCHK has essentially established an offshore Renminbi clearing network covering major regions and markets of the world.

BOCHK also introduced value added services under the clearing bank business, including Renminbi Fiduciary Account Services and Renminbi Repo Facilities. Meanwhile, BOCHK actively expanded its Renminbi fund deployment channels and further improved its service platform. Consequently, the overall profitability and operational efficiency of BOCHK has been enhanced. In addition, by capitalising on opportunities arising from the cross-border RMB business, BOCHK successfully conducted cross-border RMB loan business in the Qianhai area.

BOCHK further expanded its product spectrum and enhanced its overall service capabilities. Fully leveraging opportunities from the offshore Renminbi business, it introduced a series of new products and services in Hong Kong, including Renminbi cash management, Renminbi insurance, innovative trade finance products, "BOC CUP Dual Currency Commercial Card", "BOCHK RMB Bond Fund", "BOCHK RMB High Yield Bond Fund ("SP")", "BOCHK All Weather RMB High Yield Bond Fund" and "BOCHK All Weather HK & China Equity Fund". Moreover, BOCHK partnered with FTSE Group to develop the new "FTSE-BOCHK Offshore RMB Bond Index Series" to provide investors with an industry standard benchmark.

In 2013, BOCHK successfully completed the first CNH/USD cross-currency swap using the CNH Hong Kong Interbank Offered Rate ("**CNH HIBOR**") as the pricing benchmark. BOCHK also acted as the arranger for the issuance of the first certificate of deposit with the CNH HIBOR as the benchmark rate, offering the market a wider choice of floating rate debt instruments. BOCHK has been designated as a market maker for USD/CNH futures for the Chicago Mercantile Exchange Group and Hong Kong Futures Exchange.

BOCHK also extended its banknote business to the Asia-Pacific regions and other overseas areas in order to meet customers' full business needs. In addition, it optimised its automated banking service facilities and further enhanced the functions of its e-banking platform. BOCHK continued to strengthen customer relationships and enhanced its total solution services to its customers. Further linkage was made with respective business platforms within the Group, uplifting the one-stop service capability. It enhanced its business relationship with large corporations and optimised SME-related loan schemes. It also provided differentiated and customised services as well as cross-border wealth management services to its high-end customers.

Diversified Business Platform

Investment Banking

BOCI

The Bank conducts its investment banking business through BOCI, its wholly-owned subsidiary, through its offices in mainland China, Hong Kong, Singapore, the United States and the United Kingdom. BOCI offers clients among other things a comprehensive range of investment banking products and services, including equity underwriting, debt financing, mergers and acquisitions, financial advisory, securities sales and trading, fixed income, private equity, asset management, leveraged and structured finance and private banking.

BOCI is committed to enhancing its global marketing services and support capability. In recent years, it registered steady development in its equity underwriting and financial advisory business. Its leveraged and structured finance business also grew steadily. BOCI's bond underwriting businesses continued to maintain a leading position in the Hong Kong market. The securities brokerage businesses remained stable. The assets under management of BOCI's private banking businesses recorded significant growth. Its financial institutions partnerships business and institutional sales business both made steady headway, as did the private equity businesses. The global commodities business, which aims to provide comprehensive one-stop financial services with a full spectrum of products to global and particularly Chinese resources companies, expanded rapidly.

BOCI has won a range of awards from publications including The Banker, The Asset, World Finance, BENCHMARK and Asia Asset Management.

BOCI China

The Bank operates its domestic securities business through BOCI China. BOCI China leverages the Group's strengths to provide services in various capital markets. In addition to maintaining its competitive edge in large-scale IPO underwriting projects, BOCI China also actively developing its SME client base, and optimising the structure of its bond underwriting business.

BOCI China enhanced its sales service capacity and integrated its sales resources by focusing on middle and high-end customers. The Bank also expanded its institutional sales business and succeeded in implementing hierarchical and divisional management of its business units, thereby facilitating the transition of its brokerage business towards wealth management and integrated marketing channels.

BOCI China's assets under management expanded at a fast pace in recent years with a focus on growing directional wealth management business, Moreover, BOCI China's proprietary equity trading business experienced a rise in income contribution due to its prudent asset allocation and investment strategy.

BOCI China continued to push forward business and product innovation and made strides in product innovation for secondary markets. BOCI China also launched other innovative businesses such as SME private debt, margin trading and short selling, pledged bonds repurchase and securities trading with repurchase agreements.

BOCIM

The Bank operates its fund business through BOCIM. As 30 June 2013, BOCIM managed 28 public-offered funds as well as other discretionary accounts, and actively explored advisory business, with RMB100 billion total assets under management.

Insurance

BOCG Insurance

The Bank operates its insurance business within Hong Kong through BOCG Insurance. BOCG Insurance owns three branches and one business centre in Hong Kong, has been at the forefront of the general insurance market and was ranked first amongst all Chinese capital insurance companies in Hong Kong as at 30 June 2013.

In recent years, BOCG Insurance strengthened cooperation with correspondent banks, tailored insurance products to adapt to customers' needs and highly promoted the quality personal insurance products in the low risk field. Further BOCG Insurance collaborated with BOC Credit Card (International) Limited to provide value added services for BOC business card customers.

BOCG Life

The Bank operates its life insurance business in Hong Kong through BOCG Life. BOCG Life continued to optimise its product offerings, promotions and distribution models. BOCG Life maintained its leading position in the RMB insurance market in Hong Kong with products such as "Income Growth Annuity Insurance Plan", "RMB Universal Life Insurance Plan" and "Target 5 Years Insurance Plan Series" being well received by customers. The newly launched "UltiChoice Universal Life Insurance Plan" provides customers with both financial planning and whole life protection. A new RMB product "Wealth Conquer Universal Life Insurance Plan" was tailored for distribution through an independent financial advisor, allowing BOCG Life to reach a new customer segment. BOCG Life was ranked first in terms of new businesses in Hong Kong in the first quarter of 2013.

BOC Insurance

The Bank operates its property insurance business in the Chinese mainland through BOC Insurance. BOC Insurance continuously strengthened its product innovation and improved product competitiveness. In recent years, BOC Insurance continued to develop various products appropriate for bank and e-commerce channel sales, upgraded traditional non-car insurance products, and further enhanced product competitiveness. For example, BOC Insurance was among the first batch of insurance companies in the PRC to introduce "single-purpose commercial prepaid card performance guarantee insurance" and have such a product approved by the Ministry of Commerce of PRC. BOC Insurance also strengthened insurance claims and customer service by providing mobile survey services to clients in seven areas including Beijing, optimising the mechanism for handling straightforward cases and shortening the cycle of the car insurance claims. BOC Insurance actively enhanced customer experience and consumer rights protection, and further promoted customer satisfaction and brand reputation.

Investment Business

BOCG Investment

The Bank is engaged in direct investment and investment management business through the Bank's wholly-owned subsidiary BOCG Investment. Based in Hong Kong, BOCG Investment primarily conducts its business in mainland China, while also exploring business opportunities in other regions of the world. Its business scope includes equity investment, fund investment and management, non-performing asset investment, and real estate investment and management.

In recent years, BOCG Investment strengthened its coordinated development with other business units within the Group and actively promoted its business model of innovation and transformation. The scale of BOCG Investment's assets under management grew steadily as its asset-backed structured financing business, financial consultancy and advisory services, attempts on the establishment of fund-of-funds and USD-denominated fund business developed rapidly. BOCG Investment seized the opportunities provided by economic restructuring, asset upgrades and industrial consolidation to increase the scope of its corporate financing, project leverage financing and third-party financing, while at the same time introducing innovative financing modes. It continuously enhanced its investment structure and realised innovative diversified sources of investment returns in response to capital market trends.

BOC Aviation

The Bank engages in aviation leasing business through BOC Aviation, the Bank's wholly-owned subsidiary. As at the end of June 2013, BOC Aviation owned and managed a fleet of 223 aircraft operated by 57 airliners worldwide. It has one of the youngest fleets in the industry with an average aircraft age of less than four years. BOC Aviation announced an agreement with Airbus for the purchase of 50 A320 family aircraft, and completed two 10-year unsecured bond issues totalling U.S.$550 million. Credit ratings agencies Fitch and S&P maintained their respective A-and BBB ratings for BOC Aviation.

Channel Management

Outlet Development

The Bank has established a broad distribution network including domestic and overseas branches and outlets as well as electronic banking services channels. The Bank has the most extensive overseas branch and subsidiary network among PRC commercial banks.

As at 30 June 2013, the number of the Bank's operating outlets on the Chinese mainland reached 10,623, almost 2,000 of which are medium-to-large-sized fully functional outlets. Moreover, the Bank had 39,700 ATMs, 22,000 self-service terminals, and 12,000 self-service banks in operation, further enhancing self-service capabilities.

In recent years, guided by its strategic development plan, the Bank actively made full utilisation of its technology and industrial experience in the reconstruction and upgrade of outlets and the construction of innovative electronic service channels, aiming to build a safe and convenient service channel in order to provide diversified and customised financial services and channel experience for customers. Traditional outlets and electronic service channels were developed in a co-ordinated manner, resulting in improvements in both efficiency and quality of customer service.

The construction of outlets was enhanced and the performance of outlets was improved. Based on the customer-oriented concept, the Bank built up large-middle full functional outlets by improving outlet function. The Bank improved its outlet management with a focus on performance management. In order to improve its marketing capacity, the Bank established a corporate customer marketing scheme through classifying outlets, differentiating customers, categorising products and separating responsibilities. Operation and service processes were enhanced through the establishment of a centralised operation system and comprehensive account opening procedures for personal customers, which improved operational efficiency and reduced customer waiting time. In addition, the Bank optimised the strategic distribution of its outlets, emphasising in new towns, new communities, new industrial parks and targeted important counties.

Corporate and personal customers are able to deposit funds into personal accounts via ATMs simply by typing in their account numbers, removing the need to use a passbook. The self-service terminals have upgraded to offer foreign exchange settlement and sales services using passbooks, and now accept IC cards. The Bank also set self-service machines for currency exchange. The self-service features have enabled the Bank to diverge the customers from the traditional over-the-counter service.

E-Banking

The Bank has been developing and enhancing its e-banking service channels, including online banking, mobile banking, telephone banking, self-service banking and home banking. It has also optimised product functions and business processes with the aim of improving customer experience. As a result, the number of e-banking customers increased steadily and transaction volumes have increased rapidly recently, which contributed to a continuous enhancement of the ability for e-banking channels to replace traditional channels. In the six months ended 30 June 2013, the Bank's e-banking transaction volume reached RMB50.86 trillion, an increase of 24.47% compared to the same period in 2012. The substitution ratio of e-banking channels for traditional outlets rose to 77.22%. The current number of e-banking customers and rate of growth are shown in the table below:

	Unit: million, except percentages		
Items	**As at 30 June 2013**	**As at 31 Dec 2012**	**Change**
Number of corporate online banking customers	2.0140	1.8017	11.78%
Number of personal online banking customers	96.6199	91.4236	5.68%
Number of mobile banking customers	47.1050	41.8250	12.62%
Number of telephone banking customers	82.9961	76.3675	8.68%

The Bank has been enriching and improving its online banking functions. It introduced new services to corporate clients such as supply chain orders financing, SME loans, foreign exchange quick settlement and bill pool while also optimising service functions such as account management, reconciliation service, express agency payment and international remittance. The Bank provided new services through personal online banking such as options, saving bonds, virtual credit card, precious metal deposits, and social security and public accumulation fund. It also optimised the service functions of personal online banking such as fund transfer, credit card, foreign exchange settlement and account management.

The Bank continues to promote innovation in mobile financial services. It launched a new application for the iPad that integrated a series of new services, including bill payments, loan query, fund and foreign exchange trading. To provide a novel and smooth interactive experience, the Bank comprehensively optimised the registration process, login mechanism and functional operations for mobile banking. The Bank piloted an innovative business model which allowed withdrawing cash based on mobile banking authentication, with the aim of supporting rural financial services and expanding its service range through mobile finance.

The Bank continues to enhance its e-commerce service efficiency. It added an online supply chain financing function to "BOC e-Commerce" to better serve bulk commodity trading. Its online payment of customs duties is a 24/7 service. It has also optimised many payment products such as B2B direct payment, B2B guarantee payment and B2C interbank acquiring. These efforts have optimised the online payment processes and raised the success rate of paying behaviours.

Information Technology Development

In recent years, the Bank continued to follow the lead of information technology and adapt to the technological development trends. The Bank is committed to technology-driven development and technology-guided financial innovation. Through its overseas information system transformation and integration project, the Bank strived to improve the completeness of the functionality, operational flexibility, processing timeliness and risk control effectiveness of its current information system. It also optimised its IT infrastructure and operational maintenance system, thus improving the security of its IT operations and global service capability.

The Bank capitalised on advanced technology and enhanced intelligent customer service and differentiated service capability to improve customer experience. Having developed the Idea Online innovation platform, the Bank involved in Future Bank Flagship, relying on which the Bank intended to explore new models of online banking and to promote RD and promotion of new products continuously. The Bank stepped up product innovation for its core banking system and launched personal intelligent call deposit, tiered interest calculation accounts, packaged remittance, password-based remittance, etc.

Employees

As at 30 June 2013, the Bank had 298,621 employees. There were 276,418 employees in the Chinese mainland, of which 271,743 (including 56,378 external contractual staff) worked in the domestic commercial banking operations. There were 22,203 employees in the Bank's operations in Hong Kong, Macau, Taiwan and other countries. As at 30 June 2013, the Bank had incurred retirement expenses for a total of 6,454 retirees.

The following table sets forth the total number of employees by geographic distribution as at 30 June 2013:

	Number of employees	**% of total**
Northern China	54,507	18.25%
Northeastern China	25,890	8.67%
Eastern China	91,447	30.62%
Central and Southern China	68,145	22.82%
Wotan China	36,429	12.20%
Hong Kong, Macau and Taiwan	18,330	6.14%
Other countries	3,873	1.30%
Total	298,621	100.00%

DESCRIPTION OF THE HONG KONG BRANCH

The Bank set up its branch in Hong Kong in 1917. After BOCHK Holdings became listed on the Hong Kong Stock Exchange in 2002, the Hong Kong branch of the Bank kept the full banking license and became an authorised institution under the laws and regulations of Hong Kong. The Bank of China Limited Hong Kong Branch ("Hong Kong Branch") is positioned to be the offshore investment and financing platform for the Group, with a strategic goal to become the Group's offshore platform to provide comprehensive global financial market services.

Business Activities

The Hong Kong Branch is a licensed bank in Hong Kong, with its registered office at Bank of China Tower, 1 Garden Road, Central, Hong Kong, and is currently focusing on the development of its wholesale banking business. A broad range of financial services are offered by the Hong Kong Branch to serve clients' specific needs, including financing and lending services, bond investment and bond underwriting and subscription etc.

In addition, the Bank is an institution registered with the Securities and Futures Commission and may conduct the following regulated activities: (1) dealing in securities, (2) advising on securities, (3) advising on corporate finance and (4) asset management.

Hong Kong Regulatory Guidelines

The banking industry in Hong Kong is regulated by and subject to the provisions of the Banking Ordinance and to the powers and functions ascribed by the Banking Ordinance to HKMA. The Banking Ordinance provides that only banks, which have been granted a banking license ("license") by HKMA, may carry on banking business (as defined in the Banking Ordinance) in Hong Kong and contains controls and restrictions on such banks ("licensed banks").

The provisions of the Banking Ordinance are implemented by HKMA, the principal function of which is to promote the general stability and effectiveness of the banking system, especially in the area of supervising compliance with the provisions of the Banking Ordinance. HKMA supervises licensed banks through, among others, a regular information gathering process, the main features of which are as follows:

- each licensed bank must submit a monthly return to HKMA setting out the assets and liabilities of its principal place of business in Hong and all local branches and a further comprehensive quarterly return relating to its principal place of business in Hong Kong and all local branches and HKMA has the right to allow returns to be made at less frequent intervals;

- HKMA may order a licensed bank, any of its subsidiaries, its holding company or any subsidiaries of its holding company to provide such further information (either specifically or periodically) as it may reasonably require for the exercise of its functions under the Banking Ordinance or as it may consider necessary to be submitted in the interests of the depositors or potential depositors of the licensed bank concerned. Such information shall be submitted within such period and in such manner as HKMA may require. HKMA may also require a report by the licensed bank's auditors (approved by HKMA for the purpose of preparing the report) confirming whether or not such information or return is correctly compiled in all material respects;

- licensed banks may be required to provide information to HKMA regarding companies in which they have an aggregate of 20% or more direct or indirect shareholding or with which they have common directors or managers (as defined in the Banking Ordinance), the same controller (as defined in the Banking Ordinance), with common features in their names or a concert party arrangement to promote the licensed bank's business;

- licensed banks are obliged to report to HKMA immediately of their likelihood of becoming unable to meet their obligations;

- HKMA may direct a licensed bank to appoint an auditor to report to HKMA on the state of affairs and/or profit and loss of the licensed bank or the adequacy of the systems of control of the licensed bank or other matters as HKMA may reasonably require; and

- HKMA may, at any time, with or without prior notice, examine the books, accounts and transactions of any licensed bank, and in the case of a licensed bank incorporated in Hong Kong, any local branch, overseas branch, overseas representative office or subsidiary, whether local or overseas, of such licensed bank. Such inspections are carried out by HKMA on a regular basis.

DESCRIPTION OF THE LONDON BRANCH

In November 1929, the Bank established a branch office in London. This was the first branch of the Bank to be set up overseas and has continued to expand steadily in the United Kingdom.

Bank of China Limited, London Branch ("**London Branch**") is authorised and regulated by China Banking Regulatory Commission, and its registered office is at 1 Lothbury, London EC2R 7DB, United Kingdom. It is also authorised by the Prudential Regulation Authority (the "**PRA**"). It is subject to regulation by the Financial Conduct Authority (the "**FCA**") and limited regulation by the PRA.

Regulated Activities

The London Branch is authorised by the PRA to carry out the following activities in the UK in respect of certain financial instruments and categories of customers:

- Accepting deposits
- Advising on investments (except on pension transfers and pension opt outs)
- Agreeing to carry out regulated activities
- Arranging (bringing about) deals in investments
- Assisting in the administration and performance of a contract of insurance
- Dealing in investment as agent
- Dealing in investment as principal

Further details are available on the regulator's website: www.fca.org.uk

Overview of the UK Regulatory Framework

Prudential Regulation Authority

The PRA, a subsidiary of the Bank of England (the "**BoE"**), is responsible for micro-prudential regulation of systemically important firms, including banks, insurers and certain investment firms. These firms are referred to as PRA-authorised firms.

The PRA has a general objective: to promote the safety and soundness of regulated firms. The PRA seeks to meet this objective primarily by seeking to minimise any adverse effects of firm failure on the UK financial system and by ensuring that firms carry on their business in a way that avoids adverse effects on the system.

The PRA has operational independence from the BoE for day-to-day regulation and supervision of PRA-authorised firms. Its focus is on setting firm-specific capital requirements. The PRA's board includes the Governor of the BoE as chairman and the BoE Deputy Governor for prudential regulation as chief executive.

Financial Conduct Authority

The FCA:

- Is responsible for the conduct of business regulation of **all firms**, including those regulated for prudential matters by the PRA.
- Is responsible for the prudential regulation of firms not regulated by the PRA. These firms are sometimes referred to as FCA-only firms or FCA-authorised firms.
- Has market conduct regulatory functions, with the exception of responsibility for systemically important infrastructure which is the responsibility of the BoE.

The FCA has a strategic objective and three operational objectives:

- The strategic objective is to ensure that the "relevant markets" function well.
- The operational objectives are:
  - to secure an appropriate degree of protection for consumers;
  - to protect and enhance the integrity of the UK financial system; and
  - to promote effective competition in the interests of consumers.

The FCA is also obliged to discharge its general functions in a way that promotes competition.

RISK MANAGEMENT

The Bank's core risk management objective is to optimise capital allocation and maximise shareholders' interests within the context of a prudent risk appetite and in compliance with the requirements of regulatory authorities and the expectations of depositors and other interested parties. The Bank strictly maintained a moderate risk appetite and reached a balance between risk and return according to the principles of being rational, stable and prudent.

The Bank has designed a series of risk management policies and has set up risk controls to identify, analyse, monitor and report risks by means of relevant and up-to-date information systems. The Bank regularly reviews and revises its risk management policies and systems to reflect changes in markets, products and emerging best practices.

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

Risk Management Framework

The Bank's risk management framework mainly comprises its board of directors and the risk policy committee under its board of directors, risk management and internal control committee (which is in charge of the anti-money laundering committee, securities investment and management committee and asset disposal committee), risk management unit, financial management department and other related departments. The board of directors of the Bank is responsible for approving the overall risk management strategy and risk appetite, and supervises the management in its implementation of the strategy. The management is responsible for implementing the risk management strategy, risk preferences and policies determined by the board of directors, as well as monitoring the risks arising from the Bank's business undertakings. Dedicated departments within the risk management function are responsible for the daily management of various risks, including identifying, measuring, monitoring, controlling and reporting those risks. The Bank manages the risks at the branch level through a vertical management model and manages risks at the business department level through a window management model. The Bank monitors and controls risk in its subsidiaries by delivering its risk management requirements through representatives to the subsidiaries' boards of directors and their risk policy committees.

In recent years, the Bank intensely pushed forward the integration, refinement and specialisation of its risk management function with improved comprehensive risk management system and enhanced risk control ability to prevent and mitigate risks, and promoted its risk structure.

Credit Risk Management

Credit risk is the risk that a borrower or counterparty may be unable or unwilling to meet a repayment obligation that it has entered into with the Bank. The Bank's major credit risks come from the loans, trade finance and treasury businesses.

In recent years, the Bank closely tracked the changes in the macro economy and financial markets as well as changes in regulatory requirements. It revised the guidelines for industry lending, improved its credit risk management policies, accelerated the adjustment of credit structure, restricted management of the credit process, and intensified its credit risk monitoring and analysis, with a view to fostering more proactive and forward-looking risk management.

With respect to corporate banking, the Bank increased its efforts in supervision of key industries and the adjustment of credit structure. It formulated the guidelines for industry credit granting in accordance with the government's macro-economic regulatory measures and industrial policies. It improved its portfolio management plan and monitored its implementation on a monthly basis, thus guiding the optimisation of the industry structure across the Bank. Devoting more efforts to forward-looking research and strictly following the evolving regulatory policies, it strengthened the management of loans granted to LGFPs. The Bank strictly controlled loan's gross scale and preference through credit limit management, standardised the criteria and process for the clean-up and reclassification of existing loans granted to LGFPs. It also launched a campaign across the Bank to examine LGFPs loan risks, and took multiple measures to mitigate risks. The Bank implemented the government's real estate control policies and regulatory measures, effectively controlling its real estate credit and optimising its credit structure. It also increased support to differentiated credits for the government's affordable housing project. Meanwhile, the Bank studied the risk features of medium-sized enterprises, explored the differentiated credit approval model, supported the development of its supply chain financing business, improved and promoted "Credit Factory" model designed for SMEs.

With respect to personal banking, the Bank rationally controlled personal lending and optimised its credit structure. To be in line with the state policies and regulatory requirements, the Bank implemented a differentiated personal housing loan policy, proactively supported the demand of first home mortgage for purchasing residential property, and enhanced the healthy development of the personal housing mortgage business. It increased the monitoring and management of personal housing loans, closely monitored the trends in the real estate market, and carried out stress testing and risk investigation for personal housing loans to prevent cyclical risk. The Bank improved its risk management policies and product policies for personal credit, intensified the analysis and monitoring of personal credit risk, strengthened personal credit management, took precautions against duplicated credit and over credit, and followed the Interim Administrative Measures for Fixed Assets Loans, the Interim Administrative Measures for Working Capital Loans, the Interim Administrative Measures for Private Loans and the Guidelines for the Project Financing issued by CBRC to enhance comprehensive process management for its personal credit business. Moreover, the Bank paid special attention to and strengthened the risk management for its credit card business, optimised the credit decision-making system, improved the dynamic monitoring of card issuance and usage, so as to curb credit card fraud risk.

The Bank enhanced credit process and asset quality management. It strengthened the monitoring of credit risk and assets quality and tightened post-lending control. The Bank carried out periodical inventory checks of its credit assets, and enhanced its risk warning system and active risk management. The Bank strengthened cross-border group customer management, improved the sovereign risk management systems, adjusted the limit determination method, and optimised the supporting management system.

The Bank measured and managed the quality of credit-bearing assets based on the Guideline for Loan Credit Risk Classification issued by CBRC, which requires commercial banks in the PRC to classify loans using the following five asset quality 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. In 2011, the Bank continued its centralised management of loan classification across domestic operations, i.e., all corporate loan classifications are reviewed and approved by the head office and tier-one branches. To improve the refined risk management for credit assets, 13-tier risk classification system was implemented for domestic corporate loans. In classifying the loans, consideration was given to various factors that will affect the quality of loans with the core criteria being the probability of asset recovery and the extent of loss. To obtain a loan's final risk classification, the Bank must perform standardised process of classifying, checking, reviewing and approving. The loan classification may be revised when there are significant changes to its credit risk status. The Guideline for Loan Credit Risk Classification is also applicable to the overseas operations of the Bank. However, the Bank will classify credit assets in line with local applicable rules and requirements if they are stricter.

As at 30 June 2013, the Group's non-performing loans to total loans ratio was 0.93%, down 0.02 percentage points from 31 December 2012.

The Group identifies credit risk collectively based on industry, geography and customer type. This information is monitored regularly by the management.

The following table sets forth, at the dates indicated, the Group's loans and advances to customers categorised by geographical area:

	As at 30 June 2013		**As at 31 December 2012**	
	Amount	**% of total**	**Amount**	**% of total**
	(RMB million, except percentages)			
Chinese mainland	5,952,180	80.01%	5,558,682	80.98%
Hong Kong, Macau and Taiwan	906,047	12.18%	828,844	12.07%
Other countries and regions	581,406	7.81%	477,170	6.95%
Total	7,439,633	100.00%	6,864,696	100.00%

The following table sets forth, at the dates indicated, the Group's loans and advances to customers categorised by industry sectors of the borrowers:

	As at 30 June 2013		As at 31 December 2012	
	Amount	% of total	Amount	% of total
	(RMB million, except percentages)			
Corporate loans and advances				
Manufacturing	1,569,740	21.10%	1,482,664	21.60%
Commerce and services	1,126,510	15.14%	1,007,853	14.68%
Transportation, storage and postal services	702,286	9.44%	674,260	9.82%
Real estate	602,755	8.10%	554,618	8.08%
Production and supply of electricity, heating, gas and water	389,683	5.24%	396,230	5.77%
Mining	314,023	4.22%	307,358	4.48%
Water, environment and public utility management	207,876	2.79%	215,711	3.14%
Financial services	170,099	2.29%	109,977	1.60%
Construction	128,326	1.72%	114,449	1.67%
Public utilities	70,052	0.94%	70,380	1.03%
Other	74,102	1.00%	46,899	0.68%
Subtotal	5,355,452	71.98%	4,980,399	72.55%
Personal loans				
Mortgages	1,463,290	19.67%	1,348,359	19.65%
Credit cards	192,534	2.59%	160,865	2.34%
Other	428,357	5.76%	375,073	5.46%
Subtotal	2,084,181	28.02%	1,884,297	27.45%
Total loans and advances to customers	7,439,633	100.00%	6,864,696	100.00%

The table below sets forth, as at the dates indicated, the Group's loan concentration by asset quality categories.

	Five-category Loan Classification			
	As at 30 June 2013		As at 31 December 2012	
	Amount	% of total	Amount	% of total
	(RMB million, except percentages)			
Pass	7,179,991	96.51%	6,591,713	96.03%
Special-mention	190,175	2.56%	207,535	3.02%
Substandard	29,085	0.39%	28,643	0.42%
Doubtful	26,349	0.35%	24,276	0.35%
Loss	14,033	0.19%	12,529	0.18%
Total	7,439,633	100.00%	6,864,696	100.00%
Non-performing Loans[(1)]	69,467	0.93%	65,448	0.95%

Note:

(1) Non-performing loans refer to loans classified as substandard, doubtful and loss.

In accordance with IAS 39, loans and advances to customers are considered impaired, and allowances are made accordingly, if there is objective evidence of impairment resulting in a measurable decrease in estimated future cash flows from loans and advances. As at the end of June 2013, the Group reported identified impaired loans of RMB69.356 billion, an increase of RMB3.901 billion compared to 31 December 2012.

For the six months ended 30 June 2013, the Group's impairment losses on assets amounted to RMB14.142 billion, an increase of RMB4.905 billion compared with the corresponding period of 2012. For the year ended 31 December 2012, the Group's impairment losses on loans and advances stood at RMB19.086 billion, a decrease of RMB0.186 billion compared with the previous year.

The following table sets forth, as at the dates indicated, the impaired loans and advances of the Group categorised by geographical area:

	As at 30 June 2013			As at 31 December 2012		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
	(RMB million, except percentages)					
Chinese mainland	66,929	96.50%	1.12%	62,844	96.01%	1.13%
Hong Kong, Macau and Taiwan	1,583	2.28%	0.17%	1,691	2.58%	0.20%
Other countries and regions	844	1.22%	0.15%	920	1.41%	0.19%
Total	69,356	100.00%	0.93%	65,455	100.00%	0.95%

The following table sets forth, as at the dates indicated, the impaired loans and advances of the Group categorised by customer type:

	As at 30 June 2013			As at 31 December 2012		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
	(RMB million, except percentages)					
Corporate loans and advances	56,487	81.45%	1.05%	55,090	84.16%	1.11%
Personal loans	12,869	18.55%	0.62%	10,365	15.84%	0.55%
Total	69,356	100.00%	0.93%	65,455	100.00%	0.95%

Market Risk Management

Market risk is the risk of loss on balance sheet and off balance sheet as a result of adverse changes in market prices (interest rates, exchange rates, equity prices and commodity prices). Market risk arises from open positions in the trading and banking books in interest rate, exchange risk, equities, and commodities. Both the Bank's trading book and banking book face market risks. The trading book consists of positions in financial instruments and commodities that are free of any restrictive covenants on their tradability and held with trading intent or in order to hedge other elements of the trading book. The banking book consists of financial instruments not included in the trading book and includes those financial instruments in the investment purchased with the Bank's surplus funds and managed in the Bank's investment book.

The Bank's board of directors takes the responsibility to approve market risk management policies and procedures and determine market risk tolerance. Senior management is responsible for implementing market risk management policies ensuring that the level of market risk is within the risk appetite determined by the board of directors, while meeting the Bank's business objectives. The risk management department and financial management department are dedicated to identifying, measuring, monitoring, controlling and reporting market risk at the group level. Each business unit is responsible for monitoring and reporting market risk within its respective business unit.

In recent years, the Bank continued to intensify the monitoring and early warning system for market risk at the group level, and improved the management of interest rate risk in the banking book as well as the exchange rate risk. Through the implementation plan of Basel II & III, the Bank continuously optimised its limit structure and risk monitoring process, and hence further enhanced the market risk management.

In line with the principle of uniform management, the Bank intensified the risk monitoring and analysis of its overall transactions business, continuously upgraded the quantification and transmission mechanisms for risk appetite in the trading businesses of the Bank, and enhanced the market risk management for its domestic and overseas branches and non-commercial bank subsidiaries. It reinforced the derivative management, improved relevant risk management policies, and stepped up forward-looking analysis and active risk management of emerging hotspot issues in the markets.

The Bank assessed the interest rate risk borne by the banking book mainly through analysis of interest rate re-pricing gaps. It made timely adjustment to the repricing structure of assets and liabilities based on changes in the market situations, and controlled the fluctuations of net interest income within an acceptable range. At the same time, the Bank further intensified the unified management of the bond by adjusting bond investment strategies and strengthened the management of bond investment risk through the timely optimisation of the bond investment structure, reducing portfolio risk.

In terms of the management of exchange rate risk, the Bank sought to achieve currency matching between fund resource and application, and managed the exchange rate risk through hedging transactions, hence effectively controlling the foreign exchange exposure.

As to market risk management for the trading book, the Bank monitored the overall Value at Risk ("**VaR**"), stress testing, exposure limits, stop loss limits and the utilisation of limits for each trading desk and trader on a daily basis. VaR is performed separately by the Bank and its major subsidiaries that are exposed to market risk, namely, BOCHK Holding and BOCI. The Bank, BOCHK Holding and BOCI calculate VaR using a confidence level of 99 per cent. (1 per cent. statistical probability that actual losses could exceed the VaR estimate) and a historical simulation approach.

For the six months ended 30 June 2012 and 2013, the VaR of the Bank's trading book was as follows:

	The Bank's VaR for Trading Book					
	For the six months ended 30 June 2013			**For the six months ended 30 June 2012**		
	Average	**High**	**Low**	**Avenge**	**High**	**Low**
	(U.S.$ million)					
Interest rate risk	2.40	3.02	1.84	2.53	3.65	1.73
Foreign exchange risk	0.40	1.76	0.14	1.93	7.63	1.40
Volatility risk	0.02	0.09	0.00	0.04	0.08	0.01
Total of the Bank's trading VaR . .	2.47	3.13	1.88	2.95	7.94	2.09

For the years ended 31 December 2011 and 2012, the VaR of the Bank's trading book was as follows:

	The Bank's VaR for Trading Book					
	For the year ended 31 December 2012			**For the year ended 31 December 2011**		
	Average	**High**	**Low**	**Average**	**High**	**Low**
	(US.S million)					
Interest raw risk	2.55	3.65	1.73	1.37	3.04	0.47
Foreign exchange risk	1.88	7.63	0.44	0.61	10.67	0.12
Volatility risk	0.03	0.10	0.00	0.02	0.12	0.01
Total of the Bank's trading VaR . .	2.85	7.94	2.06	1.49	10.96	0.60

Market risk in the banking book mainly comprises interest rate risk and exchange rate risk. Interest rate risk arises mainly from mismatches in the maturities, re-pricing periods or inconsistent adjustments between the benchmark interest rates of assets and liabilities. The Bank manages the interest rate risk of the banking book primarily through interest rate re-pricing gap analysis. The data generated by gap analysis is used to perform sensitivity analysis, scenario analysis and stress testing, and assist decision making regarding the re-pricing of the interest-earning assets and interest-bearing liabilities. Limits of the net interest income change are set as a percentage of the net interest income budget for the Group's commercial banking operations and are approved by the Bank's board of directors and monitored by its risk management department periodically. The Bank closely follows domestic and foreign currency interest rate trends and promptly adjusts interest rates of its local and foreign currency deposits and loans in accordance with the change of benchmark interest rates and market interest rates.

The Bank manages its exposure to currency exchange risk through management of its foreign currency position.

The table below summarises the Group's exposure to foreign currency exchange rate risk as at 31 December 2012 and 30 June 2013:

	As at 30 June 2013							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
	(in millions)							
Assets								
Cash and due from banks and other financial institutions	529,923	100,704	8,467	8,422	1,992	819	9,820	660,147
Balances with central banks	1,797,706	95,103	9,795	37,697	2,605	45	14,689	1,957,640
Placements with and loans to banks and other financial institutions	476,517	71,257	8,925	1,997	254	4,876	19,699	583,525
Government certificates of indebtedness for bank notes issued	–	–	71,758	–	–	–	3,880	75,638
Precious metals	–	–	3,856	–	–	–	134,982	138,838
Financial assets at fair value through profit or loss	13,514	32,390	25,098	1,004	59	–	252	72,317
Derivative financial assets	11,312	14,067	20,011	594	238	558	1,025	47,805
Loans and advances to customers, net	5,449,948	1,140,271	523,664	50,876	10,976	9,320	88,581	7,273,636
Investment securities								
– available for sale	267,641	279,002	97,400	7,088	857	277	27,889	680,154
– held to maturity	1,057,292	69,387	5,096	56	876	–	3,013	1,135,720
– loans and receivables	255,580	5,509	1,196	–	–	516	13,812	276,613
Investment in associates and joint ventures	5,970	1,492	5,120	–	–	–	–	12,582
Property and equipment	77,370	57,086	11,854	127	993	1,343	1,830	150,603
Investment properties	6,182	–	9,573	–	–	–	1,585	17,340
Deferred income tax assets	20,015	553	236	–	–	2	133	20,939
Other assets	115,549	17,870	13,744	1,245	457	1,395	2,449	152,709
Total assets	10,084,519	1,884,691	815,793	109,106	19,307	19,151	323,639	13,256,206

	As at 30 June 2013							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
	(in millions)							
Liabilities								
Due to banks and other financial institutions	736,091	273,209	14,723	26,331	5,866	5,810	136,208	1,198,238
Due to central banks	12,363	136,012	11,363	–	–	–	47	159,785
Bank notes in circulation	–	–	71,758	–	–	–	3,945	75,703
Placements from banks and other financial institutions	220,445	180,600	5,227	4,803	4,122	3,410	3,493	422,100
Derivative financial liabilities	4,470	17,333	13,181	1,132	1,291	1,850	2,054	41,311
Due to customers	7,956,106	772,548	712,421	139,447	31,524	53,189	210,961	9,876,196
Bonds issued	171,037	33,614	3	2,766	–	5,423	168	213,011
Other borrowings	–	30,637	–	–	–	–	–	30,637
Current tax liabilities	20,803	15	2,578	119	135	897	764	25,311
Retirement benefit obligations	5,327	–	–	–	–	–	–	5,327
Deferred income tax liabilities	1,262	1,116	679	10	–	–	133	3,200
Other liabilities	237,288	23,499	52,589	1,955	373	1,532	1,818	319,054
Total liabilities	9,365,192	1,468,583	884,522	176,563	43,311	72,111	359,591	12,369,873
Net on-balance sheet position	719,327	416,108	(68,729)	(67,457)	(24,004)	(52,960)	(35,952)	886,333
Net off-balance sheet position	58,966	(402,246)	141,053	63,649	25,637	53,044	64,000	4,103
Credit commitments	1,534,685	643,745	122,768	75,691	7,302	13,940	43,536	2,441,667

	As at 31 December 2012							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
	(in millions)							
Assets								
Cash and due from banks and other financial institutions	518,287	220,997	8,157	10,989	1,777	2,632	12,735	775,574
Balances with central banks	1,685,566	150,441	2,428	65,972	9,550	47	20,293	1,934,297
Placements with and loans to banks and other financial institutions	307,661	69,515	8,903	6,517	4,057	24,761	25,885	447,299
Government certificates of indebtedness for bank notes issued	–	–	67,240	–	–	–	3,314	70,554
Precious metals	–	–	5,360	–	–	–	145,174	150,534
Financial assets at fair value through profit or loss	12,114	31,122	27,065	1,069	87	–	133	71,590
Derivative financial assets	5,601	10,936	20,656	770	160	930	1,135	40,188
Loans and advances to customers, net	5,111,675	943,794	501,062	46,102	13,700	10,212	83,495	6,710,040
Investment securities								
– available for sale	226,486	246,743	102,142	11,319	63,775	302	35,633	686,400
– held to maturity	1,095,327	74,163	4,783	2,720	2,425	–	3,662	1,183,080
– loans and receivables	252,409	4,569	2	–	–	1,204	11,270	269,454
Investment in associates and joint ventures	5,716	1,523	5,143	–	–	–	–	12,382
Property and equipment	80,325	53,228	12,185	132	1,160	1,438	1,856	150,324
Investment properties	5,930	–	9,592	–	–	–	1,620	17,142
Deferred income tax assets	20,551	448	158	–	–	–	135	21,292
Other assets	104,249	16,110	15,266	1,124	275	865	2,576	140,465
Total assets	9,431,897	1,823,589	790,142	146,714	96,966	42,391	348,916	12,680,615

	As at 31 December 2012							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
	(In millions)							
Liabilities								
Due to banks and other financial institutions	992,268	371,410	20,011	28,985	8,285	3,797	128,436	1,553,192
Due to central banks	890	120,372	8,757	–	–	–	3	130,022
Bank notes in circulation	–	–	67,239	–	–	–	3,494	70,733
Placements from banks and other financial institutions	154,230	140,086	10,289	2,197	175	2,551	3,476	313,004
Derivative financial liabilities	4,052	11,545	13,530	936	395	927	1,072	32,457
Due to customers	7,268,004	739,364	720,594	169,878	29,110	53,304	193,741	9,173,995
Bonds issued	170,539	28,591	3	–	–	–	–	199,133
Other borrowings	–	34,045	–	–	–	–	–	34,045
Current tax liabilities	32,577	16	1,493	52	125	113	618	34,994
Retirement benefit obligations	5,642	–	–	–	–	–	–	5,642
Deferred income tax liabilities	1,268	1,003	1,384	10	1	–	172	3,838
Other liabilities	179,427	23,388	59,719	1,352	360	931	2,841	268,018
Total liabilities	8,808,897	1,469,820	903,019	203,410	38,451	61,623	333,853	11,819,073
Net on-balance sheet position	623,000	353,769	(112,877)	(56,696)	58,515	(19,232)	15,063	861,542
Net off-balance sheet position	143,353	(320,960)	170,678	54,470	(55,018)	20,317	(3,228)	9,612
Credit commitments	1,438,619	612,942	124,165	71,743	8,751	12,733	48,552	2,317,505

Liquidity Risk Management

Liquidity risk is the risk that the Bank is unable to obtain funds at a reasonable cost in a certain period of time when required to meet repayment obligations or sustain its assets business. The Bank's objective in liquidity risk management is to maintain liquidity at a reasonable level according to its business development strategy, and to ensure it has adequate funds to meet business development needs and ensure due debt repayment, whether under normal business conditions or under stress.

In recent years, facing the tightening of Renminbi and foreign currency liquidity, the Bank adopted a proactive and forward-looking liquidity management policy that stroke a balanced between security, liquidity and profitability, resulting in an improvement in the liquidity risk indicators. The Bank endeavoured to expand core deposits to enhance the stability of funding sources, and seized opportunities of low interest rates in overseas markets to broaden the channels of funding sources. The Bank also strengthened the control of internal funds and reasonably guided the direction of fund application. In addition, the Bank intensified the management of liquidity reserve and established a liquidity early warning system to prevent liquidity risk.

The Bank continued to refine its liquidity stress testing mechanism and conducted quarterly stress testing. The testing results showed that the Bank would be able to pay due debts and sustain its asset business in distressed scenarios.

The tables below analyse the Group's assets and liabilities into relevant maturity groupings based on the remaining period at financial reporting date to the contractual maturity date:

	As at 30 June 2013							
	Overdue	**On demand**	**Less than one month**	**Between one and three months**	**Between three and twelve months**	**Between one and five years**	**Over five years**	**Total**
	(RMB million)							
Assets								
Cash and due from banks and other financial institutions	–	151,731	13,743	146,081	347,234	1,358	–	660,147
Balances with central banks	–	391,756	1,565,751	68	65	–	–	1,957,640
Placements with and loans to banks and other financial institutions	–	–	228,812	72,544	276,257	5,912	–	583,525
Government certificates of indebtedness for bank notes issued	–	75,638	–	–	–	–	–	75,638
Precious metals	–	138,838	–	–	–	–	–	138,838
Financial assets at fair value through profit or loss	–	1,384	5,597	8,350	8,662	31,977	16,347	72,317
Derivative financial assets	–	13,120	3,710	9,346	14,426	3,418	3,785	47,805
Loans and advances to customers, net	18,619	70,818	462,637	897,349	1,794,423	1,703,082	2,326,708	7,273,636
Investment securities:								
– available for sale	–	–	56,812	58,033	117,794	308,252	139,263	680,154
– held to maturity	–	–	33,445	72,595	146,325	530,107	353,248	1,135,720
– loans and receivables	–	–	3,873	6,291	21,662	26,812	217,975	276,613
Investment in associates and joint ventures	–	–	–	–	–	4,654	7,928	12,582
Property and equipment	–	–	–	–	–	–	150,603	150,603
Investment properties	–	–	–	–	–	–	17,340	17,340
Deferred income tax assets	–	–	–	–	41	20,898	–	20,939
Other assets	1,063	17,661	30,006	25,189	41,312	11,573	25,905	152,709
Total assets	19,682	860,946	2,404,386	1,295,846	2,768,201	2,648,043	3,259,102	13,256,206
Liabilities								
Due to banks and other financial institutions	–	512,960	111,211	86,776	245,149	242,142	–	1,198,238
Due to central banks	–	64,333	16,267	27,547	51,638	–	–	159,785
Bank notes in circulation	–	75,703	–	–	–	–	–	75,703
Placements from banks and other financial institutions	–	–	292,920	85,408	43,772	–	–	422,100
Derivative financial liabilities	–	9,458	6,201	8,986	10,006	5,097	1,563	41,311
Due to customers	–	4,392,915	1,277,972	954,095	2,214,259	1,015,624	21,331	9,876,196
Bonds issued	–	–	10,427	3,181	3,484	47,554	148,365	213,011
Other borrowings	–	–	145	–	894	12,874	16,724	30,637
Current tax liabilities	–	–	5,648	27	19,602	34	–	25,311
Retirement benefit obligations	–	–	64	128	574	2,165	2,396	5,327
Deferred income tax liabilities	–	–	–		97	3,103	–	3,200
Other liabilities	–	52,946	104,181	23,835	66,808	47,528	23,756	319,054
Total liabilities	–	5,108,315	1,825,036	1,189,983	2,656,283	1,376,121	214,135	12,369,873
Net Liquidity Gap	19,682	(4,247,369)	579,350	105,863	111,918	1,271,922	3,044,967	886,333

	As at 31 December 2012							
	Overdue	**On demand**	**Less than one month**	**Between one and three months**	**Between three and twelve months**	**Between one and five years**	**Over five years**	**Total**
				(RMB million)				
Assets								
Cash and due from banks and other financial institutions	–	165,632	128,625	135,208	314,942	31,167	–	775,574
Balances with central banks	–	306,449	1,627,187	447	189	25	–	1,934,297
Placements with and loans to banks and other financial institutions	–	–	195,821	84,274	163,214	3,990	–	447,299
Government certificates of indebtedness for bank notes issued	–	70,554	–	–	–	–	–	70,554
Precious metals	–	150,534	–	–	–	–	–	150,534
Financial assets at fair value through profit or loss	–	571	9,877	4,783	8,710	31,902	15,747	71,590
Derivative financial assets	–	14,379	4,108	3,486	9,562	4,168	4,485	40,188
Loans and advances to customers, net	12,331	64,838	316,012	775,364	1,740,016	1,613,651	2,187,828	6,710,040
Investment securities:								
– available for sale	–	–	56,911	97,049	124,890	280,366	127,184	686,400
– held to maturity	–	–	14,980	35,541	216,901	582,887	332,771	1,183,080
– loans and receivables	–	–	1,326	5,069	21,675	26,402	214,982	269,454
Investment in associates and joint ventures	–	–	–	–	–	4,688	7,694	12,382
Property and equipment	–	–	–	–	–	11	150,313	150,324
Investment properties	–	–	–	–	–	–	17,142	17,142
Deferred income tax assets	–	–	–	–	41	21,251	–	21,292
Other assets	847	12,048	31,745	26,702	35,358	12,430	21,335	140,465
Total assets	13,178	785,005	2,386,592	1,167,923	2,635,498	2,612,938	3,079,481	12,680,615
Liabilities								
Due to banks and other financial institutions	–	647,019	197,796	274,064	192,724	241,589	–	1,553,192
Due to central banks	–	85,373	4,865	7,746	32,038		–	130,022
Bank notes in circulation	–	70,733	–	–	–	–	–	70,733
Placements from banks and other financial institutions	–	–	198,660	71,078	43,266	–	–	313,004
Derivative financial liabilities	–	10,560	2,505	2,609	7,503	6,652	2,628	32,457
Due to customers	–	4,213,199	1,159,015	986,503	1,885,171	918,590	11,517	9,173,995
Bonds issued	–	–	726	3,879	4,048	44,047	146,433	199,133
Other borrowings	–	–	–	814	1,970	14,848	16,413	34,045
Current tax liabilities	–	–	817	13	33,594	570	–	34,994
Retirement benefit obligations	–	–	67	134	604	2,324	2,513	5,642
Deferred income tax liabilities	–	–	–	–	550	3,288	–	3,838
Other liabilities	–	57,843	50,164	45,906	55,187	41,036	17,882	268,018
Total liabilities	–	5,084,727	1,614,615	1,392,746	2,256,655	1,272,944	197,386	11,819,073
Net Liquidity Gap	13,178	(4,299,722)	771,977	(224,823)	378,843	1,339,994	2,882,095	861,542

Regulatory Ratios on Liquidity

As at 31 December 2012 and 30 June 2013, the Bank's liquidity position, as shown in the table below, met regulatory requirements. (Liquidity ratio is the indicator of the Bank's liquidity; excess reserve ratio and interbank ratios are the indicators of liquidity of the Bank's operations in mainland China)

Main regulatory ratios (%)		Regulatory standard	As at 30 June 2013	As at 31 December 2012
Liquidity ratio	RMB	≥25	45.1	49.8
	Foreign Currency	≥225	52.6	65.2
Excess reserve ratio	RMB	–	3.3	3.2
	Foreign Currency	–	23.1	27.7
Inter-bank ratio	Inter-bank borrowings ratio	≤8	0.2	1.6
	Inter-bank loans ratio	≤8	3.0	2.6

Notes:

(1) Liquidity ratio is the indicator of the Group's liquidity; excess reserve ratio and inter-bank ratio are the indicators of liquidity for the Bank's domestic operations.

(2) Liquidity ratio = current assets/current liabilities. Liquidity ratio is calculated in accordance with the relevant provisions PBOC and CBRC.

(3) RMB excess reserve ratio = (reserve in excess of the mandatory requirements + cash)/(balance of deposits + remittance payables)

(4) Foreign currency excess reserve ration = (reserve in excess of the mandatory requirements + cash + due from banks and due from overseas branches and subsidiaries)/balance of deposits

(5) Inter-bank borrowings ratio = Total Renminbi inter-bank borrowings from other banks and financial institutions/Total Renminbi deposits

(6) Inter-bank loans ratio = Total Renminbi inter-bank loans to other banks and financial institutions/Total Renminbi deposits

Internal Control and Operational Risk Management

Internal Control

The Bank leveraged its "three lines of defence" to improve the effectiveness of internal control.

Branches, business departments and staff at various levels of the Bank are the Group's first line of defence of internal control, responsible for internal control when promoting business development. Adhering to the Group's risk appetite and principles of management intensified and risk controllable, the Bank streamlined, optimised and integrated its grass-roots internal control measures and monitoring methods, thus improving the overall effectiveness of the first defence line.

The risk management unit and the business management departments are the second line of defence of internal control. They are responsible for the overall planning of internal control policies, and for directing, examining, monitoring and assessing the work of the first line of defence. The Bank's second line of defence paid close attention to changes in internal and external risks, strengthened risk forewarning ability and actively responded to emergencies, making the Bank's risk management and internal control more forward-looking. It closely tracked the status of the Bank's management over risks arising from the newly operated IT Blueprint system, and improved the risk control mechanism interface for outlets, accounts and tellers, achieving enhanced risk management. As part of its "Year for Deepening Internal Control and Case Prevention System Execution" campaign, the Bank carried out inspections to assess the implementation of its internal control system, especially at grassroots outlets and counters. Focusing on fraud risk, it supervised the first line of defence in fulfilling its self-monitoring functions and implementing internal control policies and regulations.

The internal audit department performed its responsibility as the third line of defence. It pushed forward audit transformation, innovated the working framework, rapidly responded to risk changes and enhanced overall professional duty performance. By carrying out several special audits and inspections, it constantly evaluated the implementation of the Bank's strategy and business transformation, as well as the establishment, execution and improvement of mechanisms for risk management and internal control. The Bank tracked risk changes and control measures in process reengineering following the implementation of the core banking system, intensified the audit supervision for the diversified operations, and strengthened risk control related to the large-scale development of its overseas businesses, which contributed to the continuous improvement of the risk management and control.

The Bank continued to implement the basic rules on enterprise internal control and relevant implementation guidelines, and enacted the Bank of China implementation plan on the basic rules on enterprise internal control and the implementation guidelines. In accordance with the guidelines of five factors of internal control, namely the control environment, risk assessment, control activities, information and communication, and internal supervision, the Bank further enhanced its governance structure, operating mechanisms, internal control policies, technical instruments and professional teams, and established and improved its internal control system in compliance with the requirements of the basic rules on enterprise internal control.

The Bank strictly complied with the accounting regulations and developed its financial and accounting system. The Bank amended its accounting management policies and accounting measures for key businesses in response to the changes in financial and accounting regulations, the integration of internal management and the impacts of the new core banking system. In line with relevant accounting regulations, the Bank developed financial reporting and auditing management policies to standardise the procedures for the financial reporting and auditing process. These procedures and processes ensure the effectiveness of the Bank's internal controls over the financial reporting process. The consolidated financial statements of the Bank together with the relevant disclosure were prepared according to applicable accounting standards and regulations, and the accounting information disclosed in the consolidated financial statements fairly reflected the Bank's financial position, operating results and cash flows.

Operational Risk Management

The Bank manages its operational risk through a structure suitable to the scale and complexity of its businesses. The operational risk department under the risk management unit is responsible for the establishment and implementation of the Bank's operational risk management framework, which has improved the consistency and effectiveness of the Bank's operational risk management. All service lines, domestic and overseas institutions, constantly identify and monitor all operational risks and internal controls within their business scopes. The functional departments including legal and compliance, IT, human resources, security and supervision provide professional technical support regarding operational risk management within their responsibilities and based on their expertise. The internal audit department regularly inspects and assesses the effectiveness of the implementation of the Bank's operational risk management framework.

The Bank utilised a range of tools for managing operational risk, including: (1) conducting operational risk and control assessment ("**RACA**") in order to gain a dynamic understanding of the operational risk status of all business lines and institutions of the Bank, identify potential risks in business processes, systems and personnel, and take corrective measures for unacceptable risk exposure, (2) establishing key risk indicators ("**KRI**"), by collecting statistics from its day-to-day business operations, and conducting quantitative monitoring and analysis of the likelihood, impact and effectiveness of certain controls for key risks, so as to give timely early warnings of any abnormities in KRIs and trigger investigation and rectification, and (3) engaging in operational loss data collection ("**LDC**") across the Bank, allowing it to monitor the actual loss amounts and distribution of operational risks, conduct in-depth analysis into the causes of material operational risk events, and take appropriate rectification measures.

The Bank constantly monitored operational risk loss events occurred in domestic and overseas peers, analysed risk prevention problems arising from external events and enhanced its risk control ability. The Bank launched internal control inspections into high-risk business areas, recorded risk control problems identified in internal and external inspections, and adopted an internal control rectification mechanism featuring centralised management and unified follow-up, thus fostering the constant improvement in risk control. In the year ended 31 December 2012, the Bank succeeded in preventing 127 external cases valued at RMB0.285 billion, and maintained a low occurrence of fraud risk and other operational risk events. For the six months ended 30 June 2013, the Bank succeeded in preventing 89 fraud attempts valued at RMB229 million, and maintained a low occurrence of fraud risk and other operational risk events. Meanwhile, the Bank successfully coped with the impacts of such material emergencies as the earthquake and nuclear leakage in Japan, effectively guaranteeing the sustainable and stable operation of its businesses.

Compliance Management

The Bank proactively monitored the compliance risk and enhanced the Group's overall compliance risk management capabilities so as to increase the Group's overall level of compliance. It monitored risk information such as the latest regulatory requirements, inspections and assessments imposed on the Group and carried out comprehensive assessment on and research on compliance risk. Business departments and legal and compliance departments of all institutions cooperated with each other to implement the regulatory requirements, resulting in orderly functioning of the prevention and control mechanism for regulatory penalty of the Group. The Bank stressed the importance of group-wide sharing of compliance risk information, ensured the timely circulation and reporting of the Group's overall compliance risk profile and material risk events, and conducted assessments on compliance risk management capability of the Group.

The Bank strengthened anti-money laundering control across the Group by successfully putting anti-money laundering monitoring and analysis system into operation, and optimising its functions. The Bank comprehensively assessed the quality of customer money laundering risk classification and due diligence. The Bank also increased monitoring for the report quality of suspicious transactions, established an off-site monitoring mechanism for reporting of domestic suspicious transaction data, and guided branches to strengthen manual identification and reduce redundant reports. In addition, the Bank pushed forward the cultivation of anti-money laundering experts, and launched a centralised identification model for suspicious transactions on a trial basis. By conducting multi-tiered, diversified and targeted anti-money laundering trainings and publicity, the Bank enhanced the anti-money laundering awareness of its staff and the risk monitoring capabilities of its outlet employees.

The Bank managed its connected transactions and internal transactions. It continued to upgrade its connected transaction monitoring system and promoted the smooth functioning of all management mechanisms for connected transactions. The Bank followed the administrative measures for internal transactions to control internal contractions across the Group. It organised the information monitoring and reporting of the Group's internal transactions via the information reporting platform for internal transactions.

New Basel Capital Accord Implementation

The Bank has focused on the implementation of New Basel Capital Accord. In line with the principles of "adaptability and applicability", it simultaneously implemented Basel II & III and engaged in the construction of the G-SIFI system. It combined the implementation of regulatory requirements with refined, specialised and quantitative risk management, and promoted the in-depth application of achievements in New Basel Capital Accord implementation, to improve the strategic response ability and propel business transformation.

The Bank pushed forward the implementation of the *Capital Rules for Commercial Banks (Provisional)*, strengthened leadership in this regard, improved the working mechanism and intensified resource inputs and publicity and training. The Bank has largely completed the first-phase work for Basel II implementation and has achieved the coordinated advancement of Pillar I, II and III. It has also rectified problems identified by CBRC's assessment, cooperated with CBRC's regulatory and cross-border inspections. The Bank has applied to CBRC to implement advanced capital management approaches. Specifically, the Bank has sought approval to apply a foundation internal rating based approach to non-retail credit risk, an internal rating based ("**IRB**") approach to retail credit risk, an internal model approach to market risk and a standardised approach to operational risk. The Bank accelerated preparations for the implementation of an advanced IRB approach for non-retail credit risk and an advanced measurement approach for operational risk.

The Bank consolidated its data base, reduced data redundancy and promoted a uniform and regulated data standard in a bid to strengthen data sharing and raise the data service level of business departments and branches. It reinforced coordinated management over development, upgrading, monitoring and maintenance of risk measurement models, and enhanced its self-improving capability. The Bank also improved the IRB approach to economic capital measurement and management, and established a model validation framework covering all kinds of risks to perform well in model validation. Focusing on the quantification and communication of risk appetite, the Bank made great efforts to apply the New Basel Capital Accord and stress testing. It advanced the construction of the economic capital model under the

New Basel Capital Accord, deepened its performance appraisal of economic capital and included such indicators as risk-adjusted return on capital and economic value added into the performance appraisal system of the branches and business lines of the Bank. The Bank also substantially reinforced the use of various risk measurement tools across the entire credit procedure to support the Bank's transformative development.

Capital Management

The CBRC Measures, which was formally implemented in 2013, readjusted the definition of capital and calculation of risk-weighted assets. Under the new measures, the Group's capital adequacy ratio was 12.14%, tier 1 capital adequacy ratio was 9.28%, and core tier 1 capital adequacy ratio was 9.27% as at the end of June 2013. The series of capital adequacy ratios was decreased compared with those of the end of March 2013, mainly because of the one-time deduction of the 2012 dividend in the second quarter of 2013. As the Bank's retained profit grows, the capital adequacy ratios are expected to improve.

Guided by the latest capital regulations, the Bank continuously optimised its on-and off-balance sheet asset structure. It adhered to the principle of enhancing a bank-wide capital constraint and encouraged efforts in optimising business structure. Specific measures were taken, including increasing capital allocation to the capital-lite businesses, devoting great efforts to developing fee-based business, rationally controlling the rise of off-balance sheet risk assets, strictly limiting the size of high-risk-weighted assets, and requiring more guarantee and pledge risk mitigation during the credit process, etc., so as to reduce capital charges efficiently.

The following discussions and analysis should be read in conjunction with the Bank's audited consolidated financial statements as at and for the years ended 31 December 2010, 2011 and 2012, and the Bank's unaudited interim consolidated financial statements as at and for the six months ended 30 June 2012 and 2013. The Bank's consolidated financial statements have been prepared in accordance with IFRS. Unless otherwise stated, all financial data discussed in this section are consolidated financial data.

Analysis of Loans and Advances to Customers

The following table sets out an analysis of the Group's loans and advances to customers:

	As at 30 June	As at 31 December		
	2013	2012	2011	2010
	(RMB million)			
Corporate loans and advances				
– Loans and advances	5,169,478	4,813,749	4,628,846	4,143,775
– Discounted bills	185,974	166,650	96,459	100,608
Subtotal	5,355,452	4,980,399	4,725,305	4,244,383
Personal loans				
– Mortgages	1,463,290	1,348,359	1,213,322	1,089,006
– Credit cards	192,534	160,865	97,659	60,833
– Other	428,357	375,073	306,528	266,399
Subtotal	2,084,181	1,884,297	1,617,509	1,416,238
Total loans and advances	7,439,633	6,864,696	6,342,814	5,660,621
Allowance for impairment losses				
– Individually assessed	(38,517)	(38,537)	(36,265)	(36,834)
– Collectively assessed	(127,480)	(116,119)	(103,411)	(86,022)
Total allowance for impairment losses	(165,997)	(154,656)	(139,676)	(122,856)
Loans and advances to customers, net	7,273,636	6,710,040	6,203,138	5,537,765

Loans and Advances to Customers by Industry

The following table sets out an analysis of the Group's loans and advances to customers by industry:

	As at 30 June 2013		As at 31 December 2012		2011		2010	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB million, except percentages)							
Corporate loans and advances								
Manufacturing	1,569,740	21.10%	1,482,664	21.60%	1,379,197	21.75%	1,176,535	20.78%
Commerce and services	1,126,510	15.14%	1,007,853	14.68%	943,788	14.88%	813,590	14.37%
Transportation, storage and postal services	702,286	9.44%	674,260	9.82%	618,591	9.75%	579,582	10.24%
Real estate	602,755	8.10%	554,618	8.08%	500,423	7.89%	438,991	7.76%
Production and supply of electricity, heating, gas and water	389,683	5.24%	396,230	5.77%	427,311	6.74%	413,004	7.30%
Mining	314,023	4.22%	307,358	4.48%	280,441	4.42%	211,717	3.74%
Water, environment and public utility management	207,876	2.79%	215,711	3.14%	261,396	4.12%	257,535	4.55%
Financial services	170,099	2.29%	109,977	1.60%	76,366	1.20%	94,598	1.67%
Construction	128,326	1.72%	114,449	1.67%	104,757	1.65%	86,102	1.52%
Public utilities	70,052	0.94%	70,380	1.03%	77,759	1.23%	91,197	1.61%
Other	74,102	1.00%	46,899	0.68%	55,276	0.87%	81,532	1.44%
Subtotal	5,355,452	71.98%	4,980,399	72.55%	4,725,305	74.50%	4,244,383	74.98%
Personal loans								
Mortgages	1,463,290	19.67%	1,348,359	19.65%	1,213,322	19.13%	1,089,006	19.24%
Credit cards	192,534	2.59%	160,865	2.34%	97,659	1.54%	60,833	1.07%
Other	428,357	5.76%	375,073	5.46%	306,528	4.83%	266,399	4.71%
Subtotal	2,084,181	28.02%	1,884,297	27.45%	1,617,509	25.50%	1,416,238	25.02%
Total loans and advances to customers	7,439,633	100.00%	6,864,696	100.00%	6,342,814	100.00%	5,660,621	100.00%

Loans and Advances to Customers by Geographical Area

The following table sets out an analysis of the Group's loans and advances to customers by geographical area:

Group

	As at 30 June 2013		As at 31 December 2012		2011		2010	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB million, except percentages)							
Chinese mainland	5,952,180	80.01%	5,558,682	80.98%	5,209,694	82.14%	4,758,585	84.06%
Hong Kong, Macau and Taiwan	906,047	12.18%	828,844	12.07%	743,233	11.72%	646,432	11.42%
Other countries and regions	581,406	7.81%	477,170	6.95%	389,887	6.14%	255,604	4.52%
Total loans and advances to customers	7,439,633	100.00%	6,864,696	100.00%	6,342,814	100.00%	5,660,621	100.00%

Chinese mainland

	As at 30 June		As at 31 December					
	2013		2012		2011		2010	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB million, except percentages)							
Northern China	930,269	15.63%	872,120	15.69%	841,436	16.15%	784,066	16.48%
Northeastern China	431,772	7.25%	399,844	7.19%	374,612	7.19%	333,481	7.01%
Eastern China	2,450,852	41.18%	2,277,622	40.98%	2,137,377	41.03%	1,948,756	40.95%
Central and Southern China	1,420,430	23.86%	1,350,778	24.30%	1,251,136	24.02%	1,163,384	24.45%
Western China	718,857	12.08%	658,318	11.84%	605,133	11.61%	528,898	11.11%
Total loans and advances to customers	5,952,180	100.00%	5,558,682	100.00%	5,209,694	100.00%	4,758,585	100.00%

Impaired Loans and Advances by Geographical Area

The following table sets out an analysis of the Group's impaired loans and advances by geographical area:

	As at 30 June			As at 31 December								
	2013			2012			2011			2010		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
	(RMB million, except percentages)											
Chinese mainland	66,929	96.50%	1.12%	62,844	96.01%	1.13%	61,159	96.61%	1.17%	62,211	97.39%	1.31%
Hong Kong, Macau and Taiwan	1,583	2.28%	0.17%	1,691	2.58%	0.20%	1,171	1.85%	0.16%	792	1.24%	0.12%
Other countries and regions	844	1.22%	0.15%	920	1.41%	0.19%	976	1.54%	0.25%	873	1.37%	0.34%
Total	69,356	100.00%	0.93%	65,455	100.00%	0.95%	63,306	100.00%	1.00%	63,876	100.00%	1.13%

Chinese mainland

	As at 30 June			As at 31 December								
	2013			2012			2011			2010		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
	(RMB million, except percentages)											
Northern China	10,012	14.96%	1.08%	10,535	16.76%	1.21%	9,796	16.02%	1.16%	11,535	18.54%	1.47%
Northeastern China	3,760	5.62%	0.87%	3,516	5.59%	0.88%	7,322	11.97%	1.95%	3,941	6.33%	1.18%
Eastern China	29,178	43.59%	1.19%	23,476	37.36%	1.03%	16,558	27.07%	0.77%	15,904	25.56%	0.82%
Central and Southern China	20,079	30.00%	1.41%	20,372	32.42%	1.51%	21,959	35.90%	1.76%	23,045	37.04%	1.98%
Western China	3,900	5.83%	0.54%	4,945	7.87%	0.75%	5,524	9.04%	0.91%	7,786	12.53%	1.47%
Total	66,929	100.00%	1.12%	62,844	100.00%	1.13%	61.159	100.00%	1.17%	62,211	100.00%	1.31%

Reconciliation of Allowance for Impairment Losses

The following table sets out the reconciliation of allowance for impairment losses on loans and advances to customers by individual and collective assessments:

	Six month period ended 30 June	Year ended 31 December		
	2013	2012	2011	2010
	(RMB million)			
As at 1 January	154,656	139,676	122,856	112,950
Impairment losses for the period/year	41,131	52,490	53,491	45,580
Reversal	(27,248)	(33,404)	(34,219)	(30,016)
Written off and transfer out	(1,999)	(4,209)	(1,809)	(5,517)
Recovery of loans and advances written off in previous years	318	666	610	766
Unwind of discount on allowance	(311)	(363)	(314)	(395)
Exchange differences	(550)	(200)	(939)	(512)
As at 30 June/31 December	165,997	154,656	139,676	122,856

DIRECTORS AND MANAGEMENT

General

The Bank's board of directors currently comprises 14 members. Other than the Chairman, there are five independent non-executive directors, five non-executive directors and three executive directors. The Bank's directors are elected at its shareholder meetings for a term of three years, which is renewable upon re-election. The Chairman and the Vice Chairman of the Bank's board of directors are elected by simple majority of its directors. The Bank's Chairman, Mr Tian Guoli, also serves as the Chairman of BOCHK (Holdings). The Bank's Vice Chairman and President, Mr Li Lihui, also serves as the Vice Chairman of BOCHK (Holdings). The Bank's executive director and executive vice president, Mr Li Zaohang, also serves as non-executive director of BOCHK Holdings.

Directors

The following table sets forth certain information concerning the Bank's directors.

Board of Directors

Name	Position
Tian Guoli	Chairman
Li Lihui	Vice Chairman and President
Li Zaohang	Executive Director and Executive Vice President
Wang Yongli	Executive Director and Executive Vice President
Sun Zhijun	Non-Executive Director
Liu Lina	Non-Executive Director
Zhang Xiangdong	Non-Executive Director
Zhang Qi	Non-Executive Director
Wang Yong	Non-Executive Director
Chow Man Yiu, Paul	Independent Non-Executive Director
Jackson Tai	Independent Non-Executive Director
Nout Wellink	Independent Non-Executive Director
Lu Zhengfei	Independent Non-Executive Director
Leung Cheuk Yan	Independent Non-Executive Director

Tian Guoli, has been serving as Chairman of the Bank's Board of Directors since May 2013. Mr. Tian joined the Bank in April 2013. From December 2010 to April 2013, Mr. Tian served as Vice Chairman of the board of directors and General Manager of China CITIC Group. During this period, he also served as Chairman of the board of directors and Non-executive Director of China CITIC Bank. From April 1999 to December 2010, Mr. Tian successively served as Vice President and President of China Cinda Asset Management Company, and Chairman of the board of directors of China Cinda Asset Management Corporation Limited. From July 1983 to April 1999, Mr. Tian held various positions in China Construction Bank ("**CCB**"), including sub-branch general manager, deputy branch general manager, department general manager of the CCB Head Office, and Assistant President of CCB. Mr. Tian received a Bachelor's degree in Economics from Hubei Institute of Finance and Economics in 1983. Mr. Tian has been serving as Chairman of the Board of Directors and a Non-executive Director of BOCHK (Holdings) since June 2013.

Li Lihui, has been serving as Vice Chairman of the Bank's Board of Directors, and the Bank's President since August 2004. From September 2002 to August 2004, Mr. Li served as Deputy Governor of Hainan province, and from July 1994 to September 2002, Mr. Li was an Executive Vice President of Industrial and Commercial Bank of China ("**ICBC**"). From January 1989 to July 1994, he served in a number of positions at ICBC, including Deputy General Manager of the Fujian branch, Chief Representative of the Singapore Representative Office and General Manager of the International Business Department. Mr. Li has been serving as Vice Chairman of the Board of Directors of BOCHK (Holdings) since June 2009. Mr. Li graduated from the Economics Department of Xiamen University in 1977 and obtained a Doctorate in Economics from the Guanghua School of Management at Peking University in 1999.

Li Zaohang, has been serving as the Bank's Executive Director since August 2004. Mr. Li joined the Bank in November 2000 and has been serving as the Executive Vice President since then. From November 1980 to November 2000, Mr. Li served in various positions at China Construction Bank, including branch general manager, general manager of various departments of the head office and Executive Vice President. Mr. Li has been serving as a Non-Executive Director of BOCHK (Holdings) since June 2002, and has been serving as President of Shanghai RMB Trading Unit of the Bank since March 2012. Mr. Li graduated from Nanjing University of Information Science and Technology in 1978.

Wang Yongli, has been serving as the Bank's Executive Director since February 2012. Mr. Wang joined the Bank in 1989 and has been serving as Executive Vice President since August 2006. From November 2003 to August 2006, Mr. Wang served as Executive Assistant President of the Bank. From April 1999 to January 2004, Mr. Wang held various positions in the Bank, including General Manager of the Asset-liability Management Department of the Head Office, Acting Deputy General Manager and General Manager of the Fujian Branch, and General Manager of the Hebei Branch. Mr. Wang graduated from Renmin University of China with a Master's degree in 1987 and obtained a Doctor's degree from Xiamen University in 2005.

Sun Zhijun, has served as the Bank's non-executive director since October 2010. Ms Sun worked in several positions in MOF from 1982 to 2010, including as an official of the Cultural and Health Division and as Deputy Director of the Social Security Division of the Cultural, Educational, Administrative and Financial Department, Director of the Health and Medical Services Division of the Social Security Department, and Deputy Director General and Director General of the Social Security Department. Ms Sun is currently a member of the Tenth Executive Committee of the All-China Women's Federation. Ms Sun graduated from the Department of Finance and Economics at the Shanxi University of Finance and Economics with a Bachelor's degree in February 1982.

Liu Lina, has served as the Bank's non-executive director since October 2010. Ms Liu worked in several positions in MOF from 1982 to 2010, including as an official of the Foreign Trade and Finance Division and the Foreign Trade Division, Deputy Director of the Comprehensive Affairs Division, Director of the Foreign Trade Division of the Commerce and Trade Department, Director of the Foreign Economy Division, Director of the Fifth Enterprise Division of the Enterprise Department, and Deputy Inspector of the Enterprise Department. Ms Liu graduated with a Bachelor's degree in economics from the China Northeast University of Finance and Economics in January 1982. In July 2007, Ms Liu obtained a postgraduate degree in World Economics from the Party School of the Central Committee of C.P.C. in July 2007.

Zhang Xiangdong, has served as the Bank's non-executive director since July 2011. Mr Zhang served as a non-executive director of China Construction Bank Corporation from November 2004 to June 2010, and served as Chairman of the Risk Management Committee under its board of directors from April 2005 to June 2010. From August 2001 to November 2004, Mr Zhang worked as Vice President of PBOC's Haikou Central Sub-branch and concurrently served in SAFE as Deputy Director General of Hainan Province Branch and Deputy Director General and Inspector of the General Affairs Department. Mr Zhang served as a member of the Stock Offering Approval Committee of CSRC from September 1999 to September 2001. Mr Zhang holds the professional title of senior economist and is qualified to practise law in China. He served as a member of China International Economic and Trade Arbitration Commission from January 2004 to December 2008. Mr Zhang graduated from Renmin University of China with a Bachelor's degree in law in 1986. He completed his post-graduate studies in international economic law at Renmin University of China in 1988, and was awarded a Master's degree in Law in 1990.

Zhang Qi, has served as the Bank's non-executive director since July 2011. Mr. Zhang worked in Central Expenditure Division One, Comprehensive Division of the Budget Department, and Ministers' Office of the General Office of MOF, as well as the Operation Department of China Investment Corporation, serving as Deputy Director, Director and Senior Manager from 2001 to 2011. Mr. Zhang studied in the Investment Department and Finance Department of China Northeast University of Finance and Economics from 1991 to 2001, and obtained the Bachelor's degree, Master's degree and Doctorate in Economics respectively in 1995, 1998 and 2001.

Wang Yong, has served as the Bank's non-executive director since July 2013. Mr Wang served as a director of CCB from June 2007 to June 2013 and a director of China Export & Credit Insurance Corporation since December 2012. Mr Wang was an inspector of the Balance of International Payments Department of SAFE from August 2004 to March 2007, and served consecutively as deputy director general of the Foreign Investment Administration Department, deputy director general of the Capital Account Management Department and director general of the Balance of International Payments Department of SAFE from January 1997 to August 2004. Mr Wang is a senior economist. He graduated from Jilin University with a Bachelor's degree in world economics in 1984 and a Master's degree in world economics in 1987.

Chow Man Yiu, Paul, has served as the Bank's non-executive director since October 2010. Mr. Chow was an executive director and Chief Executive of Hong Kong Exchanges and Clearing Limited from April 2003 to January 2010. Hong Kong Exchanges and Clearing Limited is listed on the Main Board of The Stock Exchange of Hong Kong Limited. Mr. Chow currently serves as the Treasurer and a member of the Council and the Court of the University of Hong Kong, Chairman of Hong Kong Cyberport Management Company Limited, the Chairman of Plan International Hong Kong and an independent non-executive director of China Mobile Limited. Mr. Chow also serves as a member of Asian Advisory Committee of AustralianSuper Pty. Ltd. Mr. Chow served as the Chief Executive, Asia Pacific Region (ex-Japan) of HSBC Asset Management (Hong Kong) Limited from 1997 to 2003. From 1992 to 1997 and 2003 to January 2010, Mr. Chow was a member of the Standing Committee on Company Law Reform of the Government of the Hong Kong Special Administrative Region (the "**HKSAR Government**"). Mr. Chow also served as a Director of the World Federation of Exchanges from 2003 to January 2010 and became Chairman of its Working Committee in 2007 and 2008 and then its Vice-chairman in 2009. From 2001 to 2007, he was a member of the Advisory Committee of the Hong Kong Securities and Futures Commission. Mr. Chow graduated from the University of Hong Kong with a Bachelor's degree in Science (Engineering) in 1970. He obtained a Diploma in Management Studies and an MBA in 1979 and 1982, respectively, from the University of Hong Kong. He also obtained a Diploma in Finance (Distinction) from the Chinese University of Hong Kong in 1987, and was conferred the Doctor of Social Science, honoris causa by the Open University of Hong Kong in 2010. He was awarded the title of Justice of the Peace, the Silver Bauhinia Star and the Gold Bauhinia Star by the HKSAR Government in 2003, 2005 and 2010, respectively. Mr. Chow is a Distinguished Fellow of the Hong Kong Computer Society, an Honorary University Fellow of the University of Hong Kong, an Honorary Fellow of the Hong Kong University of Science and Technology, a Fellow of the Hong Kong Institute of Chartered Secretaries, a Fellow of the Institute of Chartered Secretaries and Administrators, an Honorary Fellow of Hong Kong Securities Institute and a Certified General Accountant (Honorary) of the Canadian Certified General Accountants Association of Hong Kong.

Jackson Tai, Mr. Tai has over 35 years of experience in the banking industry. He held various key positions in DBS Group Holdings Limited ("DBS Group") and DBS Bank Limited ("DBS Bank") including Vice Chairman and Chief Executive Officer of DBS Group and DBS Bank from 2002 to 2007, President and Chief Operating Officer of DBS Group and DBS Bank from 2001 to 2002, and Chief Financial Officer of DBS Bank from 1999 to 2001. He was also a Director of DBS Bank (China) Limited from 2007 to 2008. Prior to that, he was with J.P. Morgan & Co. Incorporated from 1974 to 1999. He was Managing Director in the Investment Banking Division and held senior management positions in New York, Tokyo and San Francisco. He currently serves as a director of a number of companies listed in New York and Singapore, including director of Eli Lilly and Company since 2013, director of Singapore Airlines since 2011, director of Royal Philips NV since 2011, and director of MasterCard Incorporated since 2008. Mr. Tai is a director of privately-held VaporStream, and is also a director of privately held Russell Reynolds Associates since 2013. Previously, Mr. Tai was a director of NYSE Euronext from 2010 to 2013, ING Groep NV from 2008 to 2010, and CapitaLand from 2001 to 2010. Mr. Tai is also currently a member of the Asia-Pacific Advisory Board of Harvard Business School, and trustee of Rensselaer Polytechnic Institute, and a director and member of the Committee of 100. Mr. Tai graduated from Rensselaer Polytechnic Institute with a Bachelor of Science degree in 1972, and from Harvard University with a Masters of Business Administration degree in 1974.

Nout Wellink, has served as the Bank's independent non-executive Director since October 2012. Mr. Wellink has served as a member of the Executive Board of the Dutch Central Bank ("**DNB**") for almost 30 years, the last 14 years as its President. He retired from DNB on 1 July 2011. DNB is since 1999 an integral part of the European System of Central Banks, but at the same time the national prudential supervisor of banks, pension funds and insurance companies. Since the establishment of the European Monetary Union, Mr. Wellink served as a member of the Governing Council of the European Central Bank.

Starting from 1997, Mr. Wellink served as a member of the Board of Directors of the Bank for International Settlements, which he chaired from 2002 to 2006. From 2006 to 2011, he also chaired the Basel Committee on Banking Supervision. From 1997 to 2011, Mr. Wellink was a member of the Group of Ten Central Bank Governors and a Governor of the International Monetary Fund. Prior to his appointment in 1982 as an executive director of DNB, Mr. Wellink held several posts in the Dutch Ministry of Finance, including as the Treasurer General from 1977 to 1982. After studying Dutch law at Leyden University from 1961 to 1968 with a Master's degree obtained, Mr. Wellink obtained a doctor's degree in economics at the Rotterdam Erasmus University in 1975. In 2008 he received an honorary doctorate from Tilburg University. From 1988 to 1998, Mr. Wellink was an Extraordinary Professor at the Free University in Amsterdam. Mr. Wellink is currently the chairman of the Supervisory Board of the Leyden University, and had many secondary functions in the past, including member of the Supervisory Board of a bank and other enterprises on behalf of the Dutch authorities, chairman of the Board of Supervisors of the Netherlands Open Air Museum, member and treasurer of the Royal Picture Gallery Mauritshuis and the Westeinde Hospital in The Hague. He was awarded a Knighthood in the Order of the Netherlands Lion in 1980 and is since 2011 Commander of the Order of Orange-Nassau.

Lu Zhengfei, has served as the Bank's independent non-executive director since July 2013. Mr. Lu Zhengfei currently serves as the associate dean and professor of the accounting department of Guanghua School of Management, Peking University. Mr. Lu graduated from Renmin University of China in 1988 with a Master's degree in Economics (Accounting), and received his Doctor's degree in Economics (Management) from Nanjing University in 1996. He had served as the head of the accounting department of the School of Business, Nanjing University between 1994 and 1999, and the head of the accounting department of Guanghua School of Management, Peking University between 2001 and 2007. Mr. Lu also currently serves as a consulting expert of the China Accounting Standards Committee of the Ministry of Finance, China, a director and an academic committee member of the Accounting Society of China, an executive committee member of the China Audit Society, an editorial board member of Accounting Research and Audit Research, and a member of the disciplinary committee of the Chinese Institute of Certified Public Accountants. In 2001, he was elected as a member of "The Hundred People Project of Beijing New Century Social Science Theoretical Talent". In 2005, he was elected to the "New Century Excellent Talent Support Plan" of the Ministry of Education, China. He currently serves as an independent non-executive director or an independent supervisor of a number of companies listed in Hong Kong Stock Exchange, including: independent non-executive director of Sinotrans Ltd. since September 2004, independent non-executive director of Sino Biopharmaceutical Ltd. since November 2005, independent non-executive director of China National Materials Co., Ltd. since December 2009, and independent supervisor of PICC Property and casualty Co., Ltd. ("**PICC P&C**") since January 2011. He was an independent non-executive director of PICC P&C from February 2004 to December 2010.

Leung Cheuk Yan, has served as the Bank's independent non-executive director since September 2013. He is a former partner of Baker & McKenzie, which he joined in July 1987 and from which he retired in June 2011. Mr. Leung graduated from The Chinese University of Hong Kong with a Bachelor of Social Science degree (First Class Honours) in 1976, obtained a Master of Philosophy degree from The University of Oxford in 1981 and completed his legal study at The College of Law in England in 1982. He was admitted to practice as a solicitor in Hong Kong in 1985, in England and Wales in 1988, in the Australian Capital Territory in 1989 and in Victoria, Australia in 1991. He was awarded the Senior Associate Member by the St. Antony's College, Oxford. During 2009 and 2010, he had served as a part-time member of the Central Policy Unit of The Hong Kong Special Administrative Region Government. Mr. Leung has been an independent non-executive director of MMG Limited which is listed in The Stock Exchange of Hong Kong Limited since July 2012.

The business address of the Bank's directors is Bank of China Limited, No. 1 Fuxingmennei Dajie, Beijing 100818, PRC.

There are no potential conflicts of interest between any duties to the Bank of the directors listed above and their private interests or other duties.

Senior Management

The following table sets forth certain information concerning members of the Bank's senior management.

Name	Position
Li Lihui	Vice Chairman and President
Li Zaohang	Executive Director and Executive Vice President
Zhang Lin	Secretary of Party Discipline Committee
Wang Yongli	Executive Director and Executive Vice President
Chen Siqing	Executive Vice President
Zhu Shumin	Executive Vice President
Yue Yi	Executive Vice President
Chim Wai Kin	Chief Credit Officer
Liu Yanfen	Chief Audit Officer
Fan Yaosheng	Secretary to the Board of Directors

Zhang Lin, has been serving as the Bank's Secretary of Party Discipline Committee since August 2004. Prior to joining the Bank, Ms. Zhang held various positions in the Export and Import Bank of China, including Assistant President from June 2002 to August 2004 and Deputy Director General and Director General of its Personnel Education Department from August 1998 to July 2002. Majoring in Economics and Political Sciences, Ms. Zhang graduated from the Party School of the Inner Mongolia Autonomous Region's Communist Party Committee in 1983.

Chen Siqing, has been serving as the Bank's Executive Vice President since June 2008. Mr. Chen joined the Bank in 1990 and worked in the Bank's Hunan Branch before he was seconded to the Hong Kong Branch of China and South Sea Bank Ltd. as Assistant General Manager. Mr. Chen held various positions in the Bank from June 2000 to May 2008, including Assistant General Manager, Vice General Manager of the Fujian Branch, General Manager of the Risk Management Department of the Head Office and General Manager of the Guangdong Branch. Mr. Chen graduated from Hubei College of Finance and Economics in 1982. He obtained an MBA from Murdoch University, Australia in 1999. He is a Certified Public Accountant. Since December 2011, Mr. Chen has been serving as a Non-executive Director of BOCHK Holdings and Chairman of the Board of Directors of BOC Aviation Private Limited.

Zhu Shumin, has been serving as the Bank's Executive Vice President since August 2010. Mr. Zhu joined the Bank in 1988 and served as Global Head of Personal Banking Business of the Bank from May 2009 to July 2010. From July 2003 to May 2009, Mr. Zhu served as General Manager of the Jiangsu Branch of the Bank. From November 2000 to July 2003, Mr. Zhu served as Deputy General Manager of the Jiangsu Branch and General Manager of Suzhou Branch of the Bank. Mr. Zhu previously held various positions in the Suzhou Branch, the Taizhou Branch and the Yangzhou Branch of Jiangsu. Since March 2010, Mr. Zhu has been serving as Chairman of the Board of Directors in Bank of China Consumer Finance Company Limited. He received an MBA from Fudan University in 2008.

Yue Yi, has been serving as Executive Vice President since August 2010. Mr. Yue joined the Bank in 1980 and served as Global Head of Financial Markets Business of the Bank from March 2009 to July 2010. From March 2008 to March 2009, Mr. Yue served as Global Head of Personal Banking Business of the Bank. From February 2005 to August 2008, Mr. Yue served as General Manager of the Personal Banking Department. Mr. Yue previously held various positions in the Retail Banking Department of the Head Office, the Seoul Branch and the Beijing Branch of the Bank. Mr. Yue has been serving as Chairman of Bank of China (UK) Limited since September 2010, and as Chairman of the Board of Directors of BOC International Holdings Limited ("**BOCI**") since November 2011. Mr. Yue has been serving as Chairman of Bohai Industry Investment Management Ltd. since March 2012. He received his Master's degree in Finance from Wuhan University in 1999.

Chim Wai Kin, is the Bank's Chief Credit Officer since March 2007. Prior to joining the Bank, he held various positions at Standard Chartered Bank, Bankers Trust Company and Deutsche Bank. While working with Deutsche Bank, Mr. Chim served as the Managing Director and Chief Credit Officer (non Japan Asia). Mr. Chim graduated from Chinese University of Hong Kong with a Bachelor degree in Science in 1983, and obtained an MBA from Indiana State University, United States in 1985.

Liu Yanfen, has been serving as the Bank's Chief Audit Officer since December 2011. Ms. Liu joined the Bank in 1982 and served as General Manager of the Singapore Branch of the Bank from June 2007 to December 2011. From June 1998 to February 2007, Ms. Liu served as General Manager of the Financial Management Department of the Head Office. Ms. Liu previously held various positions in the Bank, including General Manager of Dongfang Trust and Investment Corporation, and Deputy General Manager of the Financial Management Department of the Head Office. Ms. Liu graduated from Liaoning College of Finance and Economics with a Bachelor's degree in 1982, and obtained a Master's degree in Finance from Wuhan University in 1999. She is a Certified Public Accountant.

Fan Yaosheng, has been serving as the Secretary to the Board of Directors of the Bank since September 2012. Mr. Fan joined the Bank in 1994 and has held various positions, including Deputy General Manager of the Corporate Banking Department and Corporate Banking Unit of the Bank, Deputy General Manager of the IT Blueprint Implementation Office and the Business Process Reengineering Steering Office of the Head Office and General Manager of the Board Secretariat. Mr. Fan graduated from the Law School of Peking University with a Bachelor's degree in 1990, obtained a Master's degree in law from University of Gottingen, Germany in 1993 and a Master's degree in law from Nanjing University in 1994. Mr. Fan is qualified to practice law in China.

Board Committees

The Bank's board of directors delegates certain responsibilities to various committees. The Bank's board of directors has set up the Strategic Development Committee, Audit Committee, Risk Policy Committee, Personnel and Remuneration Committee, and Connected Transaction Control Committee. These committees are constituted by certain directors and report to the board of directors. As required by the Bank's Articles of Association, each committee must have at least three directors.

SUBSTANTIAL SHAREHOLDERS

The table below sets forth certain information regarding ownership of the Bank's outstanding shares as at 30 June 2013 by those persons who hold or are beneficially interested in any substantial part of the Bank's share capital.

The register maintained by the Bank pursuant to section 336 of SFO, recorded that, as at 30 June 2013, the following corporations had the following interests (as defined in SFO) set opposite their respective names:

Name of shareholder	Capacity	Number of shares held/Number of underlying shares	Type of shares	Percentage in total issued A Shares	Percentage in total issued H Shares	Percentage in total issued share capital
Central Huijin Investment Ltd.[1]	Beneficial owner	188,553,352,005	A	96.43%	–	67.55%
National Council for Social Security Fund PRC	Beneficial owner	7,518,157,041	H	–	8.99%	2.69%
BlackRock, Inc.[2]	Interest of controlled corporations	5,676,089,142	H	–	6.79%	2.03%
JPMorgan Chase & Co.[3]	Beneficial owner	598,318,179	H	–	0.72%	0.21%
		132,612,149(S)[4]	H	–	0.16%	0.05%
	Investment Manager	581,310,115	H	–	0.70%	0.21%
	Custodian corporation/ approved lending agent	3,017,861,927(P)[4]	H	–	3.61%	1.08%
	Total	4,197,490,221	H	–	5.02%	1.50%
		132,612,149(S)[4]	H	–	0.16%	0.05%
		3,017,861,927(P)[4]	H	–	3.61%	1.08%

Notes:

(1) The interest of Central Huijin Investment Ltd. reflects its latest disclosure of interest made pursuant to SFO, which does not reflect its increase in holding of the Bank's A Shares from 2011 to the end of the reporting period.

(2) BlackRock, Inc. holds the entire issued share capital of BlackRock Holdco 2 Inc., which in turn holds the entire issued share capital of BlackRock Financial Management, Inc. Accordingly, BlackRock, Inc. and BlackRock Holdco 2 Inc. are deemed to have the same interests in the Bank as BlackRock Financial Management, Inc. under the SFO. Blackrock, Inc. holds a long position of 5,676,089,142 H Shares through BlackRock Financial Management, Inc. and other corporations controlled by it. Among the total, 18,093,000 H Shares are held through derivatives.

(3) JPMorgan Chase & Co. holds the entire issued share capital of JPMorgan Chase Bank, N.A. Accordingly, JPMorgan Chase & Co. is deemed to have the same interests in the Bank as JPMorgan Chase Bank, N.A. under the SFO. JPMorgan Chase & Co. holds a long position of 4,197,490,221 H Shares and a short position of 132,612,149 H Shares of the Bank through JPMorgan Chase Bank, N.A. and other corporations controlled by it. Among the aggregate interests in the long position of 4,197,490,221 H Shares, 3,017,861,927 H Shares are held in the lending pool and 79,113,000 H Shares are held through derivatives. Among the aggregate interests in the short position of 132,612,149 H Shares, 99,612,149 H Shares are held through derivatives.

(4) "S" denotes short position, "P" denotes lending pool.

All the interests stated above represented long positions, except as stated otherwise. Save as disclosed above, as at 30 June 2013 no other interests or short positions were recorded in the register maintained by the Bank under section 336 of SFO.

Controlling Shareholder of the Bank

Central Huijin Investment Ltd. ("**Huijin**") is a state-owned company established under the Company Law of the PRC. Established on 16 December 2003, Huijin has a registered capital of RMB828.209 billion and paid-in capital of RMB828.209 billion. As at 31 December, 2012 its legal representative is Mr Lou Jiwei. Wholly-owned by China Investment Corporation, Huijin makes equity investments in key state-owned financial institutions, as authorised by the State. To the extent of its capital contribution, Huijin exercises the rights and fulfils the obligations as an investor on behalf of the State, in accordance with applicable laws aimed at preserving and enhancing the value of state-owned financial assets. Huijin neither engages in other business activities nor intervenes in the daily operation of the key state-owned financial institutions under its control.

TAXATION

The following is a general description of certain tax considerations relating to the Notes and is based on laws and relevant interpretation thereof in effect as at the date of this Offering Circular all of which are subject to changes and does not constitute legal or taxation advice. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of the Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. It is emphasised that none of the Issuer nor any other persons involved in the Programme accepts responsibility for any tax effects or liabilities resulting from the subscription for purchase, holding or disposal of the Notes.

People's Republic of China

The following summary describes the principal PRC tax consequences of ownership of the Notes by beneficial owners who, or which, are not residents of mainland China for PRC tax purposes. These beneficial owners are referred to as non-PRC Noteholders in this section. In considering whether to invest in the Notes, potential purchasers should consult their individual tax advisors with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction.

(I) In the event that the Issuer is the Bank's head office (the "BOC Head Office")

Pursuant to the Enterprise Income Tax Law promulgated on 16 March 2007 and effective on 1 January 2008 and the PRC Individual Income Tax Law, as amended on 30 June 2011, and their implementation regulations, an income tax is imposed on payment of interest by way of withholding in respect of debt securities, issued by PRC enterprises to non-resident Noteholders, including non-resident enterprises and non-resident individuals.

In the event that the Issuer is BOC Head Office, BOC Head Office will be subject to withhold PRC income tax on the payment of interest of the Notes to non-resident Noteholders. The current rates of such income tax are 20% (for non-resident individuals) and 10% (for non-resident enterprises) of the gross amount of the interest, in each case, unless a lower rate is available under an applicable tax treaty. For example, the tax so charged on interests paid on the Notes to non-resident Noteholders who, or which are residents of Hong Kong (including enterprise holders and individual holders) as defined under the arrangement between the mainland China and Hong Kong for purpose of the avoidance of double taxation will be 7% of the gross amount of the interest pursuant to such arrangement. In addition,, the payments on the Notes shall be subject to PRC business tax and surcharges may be deducted at the rate of 5.6% of, the interest component of the amount payable by BOC Head Office. The Issuer has agreed to pay additional amounts to holders of the Notes so that holders of the Notes would receive the full amount of the scheduled payment, as further set out in the "Terms and Conditions of the Notes.

Under the Enterprise Income Tax Law and its implementation regulations, any gains realized on the transfer of the Notes by holders who are deemed under the Enterprise Income Tax Law as non-resident enterprises may be subject to PRC enterprise income tax if such gains are regarded as incomes derived from sources within the PRC.. In addition, there is uncertainty as to whether gains realized on the transfer of the Notes by individual holders who are not PRC citizens or residents will be treated as incomes sourced within the PRC which as a result will be subject to PRC individual income tax. If such gains are subject to PRC income tax, the 10% enterprise income tax rate and 20% individual income tax rate will apply respectively unless there is an applicable tax treaty or arrangement that reduces or exempts such income tax. According to an arrangement between the mainland China and Hong Kong for avoidance of double taxation, Noteholders who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from PRC income tax on capital gains derived from a sale or exchange of the Notes.

No PRC stamp duty will be chargeable upon the issue or transfer (for so long as the register of Noteholders is maintained outside the PRC) of a Note.

(II) In the event that the Issuer is the Hong Kong Branch or other overseas branch of the Bank

In the event that the Issuer is the Hong Kong Branch or other offshore branch of the Bank, the Issuer is not obliged to withhold PRC income tax at the rate up to 10% (for non-resident enterprises) or 20% (for non-resident individuals) on the payments of interest made by it to non-resident Noteholders provided that the payments are made outside of the territory of PRC. However, this is subject to the interpretation by the PRC tax authorities. If the PRC tax authorities take an interpretation that the interest on the Notes payable by the Issuer is treated as income sourced from the PRC, a withholding tax may be imposed on such interest and the Issuer will pay additional amounts to holders of the Notes so that holders of the Notes would receive the full amount of the scheduled payment, as further set out in the Terms and Conditions of the Notes. If BOC Head Office shall perform the obligation of paying interest of the Notes in the event and only when the Issuer fails to perform its obligations of paying the interest of the Notes, BOC Head Office will be obliged to withhold PRC income tax at a rate of 10% (unless a lower rate is available under an applicable tax treaty) of, and PRC business tax and surcharges at the rate of 5.6% of, the interest component of the amount payable by BOC Head Office to the Noteholders if the PRC tax authority views such component as an interest income arising within the territory of the PRC.

Non-resident Noteholders will not be subject to the PRC tax on any capital gains derived from a sale or exchange of Notes consummated outside the PRC between non-resident Noteholders, except however, if the Issuer is treated as a PRC tax resident enterprise under the Enterprise Income Tax Law and related implementation regulations in the future, any gains realized by the non-resident Noteholders from the transfer of the Notes may be regarded as being sourced within the PRC and accordingly would be subject to the rate of 10% (for non-resident enterprises) or 20% (for non-resident individuals) of PRC withholding tax unless there is a lower tax rate applicable.

No PRC stamp duty will be chargeable upon the issue or transfer (for so long as the register of Noteholders is maintained outside the PRC) of a Note.

Hong Kong

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(i) interest on the Notes is derived from Hong Kong and is received by or accrues to a company carrying on a trade, profession or business in Hong Kong;

(ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a company (such as a partnership), carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business; or

(iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong) and arises through or from the carrying on by the financial institution of its business in Hong Kong.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Notes will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of the Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, from the carrying on a trade, profession or business in Hong Kong and the sum has a Hong Kong source. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed of.

Stamp Duty

Stamp duty will not be payable on the issue of Bearer Notes provided either:

(i) such Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) such Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong (the "**SDO**")).

If stamp duty is payable it is payable by the Issuer on the issue of Bearer Notes at a rate of 3 per cent. of the market value of the Notes at the time of issue. No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes. Stamp duty may be payable on any transfer of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfer of Registered Notes provided that either:

(i) the Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) the Registered Notes constitute loan capital (as defined in the SDO).

If stamp duty is payable in respect of the transfer of Registered Notes it will be payable at the rate of 0.2 per cent. (of which 0.1 per cent. is payable by the seller and 0.1 per cent. is payable by the purchaser) normally by reference to the consideration or its value, whichever is higher. In addition, stamp duty is payable at the fixed rate of HK$5 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

United Kingdom Taxation

The comments below are of a general nature based on current U.K. tax law and HM Revenue and Customs ("**HMRC**") published practice (which may not be binding on HMRC) and are not intended to be exhaustive. They only apply to persons who are absolute beneficial owners of the Notes. The comments below do not necessarily apply where the income is deemed for tax purposes to be the income of any other person and may not apply to certain classes of person such as dealers or certain professional investors. Any Noteholders who are in doubt as to their own tax position, or who may be subject to tax in a jurisdiction other than the United Kingdom, should consult their professional advisers.

*Withholding tax on payments of interest on Notes issued by the Issuer acting through its London branch ("**U.K. Notes**")*

References to "interest" in this section mean interest as understood for U.K. withholding tax purposes. Any redemption premium may be "interest" for these purposes, although the position will depend upon the particular terms and conditions. For Notes issued at a discount, the difference between the face value and the issue price will not generally be regarded as "interest" for these purposes, although any discount may be subject to reporting requirements as outlined below in "*Information provision requirements in respect of the Notes*".

Whilst any U.K. Notes are and continue to be "quoted Eurobonds" within the meaning of Section 987 of the Income Tax Act 2007 (the "**Act**"), payments of interest by the Issuer on those U.K. Notes may be made without withholding or deduction for or on account of U.K. income tax. U.K. Notes will constitute "quoted Eurobonds" provided that and so long as such U.K. Notes carry a right to interest and are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Act. NYSE Euronext Paris is a recognised stock exchange for these purposes. U.K. Notes will be treated as listed on NYSE Euronext Paris if they are both (i) admitted to trading on NYSE Euronext Paris and (ii) officially listed in France in accordance with provisions corresponding to those generally applicable in countries in the European Economic Area.

If U.K. Notes are not, or cease to be, listed on a recognised stock exchange, payments of interest by the Issuer on the U.K. Notes should nevertheless not be subject to withholding or deduction for or on account of U.K. income tax provided that and so long as, at the time of payment, the Issuer is a bank for the purposes of section 991 of the Act and the interest is paid in the ordinary course of its business within the meaning of section 878 of the Act. According to HMRC practice, interest will be regarded as arising in the ordinary course of a bank's business unless (i) the borrowing relates to the capital structure of the bank, such as if the U.K. Notes were to conform to any of the definitions of Tier 1, 2 or 3 capital as adopted by the Bank of England (whether or not the borrowing actually counts towards Tier 1, 2 or 3 capital for regulatory purposes), or (ii) the characteristics of the transaction giving rise to the interest are primarily attributable to an intention to avoid U.K. tax.

In cases other than those described above, payments of interest on U.K. Notes will generally be paid by the Issuer subject to deduction on account of U.K. income tax at the basic rate of 20%, subject to the availability of any other exemption or reliefs.

Noteholders who are resident in jurisdictions outside the United Kingdom may also be able to receive payment free of deductions or subject to a lower rate of deduction under an applicable double taxation treaty provided that such Noteholders obtain a direction to that effect from HMRC. However, such a direction will only be issued on prior application to HMRC by the Noteholder in question. If such a direction is not in place at the time a payment of interest is made (and no other exemption or relief is available), the Issuer will be required to withhold tax, although a Noteholder who is entitled to relief under a double taxation treaty may subsequently be able to claim the repayment of some or all of the amount withheld (depending upon the extent to which they are entitled to relief) from HMRC.

Withholding tax on payments of interest on Notes issued by the Issuer directly (acting otherwise than through its London branch)

Payments of interest on Notes issued by the Issuer directly (acting otherwise than through its London branch) may be made without withholding or deduction for or on account of U.K. income tax if such payments do not have a U.K. source. It is not currently expected that any such payments would have a U.K. source.

Information provision requirements in respect of the Notes

HMRC has powers to obtain information relating to securities in certain circumstances. This may include details of the beneficial owners of the Notes (or the persons for whom the Notes are held), details of the persons to whom payments derived from the Notes are or may be paid and information and documents in connection with transactions relating to the Notes. Information may be required to be provided by, amongst others, the holders of the Notes, persons by or through whom payments derived from the Notes are made or who receive such payments (or who would be entitled to receive such payments if they were made), persons who effect or are a party to transactions relating to the Notes on behalf of others and certain registrars or administrators. In certain circumstances, the information obtained by HMRC may be exchanged with tax authorities in other countries.

In addition, the reporting obligations in the Savings Directive set out in the "EU Savings Directive" section above, as implemented in the United Kingdom, may apply to payments on the Notes made through persons in the United Kingdom.

EU Directive on the Taxation of Savings Income

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at a rate of 35 per cent.. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. Luxembourg has announced that it will no longer apply the withholding tax system as from 1 January 2015 and will provide details of payments of interest (or similar income) as from this date.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

FATCA

Whilst the Notes are in global form and held within Euroclear, Clearstream, Luxembourg or the CMU, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Issuers, any paying agent, the common depositary and/or the relevant Clearing System, given that each of the entities in the payment chain between the Issuers and the participants in the relevant Clearing Systems is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an intergovernmental agreement will be unlikely to affect the securities. The documentation expressly contemplates the possibility that the securities may go into definitive form and therefore that they may be taken out of the relevant Clearing Systems. If this were to happen, then a non-FATCA compliant holder could be subject to withholding. However, definitive notes will only be printed in remote circumstances.

The proposed financial transactions tax ("FTT")

The European Commission has published a proposal for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**").

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No. 1287/2006 are exempt.

Under current proposals the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between the participating Member States and is the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

CLEARANCE AND SETTLEMENT

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg or the CMU Service (together, the "**Clearing Systems**") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer or any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer or any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

The Clearing Systems

DTC

DTC is a limited purpose trust company organised under the New York Banking Law, a "banking organisation" within the meaning of the New York Banking Law, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants ("**Participants**") deposit with DTC. DTC also facilitates the clearance and settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealer, banks, trust companies, clearing corporations and certain other organisations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealer, Inc. Access to the DTC System is also available to others such as securities brokers and dealer, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**").

Under the rules, regulations and procedures creating and affecting DTC and its operations (the "**Rules**"), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC's book-entry settlement system ("**DTC Notes**") as described below and receives and transmits distributions of principal and interest on DTC Notes. The Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes ("**Owners**") have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC's records. The ownership interest of each actual purchaser of each DTC Note ("**Beneficial Owner**") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has a reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Note, will be legended as set forth under "*Transfer Restrictions*".

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for its customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

CMU Service

The CMU Service is a central depositary service provided by the Central Moneymarkets Unit of the HKMA for the safe custody and electronic trading between the members of this service ("**CMU Members**") of capital markets instruments ("**CMU Notes**") which are specified in the CMU Reference Manual as capable of being held within the CMU Service.

The CMU Service is only available to CMU Notes issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the CMU Service is open to all members of the Hong Kong Capital Markets Association and "authorised institutions" under the Banking Ordinance (Cap. 155) of Hong Kong.

Compared to clearing services provided by Euroclear and Clearstream, Luxembourg, the standard custody and clearing service provided by the CMU Service is limited. In particular (and unlike the European Clearing Systems), the HKMA does not as part of this service provide any facilities for the dissemination to the relevant CMU Members of payments (of interest or principal) under, or notices pursuant to the notice provisions of, the CMU Notes. Instead, the HKMA advises the lodging CMU Member (or a designated paying agent) of the identities of the CMU Members to whose accounts payments in respect of the relevant CMU Notes are credited, whereupon the lodging CMU Member (or the designated paying agent) will make the necessary payments of interest or principal or send notices directly to the relevant CMU Members. Similarly, the HKMA will not obtain certificates of non-U.S. beneficial ownership from CMU Members or provide any such certificates on behalf of CMU Members. The CMU Lodging and Paying Agent will collect such certificates from the relevant CMU Members identified from an instrument position report obtained by request from the HKMA for this purpose.

An investor holding an interest through an account with either Euroclear or Clearstream, Luxembourg in any Notes held in the CMU Service will hold that interest through the respective accounts which Euroclear and Clearstream, Luxembourg each have with the CMU Service.

Book-entry Ownership of and Payments in respect of DTC Notes

The Issuer may apply to DTC in order to have any Series of Notes represented by a Global Note Certificate accepted in its bookentry settlement system. Upon the issue of any such Global Note Certificate, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Global Note Certificate to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Global Note Certificate will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Note, the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Global Note Certificate accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Global Note Certificate accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Global Note Certificate in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Principal Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Issuer.

Transfers of Notes Represented by Global Notes Certificate

Transfers of any interests in Notes represented by a Global Note Certificate within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Global Note Certificate to such persons may depend upon the ability to exchange such Notes for Notes in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Global Note Certificate accepted by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Global Note Certificate accepted by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a direct or indirect participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under "*Transfer Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Paying Agent and the DTC Custodian with whom the relevant Registered Notes have been deposited.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Notes of such Series between Participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Notes will be effected through the Registrar, the Paying Agent and the DTC Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Notes among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear, the CMU Service or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Global Notes Certificate or for maintaining, supervising or reviewing any records relating to such beneficial interests.

TRANSFER RESTRICTIONS

Regulation S Notes

Each purchaser of Bearer Notes or Unrestricted Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the expiration of the distribution compliance period as defined in Regulation S, by accepting delivery of this Offering Circular and the Notes, will be deemed to have represented, agreed and acknowledged that:

(i) it is, or at the time Notes are purchased will be, the beneficial owner of such Notes and:

(a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S); and

(b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate;

(ii) it understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period (as defined in Regulation S), it will not offer, sell, pledge or otherwise transfer such Notes except:

(a) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S; or

(b) to the Issuer; or

(c) in the case of Unrestricted Notes only, in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of a QIB, in each case in accordance with any applicable securities laws of any State of the United States;

(iii) it understands that the Issuer, the Principal Paying Agent, the Registrar, the Dealer and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and, if any such acknowledgments, representations or agreements deemed to have been made by virtue of its purchase of the Notes are no longer accurate, it agrees to promptly notify the Issuer.

On or prior to the fortieth day after the relevant issue date, Notes represented by an interest in an Unrestricted Global Note Certificate may be transferred to a person who wishes to hold such Notes in the form of an interest in a Restricted Global Note Certificate only upon receipt by the Registrar of a written certification from the transferor (in the form set out in Schedule 5 (*Form of Transfer Certificate*) to the Trust Deed) to the effect that such transfer is being made to a person whom the transferor reasonably believes is a QIB, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States. After such fortieth day, such certification requirements will no longer apply to such transfers, but such transfers will continue to be subject to the transfer restrictions contained in the legend appearing on the face of such Global Note Certificate, as described above under "*Forms of the Notes*".

Notes represented by an interest in a Restricted Global Note Certificate may also be transferred to a person who wishes to hold such Notes in the form of an interest in an Unrestricted Global Note Certificate, but only upon receipt by the Registrar of a written certification from the transferor (in the form set out in Schedule 5 (*Form of Transfer Certificate*) to the Trust Deed) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 (if available) under the Securities Act.

Any interest in a Note represented by an Unrestricted Global Note Certificate that is transferred to a person who takes delivery in the form of an interest in a Note represented by a Restricted Global Note Certificate will, upon transfer, cease to be an interest in a Note represented by an Unrestricted Global Note Certificate and become an interest in a Note represented by a Restricted Global Note Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to Notes represented by a Restricted Global Note Certificate.

Rule 144A Notes

Each purchaser of Restricted Notes in reliance on Rule 144A, by accepting delivery of this Offering Circular, will be deemed to have represented, agreed and acknowledged as follows (terms used in the following paragraphs that are defined in Rule 144A have the respective meanings given to them in Rule 144A):

(i) the purchaser is (a) a QIB, (b) acquiring the Notes for its own account or for the account of one or more QIBs, (c) not formed for the purpose of investing in the Notes or the Issuer and (d) is aware, and each beneficial owner of such Notes has been advised that the sale of the Notes to it is being made in reliance on Rule 144A;

(ii) the purchaser understands that (1) the Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it, and any person acting on its behalf, reasonably believes is a QIB purchasing for its own account or for the account of one or more QIBs, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), (d) to the Issuer or any of its affiliates, in each case in accordance with any applicable securities laws of any State of the United States and (2) it will, and each subsequent holder of the Restricted Notes is required to, notify any purchaser of the Restricted Notes from it of the resale restrictions applicable to the Restricted Notes;

(iii) the purchaser understands that the Restricted Global Note Certificate and any restricted Individual Note Certificate (a "**Restricted Individual Note Certificate**") will bear a legend to the following effect, unless the relevant Issuer determines otherwise in accordance with applicable law:

THE NOTES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR ANY SECURITIES LAW OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING THE NOTES REPRESENTED HEREBY, AGREES FOR THE BENEFIT OF THE ISSUER THAT THE NOTES REPRESENTED HEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY (1) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR A PERSON PURCHASING FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (4) TO THE ISSUER OR ITS AFFILIATES. THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE.

(iv) if it is acquiring any Notes for the account of one or more QIBs the purchaser represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account; and

(v) the purchaser understands that the Issuer, the Principal Paying Agent, the Registrar, the Dealer and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and, if any such acknowledgments, representations or agreements deemed to have been made by virtue of its purchase of the Notes are no longer accurate, it agrees to promptly notify the Issuer.

Upon the transfer, exchange or replacement of a Restricted Global Note Certificate or a Restricted Individual Note Certificate, or upon specific request for removal of the legend, the Issuer will deliver only a Restricted Global Note Certificate or one or more Restricted Individual Note Certificates that bear such legend or will refuse to remove such legend, unless there is delivered to the Issuer and the Registrar such satisfactory evidence (which may include a legal opinion) as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Any interest in a Restricted Global Note Certificate that is transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Note Certificate will, upon transfer, cease to be an interest in a Restricted Global Note Certificate and become an interest in an Unrestricted Global Note Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to an interest in an Unrestricted Global Note Certificate.

Prospective purchasers that are QIBs are hereby notified that sellers of the Restricted Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

REGULATION AND SUPERVISION IN THE PRC

The banking industry is heavily regulated in the PRC, with CBRC and PBOC acting as the principal regulatory authorities. CBRC is primarily responsible for supervising and regulating banking institutions, and PBOC, as the central bank of the PRC, is primarily responsible for formulating and implementing monetary policies. The applicable laws and regulations governing activities in the PRC banking industry consist principally of the PRC PBOC Law, the PRC Commercial Banking Law, the Law of PRC on Supervision and Administration of Banking Sector, and rules and regulations promulgated thereunder.

Principal Regulators

Prior to April 2003, PBOC acted as both the PRC's central bank and the principal supervisor and regulator of the banking industry in the PRC. In April 2003, CBRC was established to serve as the primary banking industry regulator and it assumed the majority of bank regulatory functions from PBOC. PBOC retained its role as the central bank but now has a smaller role in the regulation of banking institutions.

CBRC

Functions and Powers

CBRC is the primary supervisory authority responsible for the regulation of banking institutions operating in the PRC, including branches and representative offices established by foreign financial institutions in the banking sector in the PRC.

According to the Law of PRC on Supervision and Administration of Banking Sector, the main responsibilities of CBRC include:

(1) formulating and promulgating rules and regulations governing banking institutions and their business activities;

(2) reviewing and approving the establishment, change, dissolution and business scope of banking institutions, as well as granting banking licences for commercial banks, their branches and subsidiaries, branches and representative offices of foreign banks in the PRC;

(3) regulating the business activities of banking institutions, including the products and services they offer;

(4) setting qualification requirements for, and approving or overseeing the nomination of, directors and senior management personnel of banking institutions;

(5) setting guidelines and standards for internal controls, risk exposure and corporate governance of, and disclosure requirements for, banking institutions;

(6) conducting on-site inspection and off-site surveillance of the business activities and risk exposure status of banking institutions;

(7) monitoring the financial condition of banking institutions, including establishing standards or requirements for capital adequacy, asset quality and other financial metrics;

(8) imposing corrective and punitive measures for violations of applicable banking regulations;

(9) formulating prudential regulation principles of banking sector in accordance with laws and administrative regulations;

(10) working with authorities (including the PBOC and the Ministry of Finance);

(11) to establish emergency disposal mechanisms and to deal with any emergencies in the banking sector;

(12) guiding and conducting surveillance on the activities of banking self-disciplinary organisations; and

(13) carrying out international communication and cooperation activities related to supervisions of the banking sector.

Examination and Supervision

CBRC, through its head office in Beijing and offices in each province, provincial-level municipality and autonomous region, monitors the operations of commercial banks and their branches through on-site inspections and off-site surveillance. On-site inspections generally include visiting the banks' premises, interviewing bank employees, senior management and directors, as well as reviewing documents and materials maintained by the banks. CBRC also conducts off-site surveillance by reviewing financial and other reports regularly submitted by the banks. Off-site surveillance generally includes the surveillance of banks' business activities and risk exposure status to evaluate and analyse the operational risk of the banks. If a banking institution is not in compliance with a regulation, CBRC has the power to issue corrective and punitive measures, including imposition of fines, suspension of certain business activities, restrictions on distributions of dividends and other income and asset transfers, closure of the institution and other penalties.

PBOC

As the central bank of the PRC, PBOC is responsible for formulating and implementing monetary policies and maintaining the stability of the financial markets. According to the PRC PBOC Law, PBOC is empowered to:

(1) formulate and implement monetary policies by establishing benchmark interest rates, setting the deposit reserve ratios for banks, extending loans to commercial banks, accepting discounted bills and conducting open market operations;

(2) issue PRC treasury bills and other government bonds to financial institutions, as the agent of the MOF;

(3) issue the currency of Renminbi and regulate the flow of Renminbi;

(4) regulate the inter-bank lending market, inter-bank bond market and inter-bank foreign exchange market;

(5) set foreign exchange rate policies and manage the PRC's foreign exchange reserves and gold reserves;

(6) manage the state treasury;

(7) maintain the normal operation of payment and settlement systems;

(8) carry out foreign exchange administration and regulate inter-bank foreign exchange market;

(9) establish anti-money laundering guidelines and monitor fund transfers to ensure that such transfers are in compliance with anti-money laundering regulations;

(10) act as the central bank of the PRC to conduct relevant international financial activities; and

(11) collect statistics of, investigate, analyse and forecast the financial industry.

Other Regulatory Authorities

In addition to CBRC and PBOC, commercial banks in the PRC are also subject to the supervision and regulation by other regulatory authorities including, among others, SAFE, CSRC, CIRC and NDRC. For example, in conducting foreign exchange business, banks are subject to the regulation of SAFE; in dealing with securities-related matters such as distributing securities investment funds or acting as the custodians of investment assets of securities institutional investors, banks are subject to the regulation of CSRC; and in conducting bancassurance business, banks are subject to the regulation of CIRC; and in issuing the notes overseas by the domestic banks, the domestic banks are subject to the regulation of NDRC.

Regulations Regarding Capital Adequacy

Capital Adequacy Guidelines

In March 2004, CBRC implemented capital adequacy guidelines applicable to all commercial banks in the PRC. The guidelines, the Capital Adequacy Measures, provided for a phase-in period whereby all domestic banks must have met minimum capital adequacy ratios ("**CAR**") by 1 January 2007. On 3 July 2007, CBRC amended the Capital Adequacy Measures issued in March 2004 to set forth new and more stringent capital adequacy guidelines which must be complied with from 3 July 2007 onwards.

In June 2012, the CBRC issued the CBRC Measures regulating CARs of PRC commercial banks. The CBRC Measures, which are intended to reflect the Basel III regulatory capital requirements, set out minimum CAR requirements for commercial banks and provide detailed guidelines on the calculation of "capital" and "risk-weighted assets". The overall CAR requirements are 11.5 per cent. for systematically important commercial banks and 10.5 per cent. for other commercial banks. Commercial banks in the PRC are required to have a CAR of not less than 8 per cent., Tier 1 CAR of not less than 6 per cent. and Core Tier 1 CAR of not less than 5 per cent. The CARs are calculated in accordance with the CBRC Measures as follows:

$$\text{Capital Adequacy Ratio} = \frac{\text{Total Capital - deductions from corresponding capital instruments}}{\text{Risk-weighted Assets}} \times 100\%$$

$$\text{Tier 1 Capital Adequacy Ratio} = \frac{\text{Tier 1 Capital - deductions from corresponding capital instruments}}{\text{Risk-weighted Assets}} \times 100\%$$

$$\text{Core Tier 1 Capital Adequacy Ratio} = \frac{\text{Core Tier 1 Capital - deductions from corresponding capital instruments}}{\text{Risk-weighted Assets}} \times 100\%$$

In November 2012, the CBRC further released the Guiding Opinion on Commercial Banks' Innovation on Capital Instruments (the "**2012 Guiding Opinions**"), setting out the general principles of the innovation of capital instruments of commercial banks and criteria of qualified capital instruments.

In addition, the CBRC Measures requires that commercial banks meet regulatory requirements on capital adequacy ratios as set forth in these Measures before the end of 2018. On 30 November 2012, the CBRC issued ("Notice of the China Banking Regulatory Commission on Issues concerning Transitional Arrangements for the Implementation") of the Administrative Measures for the Capital of Commercial Banks (for Trial Implementation), which requires the satisfaction by systematically important commercial banks and other banks of CAR requirements by the end of 2013, 2014, 2015 and 2015, 2016, 2017, respectively.

PRC CURRENCY CONTROLS

The following is a general description of certain currency controls in the PRC and is based on the law and relevant interpretations thereof in effect as at the date of this Offering Circular, all of which are subject to change, and does not constitute legal advice. It does not purport to be a complete analysis of all applicable currency controls in the PRC relating to the Notes. Prospective holders of Notes who are in any doubt as to PRC currency controls are advised to consult their own professional advisers.

Renminbi is not a freely convertible currency. The remittance of Renminbi into and outside the PRC is subject to control imposed under PRC law.

Current Account Items

Under the applicable PRC foreign exchange control regulations, current account items refer to any transaction for international receipts and payments involving goods, services, earnings and other frequent transfers.

Since July 2009, the PRC has commenced a pilot scheme pursuant to which Renminbi may be used for settlement of imports and exports of goods between approved pilot enterprises in five designated cities in the PRC including Shanghai, Guangzhou, Dongguan, Shenzhen and Zhuhai and enterprises in designated offshore jurisdictions including Hong Kong and Macau and Association of Southeast Asian Nations (ASZAN). On 17 June 2010, the PRC Government promulgated the Circular on Issues concerning the Expansion of the Scope of the Pilot Programme of Renminbi Settlement of Cross-Border Trades (Yin Fa (2010) No. 186) (關於擴大跨境貿易人民幣結算試點有關問題的通知) (the "Circular"), pursuant to which (i) Renminbi settlement of imports and exports of goods and of services and other current account items became permissible, (ii) the list of designated pilot districts were expanded to cover 20 provinces and cities, and (iii) the restriction on designated offshore districts has been uplifted. Accordingly, any enterprises in the designated pilot districts and offshore enterprises are entitled to use Renminbi to settle imports goods and services and other current account items between them. Renminbi remittance for exports of goods from the PRC may only been effected by approved pilot enterprises in designated pilot districts in the PRC. In August 2011, the PRC government further expanded Renminbi cross-border trade settlement nationwide.

On 5 July 2013, PBOC issued the Circular on the Simplification of Renminbi Cross-border Business Processes and the Improvement of Relevant Policies (Yin Fa [2013] No. 168) (關於簡化跨境人民幣業務流程和完善有關政策的通知), pursuant to which on the basis of three principles of "know your customer", "know your business", and "due diligence", domestic banks can directly handle the cross-border settlement by virtual of business vouchers provided by enterprises (except for enterprises on the key regulatory list of regulating Renminbi cross-border settlement in export goods trade) or Receipt/Payment Instructions on Renminbi Cross-border Settlement.

As a new regulation, the Circular will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practises in applying the Circular and impose conditions for settlement of current account items.

Capital Account Items

Under the applicable PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of the relevant PRC authorities.

Settlements for capital account items are generally required to be made in foreign currencies. For instance, foreign investors (including any Hong Kong investors) are required to make any capital contribution to foreign invested enterprises in a foreign currency in accordance with the terms set out in the relevant joint venture contracts and/or articles of association as approved by the relevant authorities. Foreign invested enterprises or relevant PRC parties are also generally required to make capital item payments including proceeds from liquidation, transfer of shares, reduction of capital, interest and principal repayment to foreign investors in a foreign currency. That said, the relevant PRC authorities may grant approval for a foreign entity to make a capital contribution or a shareholder's loan to a foreign invested enterprise with Renminbi lawfully obtained by it outside the PRC and for the foreign invested enterprise to service interest and principal repayment to its foreign investor outside the PRC in Renminbi on a trial basis. The foreign invested enterprise may be required to complete registration and verification process with the relevant PRC authorities before such Renminbi remittances.

On 7 April 2011, SAFE promulgated the SAFE Circular, which became effective on 1 May 2011. According to the SAFE Circular, in the event that foreign investors intend to use cross-border Renminbi (including offshore Renminbi and onshore Renminbi held in the Renminbi accounts of non-PRC residents) to make contribution to an onshore enterprise or make payment for the transfer of equity interest of a domestic residence of PRC, such onshore enterprise shall be required to submit the relevant commerce administrative authority's prior, approval which shall clearly indicates such Renminbi transaction, to the relevant local branches of SAFE of such onshore enterprise and register for a foreign invested enterprise status. Further, the SAFE Circular clarifies that the foreign debts borrowed, and the external guarantee provided, by an onshore entity (including a financial institution) in Renminbi shall, in principle, be regulated under the current PRC foreign debt and external guarantee regime.

On 12 October 2011, MOFCOM promulgated the MOFCOM RMB FDI Circular. In accordance with the MOFCOM RMB FDI Circular, MOFCOM and its local counterparts are authorised to approve RMB FDI in accordance with existing PRC laws and regulations regarding foreign investment, with the following exceptions which require the application to be signed by the provincial counterpart of MOFCOM and be submitted to MOFCOM for approval: (i) RMB FDI with the capital contribution in Renminbi of RMB300 million or more; (ii) RMB FDI in financing guarantee, financing lease, micro financing or auction industries; (iii) RMB FDI in foreign invested investment companies, venture capital or equity investment enterprises; or (iv) RMB FDI in cement, iron & steel, electrolytic aluminium, shipbuilding or other policy sensitive sectors. In addition, RMB FDI in real estate sector is allowed following the existing rules and regulations of foreign investment in real estate, although Renminbi foreign debt remains unavailable to foreign invested real estate enterprises. The proceeds of RMB FDI may not be used towards investment in securities, financial derivatives or entrustment loans in the PRC, except for investments in PRC domestic listed companies through private placement or share transfers by agreement.

On 13 October 2011, PBOC promulgated the PBOC RMB FDI Measures, pursuant to which, PBOC special approval for RMB FDI and shareholder loans which is previously required is no longer necessary. The PBOC RMB FDI Measures provide that, among others, foreign invested enterprises are required to conduct registrations with the local branch of PBOC within ten working days after obtaining the business licences for the purpose of Renminbi settlement, a foreign investor is allowed to open a Renminbi expense account (人民幣 前期費用專用存款賬戶) to reimburse some expenses before the establishment of a foreign invested enterprise and the balance in such an account can be transferred to the Renminbi capital account (人民幣資本金專用存款賬戶) of such foreign invested enterprise when it is established, commercial banks can remit a foreign investor's Renminbi proceeds from distribution (dividends or otherwise) by its PRC subsidiaries out of the PRC after reviewing certain requisite documents, if a foreign investor intends to use its Renminbi proceeds from distribution (dividends or otherwise) by its PRC subsidiaries, the foreign investor may open a Renminbi re-investment account (人民幣再投資專用存款賬戶) to pool the Renminbi proceeds, and the PRC parties selling stake in domestic enterprises to foreign investors can open Renminbi accounts and receive the purchase price in Renminbi paid by foreign investors. The PBOC RMB FDI Measures also state that the foreign debt quota of a foreign invested enterprise includes its Renminbi debt and foreign currency debt from its offshore shareholders, offshore affiliates and offshore financial institutions, and a foreign invested enterprise may open a Renminbi account (人民幣一般存款賬戶) to receive its Renminbi proceeds borrowed offshore by submitting the Renminbi loan contract to the commercial bank and make repayments of principal of and interest on such debt in Renminbi by submitting certain documents as required to the commercial bank.

On 14 June 2012, PBOC issued the Circular on Firming up the Detailed Operation Rules of RMB Settlement in Direct Foreign Investment (Yin Fa [2012] No. 165) (關於明確外商直接投資人民幣結算業務操作細則的通知), pursuant to which subject to the administrative provisions on bank settlement accounts, foreign investors should open an Renminbi basic account, an Renminbi capital account and an Renminbi account of overseas institutions. Foreign-invested enterprises that are engaged in direct Renminbi investment business activities should choose a settlement bank as its main reporting bank to register its enterprise information and submit modified information to the branch office of PBOC in the location where they registered through the Renminbi cross-border receipt and payment information management system.

On 19 November 2012, SAFE issued the Circular on Further Improvement and Adjustment of the Policies for Foreign Exchange Administration relating to Direct Investment (國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知) ("Circular 59") which relaxes many of the registration and verification processes required to be undertaken in relation to Renminbi remittances involving a foreign invested enterprise.

On 5 July 2013, PBOC issued the Circular on the Simplification of Renminbi Cross-border Business Processes and the Improvement of Relevant Policies (Yin Fa [2013] No. 168) (關於簡化跨境人民幣業務流程和完善有關政策的通知), pursuant to which domestic non-financial institutions may apply to the domestic bank for the Renminbi offshore lending settlement business. The domestic agent bank extends the Renminbi account financing maturity of overseas participating banks to one year and the financing ratio of the account shall not exceed 3% of the balance of various Renminbi deposits of this domestic agent bank at the end of last year. Fund remittance and transfer may be carried out between the Renminbi inter-bank current account opened by the overseas participating bank in the domestic agent bank and the Renminbi account opened by the overseas participating bank in the offshore clearing bank for Renminbi business due to the need of settlement. Fund remittance and transfer may be carried out among Renminbi clearing accounts opened by various offshore clearing banks for Renminbi business in the territory of China due to the need of settlement.

As new regulations, the above regulations will be subject to interpretation and application by the relevant PRC authorities. Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

The Dealers have, in a dealer agreement (the "**Dealer Agreement**") dated 6 December 2013, agreed with the Issuer a basis upon which they or any of them may from time to time agree to subscribe Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*". The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. Where the Issuer agrees to sell to the Dealer(s), who agree to subscribe and pay for, or to procure subscribers to subscribe and pay for, Notes at an issue price (the "**Issue Price**"), any subsequent offering of those Notes to investors may be at a price different from such Issue Price. The Issuer has agreed to reimburse the Arrangers certain of their expenses incurred in connection with the establishment, and any future update, of the Programme and the Dealers certain of their activities in connection with the Programme. The commissions in respect of an issue of Notes on a syndicated basis may be stated in the relevant Pricing Supplement.

The Issuer has agreed to indemnify the Dealer against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealer to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

In order to facilitate the offering of any Series of the Notes, certain persons participating in the offering of the Series may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Series. Specifically such persons may over allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilise or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker dealer participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time. Stabilising activities may only be carried on by the Stabilising Manager(s) named in the applicable Pricing Supplement (or persons acting on behalf of any Stabilising Manager(s)) and only for a limited period following the issue date of the relevant Series of Notes.

In connection with each Series of Notes issued under the Programme, the Dealer or certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. Further, the Dealers or their respective affiliates may purchase Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to such Notes and/or other securities of the Issuer or their respective subsidiaries or affiliates at the same time as the offer and sale of each Series of Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Series of Notes to which a particular Pricing Supplement relates (notwithstanding that such selected counterparties may also be purchasers of such Series of Notes).

Selling Restrictions

United States of America

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge that the Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Dealer's compliance with United States securities laws

In relation to each Tranche of Notes:

(a) *Offers/sales only in accordance with Regulation S:* each Dealer has represented, warranted and undertaken, and each further Dealer appointed under the Programme will be required to represent, warrant and undertake to the Issuer that it has offered and sold the Notes, and will offer and sell the Notes:

    (i) Original distribution: as part of their distribution, at any time; and

    (ii) Outside original distribution: otherwise, until 40 days after the issue date in respect of the relevant Notes (the period described herein as "distribution compliance period"),

    only in accordance with Rule 903 of Regulation S under the Securities Act and, accordingly, that:

    (A) *No directed selling efforts*: neither it nor any of its affiliates (including any person acting on behalf of such Dealer or any of its affiliates) has engaged or will engage in any directed selling efforts with respect to the Notes; and

    (B) *Offering restrictions*: it and its affiliates have complied and will comply with the offering restrictions requirement of Regulation S under the Securities Act; and

(b) *Prescribed form of confirmation:* each Dealer has undertaken, and each further Dealer appointed under the Programme will be required to undertake to the Issuer that, at or prior to confirmation of sale, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration which purchases Notes from it during the distribution compliance period a confirmation or notice in substantially the following form:

    "The Securities covered hereby have not been and will not be registered under the United States Securities Act of 1933 (the "**Securities Act**") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution of the Tranche of Notes of which such Notes are a part, as determined by [*Name of Dealer or Dealers, as the case may be*], except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S";

(c) *Completion of distribution:* each Dealer, which has purchased Notes of such Tranche in accordance with the related subscription agreement, shall determine and certify to the Principal Paying Agent or the Issuer the completion of the distribution of the Notes of such Tranche purchased by it. In the case of a subscription agreement between the Issuer and more than one Dealer, the Principal Paying Agent or the Issuer shall notify each relevant Dealer when all relevant Dealers have certified as provided in this paragraph. In order to facilitate compliance by each Dealer with the foregoing, the Issuer undertakes that, prior to such certification with respect to such Tranche, it will notify each Dealer in writing of each acceptance by the Issuer of an offer to purchase and of any issuance of, Notes or other debt obligations of the Issuer which are denominated in the same currency or composite currency and which have substantially the same interest rate and maturity date as the Notes of such Tranche;

(d) *Placing of Restricted Registered Notes:* each Dealer may directly or through their respective affiliates arrange for the placing of Restricted Notes in the United States to qualified institutional buyers (as defined in Rule 144A under the Securities Act) pursuant to Rule 144A under the Securities Act and in accordance with the provisions of this Agreement, provided that each person to whom Restricted Notes are offered or sold is, or such Dealer reasonably believes each such person to be, a qualified institutional buyer purchasing for its own account or for the account of a qualified institutional buyer and provided further that the aggregate principal amount of Restricted Notes sold by such Dealer to each Qualified Institutional Buyer pursuant to this paragraph is not less than U.S.$200,000 (or its equivalent in other currencies). In addition, the affiliate through which the Mandated Dealer arranges for the placing of Restricted Notes in the United States or (as the case may be) such other Dealer or its affiliate shall be a U.S. broker-dealer that is registered under the Exchange Act; and

(e) *No Solicitation:* Each Dealer has represented, warranted and undertaken to the Issuer that neither it nor any of its affiliates (including any person acting on behalf of such Dealer or any of its affiliates) has solicited or will solicit any offer to buy or offer to sell the Notes by any form of general solicitation or general advertising (as those terms are used in Rule 502(c) under the Securities Act) in the United States.

Where the relevant Pricing Supplement for Bearer Notes specifies that the D Rules are applicable, the Bearer Notes will be issued in accordance with the provisions of the D Rules. Where the relevant Pricing Supplement for Bearer Notes specifies that the C Rules are applicable, the Bearer Notes will be issued in accordance with the provisions of C Rules. Where the relevant Pricing Supplement specifies that is not applicable, the Notes will not be issued in accordance with the provisions of either the D Rules or the C Rules.

The D Rules

Where the D Rules are specified in the relevant Pricing Supplement as being applicable in relation to any Series of Notes, each Dealer has represented, warranted and undertaken, and each further Dealer appointed under the Programme will be required to represent, warrant and undertake to the Issuer that:

(a) *Restrictions on offers etc.:* except to the extent permitted under the D Rules:

  (i) *No offers etc. to United States or United States persons:* it has not offered or sold, and during the restricted period will not offer or sell, any Notes to a person who is within the United States or its possessions or to a United States person; and

  (ii) *No delivery of Definitive Notes in the United States:* it has not delivered and will not deliver in definitive form within the United States or its possessions any Notes sold during the restricted period,

(b) *Internal procedures:* it has, and throughout the restricted period will have, in effect procedures reasonably *designed* to ensure that its employees or agents who are directly engaged in selling Notes are aware that the Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules; and

(c) *Additional provision if United States person:* if it is a United States person, it is acquiring the Notes for the purposes of resale in connection with their original issuance and, if it retains Notes for its own account, it will only do so in accordance with the requirements of United States Treasury Regulation §1.163-5(c)(2)(i)(D)(6),

and, with respect to each affiliate of such Dealer that acquires Notes from such Dealer for the purpose of offering or selling such Notes during the restricted period, such Dealer has undertaken, and each further Dealer appointed under the Programme will be required to undertake to the Issuer that it will obtain from such affiliate for the benefit of the Issuer the representations, warranties and undertakings contained in paragraph (a) (*Restrictions on offers, etc.*), paragraph (b) (*Internal procedures*) and paragraph (c) (Additional provision of United States person).

The C Rules

Where the C Rules are specified in the relevant Pricing Supplement as being applicable in relation to any Series of Notes, the Notes must, in accordance with their original issuance, be issued and delivered outside the United States and its possessions and, accordingly, each Dealer has represented, warranted and undertaken, and each further Dealer appointed under the Programme will be required to represent, warrant and undertake to Issuer that, in connection with the original issuance of the Notes:

(a) *No offers etc. in United States:* it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, any Notes within the United States or its possessions; and

(b) *No communications with United States:* it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if such Dealer or such prospective purchaser is within the United States or its possessions and will not otherwise involve the United States office of such Dealer in the offer and sale of Notes.

Interpretation

Terms used in the paragraph "*Dealers' compliance with United States securities laws*" have the meanings given to them by Regulation S under the Securities Act. Terms used in the paragraphs "*The D Rules*" and "*The C Rules*" have the meanings given to them by the United States Internal Revenue Code and regulations thereunder, including the C Rules and the D Rules.

Index-, commodity- or currency-linked Notes

Each issuance of index-, commodity- or currency-linked Notes shall be subject to additional U.S. selling restrictions as the relevant Dealer(s) shall agree as a term of the issuance and purchase of such Notes. Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it shall offer, sell and deliver such Notes only in compliance with such additional U.S. selling restrictions.

The Netherlands

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree that with effect from and including 1 January 2012 it will not make an offer of Notes which are the subject of the offering contemplated by the Offering Circular as completed by the Pricing Supplement in relation thereto to the public in The Netherlands in reliance on Article 3(2) of the Prospectus Directive unless:

(a) such offer is made exclusively to legal entities which are qualified investors (as defined in the Prospectus Directive and which includes authorised discretionary asset managers acting for the account of retail investors under a discretionary investment management contract) in The Netherlands; or

(b) a standard exemption logo and wording is disclosed as required by article 5:20(5) of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*); or

(c) such offer is otherwise made in circumstances in which article 5:20(5) of the Dutch Financial Supervision Act is not applicable,

provided that no such offer of Notes shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this paragraph, the expressions (i) an "offer of Notes to the public" in relation to any Notes in the Netherlands; and (ii) "Prospectus Directive", have the meaning given to them in paragraph 2 above.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive each, a "Relevant Member State", each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Offering Circular as completed by the Pricing Supplement in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) *Approved prospectus:* if the Pricing Supplement or Drawdown Prospectus in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus which is not a Drawdown Prospectus has subsequently been completed by the Pricing Supplement contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or Pricing Supplement, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(b) *Qualified Investors:* at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(c) *Fewer than 100 offerees:* at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(d) *Other exempt offers:* at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive.

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

Selling Restrictions Addressing Additional United Kingdom Securities Laws

Each Dealer has represented, warranted and agreed and each further Dealer appointed under the Programme will be required to represent, warrant and agree that:

(a) *No deposit-taking:* in relation to any Notes having a maturity of less than one year:

(i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and

(ii) it has not offered or sold and will not offer or sell any Notes other than to persons:

(A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or

(B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer.

(b) *Financial promotion:* it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not, if it was not an authorised person, apply to the Issuer.

(c) *General compliance:* it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

PRC

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree, that neither it nor any of its affiliates has offered or sold or will offer or sell any of the Notes in the PRC (excluding Hong Kong, Macau and Taiwan) as part of the initial distribution of the Notes.

Hong Kong

In relation to each Series of Notes to be issued by the Issuer under the Programme, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes, except for Notes which are a "structured product" as defined in the SFO, other than (i) to "professional investors" as defined in the SFO and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong (the "**Companies Ordinance**") or which do not constitute an offer to the public within the meaning of the Companies Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Japan

Each Dealer has undertaken and each further Dealer appointed under the Programme will be required to undertake that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person except under circumstances which will result in compliance with all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time. For the purposes of this paragraph, "Japanese Person" shall mean any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

Singapore

Each Dealer understands that the Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) and, accordingly, each Dealer has acknowledged and each further Dealer appointed under the Programme will be required to acknowledge that the Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed and each further Dealer appointed under the Programme will be required to represent, warrant and agree that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, the Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

General

These selling restrictions may be modified by the agreement of each of the Issuer and the Dealer following a change in a relevant law, regulation or directive. Any such modification will be set out in the relevant Pricing Supplement issued in respect of the issue of Notes to which it relates or in a supplement to this Offering Circular.

GENERAL INFORMATION

1. Listing

Application has been made to the Hong Kong Stock Exchange for the listing of the Programme, and for the permission to deal in, and for the listing of, Notes to be issued under the Programme by way of debt issues to professional investors (as defined in the SFO) only during the 12-month period from the date of this Offering Circular on the Hong Kong Stock Exchange. The issue price of Notes listed on the Hong Kong Stock Exchange will be expressed as a percentage of their nominal amount. Transactions will normally be effected for settlement in the relevant specified currency and for delivery by the end of the second trading day after the date of the transaction. It is expected that dealings will, if permission is granted to deal in and for the listing of such Notes, commence on or about the next business day following the date of listing of the relevant Notes. Notes to be listed on the Hong Kong Stock Exchange are required to be traded with a board lot size of at least HK$500,000 (or equivalent in other currencies).

2. Authorisation

The establishment of the Programme and the issue of the Notes thereunder were authorised by a resolution of the board of directors of the Bank passed on 24 March 2010. The Bank has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes.

3. Legal and Arbitration Proceedings

Neither the Issuer nor the Group is or has been involved in any governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had, during the 12 months prior to the date of this Offering Circular, a significant effect on the financial position or profitability of the Issuer.

4. Significant/Material Change

Since 30 June 2013, there has been no material adverse change in the financial position or prospects nor any significant change in the financial or trading position or prospects of the Issuer.

5. Auditor

The Bank's audited consolidated financial statements as at and for the years ended 31 December 2011 and 2012, which are included elsewhere in this Offering Circular, have been audited by PricewaterhouseCoopers, Certified Public Accountants, as stated in its report appearing herein. The Bank's unaudited condensed consolidated financial statements as at and for the six months ended 30 June 2013, which are included elsewhere in this Offering Circular, have been reviewed by Ernst & Young, Certified Public Accountants, as stated in its report appearing herein.

6. Documents on Display

Copies of the following documents may be inspected during normal business hours on any weekday (Saturday's and public holidays excepted) at the registered office of the Issuer at No. 1 Fuxingmen Nei Dajie, Beijing 100818, People's Republic of China and the specified office of the Principal Paying Agent at The Bank of New York Mellon, London Branch, 40th Floor, One Canada Square, London E14 5AL, United Kingdom for so long as the Notes are capable of being issued under the Programme:

(i) the articles of association of the Bank;

(ii) the audited consolidated financial statements of the Bank for the years ended 31 December 2011 and 2012, respectively, and the unaudited condensed consolidated financial statements of the Bank for the six months ended 30 June 2013;

(iii) copies of the latest annual report and audited annual consolidated financial statements, and any consolidated interim financial statements (whether audited or unaudited) published subsequently to such audited annual financial statements, of the Bank;

(iv) each Pricing Supplement (save that a Pricing Supplement relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Principal Paying Agent as to its holding of Notes and identity);

(v) a copy of this Offering Circular together with any supplement to this Offering Circular;

(vi) the Trust Deed (which contains the forms of the Notes in global and definitive form);

(vii) the Agency Agreement;

(viii) the Dealer Agreement; and

(ix) the Programme Manual.

7. Clearing of the Notes

The Notes may be accepted for clearance through Euroclear, Clearstream, Luxembourg, DTC and CMU Service. The appropriate common code and the International Securities Identification Number in relation to the Notes of each Series will be specified in the relevant Pricing Supplement. The relevant Pricing Supplement shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

INDEX TO FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK FOR THE SIX MONTHS ENDED 30 JUNE 2013

CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK FOR THE YEAR ENDED 31 DECEMBER 2012

CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK FOR THE YEAR ENDED 31 DECEMBER 2011

(1) The independent auditor's reports on the Group's consolidated financial statements for the years ended 31 December 2011 and 2012 and the independent auditor's review report on the Group's interim condensed consolidated financial information for the six months ended 30 June 2013 set out herein is reproduced from the Group's annual reports for the years ended 31 December 2011 and 2012 respectively and the Group's interim report for the six months ended 30 June 2013 respectively. Page references referred to in the above named reports refer to pages set out in such annual reports and interim report.

Report on Review of Interim Financial Information

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

To the Board of Directors of Bank of China Limited
(Incorporated in the People's Republic of China with limited liability)

Introduction

We have reviewed the accompanying interim financial information set out on pages 65 to 145, which comprises the condensed consolidated statement of financial position of Bank of China Limited (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2013 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board.

The directors are responsible for the preparation and presentation of interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young

Ernst & Young
Certified Public Accountants

Hong Kong
29 August 2013

Interim Financial Information

CONTENTS

Condensed Consolidated Income Statement

For the six month period ended 30 June 2013 (Amount in millions of Renminbi, unless otherwise stated)

	Note	For the six month period ended 30 June	
		2013	2012
	Note	Unaudited	Unaudited
			(Restated)*
Interest income	III.1	**249,870**	253,121
Interest expense	III.1	**(112,582)**	(129,067)
Net interest income		**137,288**	124,054
Fee and commission income	III.2	**48,473**	36,721
Fee and commission expense	III.2	**(2,992)**	(2,471)
Net fee and commission income		**45,481**	34,250
Net trading gains	III.3	**3,918**	5,461
Net gains on investment securities		**414**	1,052
Other operating income	III.4	**19,150**	14,848
Operating income		**206,251**	179,665
Operating expenses	III.5	**(82,209)**	(73,661)
Impairment losses on assets	III.7	**(14,142)**	(9,237)
Operating profit		**109,900**	96,767
Share of results of associates and joint ventures		**351**	225
Profit before income tax		**110,251**	96,992
Income tax expense	III.8	**(26,079)**	(22,108)
Profit for the period		**84,172**	74,884
Attributable to:			
Equity holders of the Bank		**80,721**	71,483
Non-controlling interests		**3,451**	3,401
		84,172	74,884
Earnings per share for profit attributable to equity holders of the Bank during the period (Expressed in RMB per ordinary share)	III.9		
— Basic		**0.29**	0.26
— Diluted		**0.28**	0.25

* For details of the restatement, please refer to the basis of presentation and principal accounting policies.

The accompanying notes form an integral part of this interim financial information.

Condensed Consolidated Statement of Comprehensive Income

For the six month period ended 30 June 2013 (Amount in millions of Renminbi, unless otherwise stated)

	For the six month period ended 30 June	
	2013	**2012**
	Unaudited	**Unaudited**
		(Restated)*
Profit for the period	**84,172**	74,884
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss		
Fair value (losses)/gains on available for sale financial assets:		
Amount recorded in equity	**(5,632)**	5,604
Less: related income tax impact	**1,148**	(1,378)
Amount transferred to the income statement	**(123)**	(707)
Less: related income tax impact	**23**	289
	(4,584)	3,808
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	**(15)**	(46)
Less: related income tax impact	**4**	(1)
	(11)	(47)
Exchange differences from the translation of foreign operations	**(3,975)**	626
Less: net amount transferred to the income statement from other comprehensive income	**239**	238
	(3,736)	864
Other	**23**	29
Subtotal	**(8,308)**	4,654
Items that will not be reclassified to profit or loss		
Actuarial gains on defined benefit plans	**1**	143
Less: related income tax impact	**(14)**	(25)
Subtotal	**(13)**	118
Other comprehensive income for the period, net of tax	**(8,321)**	4,772
Total comprehensive income for the period	**75,851**	79,656
Total comprehensive income attributable to:		
Equity holders of the Bank	**74,240**	75,557
Non-controlling interests	**1,611**	4,099

* For details of the restatement, please refer to the basis of presentation and principal accounting policies.

The accompanying notes form an integral part of this interim financial information.

Condensed Consolidated Statement of Financial Position

As at 30 June 2013 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 30 June 2013 Unaudited	As at 31 December 2012 Audited
ASSETS			
Cash and due from banks and other financial institutions	III.10	**660,147**	775,574
Balances with central banks	III.11	**1,957,640**	1,934,297
Placements with and loans to banks and other financial institutions	III.12	**583,525**	447,299
Government certificates of indebtedness for bank notes issued		**75,638**	70,554
Precious metals		**138,838**	150,534
Financial assets at fair value through profit or loss	III.13	**72,317**	71,590
Derivative financial assets	III.14	**47,805**	40,188
Loans and advances to customers, net	III.15	**7,273,636**	6,710,040
Investment securities	III.16	**2,092,487**	2,138,934
— Available for sale		**680,154**	686,400
— Held to maturity		**1,135,720**	1,183,080
— Loans and receivables		**276,613**	269,454
Investment in associates and joint ventures		**12,582**	12,382
Property and equipment	III.17	**150,603**	150,324
Investment properties	III.18	**17,340**	17,142
Deferred income tax assets	III.23	**20,939**	21,292
Other assets	III.19	**152,709**	140,465
Total assets		**13,256,206**	12,680,615

The accompanying notes form an integral part of this interim financial information.

Condensed Consolidated Statement of Financial Position (continued)

As at 30 June 2013 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 30 June 2013 Unaudited	As at 31 December 2012 Audited
LIABILITIES			
Due to banks and other financial institutions		**1,198,238**	1,553,192
Due to central banks		**159,785**	130,022
Bank notes in circulation		**75,703**	70,733
Placements from banks and other financial institutions		**422,100**	313,004
Derivative financial liabilities	III.14	**41,311**	32,457
Due to customers	III.20	**9,876,196**	9,173,995
— at amortised cost		**9,766,504**	9,009,978
— at fair value		**109,692**	164,017
Bonds issued	III.21	**213,011**	199,133
Other borrowings		**30,637**	34,045
Current tax liabilities		**25,311**	34,994
Retirement benefit obligations		**5,327**	5,642
Deferred income tax liabilities	III.23	**3,200**	3,838
Other liabilities	III.24	**319,054**	268,018
Total liabilities		**12,369,873**	11,819,073
EQUITY			
Capital and reserves attributable to equity holders of the Bank			
Share capital		**279,148**	279,147
Capital reserve		**115,473**	115,451
Treasury shares		**(104)**	(15)
Statutory reserves		**65,550**	65,362
General and regulatory reserves		**132,175**	131,909
Undistributed profits	III.26	**274,302**	242,899
Reserve for fair value changes of available for sale securities	III.25	**3,959**	7,276
Currency translation differences		**(20,525)**	(17,352)
		849,978	824,677
Non-controlling interests		**36,355**	36,865
Total equity		**886,333**	861,542
Total equity and liabilities		**13,256,206**	12,680,615

Approved and authorised for issue by the Board of Directors on 29 August 2013.

The accompanying notes form an integral part of this interim financial information.

TIAN Guoli
Director

LI Lihui
Director

Condensed Consolidated Statement of Changes in Equity

For the six month period ended 30 June 2013 (Amount in millions of Renminbi, unless otherwise stated)

		Unaudited									
		Attributable to equity holders of the Bank									
	Note	Share capital	Capital reserve	Statutory reserves	General and regulatory reserves	Undistributed profits	Reserve for fair value changes of available for sale securities	Currency translation differences	Treasury shares	Non-controlling interests	Total
As at 1 January 2013		279,147	115,451	65,362	131,909	242,899	7,276	(17,352)	(15)	36,865	861,542
Profit for the period		–	–	–	–	80,721	–	–	–	3,451	84,172
Other comprehensive income		–	22	–	–	(13)	(3,317)	(3,173)	–	(1,840)	(8,321)
Total comprehensive income for the period		–	22	–	–	80,708	(3,317)	(3,173)	–	1,611	75,851
Capital paid in by owners		1	–	–	–	–	–	–	–	92	93
Appropriation to statutory reserves		–	–	188	–	(188)	–	–	–	–	–
Appropriation to general and regulatory reserves		–	–	–	266	(266)	–	–	–	–	–
Dividends	III.26	–	–	–	–	(48,851)	–	–	–	(2,213)	(51,064)
Net change in treasury shares		–	–	–	–	–	–	–	(89)	–	(89)
As at 30 June 2013		279,148	115,473	65,550	132,175	274,302	3,959	(20,525)	(104)	36,355	886,333

The accompanying notes form an integral part of this interim financial information.

Condensed Consolidated Statement of Changes in Equity (continued)

For the six month period ended 30 June 2013 (Amount in millions of Renminbi, unless otherwise stated)

		Unaudited (Restated)*									
		Attributable to equity holders of the Bank									
	Note	Share capital	Capital reserve	Statutory reserves	General and regulatory reserves	Undistributed profits	Reserve for fair value changes of available for sale securities	Currency translation differences	Treasury shares	Non-controlling interests	Total
As at 1 January 2012		279,147	115,403	52,165	81,243	210,599	3,642	(18,260)	(25)	33,223	757,137
Profit for the period as restated		–	–	–	–	71,483	–	–	–	3,401	74,884
Other comprehensive income as restated		–	(14)	–	–	124	3,287	677	–	698	4,772
Total comprehensive income for the period		–	(14)	–	–	71,607	3,287	677	–	4,099	79,656
Appropriation to statutory reserves		–	–	100	–	(100)	–	–	–	–	–
Appropriation to general and regulatory reserves		–	–	–	188	(188)	–	–	–	–	–
Dividends		–	–	–	–	(43,268)	–	–	–	(1,908)	(45,176)
Exercise of subsidiary share options		–	–	–	–	–	–	–	–	2	2
Net change in treasury shares		–	–	–	–	–	–	–	(8)	–	(8)
Other		–	–	–	–	–	–	–	–	6	6
As at 30 June 2012		279,147	115,389	52,265	81,431	238,650	6,929	(17,583)	(33)	35,422	791,617
Profit for the period as restated		–	–	–	–	68,173	–	–	–	2,689	70,862
Other comprehensive income as restated		–	61	–	–	(348)	347	231	–	417	708
Total comprehensive income for the period		–	61	–	–	67,825	347	231	–	3,106	71,570
Appropriation to statutory reserves		–	–	13,087	–	(13,087)	–	–	–	–	–
Appropriation to general and regulatory reserves		–	–	–	50,479	(50,479)	–	–	–	–	–
Dividends		–	–	–	–	–	–	–	–	(1,663)	(1,663)
Net change in treasury shares		–	–	–	–	–	–	–	18	–	18
Other		–	1	10	(1)	(10)	–	–	–	–	–
As at 31 December 2012		279,147	115,451	65,362	131,909	242,899	7,276	(17,352)	(15)	36,865	861,542

* For details of the restatement, please refer to the basis of presentation and principal accounting policies.

The accompanying notes form an integral part of this interim financial information.

Condensed Consolidated Statement of Cash Flows

For the six month period ended 30 June 2013 (Amount in millions of Renminbi, unless otherwise stated)

	Note	For the six month period ended 30 June	
		2013	2012
	Note	Unaudited	Unaudited
			(Restated)*
Cash flows from operating activities			
Profit before income tax		**110,251**	96,992
Adjustments:			
Impairment losses on assets		**14,142**	9,237
Depreciation of property and equipment		**6,427**	5,776
Amortisation of intangible assets and other assets		**1,270**	1,101
Net gains on disposal of property and equipment, intangible assets and other long-term assets		**(282)**	(247)
Net gains on disposal of investment in subsidiaries, associates and joint ventures		**(61)**	(93)
Share of results of associates and joint ventures		**(351)**	(225)
Interest income arising from investment securities		**(31,571)**	(30,324)
Dividends arising from investment securities		**(348)**	(187)
Net gains on de-recognition of investment securities		**(414)**	(1,052)
Interest expense arising from bonds issued		**4,197**	3,577
Accreted interest on impaired loans		**(311)**	(181)
Net changes in operating assets and liabilities:			
Net increase in balances with central banks		**(98,905)**	(70,152)
Net (increase)/decrease in due from and placements with and loans to banks and other financial institutions		**(179,793)**	81,274
Net decrease/(increase) in precious metals		**11,696**	(22,432)
Net (increase)/decrease in financial assets at fair value through profit or loss		**(2,849)**	4,789
Net increase in loans and advances to customers		**(577,196)**	(412,007)
Net decrease/(increase) in other assets		**19,921**	(42,265)
Net (decrease)/increase in due to banks and other financial institutions		**(354,954)**	211,299
Net increase in due to central banks		**29,763**	34,493
Net increase in placements from banks and other financial institutions		**109,096**	1,570
Net increase in due to customers		**714,455**	664,603
Net (decrease)/increase in other borrowings		**(3,408)**	3,620
Net increase in other liabilities		**10,879**	22,192
Cash (outflow)/inflow from operating activities		**(218,346)**	561,358
Income tax paid		**(34,595)**	(29,876)
Net cash (outflow)/inflow from operating activities		**(252,941)**	531,482

* For details of the restatement, please refer to the basis of presentation and principal accounting policies.

The accompanying notes form an integral part of this interim financial information.

For the six month period ended 30 June 2013 (Amount in millions of Renminbi, unless otherwise stated)

	Note	For the six month period ended 30 June	
		2013	2012
	Note	Unaudited	Unaudited
			(Restated)*
Cash flows from investing activities			
Proceeds from disposal of property and equipment, intangible assets and other long-term assets		**3,567**	391
Proceeds from disposal of investment in subsidiaries, associates and joint ventures		**213**	1,443
Dividends received		**386**	220
Interest income received from investment securities		**30,359**	27,615
Proceeds from disposal/maturity of investment securities		**598,028**	610,625
Increase in investment in subsidiaries, associates and joint ventures		**(201)**	(505)
Purchase of property and equipment, intangible assets and other long-term assets		**(12,740)**	(7,482)
Purchase of investment securities		**(585,141)**	(689,264)
Net cash inflow/(outflow) from investing activities		**34,471**	(56,957)
Cash flows from financing activities			
Proceeds from issuance of bonds		**27,645**	1,182
Repayments of debts issued		**(30,046)**	(261)
Cash payments for interest on bonds issued		**(4,410)**	(4,280)
Dividend payments to equity holders of the Bank		**–**	(11,799)
Dividend payments to non-controlling interests		**(2,213)**	(1,845)
Other net cash flows from financing activities		**3**	–
Net cash outflow from financing activities		**(9,021)**	(17,003)
Effect of exchange rate changes on cash and cash equivalents		**(17,636)**	(1,941)
Net (decrease)/increase in cash and cash equivalents		**(245,127)**	455,581
Cash and cash equivalents at beginning of the period		**1,072,283**	1,017,368
Cash and cash equivalents at end of the period	III.28	**827,156**	1,472,949

* For details of the restatement, please refer to the basis of presentation and principal accounting policies.

The accompanying notes form an integral part of this interim financial information.

(Amount in millions of Renminbi, unless otherwise stated)

I BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial information for the six month period ended 30 June 2013 has been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") and should be read in conjunction with the annual financial statements for the year ended 31 December 2012.

Except as described below, the principal accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial information are consistent with those used in the Group's annual financial statements for the year ended 31 December 2012.

Standards, amendments and interpretations effective in 2013

On 1 January 2013, the Group adopted the following new standards, amendments and interpretations.

IAS 1 Amendments	Presentation of Financial Statements — Other Comprehensive Income
IAS 19 Amendments	Employee Benefits
IFRS 7 Amendments	Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IAS 27 (Revised)	Separate Financial Statements
IAS 28 (Revised)	Investment in Associates and Joint Ventures
IFRS 13	Fair Value Measurement
IFRS 10, IFRS 11 and IFRS 12 Amendments	Transition Guidance
Annual Improvements 2009–2011 cycle (issued in May 2012)	

The Group adopted the IAS 1 Amendments — Presentation of Financial Statements: Other Comprehensive Income in 2013. It requires separate items presented in other comprehensive income into two groups based on whether or not they may be recycled to profit or loss in the future. The adoption of IAS 1 Amendments does not have any impact on the Group's operating results and financial position.

The Group adopted the IAS 19 Amendments — Employee Benefits in 2013. The Group restated the actuarial gains and losses recognized in prior year. The impact of the adoption of the amendment decreased the profit after income tax by RMB118 million for the six month period ended 30 June 2012 and increased the profit after income tax by RMB224 million for the year ended 2012; meanwhile, the impact of the restatement increased the other comprehensive income by RMB118 million for the six month period ended 30 June 2012 and decreased the other comprehensive income by RMB224 million for the year ended 31 December 2012.

The adoption of other standards, amendments and interpretations does not have a significant impact on the operating results, financial position or comprehensive income of the Group.

(Amount in millions of Renminbi, unless otherwise stated)

I BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2013

		Effective for annual periods beginning on or after
IAS 32 Amendments	Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities	1 January 2014
IAS 36 Amendments	Impairment of Assets — Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
IAS 39 Amendments	Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
IFRS 9, IFRS 9 Amendments and IFRS 7 Amendment	Financial Instruments and Financial Instruments: Disclosures	1 January 2015
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Investment Entities	1 January 2014

The Group is considering the impact of these standards and amendments on the consolidated financial statements.

II CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The nature and assumptions related to the Group's accounting estimates are consistent with those adopted in the Group's financial statements for the year ended 31 December 2012.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 Net interest income

	For the six month period ended 30 June	
	2013	**2012**
Interest income		
Loans and advances to customers	**185,061**	182,328
Investment securities and financial assets at fair value through profit or loss	**32,580**	31,359
Due from central banks	**13,129**	13,884
Due from and placements with and loans to banks and other financial institutions	**19,100**	25,550
Subtotal	**249,870**	253,121
Interest expense		
Due to customers	**(87,110)**	(96,270)
Due to and placements from banks and other financial institutions	**(20,860)**	(28,913)
Bonds issued and others	**(4,612)**	(3,884)
Subtotal	**(112,582)**	(129,067)
Net interest income (1)	**137,288**	124,054
Interest income accrued on impaired financial assets (included within interest income)	**382**	289

(1) Included within "interest income" and "interest expense" are RMB248,794 million (2012: RMB252,025 million) and RMB110,802 million (2012: RMB113,378 million) for financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

(Amount in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

2 Net fee and commission income

	For the six month period ended 30 June	
	2013	**2012**
Agency commissions	**10,902**	6,827
Bank card fees	**8,438**	6,759
Settlement and clearing fees	**8,029**	7,124
Credit commitment fees	**7,374**	6,211
Consultancy and advisory fees	**5,790**	2,124
Spread income from foreign exchange business	**3,539**	3,369
Custodian and other fiduciary service fees	**1,545**	1,055
Other	**2,856**	3,252
Fee and commission income	**48,473**	36,721
Fee and commission expense	**(2,992)**	(2,471)
Net fee and commission income	**45,481**	34,250

3 Net trading gains

	For the six month period ended 30 June	
	2013	**2012**
Net gains from foreign exchange and foreign exchange products	**3,772**	4,580
Net (losses)/gains from interest rate products	**(285)**	486
Net gains from equity products	**19**	71
Net gains from commodity products	**412**	324
Total (1)	**3,918**	5,461

(1) Included in "Net trading gains" above for the six month period ended 30 June 2013 are losses of RMB1,256 million in relation to financial assets and financial liabilities designated at fair value through profit or loss (2012: gains of RMB142 million).

4 Other operating income

	For the six month period ended 30 June	
	2013	**2012**
Insurance premiums		
— Life insurance contracts	**4,303**	2,549
— Non-life insurance contracts	**2,054**	1,365
Revenue from sale of precious metals products	**7,666**	5,895
Aircraft leasing income	**2,365**	2,006
Gains on disposal of property and equipment, intangible assets and other assets	**289**	262
Dividend income	**401**	221
Changes in fair value of investment properties (Note III.18)	**147**	1,008
Gains on disposal of subsidiaries, associates and joint ventures	**61**	93
Other	**1,864**	1,449
Total	**19,150**	14,848

5 Operating expenses

	For the six month period ended 30 June	
	2013	**2012**
Staff costs (Note III.6)	**34,344**	29,841
General operating and administrative expenses [1]	**15,974**	15,934
Business tax and surcharges	**11,846**	11,220
Depreciation and amortisation	**6,696**	6,024
Insurance benefits and claims		
— Life insurance contracts	**3,637**	3,047
— Non-life insurance contracts	**991**	876
Cost of sales of precious metals products	**7,137**	5,416
Other	**1,584**	1,303
Total	**82,209**	73,661

(1) Included in the general operating and administrative expenses are operating lease expenses of RMB2,910 million and other premises and equipment related expenses (mainly comprised of property management and building maintenance expenses) of RMB4,351 million (2012: RMB2,518 million and RMB4,258 million, respectively).

(Amount in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

6 Staff costs

	For the six month period ended 30 June	
	2013	**2012**
Salary, bonus and subsidy	**24,832**	21,591
Staff welfare	**603**	723
Retirement benefits	**94**	96
Social insurance, including:		
Medical	**1,140**	971
Pension	**2,644**	2,254
Annuity	**748**	501
Unemployment	**193**	180
Injury at work	**70**	59
Maternity insurance	**88**	71
Housing funds	**2,085**	1,738
Labour union fee and staff education fee	**892**	796
Reimbursement for cancellation of labour contract	**5**	15
Other	**950**	846
Total	**34,344**	29,841

7 Impairment losses on assets

	For the six month period ended 30 June	
	2013	**2012**
Loans and advances (1)		
— Individually assessed	**1,366**	740
— Collectively assessed	**12,517**	8,478
Subtotal	**13,883**	9,218
Investment securities (2)		
— Available for sale	**(13)**	(12)
— Held to maturity	**(22)**	4
Subtotal	**(35)**	(8)
Other	**294**	27
Total	**14,142**	9,237

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

7 Impairment losses on assets (Continued)

(1) Details of movements in allowances for loans and advances are disclosed in Note III.15.

(2) Impairment charges/(reversal) on investment securities:

	For the six month period ended 30 June	
	2013	**2012**
US Subprime mortgage related debt securities	**(94)**	(136)
US Alt-A mortgage-backed securities	**(17)**	(6)
US Non-Agency mortgage-backed securities	**(33)**	(44)
Other securities	**109**	178
Net reversal	**(35)**	(8)

8 Income tax expense

	For the six month period ended 30 June	
	2013	**2012**
Current income tax		
— Chinese mainland income tax	**21,838**	18,669
— Hong Kong profits tax	**1,859**	1,685
— Macau, Taiwan and other countries and regions taxation	**1,440**	1,126
Subtotal	**25,137**	21,480
Deferred income tax (Note III.23.4)	**942**	628
Total	**26,079**	22,108

Provision for Chinese mainland income tax includes income tax based on the statutory tax rate of 25% of the taxable income of the Bank and each of its subsidiaries established in Chinese mainland and supplementary PRC tax on overseas operations as determined in accordance with the relevant PRC income tax rules and regulations.

Taxation on profits of Hong Kong, Macau, Taiwan and other countries and regions has been calculated on the estimated assessable profits in accordance with local tax regulations at the rates of taxation prevailing in the countries or regions in which the Group operates.

(Amount in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

8 Income tax expense (Continued)

The tax rate on the Group's profit before tax differs from the theoretical amount that would arise using the basic Chinese mainland tax rate of the Bank as follows:

	For the six month period ended 30 June	
	2013	**2012**
Profit before income tax	**110,251**	96,992
Tax calculated at the applicable statutory tax rate	**27,563**	24,248
Effect of different tax rates on Hong Kong, Macau, Taiwan and other countries and regions	**(1,518)**	(1,210)
Supplementary PRC tax on overseas income	**1,806**	666
Income not subject to tax (1)	**(2,967)**	(2,473)
Items not deductible for tax purposes (2)	**1,133**	1,001
Other	**62**	(124)
Income tax expense	**26,079**	22,108

(1) Income not subject to tax mainly comprises interest income from PRC Treasury bonds.

(2) Non-deductible items primarily include losses resulting from write-off of certain non-performing loans, and marketing and entertainment expenses in excess of the relevant deductible threshold under the relevant PRC tax regulations.

9 Earnings per share (basic and diluted)

Basic earnings per share

Basic earnings per share was computed by dividing the profit attributable to the equity holders of the Bank by the weighted average number of ordinary shares in issue during the period.

	For the six month period ended 30 June	
	2013	**2012**
Profit attributable to equity holders of the Bank	**80,721**	71,483
Weighted average number of ordinary shares in issue (in million shares)	**279,137**	279,113
Basic earnings per share (in RMB per share)	**0.29**	0.26

9 Earnings per share (basic and diluted) (Continued)

Basic earnings per share (Continued)

Weighted average number of ordinary shares in issue (in million shares)

	For the six month period ended 30 June	
	2013	**2012**
Issued ordinary shares as at 1 January	**279,147**	279,147
Weighted average number of shares conversed from bonds	**–**	–
Weighted average number of treasury shares	**(10)**	(34)
Weighted average number of ordinary shares in issue	**279,137**	279,113

Diluted earnings per share

Diluted earnings per share was computed by dividing the adjusted profit attributable to the equity holders of the Bank based on assuming conversion of all dilutive potential shares for the six month period by the adjusted weighted average number of ordinary shares in issue. The Bank has convertible bonds as dilutive potential ordinary shares.

	For the six month period ended 30 June	
	2013	**2012**
Profit attributable to equity holders of the Bank	**80,721**	71,483
Add: interest expense on convertible bonds, net of tax, outstanding as at 30 June	**537**	493
Profit used to determine diluted earnings per share	**81,258**	71,976
Adjusted weighted average number of ordinary shares in issue (in million shares)	**279,137**	279,113
Add: weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	**12,595**	11,190
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	**291,732**	290,303
Diluted earnings per share (in RMB per share)	**0.28**	0.25

(Amount in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

10 Cash and due from banks and other financial institutions

	As at 30 June 2013	As at 31 December 2012
Cash	**69,688**	72,475
Due from banks in Chinese mainland	**558,169**	617,598
Due from other financial institutions in Chinese mainland	**1,729**	2,525
Due from banks in Hong Kong, Macau, Taiwan and other countries and regions	**29,685**	82,796
Due from other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions	**876**	180
Total	**660,147**	775,574

11 Balances with central banks

	As at 30 June 2013	As at 31 December 2012
Mandatory reserves (1)	**1,572,136**	1,476,088
Surplus reserves (2)	**230,670**	204,943
Other deposits (3)	**154,834**	253,266
Total	**1,957,640**	1,934,297

(1) The Group places mandatory reserve funds with the People's Bank of China (the "PBOC") and the central banks of Hong Kong, Macau, Taiwan and other countries and regions where it has operations. As at 30 June 2013, mandatory reserve funds placed with the PBOC were calculated at 20.0% (31 December 2012: 20.0%) and 5.0% (31 December 2012: 5.0%) of qualified RMB deposits and foreign currency deposits from customers of branches in Chinese mainland of the Bank respectively. The mandatory reserve funds placed with the central bank of domestic subsidiaries of the Group are determined by the PBOC. The amount of mandatory reserve funds placed with the central banks of other jurisdiction are determined by local regulations.

(2) This mainly represented the surplus reserve funds placed with the PBOC by branches in Chinese mainland of the Group.

(3) This mainly represented balances, other than mandatory reserves and surplus reserves, placed with central banks by operations in Hong Kong, Macau, Taiwan and other countries and regions.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

12 Placements with and loans to banks and other financial institutions

	As at 30 June 2013	As at 31 December 2012
Placements with and loans to:		
Banks in Chinese mainland	**370,291**	233,865
Other financial institutions in Chinese mainland	**159,107**	122,332
Banks in Hong Kong, Macau, Taiwan and other countries and regions	**54,330**	91,305
Subtotal (1)	**583,728**	447,502
Allowance for impairment losses	**(203)**	(203)
Total	**583,525**	447,299
Impaired placements	**203**	203
Percentage of impaired placements to total placements with and loans to banks and other financial institutions	**0.03%**	0.05%

(1) "Placements with and loans to banks and other financial institutions" include balances arising from reverse repo agreements and collateralised financing agreements. These are presented by collateral type as follows:

	As at 30 June 2013	As at 31 December 2012
Debt securities		
— Governments	**44,805**	38,924
— Policy banks	**53,015**	54,698
— Financial institutions	**–**	4,426
— Corporate	**80**	–
Subtotal	**97,900**	98,048
Bills	**12,386**	–
Total	**110,286**	98,048

(Amount in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

13 Financial assets at fair value through profit or loss

	As at 30 June 2013	As at 31 December 2012
Trading financial assets		
Debt securities		
Issuers in Chinese mainland		
— Government	**1,902**	1,362
— Public sector and quasi-governments	**–**	10
— Policy banks	**5,221**	6,060
— Financial institutions	**603**	148
— Corporate	**3,430**	2,761
Issuers in Hong Kong, Macau, Taiwan and other countries and regions		
— Governments	**16,408**	17,282
— Public sector and quasi-governments	**153**	148
— Financial institutions	**578**	274
— Corporate	**4,144**	4,403
	32,439	32,448
Other		
Fund investments and others	**234**	265
Equity securities	**1,413**	488
Subtotal	**34,086**	33,201
Financial assets designated at fair value through profit or loss		
Debt securities		
Issuers in Chinese mainland		
— Government	**67**	71
— Policy banks	**1,827**	1,893
— Financial institutions	**375**	196
— Corporate	**5,230**	4,758
Issuers in Hong Kong, Macau, Taiwan and other countries and regions		
— Governments	**297**	332
— Public sector and quasi-governments	**372**	384
— Financial institutions	**20,189**	21,025
— Corporate	**3,590**	3,666
	31,947	32,325
Other		
Fund investments	**474**	515
Loans	**4,496**	4,566
Equity securities	**1,314**	983
Subtotal	**38,231**	38,389
Total	**72,317**	71,590
Analysed as:		
Listed in Hong Kong	**13,910**	12,024
Listed outside Hong Kong	**28,191**	29,732
Unlisted	**30,216**	29,834
Total	**72,317**	71,590

14 Derivative financial instruments

The Group enters into foreign currency exchange rate, interest rate, equity, credit or precious metals and other commodity related derivative financial instruments for trading, hedging, asset and liability management and on behalf of customers.

The contractual/notional amounts and fair values of derivative instruments held by the Group are set out in the following tables. The contractual/notional amounts of financial instruments provide a basis for comparison with fair value of instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates, credit spreads, or equity/commodity prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

	As at 30 June 2013			As at 31 December 2012		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps (1)	**2,113,608**	**31,444**	**(22,658)**	2,025,786	29,962	(20,715)
Currency options	**119,400**	**465**	**(379)**	56,881	201	(235)
Subtotal	**2,233,008**	**31,909**	**(23,037)**	2,082,667	30,163	(20,950)
Interest rate derivatives						
Interest rate swaps	**682,949**	**6,555**	**(6,299)**	645,376	7,785	(9,001)
Interest rate options	**581**	**–**	**(3)**	1,917	–	(3)
Interest rate futures	**771**	**5**	**(1)**	249	2	–
Subtotal	**684,301**	**6,560**	**(6,303)**	647,542	7,787	(9,004)
Equity derivatives	**6,310**	**248**	**(232)**	4,721	22	(106)
Commodity derivatives	**145,574**	**9,088**	**(11,739)**	148,365	2,216	(2,397)
Total (2)	**3,069,193**	**47,805**	**(41,311)**	2,883,295	40,188	(32,457)

(1) These exchange rate derivatives primarily include foreign exchange transactions with customers; foreign exchange transactions to manage foreign currency exchange risks arising from customers; and foreign currency exchange transactions entered into as part of the asset and liability management and funding requirements.

(2) The derivative financial instruments above include those designated as hedging instruments by the Group.

(Amount in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

15 Loans and advances to customers, net

15.1 Analysis of loans and advances to customers

	As at 30 June 2013	As at 31 December 2012
Corporate loans and advances		
— Loans and advances	**5,169,478**	4,813,749
— Discounted bills	**185,974**	166,650
Subtotal	**5,355,452**	4,980,399
Personal loans		
— Mortgages	**1,463,290**	1,348,359
— Credit cards	**192,534**	160,865
— Other	**428,357**	375,073
Subtotal	**2,084,181**	1,884,297
Total loans and advances	**7,439,633**	6,864,696
Allowance for impairment losses		
— Individually assessed	**(38,517)**	(38,537)
— Collectively assessed	**(127,480)**	(116,119)
Total allowance for impairment losses	**(165,997)**	(154,656)
Loans and advances to customers, net	**7,273,636**	6,710,040

15.2 Analysis of loans and advances to customers by geographical area, industry, collateral type and analysis of overdue loans and advances to customers is presented in Note IV.1.1.

15 Loans and advances to customers, net (Continued)

15.3 Analysis of loans and advances to customers by collective and individual allowance assessments

	Loans and advances for which allowance is collectively assessed [(1)]	Identified impaired loans and advances [(2)]				Identified impaired loans and advances as % of total loans and advances
		for which allowance is collectively assessed	for which allowance is individually assessed	Subtotal	Total	
As at 30 June 2013						
Total loans and advances	**7,370,277**	**19,692**	**49,664**	**69,356**	**7,439,633**	**0.93%**
Allowance for impairment losses	**(115,177)**	**(12,303)**	**(38,517)**	**(50,820)**	**(165,997)**	
Loans and advances to customers, net	**7,255,100**	**7,389**	**11,147**	**18,536**	**7,273,636**	
As at 31 December 2012						
Total loans and advances	6,799,241	15,106	50,349	65,455	6,864,696	0.95%
Allowance for impairment losses	(106,918)	(9,201)	(38,537)	(47,738)	(154,656)	
Loans and advances to customers, net	6,692,323	5,905	11,812	17,717	6,710,040	

(1) Loans and advances for which allowance is collectively assessed consist of loans and advances which have not been specifically identified as impaired.

(2) Identified impaired loans and advances are loans for which objective evidence of impairment exists and which have been identified as bearing an impairment loss and assessed either:

- individually (including mainly significant corporate loans and advances over a certain amount which are impaired); or
- collectively (portfolios of individually insignificant homogenous loans which share similar credit risk characteristics, including insignificant corporate loans and advances and personal loans which are impaired).

(Amount in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

15 Loans and advances to customers, net (Continued)

15.4 Reconciliation of allowance account for impairment losses on loans and advances to customers

	Six month period ended 30 June 2013	Year ended 31 December 2012
As at 1 January	**154,656**	139,676
Impairment losses for the period/year	**41,131**	52,490
Reversal	**(27,248)**	(33,404)
Written off and transfer out	**(1,999)**	(4,209)
Recovery of loans and advances written off in previous years	**318**	666
Unwind of discount on allowance	**(311)**	(363)
Exchange differences	**(550)**	(200)
As at 30 June/31 December	**165,997**	154,656

16 Investment securities

	As at 30 June 2013	As at 31 December 2012
Investment securities available for sale		
Debt securities		
Issuers in Chinese mainland		
— Government	**65,831**	80,361
— Public sector and quasi-governments	**3,533**	2,950
— Policy banks	**80,796**	77,224
— Financial institutions	**56,746**	45,852
— Corporate	**128,515**	81,716
Issuers in Hong Kong, Macau, Taiwan and other countries and regions		
— Governments	**104,992**	171,057
— Public sector and quasi-governments	**41,965**	40,156
— Financial institutions	**133,971**	129,297
— Corporate	**31,540**	26,106
	647,889	654,719
Equity securities	**24,361**	24,041
Fund investments and others	**7,904**	7,640
Total investment securities available for sale (1)	**680,154**	686,400
Debt securities held to maturity		
Issuers in Chinese mainland		
— Government	**631,707**	645,607
— Public sector and quasi-governments	**15,760**	15,350
— Policy banks	**248,908**	259,900
— Financial institutions	**37,380**	38,969
— Corporate	**127,608**	141,317
Issuers in Hong Kong, Macau, Taiwan and other countries and regions		
— Governments	**60,951**	64,561
— Public sector and quasi-governments	**4,183**	4,439
— Financial institutions	**6,465**	10,613
— Corporate	**3,035**	2,630
	1,135,997	1,183,386
Allowance for impairment losses	**(277)**	(306)
Total debt securities held to maturity (2)	**1,135,720**	1,183,080
Debt securities classified as loans and receivables		
Issuers in Chinese mainland		
— China Orient Bond	**160,000**	160,000
— Special Purpose Treasury Bond	**42,500**	42,500
— Financial institutions	**27,284**	20,979
— Certificate and Saving-type Treasury Bonds and others	**32,565**	32,492
Issuers in Hong Kong, Macau, Taiwan and other countries and regions		
— Public sector and quasi-governments	**13,802**	11,638
— Financial institutions	**518**	1,319
— Corporate	**9**	591
	276,678	269,519
Allowance for impairment losses	**(65)**	(65)
Total debt securities classified as loans and receivables	**276,613**	269,454
Total investment securities	**2,092,487**	2,138,934

(Amount in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

16 Investment securities (Continued)

	As at 30 June 2013	As at 31 December 2012
Analysed as follows:		
Investment securities available for sale		
Debt securities		
— Listed in Hong Kong	**31,042**	21,871
— Listed outside Hong Kong	**290,127**	303,350
— Unlisted	**326,720**	329,498
Equity, fund and others		
— Listed in Hong Kong	**4,172**	4,242
— Listed outside Hong Kong	**287**	279
— Unlisted	**27,806**	27,160
Debt securities held to maturity		
— Listed in Hong Kong	**2,310**	2,520
— Listed outside Hong Kong	**994,922**	1,076,690
— Unlisted	**138,488**	103,870
Debt securities classified as loans and receivables		
— Unlisted	**276,613**	269,454
Total	**2,092,487**	2,138,934
Listed in Hong Kong	**37,524**	28,633
Listed outside Hong Kong	**1,285,336**	1,380,319
Unlisted	**769,627**	729,982
Total	**2,092,487**	2,138,934

(1) The Group's accumulated impairment charge on debt, equity securities and other available for sale held as at 30 June 2013 amounted to RMB3,026 million and RMB4,300 million, respectively (31 December 2012: RMB3,591 million and RMB4,260 million, respectively).

(2) The market values of the above listed held to maturity securities are set out below:

	As at 30 June 2013		As at 31 December 2012	
	Carrying value	Market value	Carrying value	Market Value
Debt securities held to maturity				
Listed in Hong Kong	**2,310**	**2,371**	2,520	2,634
Listed outside Hong Kong	**994,922**	**988,795**	1,076,690	1,072,920

17 Property and equipment

	Six month period ended 30 June 2013				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
Cost					
As at 1 January	82,142	54,120	23,744	53,586	213,592
Additions	142	509	2,980	7,916	11,547
Transfer from investment properties, net (Note III.18)	11	–	–	–	11
Construction in progress transfer in/(out)	854	234	(3,972)	2,884	–
Disposals	(251)	(512)	(107)	(4,010)	(4,880)
Exchange differences	(602)	(125)	(96)	(888)	(1,711)
As at 30 June	82,296	54,226	22,549	59,488	218,559
Accumulated depreciation					
As at 1 January	(22,268)	(33,883)	–	(5,931)	(62,082)
Depreciation charge	(1,234)	(4,191)	–	(1,002)	(6,427)
Disposals	245	494	–	605	1,344
Exchange differences	121	86	–	98	305
As at 30 June	(23,136)	(37,494)	–	(6,230)	(66,860)
Allowance for impairment losses					
As at 1 January	(765)	–	(252)	(169)	(1,186)
Impairment losses	–	–	–	(34)	(34)
Disposals	4	–	5	112	121
Exchange differences	–	–	–	3	3
As at 30 June	(761)	–	(247)	(88)	(1,096)
Net book value					
As at 1 January	59,109	20,237	23,492	47,486	150,324
As at 30 June	58,399	16,732	22,302	53,170	150,603

(Amount in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

17 Property and equipment (Continued)

	Year ended 31 December 2012				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
Cost					
As at 1 January	78,989	47,415	19,840	46,584	192,828
Additions	781	8,290	11,194	6,481	26,746
Transfer to investment properties, net (Note III.18)	(979)	–	–	–	(979)
Construction in progress transfer in/(out)	4,346	485	(6,932)	2,101	–
Disposals	(973)	(2,080)	(328)	(1,395)	(4,776)
Exchange differences	(22)	10	(30)	(185)	(227)
As at 31 December	82,142	54,120	23,744	53,586	213,592
Accumulated depreciation					
As at 1 January	(20,819)	(28,317)	–	(4,411)	(53,547)
Depreciation charge	(2,405)	(7,566)	–	(1,786)	(11,757)
Disposals	954	2,000	–	247	3,201
Exchange differences	2	–	–	19	21
As at 31 December	(22,268)	(33,883)	–	(5,931)	(62,082)
Allowance for impairment losses					
As at 1 January	(775)	–	(252)	(20)	(1,047)
Impairment losses	(3)	–	(4)	(150)	(157)
Disposals	13	–	4	1	18
Exchange differences	–	–	–	–	–
As at 31 December	(765)	–	(252)	(169)	(1,186)
Net book value					
As at 1 January	57,395	19,098	19,588	42,153	138,234
As at 31 December	59,109	20,237	23,492	47,486	150,324

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

18 Investment properties

	Six month period ended 30 June 2013	Year ended 31 December 2012
As at 1 January	**17,142**	14,616
Additions	**260**	560
Transfer from/(to) property and equipment, net (Note III.17)	**(11)**	979
Disposals	**–**	(113)
Fair value changes (Note III.4)	**147**	1,006
Exchange differences	**(198)**	94
As at 30 June/31 December	**17,340**	17,142

19 Other assets

	As at 30 June 2013	As at 31 December 2012
Interest receivable	**60,357**	54,188
Accounts receivable and prepayments	**66,804**	63,022
Intangible assets	**3,292**	3,119
Land use rights	**9,064**	9,239
Long-term deferred expense	**3,727**	3,929
Repossessed assets (1)	**1,116**	1,124
Goodwill	**1,767**	1,796
Other	**6,582**	4,048
Total	**152,709**	140,465

(1) Repossessed assets

The Group obtained repossessed assets by taking possession of collateral held as security due to default. Such repossessed assets are as follows:

	As at 30 June 2013	As at 31 December 2012
Commercial properties	**1,275**	1,265
Residential properties	**152**	136
Other	**703**	788
	2,130	2,189
Allowance for impairment	**(1,014)**	(1,065)
Repossessed assets, net	**1,116**	1,124

The total book value of repossessed assets disposed for the six month period ended 30 June 2013 amounted to RMB87 million (for the year ended 31 December 2012: RMB180 million). The Group plans to dispose of the repossessed assets held at 30 June 2013 by auction, bidding or transfer.

(Amount in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

20 Due to customers

	As at 30 June 2013	As at 31 December 2012
At amortised cost		
Demand deposits		
Corporate deposits	**2,555,431**	2,506,854
Personal deposits	**1,770,383**	1,634,545
Subtotal	**4,325,814**	4,141,399
Time deposits		
Corporate deposits	**2,643,745**	2,216,104
Personal deposits	**2,544,518**	2,373,145
Subtotal	**5,188,263**	4,589,249
Certificates of deposit	**203,828**	226,867
Other deposits	**48,599**	52,463
Total due to customers at amortised cost	**9,766,504**	9,009,978
At fair value		
Structured deposits		
Corporate deposits	**89,319**	90,567
Personal deposits	**20,373**	73,450
Total due to customers at fair value (1)	**109,692**	164,017
Total due to customers (2)	**9,876,196**	9,173,995

(1) Due to customers measured at fair value are structured deposits designated at fair value through profit or loss at inception.

There were no significant changes in the Group's credit risk and therefore there were no significant gains or losses attributable to changes in the Group's credit risk for these financial liabilities designated at fair value through profit or loss during the six month period ended 30 June 2013 and the year ended 31 December 2012.

(2) Due to customers included margin deposits for security received by the Group as at 30 June 2013 of RMB500,129 million (31 December 2012: RMB373,305 million).

21 Bonds issued

During the six month period ended 30 June 2013 and the year ended 31 December 2012, the movement of the liability component of A-share convertible bonds issued by the Bank is as follows:

	Six month period ended 30 June 2013	Year ended 31 December 2012
Liability component as at 1 January	**38,199**	37,201
Accretion	**488**	998
Amounts converted to shares	**(1)**	–
Liability component as at 30 June/31 December	**38,686**	38,199

Convertible bonds with a principal amount of RMB533,000 were converted into 178,401 ordinary A shares during the six month period ended 30 June 2013.

22 Share appreciation rights plan

No share appreciation rights were granted since the inception of the plan.

23 Deferred income taxes

23.1 Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes are related to the same fiscal authority. The table below includes the deferred income tax assets and liabilities of the Group after offsetting qualifying amounts and related temporary differences:

	As at 30 June 2013		As at 31 December 2012	
	Temporary differences	Deferred tax assets/ (liabilities)	Temporary differences	Deferred tax assets/ (liabilities)
Deferred income tax assets	**78,953**	**20,939**	80,481	21,292
Deferred income tax liabilities	**(16,888)**	**(3,200)**	(21,075)	(3,838)
	62,065	**17,739**	59,406	17,454

(Amount in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

23 Deferred income taxes (Continued)

23.2 Deferred income tax assets/(liabilities) and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

	As at 30 June 2013		As at 31 December 2012	
	Temporary differences	Deferred tax assets/ (liabilities)	Temporary differences	Deferred tax assets/ (liabilities)
Deferred income tax assets				
Asset impairment allowances	**93,502**	**23,436**	89,120	22,339
Pension, retirement benefits and salary payable	**16,959**	**4,240**	20,670	5,167
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	**21,673**	**5,418**	12,756	3,185
Fair value changes of available for sale investment securities credited to equity	**2,265**	**482**	301	72
Other temporary differences	**3,646**	**803**	3,521	864
Subtotal	**138,045**	**34,379**	126,368	31,627
Deferred income tax liabilities				
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	**(24,772)**	**(6,193)**	(14,431)	(3,614)
Fair value changes of available for sale investment securities charged to equity	**(2,896)**	**(726)**	(7,140)	(1,491)
Depreciation of property and equipment	**(9,642)**	**(1,655)**	(8,975)	(1,690)
Revaluation of property and investment properties	**(9,308)**	**(1,828)**	(9,010)	(1,742)
Other temporary differences	**(29,362)**	**(6,238)**	(27,406)	(5,636)
Subtotal	**(75,980)**	**(16,640)**	(66,962)	(14,173)
Net	**62,065**	**17,739**	59,406	17,454

As at 30 June 2013, deferred tax liabilities relating to temporary differences of RMB45,294 million associated with the Group's investment in subsidiaries have not been recognised (31 December 2012: RMB38,902 million).

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

23 Deferred income taxes (Continued)

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

	Six month period ended 30 June 2013	Year ended 31 December 2012
As at 1 January	**17,454**	16,298
(Charged)/Credited to the income statement (Note III.8)	**(942)**	2,025
Credited/(charged) to equity	**1,161**	(855)
Other	**66**	(14)
As at 30 June/31 December	**17,739**	17,454

23.4 The deferred income tax charge in the condensed consolidated income statement comprises the following temporary differences:

	For the six month period ended 30 June	
	2013	**2012**
Asset impairment allowances	**1,097**	1,780
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	**(346)**	(261)
Pension, retirement benefits and salary payable	**(913)**	(1,089)
Other temporary differences	**(780)**	(1,058)
Total	**(942)**	(628)

(Amount in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

24 Other liabilities

	As at 30 June 2013	As at 31 December 2012
Items in the process of clearance and settlement	**22,416**	29,918
Interest payable	**116,569**	107,486
Insurance liabilities		
— Life insurance contracts	**47,729**	43,732
— Non-life insurance contracts	**6,704**	5,877
Salary and welfare payable	**18,876**	23,191
Dividend payable (Note III.26)	**48,851**	–
Provision	**2,010**	2,091
Short position in debt securities	**11,599**	14,061
Deferred Income	**5,698**	4,398
Other	**38,602**	37,264
Total	**319,054**	268,018

25 Reserve for fair value changes of available for sale securities

	Six month period ended 30 June 2013	Year ended 31 December 2012
As at 1 January	**7,276**	3,642
Net changes in fair value	**(4,150)**	5,833
Share of associates' reserve for fair value changes of available for sale securities	**(15)**	(33)
Net impairment charges/(reversal) transferred to the income statement	**(13)**	158
Net fair value changes transferred to the income statement on de-recognition	**(409)**	(2,182)
Deferred income taxes	**945**	(739)
Other	**325**	597
As at 30 June/31 December	**3,959**	7,276

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

26 Dividends

A dividend of RMB0.175 per share in respect of the profit for the year ended 31 December 2012 amounting to RMB48,851 million was approved by the equity holders of the Bank at the Annual General Meeting held on 29 May 2013. None of this amount was distributed during the six month period ended 30 June 2013. The undistributed portion was recorded in other liabilities (Note III.24) as at 30 June 2013. Such dividend was distributed on 12 July 2013 after the appropriate withholding of individual and enterprise income taxes.

27 Contingent liabilities and commitments

27.1 Legal proceedings and arbitrations

As at 30 June 2013, the Group was involved in certain legal proceedings and arbitrations arising from its normal business operations. In addition, in terms of the range and scale of its international operations, the Group may face a wide variety of legal proceedings within different jurisdictions, including sensitive issues related to anti-money laundering. As at 30 June 2013, provisions of RMB683 million (31 December 2012: RMB746 million) were made based on court judgements or the advice of counsel. After consulting legal professionals, senior management of the Group believes that at the current stage these legal proceedings and arbitrations will not have a material impact on the financial position or operations of the Group.

27.2 Assets pledged

Assets pledged by the Group as collateral for placement, repurchase, short positions, derivative transactions with other banks and financial institutions and for local statutory requirements are set forth in the table below. These transactions are conducted under standard and normal business terms.

	As at 30 June 2013	As at 31 December 2012
Debt securities	**216,039**	156,784
Bills	**3,408**	885
Total	**219,447**	157,669

(Amount in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

27 Contingent liabilities and commitments (Continued)

27.3 Collateral accepted

The Group accepts securities collateral that are permitted to sell or re-pledge in connection with its placements and reverse repurchase agreements with banks and other financial institutions. As at 30 June 2013, the fair value of collateral received from banks and financial institutions accepted by the Group amounted to RMB5,522 million (31 December 2012: RMB9,831 million). As at 30 June 2013, the Group had sold or re-pledged such collateral accepted amounted to RMB10 million (31 December 2012: RMB10 million). These transactions are conducted under standard terms and in the normal course of business.

27.4 Capital commitments

	As at 30 June 2013	**As at 31 December 2012**
Property and equipment		
— Contracted but not provided for	**74,762**	70,044
— Authorised but not contracted for	**7,366**	8,124
Intangible assets		
— Contracted but not provided for	**736**	650
— Authorised but not contracted for	**37**	1
Total	**82,901**	78,819

27 Contingent liabilities and commitments (Continued)

27.5 Operating leases

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

	As at 30 June 2013	As at 31 December 2012
Within 1 year	**5,137**	8,003
Between 1 and 2 years	**4,187**	4,115
Between 2 and 3 years	**3,313**	3,363
Over 3 years	**8,111**	8,698
Total	**20,748**	24,179

27.6 Treasury bonds redemption commitments

The Bank is entrusted by the Ministry of Finance of the People's Republic of China ("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 MOF will not provide funding for the early redemption of these Treasury bonds on a back-to-back basis but will pay interest and repay the principal at maturity. The redemption price is the principal value of the bonds plus unpaid interest in accordance with the early redemption arrangement.

As at 30 June 2013, the outstanding principal value of the Treasury bonds sold by the Bank amounted to RMB34,744 million (31 December 2012: RMB35,050 million). The original maturities of these Treasury bonds vary from 3 to 5 years and management expects the amount of redemption before the maturity dates of these bonds through the Bank will not be material.

27.7 Credit commitments

	As at 30 June 2013	As at 31 December 2012
Loan commitments (1)		
— with an original maturity of under 1 year	**95,467**	79,689
— with an original maturity of 1 year or over	**617,260**	645,725
Letters of guarantee issued (2)	**803,962**	791,156
Bank bill acceptance	**458,849**	396,460
Accepted bill of exchange under letters of credit	**260,582**	203,106
Letters of credit issued	**178,715**	176,337
Other	**26,832**	25,032
Total (3)	**2,441,667**	2,317,505

(Amount in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

27 Contingent liabilities and commitments (Continued)

27.7 Credit commitments (Continued)

(1) Loan commitments mainly represent undrawn loan facilities agreed and granted to customers. Undrawn credit card limits are not included in loan commitments. As at 30 June 2013, the undrawn credit card limits of the Group amounted to RMB373,082 million (31 December 2012: RMB325,940 million).

(2) Letters of guarantee issued include financial guarantees and performance guarantees. These obligations on the Group to make payment are dependent on the outcome of a future event.

(3) Credit risk weighted amounts of credit commitments

As at 30 June 2013, the credit risk weighted amounts of credit commitments of the Group amounted to RMB786,463 million (31 December 2012: RMB754,824 million).

The credit risk weighted amounts are the amounts calculated in accordance with the guidelines issued by the CBRC and are dependent on, among other factors, the creditworthiness of the counterparties and the maturity characteristics. The risk weights used range from 0% to 100% for commitments.

28 Note to the condensed consolidated statement of cash flows

For the purpose of the condensed consolidated statement of cash flows, cash and cash equivalents comprise the following balances with an original maturity of less than three months:

	As at 30 June 2013	As at 30 June 2012
Cash and due from banks and other financial institutions	**202,052**	426,552
Balances with central banks	**371,201**	638,072
Placements with and loans to banks and other financial institutions	**209,024**	353,800
Short term bills and notes	**44,879**	54,525
Total	**827,156**	1,472,949

29 Related party transactions

29.1 China Investment Corporation ("CIC") was established on 29 September 2007 with registered capital of RMB1,550,000 million. CIC is a wholly State-owned company engaging in foreign currency investment management. The Group is subject to the control of the State Council of the PRC Government through CIC and its wholly owned subsidiary, Central Huijin Investment Ltd. ("Huijin").

The Group entered into banking transactions with CIC in the normal course of its business at commercial terms.

29.2 Transactions with Huijin and companies under Huijin

(1) General information of Huijin

Central Huijin Investment Ltd.

Registered capital	RMB828,209 million
Location of registration	Beijing
Capital shares in the Bank	67.75%
Voting right in the Bank	67.75%
Nature	Wholly State-owned company
Principal activities	Investment in major State-owned financial institutions on behalf of the State
National organisation code	71093296-1

(2) Transactions with Huijin

The Group enters into banking transactions with Huijin in the normal course of its business at commercial terms.

Due to Huijin

	Six month period ended 30 June 2013	Year ended 31 December 2012
As at 1 January	**28,036**	15,933
Received during the period/year	**1,270**	55,023
Repaid during the period/year	**(15,591)**	(42,920)
As at 30 June/31 December	**13,715**	28,036

(Amount in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

29 Related party transactions (Continued)

29.2 Transactions with Huijin and companies under Huijin (Continued)

(2) Transactions with Huijin (Continued)

Bonds issued by Huijin

As at 30 June 2013, the Bank held "government-backed bonds held to maturity" issued by Huijin in the carrying value of RMB5,769 million (31 December 2012: RMB5,749 million). These bonds have maturity of not more than 30 years and bear fixed interest rates, payable annually. Purchasing of these bonds was in the ordinary course of business of the Group, complying with requirements of related regulations and corporate governance.

(3) Transactions with companies under Huijin

Companies under Huijin include its equity interests in subsidiaries, joint ventures and associates in certain other bank and non-bank entities in the PRC. The Group enters into banking transactions with these companies in the normal course of business at commercial terms which include mainly purchase and sale of debt securities, money market transactions and derivative transactions.

The Group's outstanding balances with these companies were as follows:

	As at 30 June 2013	As at 31 December 2012
Due from banks and other financial institutions	**66,755**	108,139
Placements with and loans to banks and other financial institutions	**97,915**	99,286
Financial assets at fair value through profit or loss and investment securities	**220,615**	216,367
Derivative financial assets	**546**	996
Loans and advances to customers	**3,943**	1,649
Due to banks and other financial institutions	**(140,345)**	(244,237)
Placements from banks and other financial institutions	**(77,706)**	(50,595)
Derivative financial liabilities	**(715)**	(722)
Credit commitments	**744**	549

29 Related party transactions (Continued)

29.3 Transactions with government authorities, agencies, affiliates and other State-controlled entities

The State Council of the PRC Government directly and indirectly controls a significant number of entities through its government authorities, agencies, affiliates and other State-controlled entities. The Group enters into extensive banking transactions with these entities in the normal course of business at commercial terms.

Transactions conducted with government authorities, agencies, affiliates and other State-controlled entities include purchase and redemption of investment securities issued by government agencies, underwriting and distribution of Treasury bonds issued by government agencies through the Group's branch network, foreign exchange transactions and derivative transactions, lending, provision of credit and guarantees and deposit placing and taking.

29.4 Transactions with associates and joint ventures

The Group enters into banking transactions with associates and joint ventures in the normal course of business at commercial terms. These include loans and advances, deposit taking and other normal banking businesses. The main outstanding balances with associates and joint ventures as of the respective period/year end dates are stated below:

	As at 30 June 2013	As at 31 December 2012
Loans and advances to customers	**803**	711
Due to customers, banks and other financial institutions	**(4,124)**	(3,384)
Credit commitments	**1,405**	1,414

29.5 Transactions with the Annuity Fund

Apart from the obligations for defined contributions to Annuity Fund and normal banking transactions, no other transactions were conducted between the Group and the Annuity Fund for the six month period ended 30 June 2013 and the year ended 31 December 2012.

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

29 Related party transactions (Continued)

29.6 Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and Executive Officers.

The Group enters into banking transactions with key management personnel in the normal course of business. During the six month period ended 30 June 2013 and the year ended 31 December 2012, there were no material transactions and balances with key management personnel on an individual basis.

30 Segment reporting

The Group manages its business from both geographic and business perspective. From the geographic perspectives, the Group operates in three principal regions: Chinese mainland, Hong Kong, Macau and Taiwan, and other countries and regions. From the business perspective, the Group provides services through six main business segments: corporate banking, personal banking, treasury operations, investment banking, insurance and other operations.

Measurement of segment assets, liabilities, income, expenses, results and capital expenditure is based on the Group's accounting policies. The segment information presented includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Funding is provided to and from individual business segments through treasury operations as part of the asset and liability management process. The pricing of these transactions is based on market rates. The transfer price takes into account the specific features and maturities of the product. Internal transactions are eliminated on consolidation.

Geographical segments

Chinese mainland — Corporate banking, personal banking, treasury operations and insurance services are performed in Chinese mainland.

Hong Kong, Macau and Taiwan — Corporate banking, personal banking, treasury operations, investment banking and insurance services are performed in Hong Kong, Macau and Taiwan. The business of this segment is centralised in BOC Hong Kong (Group) Limited ("BOC Hong Kong Group").

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

30 Segment reporting (Continued)

Geographical segments (Continued)

Other countries and regions — Corporate and personal banking services are provided in other countries and regions. Significant locations include New York, London, Singapore and Tokyo.

Business segments

Corporate banking — Services to corporate customers, government authorities and financial institutions including current accounts, deposits, overdrafts, loans, trade-related products and other credit facilities, foreign currency, derivative products and wealth management products.

Personal banking — Services to retail customers including saving deposits, personal loans, credit cards and debit cards, payments and settlements, wealth management products and funds and insurance agency service.

Treasury operations — Consisting of foreign exchange transactions, customer-based interest rate and foreign exchange derivative transactions, money market transactions, proprietary trading and asset and liability management. The results of this segment include the inter-segment funding income and expenses, results from interest bearing assets and liabilities; and foreign currency translation gains and losses.

Investment banking — Consisting of debt and equity underwriting and financial advisory, sales and trading of securities, stock brokerage, investment research and asset management services, and private equity investment services.

Insurance — Underwriting of general and life insurance business and insurance agency services.

Other operations of the Group comprise investment holding and other miscellaneous activities, none of which constitutes a separately reportable segment.

(Amount in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

30 Segment reporting (Continued)

The Group as at and for the six month period ended 30 June 2013

		Hong Kong, Macau and Taiwan					
	Chinese mainland	BOC Hong Kong Group	Other	Subtotal	Other countries and regions	Elimination	Total
Interest income	224,321	15,291	5,557	20,848	10,144	(5,443)	249,870
Interest expense	(105,027)	(4,373)	(3,707)	(8,080)	(4,918)	5,443	(112,582)
Net interest income	119,294	10,918	1,850	12,768	5,226	–	137,288
Fee and commission income	39,891	4,924	2,257	7,181	2,155	(754)	48,473
Fee and commission expense	(978)	(1,467)	(390)	(1,857)	(583)	426	(2,992)
Net fee and commission income	38,913	3,457	1,867	5,324	1,572	(328)	45,481
Net trading gains	3,244	489	313	802	(128)	–	3,918
Net gains on investment securities	288	81	17	98	28	–	414
Other operating income (1)	10,286	4,724	4,038	8,762	131	(29)	19,150
Operating income	172,025	19,669	8,085	27,754	6,829	(357)	206,251
Operating expenses (1)	(69,302)	(7,922)	(3,707)	(11,629)	(1,635)	357	(82,209)
Impairment losses on assets	(12,731)	(298)	(476)	(774)	(637)	–	(14,142)
Operating profit	89,992	11,449	3,902	15,351	4,557	–	109,900
Share of results of associates and joint ventures	–	(1)	352	351	–	–	351
Profit before income tax	89,992	11,448	4,254	15,702	4,557	–	110,251
Income tax expense							(26,079)
Profit for the period							84,172
Segment assets	10,767,637	1,430,944	657,247	2,088,191	1,136,529	(748,733)	13,243,624
Investment in associates and joint ventures	–	46	12,536	12,582	–	–	12,582
Total assets	10,767,637	1,430,990	669,783	2,100,773	1,136,529	(748,733)	13,256,206
Include: non-current assets (2)	90,309	20,846	71,911	92,757	4,947	(161)	187,852
Segment liabilities	10,075,777	1,332,629	603,570	1,936,199	1,106,469	(748,572)	12,369,873
Other segment items:							
Intersegment net interest (expense)/income	(2,189)	535	1,385	1,920	269	–	–
Intersegment net fee and commission income	48	55	314	369	(89)	(328)	–
Capital expenditure	2,957	201	9,419	9,620	127	–	12,704
Depreciation and amortisation	6,005	364	1,212	1,576	116	–	7,697
Credit commitments	2,345,789	118,280	99,654	217,934	222,014	(344,070)	2,441,667

30 Segment reporting (Continued)

The Group as at 31 December 2012 and for the six month period ended 30 June 2012

	Chinese mainland	Hong Kong, Macau and Taiwan: BOC Hong Kong Group	Hong Kong, Macau and Taiwan: Other	Hong Kong, Macau and Taiwan: Subtotal	Other countries and regions	Elimination	Total
Interest income	228,499	14,888	4,576	19,464	9,567	(4,409)	253,121
Interest expense	(120,433)	(4,457)	(3,561)	(8,018)	(5,025)	4,409	(129,067)
Net interest income	108,066	10,431	1,015	11,446	4,542	–	124,054
Fee and commission income	29,450	4,329	1,868	6,197	1,753	(679)	36,721
Fee and commission expense	(789)	(1,224)	(371)	(1,595)	(472)	385	(2,471)
Net fee and commission income	28,661	3,105	1,497	4,602	1,281	(294)	34,250
Net trading gains	3,856	1,108	424	1,532	73	–	5,461
Net gains on investment securities	586	387	60	447	19	–	1,052
Other operating income (1)	7,469	3,582	3,723	7,305	74	–	14,848
Operating income	148,638	18,613	6,719	25,332	5,989	(294)	179,665
Operating expenses (1)	(61,660)	(7,288)	(3,486)	(10,774)	(1,521)	294	(73,661)
Impairment losses on assets	(8,520)	(59)	(374)	(433)	(284)	–	(9,237)
Operating profit	78,458	11,266	2,859	14,125	4,184	–	96,767
Share of results of associates and joint ventures	–	–	225	225	–	–	225
Profit before income tax	78,458	11,266	3,084	14,350	4,184	–	96,992
Income tax expense							(22,108)
Profit for the period							74,884
Segment assets	10,196,577	1,453,681	582,307	2,035,988	1,087,203	(651,535)	12,668,233
Investment in associates and joint ventures	–	49	12,333	12,382	–	–	12,382
Total assets	10,196,577	1,453,730	594,640	2,048,370	1,087,203	(651,535)	12,680,615
Include: non-current assets (2)	93,313	21,210	68,087	89,297	5,316	(161)	187,765
Segment liabilities	9,531,288	1,353,345	529,274	1,882,619	1,056,540	(651,374)	11,819,073
Other segment items:							
Intersegment net interest (expense)/income	(313)	882	589	1,471	(1,158)	–	–
Intersegment net fee and commission income	156	63	359	422	(284)	(294)	–
Capital expenditure	2,429	251	4,615	4,866	126	–	7,421
Depreciation and amortisation	5,341	376	1,057	1,433	103	–	6,877
Credit commitments	2,216,766	113,970	95,454	209,424	178,453	(287,138)	2,317,505

(1) "Other operating income" includes insurance premium income earned, and "operating expenses" include insurance benefits and claims.

(2) "Non-current assets" include property and equipment, investment properties and other long-term assets.

(Amount in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

30 Segment reporting (Continued)

The Group as at and for the six month period ended 30 June 2013

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	142,084	80,900	54,461	530	876	554	(29,535)	249,870
Interest expense	(67,355)	(41,094)	(32,561)	(191)	–	(916)	29,535	(112,582)
Net interest income/(expense)	74,729	39,806	21,900	339	876	(362)	–	137,288
Fee and commission income	27,833	15,281	4,569	1,320	–	222	(752)	48,473
Fee and commission expense	(1,249)	(929)	(291)	(286)	(861)	(13)	637	(2,992)
Net fee and commission income	26,584	14,352	4,278	1,034	(861)	209	(115)	45,481
Net trading gains	28	264	3,682	144	(533)	328	5	3,918
Net gains on investment securities	15	3	357	–	28	11	–	414
Other operating income	361	7,735	480	30	6,730	4,644	(830)	19,150
Operating income	101,717	62,160	30,697	1,547	6,240	4,830	(940)	206,251
Operating expenses	(33,263)	(34,110)	(7,393)	(736)	(5,335)	(2,312)	940	(82,209)
Impairment (losses)/reversal on assets	(9,056)	(5,083)	161	–	(3)	(161)	–	(14,142)
Operating profit	59,398	22,967	23,465	811	902	2,357	–	109,900
Share of results of associates and joint ventures	–	–	–	104	(4)	251	–	351
Profit before income tax	59,398	22,967	23,465	915	898	2,608	–	110,251
Income tax expense								(26,079)
Profit for the period								84,172
Segment assets	5,737,221	2,184,151	5,079,855	56,996	71,329	225,200	(111,128)	13,243,624
Investment in associates and joint ventures	–	–	–	2,638	(1)	9,999	(54)	12,582
Total assets	5,737,221	2,184,151	5,079,855	59,634	71,328	235,199	(111,182)	13,256,206
Segment liabilities	6,392,942	4,427,446	1,357,616	51,378	63,572	187,884	(110,965)	12,369,873
Other segment items:								
Intersegment net interest (expense)/income	(6,766)	28,871	(21,933)	60	47	(279)	–	–
Intersegment net fee and commission income	5	72	–	–	(619)	657	(115)	–
Capital expenditure	910	1,007	48	24	10	10,705	–	12,704
Depreciation and amortisation	2,607	3,268	534	45	24	1,219	–	7,697

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

30 Segment reporting (Continued)

The Group as at 31 December 2012 and for the six month period ended 30 June 2012

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	152,441	73,876	55,397	544	856	306	(30,299)	253,121
Interest expense	(75,226)	(37,951)	(44,978)	(215)	–	(996)	30,299	(129,067)
Net interest income/(expense)	77,215	35,925	10,419	329	856	(690)	–	124,054
Fee and commission income	20,787	11,295	3,873	1,087	1	176	(498)	36,721
Fee and commission expense	(1,051)	(768)	(212)	(246)	(604)	(13)	423	(2,471)
Net fee and commission income	19,736	10,527	3,661	841	(603)	163	(75)	34,250
Net trading gains	269	242	4,363	229	313	43	2	5,461
Net gains on investment securities	20	4	883	–	104	41	–	1,052
Other operating income	155	5,954	328	35	4,277	4,804	(705)	14,848
Operating income	97,395	52,652	19,654	1,434	4,947	4,361	(778)	179,665
Operating expenses	(31,173)	(29,488)	(6,403)	(850)	(4,453)	(2,072)	778	(73,661)
Impairment (losses)/reversal on assets	(6,919)	(2,312)	190	–	(24)	(172)	–	(9,237)
Operating profit	59,303	20,852	13,441	584	470	2,117	–	96,767
Share of results of associates and joint ventures	–	–	–	154	10	63	(2)	225
Profit before income tax	59,303	20,852	13,441	738	480	2,180	(2)	96,992
Income tax expense								(22,108)
Profit for the period								74,884
Segment assets	5,589,896	2,009,137	4,831,145	53,797	65,409	232,835	(113,986)	12,668,233
Investment in associates and joint ventures	–	–	–	2,561	–	9,876	(55)	12,382
Total assets	5,589,896	2,009,137	4,831,145	56,358	65,409	242,711	(114,041)	12,680,615
Segment liabilities	6,214,916	4,117,118	1,341,361	48,545	57,680	153,279	(113,826)	11,819,073
Other segment items:								
Intersegment net interest (expense)/income	(9,772)	28,369	(18,164)	43	47	(523)	–	–
Intersegment net fee and commission income	–	45	–	–	(409)	439	(75)	–
Capital expenditure	752	838	40	15	18	5,758	–	7,421
Depreciation and amortisation	2,385	2,873	470	46	17	1,086	–	6,877

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT

1 Credit risk

1.1 Loans and advances

(1) Concentrations of risk for loans and advances to customers

(i) Analysis of loans and advances to customers by geographical area

Group

	As at 30 June 2013		As at 31 December 2012	
	Amount	% of total	Amount	% of total
Chinese mainland	**5,952,180**	**80.01%**	5,558,682	80.98%
Hong Kong, Macau and Taiwan	**906,047**	**12.18%**	828,844	12.07%
Other countries and regions	**581,406**	**7.81%**	477,170	6.95%
Total loans and advances to customers	**7,439,633**	**100.00%**	6,864,696	100.00%

Chinese mainland

	As at 30 June 2013		As at 31 December 2012	
	Amount	% of total	Amount	% of total
Northern China	**930,269**	**15.63%**	872,120	15.69%
Northeastern China	**431,772**	**7.25%**	399,844	7.19%
Eastern China	**2,450,852**	**41.18%**	2,277,622	40.98%
Central and Southern China	**1,420,430**	**23.86%**	1,350,778	24.30%
Western China	**718,857**	**12.08%**	658,318	11.84%
Total loans and advances to customers	**5,952,180**	**100.00%**	5,558,682	100.00%

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(ii) Analysis of loans and advances to customers by customer type

	As at 30 June 2013			
	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total
Corporate loans				
— Trade bills	**833,378**	**143,356**	**254,144**	**1,230,878**
— Other	**3,318,331**	**495,342**	**310,901**	**4,124,574**
Personal loans	**1,800,471**	**267,349**	**16,361**	**2,084,181**
Total loans and advances to customers	**5,952,180**	**906,047**	**581,406**	**7,439,633**

	As at 31 December 2012			
	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total
Corporate loans				
— Trade bills	742,084	117,522	187,826	1,047,432
— Other	3,198,438	460,263	274,266	3,932,967
Personal loans	1,618,160	251,059	15,078	1,884,297
Total loans and advances to customers	5,558,682	828,844	477,170	6,864,696

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

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

Group

	As at 30 June 2013		As at 31 December 2012	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Manufacturing	**1,569,740**	**21.10%**	1,482,664	21.60%
Commerce and services	**1,126,510**	**15.14%**	1,007,853	14.68%
Transportation, storage and postal services	**702,286**	**9.44%**	674,260	9.82%
Real estate	**602,755**	**8.10%**	554,618	8.08%
Production and supply of electricity, heating, gas and water	**389,683**	**5.24%**	396,230	5.77%
Mining	**314,023**	**4.22%**	307,358	4.48%
Water, environment and public utility management	**207,876**	**2.79%**	215,711	3.14%
Financial services	**170,099**	**2.29%**	109,977	1.60%
Construction	**128,326**	**1.72%**	114,449	1.67%
Public utilities	**70,052**	**0.94%**	70,380	1.03%
Other	**74,102**	**1.00%**	46,899	0.68%
Subtotal	**5,355,452**	**71.98%**	4,980,399	72.55%
Personal loans				
Mortgages	**1,463,290**	**19.67%**	1,348,359	19.65%
Credit cards	**192,534**	**2.59%**	160,865	2.34%
Other	**428,357**	**5.76%**	375,073	5.46%
Subtotal	**2,084,181**	**28.02%**	1,884,297	27.45%
Total loans and advances to customers	**7,439,633**	**100.00%**	6,864,696	100.00%

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iii) Analysis of loans and advances to customers by industry (Continued)

Chinese mainland

	As at 30 June 2013		As at 31 December 2012	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Manufacturing	**1,361,950**	**22.88%**	1,293,806	23.28%
Commerce and services	**768,357**	**12.91%**	693,405	12.47%
Transportation, storage and postal services	**618,972**	**10.40%**	590,014	10.61%
Real estate	**388,535**	**6.53%**	362,212	6.52%
Production and supply of electricity, heating, gas and water	**365,794**	**6.15%**	372,558	6.70%
Mining	**193,474**	**3.25%**	188,847	3.40%
Water, environment and public utility management	**207,852**	**3.49%**	215,658	3.88%
Financial services	**53,406**	**0.90%**	47,441	0.85%
Construction	**110,951**	**1.86%**	98,796	1.78%
Public utilities	**65,476**	**1.10%**	64,696	1.16%
Other	**16,942**	**0.28%**	13,089	0.24%
Subtotal	**4,151,709**	**69.75%**	3,940,522	70.89%
Personal loans				
Mortgages	**1,240,990**	**20.85%**	1,132,027	20.36%
Credit cards	**183,518**	**3.08%**	151,006	2.72%
Other	**375,963**	**6.32%**	335,127	6.03%
Subtotal	**1,800,471**	**30.25%**	1,618,160	29.11%
Total loans and advances to customers	**5,952,180**	**100.00%**	5,558,682	100.00%

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

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

Group

	As at 30 June 2013		As at 31 December 2012	
	Amount	% of total	Amount	% of total
Unsecured loans	**2,229,695**	**29.97%**	2,020,733	29.44%
Guaranteed loans	**1,321,013**	**17.76%**	1,177,880	17.16%
Collateralised and other secured loans				
— loans secured by property and other immovable assets	**2,845,564**	**38.25%**	2,705,738	39.41%
— other pledged loans	**1,043,361**	**14.02%**	960,345	13.99%
Total loans and advances to customers	**7,439,633**	**100.00%**	6,864,696	100.00%

Chinese mainland

	As at 30 June 2013		As at 31 December 2012	
	Amount	% of total	Amount	% of total
Unsecured loans	**1,615,267**	**27.14%**	1,487,652	26.76%
Guaranteed loans	**1,126,153**	**18.91%**	1,045,941	18.82%
Collateralised and other secured loans				
— loans secured by property and other immovable assets	**2,446,169**	**41.10%**	2,343,563	42.16%
— other pledged loans	**764,591**	**12.85%**	681,526	12.26%
Total loans and advances to customers	**5,952,180**	**100.00%**	5,558,682	100.00%

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(2) Analysis of impaired loans and advances to customers

(i) Impaired loans and advances by geographical area

Group

	As at 30 June 2013			As at 31 December 2012		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland	**66,929**	**96.50%**	**1.12%**	62,844	96.01%	1.13%
Hong Kong, Macau and Taiwan	**1,583**	**2.28%**	**0.17%**	1,691	2.58%	0.20%
Other countries and regions	**844**	**1.22%**	**0.15%**	920	1.41%	0.19%
Total	**69,356**	**100.00%**	**0.93%**	65,455	100.00%	0.95%

Chinese mainland

	As at 30 June 2013			As at 31 December 2012		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Northern China	**10,012**	**14.96%**	**1.08%**	10,535	16.76%	1.21%
Northeastern China	**3,760**	**5.62%**	**0.87%**	3,516	5.59%	0.88%
Eastern China	**29,178**	**43.59%**	**1.19%**	23,476	37.36%	1.03%
Central and Southern China	**20,079**	**30.00%**	**1.41%**	20,372	32.42%	1.51%
Western China	**3,900**	**5.83%**	**0.54%**	4,945	7.87%	0.75%
Total	**66,929**	**100.00%**	**1.12%**	62,844	100.00%	1.13%

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(2) Analysis of impaired loans and advances to customers (Continued)

(ii) Impaired loans and advances by customer type

Group

	As at 30 June 2013			As at 31 December 2012		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	**56,487**	**81.45%**	**1.05%**	55,090	84.16%	1.11%
Personal loans	**12,869**	**18.55%**	**0.62%**	10,365	15.84%	0.55%
Total	**69,356**	**100.00%**	**0.93%**	65,455	100.00%	0.95%

Chinese mainland

	As at 30 June 2013			As at 31 December 2012		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	**54,192**	**80.97%**	**1.31%**	52,695	83.85%	1.34%
Personal loans	**12,737**	**19.03%**	**0.71%**	10,149	16.15%	0.63%
Total	**66,929**	**100.00%**	**1.12%**	62,844	100.00%	1.13%

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(2) Analysis of impaired loans and advances to customers (Continued)

(iii) Impaired loans and advances by geographical area and industry

	As at 30 June 2013			As at 31 December 2012		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland						
Corporate loans and advances						
Manufacturing	**22,510**	**32.46%**	**1.65%**	22,410	34.24%	1.73%
Commerce and services	**12,210**	**17.61%**	**1.59%**	9,359	14.30%	1.35%
Transportation, storage and postal services	**11,197**	**16.14%**	**1.81%**	12,658	19.34%	2.15%
Real estate	**2,825**	**4.07%**	**0.73%**	2,670	4.08%	0.74%
Production and supply of electricity, heating, gas and water	**4,053**	**5.84%**	**1.11%**	3,843	5.87%	1.03%
Mining	**225**	**0.32%**	**0.12%**	232	0.35%	0.12%
Water, environment and public utility management	**28**	**0.04%**	**0.01%**	29	0.04%	0.01%
Financial services	**4**	**0.01%**	**0.01%**	4	0.01%	0.01%
Construction	**614**	**0.89%**	**0.55%**	572	0.87%	0.58%
Public utilities	**379**	**0.55%**	**0.58%**	691	1.05%	1.07%
Other	**147**	**0.21%**	**0.87%**	227	0.35%	1.73%
Subtotal	**54,192**	**78.14%**	**1.31%**	52,695	80.50%	1.34%
Personal loans						
Mortgages	**4,414**	**6.36%**	**0.36%**	4,127	6.31%	0.36%
Credit cards	**3,253**	**4.69%**	**1.77%**	2,308	3.53%	1.53%
Other	**5,070**	**7.31%**	**1.35%**	3,714	5.67%	1.11%
Subtotal	**12,737**	**18.36%**	**0.71%**	10,149	15.51%	0.63%
Total for Chinese mainland	**66,929**	**96.50%**	**1.12%**	62,844	96.01%	1.13%
Hong Kong, Macau, Taiwan and other countries and regions	**2,427**	**3.50%**	**0.16%**	2,611	3.99%	0.20%
Total	**69,356**	**100.00%**	**0.93%**	65,455	100.00%	0.95%

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(2) Analysis of impaired loans and advances to customers (Continued)

(iv) Impaired loans and advances and related allowance by geographical area

	As at 30 June 2013			
	Impaired loans	Individually assessed allowance	Collectively assessed allowance	Net
Chinese mainland	**66,929**	**(37,298)**	**(12,209)**	**17,422**
Hong Kong, Macau and Taiwan	**1,583**	**(665)**	**(75)**	**843**
Other countries and regions	**844**	**(554)**	**(19)**	**271**
Total	**69,356**	**(38,517)**	**(12,303)**	**18,536**

	As at 31 December 2012			
	Impaired loans	Individually assessed allowance	Collectively assessed allowance	Net
Chinese mainland	62,844	(37,187)	(9,121)	16,536
Hong Kong, Macau and Taiwan	1,691	(693)	(74)	924
Other countries and regions	920	(657)	(6)	257
Total	65,455	(38,537)	(9,201)	17,717

For description of allowances on identified impaired loans and advances, refer to Note III. 15.3.

(3) Loans and advances rescheduled

Rescheduling (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 Group and a borrower and/or its guarantor, if any, rescheduled credit terms as a result of deterioration in the borrower's financial condition or of the borrower's inability to make payments when due. The Group reschedules a non-performing loan only if the borrower has good prospects. In addition, prior to approving the rescheduling of loans, the Group typically requires additional guarantees, pledges and/or collateral, or the assumption of the loan by a borrower with better repayment ability.

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(3) Loans and advances rescheduled (Continued)

All rescheduled loans are subject to a surveillance period of six months. During the surveillance period, rescheduled loans remain as non-performing loans and the Group monitors the borrower's business operations and loan repayment patterns. After the surveillance period, rescheduled loans may be upgraded to "special-mention" upon review if certain criteria are met. If the rescheduled loans fall overdue or if the borrower is unable to demonstrate its repayment ability, these loans will be reclassified to "doubtful" or below. All rescheduled loans within surveillance period are determined to be impaired as at 30 June 2013 and 31 December 2012.

As at 30 June 2013 and 31 December 2012, within impaired loans and advances, rescheduled loans and advances that were overdue for 90 days or less were insignificant.

(4) Overdue loans and advances to customers

Analysis of overdue loans and advances by geographical area

	As at 30 June 2013	As at 31 December 2012
Chinese mainland	**84,518**	68,357
Hong Kong, Macau and Taiwan	**4,880**	5,407
Other countries and regions	**1,558**	1,131
Subtotal	**90,956**	74,895
Less: total loans and advances to customers which have been overdue for less than 3 months	**(36,629)**	(29,819)
Total loans and advances to customers which have been overdue for more than 3 months	**54,327**	45,076
Individually assessed impairment allowance — for loans and advances to customers which have been overdue for more than 3 months	**(29,281)**	(26,559)

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.2 Debt securities

The table below represents an analysis of the carrying value of debt securities by credit or issuer rating and credit risk characteristics.

	As at 30 June 2013					
	Unrated	AAA	AA	A	Lower than A	Total
Issuers in Chinese mainland						
— Government	–	–	750,937	2,820	–	753,757
— Public sector and quasi-governments	21,793	–	–	–	–	21,793
— Policy banks	–	–	29,833	311,919	–	341,752
— Financial institutions	17,706	595	499	73,903	24,685	117,388
— Corporate	188,765	19	33,237	43,214	17,810	283,045
— China Orient	160,000	–	–	–	–	160,000
Subtotal	388,264	614	814,506	431,856	42,495	1,677,735
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
— Governments	–	45,414	129,078	5,149	3,007	182,648
— Public sector and quasi-governments	261	25,973	33,601	371	226	60,432
— Financial institutions	2,156	29,011	57,627	55,467	17,334	161,595
— Corporate	10,495	1,773	1,980	19,259	8,691	42,198
Subtotal (1)	12,912	102,171	222,286	80,246	29,258	446,873
Total (2)	401,176	102,785	1,036,792	512,102	71,753	2,124,608

(1) Included mortgage backed securities as follows:

	As at 30 June 2013					
	Unrated	AAA	AA	A	Lower than A	Total
US Subprime mortgage related debt securities	–	206	264	659	2,431	3,560
US Alt-A mortgage-backed securities	–	10	4	48	756	818
US Non-Agency mortgage-backed securities	–	12	82	144	1,152	1,390
Total	–	228	350	851	4,339	5,768

1 Credit risk (Continued)

1.2 Debt securities (Continued)

	As at 31 December 2012					
	Unrated	AAA	AA	A	Lower than A	Total
Issuers in Chinese mainland						
— Government	–	–	784,499	1,668	–	786,167
— Public sector and quasi-governments	20,810	–	–	–	–	20,810
— Policy banks	–	–	27,749	322,328	–	350,077
— Financial institutions	2,434	360	88	75,966	22,296	101,144
— Corporate	183,358	19	4,224	40,036	16,586	244,223
— China Orient	160,000	–	–	–	–	160,000
Subtotal	366,602	379	816,560	439,998	38,882	1,662,421
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
— Governments	–	55,367	141,303	54,857	1,705	253,232
— Public sector and quasi-governments	11,725	25,338	19,139	209	310	56,721
— Financial institutions	874	31,867	62,982	49,985	16,680	162,388
— Corporate	8,717	2,008	1,729	17,397	7,413	37,264
Subtotal (1)	21,316	114,580	225,153	122,448	26,108	509,605
Total (2)	387,918	114,959	1,041,713	562,446	64,990	2,172,026

(1) Included mortgage backed securities as follows:

	As at 31 December 2012					
	Unrated	AAA	AA	A	Lower than A	Total
US Subprime mortgage related debt securities	–	306	487	573	2,849	4,215
US Alt-A mortgage-backed securities	–	15	5	60	840	920
US Non-Agency mortgage-backed securities	–	15	92	106	1,585	1,798
Total	–	336	584	739	5,274	6,933

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.2 Debt securities (Continued)

(2) The Group's available for sale and held to maturity debt securities are individually assessed for impairment. The Group's accumulated impairment charges on available for sale and held to maturity debt securities at 30 June 2013 amounted to RMB3,026 million and RMB277 million, respectively (31 December 2012: RMB3,591 million and RMB306 million). The carrying values of the available for sale and held to maturity debt securities considered impaired as at 30 June 2013 were RMB4,748 million and RMB562 million, respectively (31 December 2012: RMB5,856 million and RMB638 million).

1.3 Derivatives

The credit risk weighted amounts represent the counterparty credit risk associated with derivative transactions and are calculated with reference to the guidelines issued by the CBRC or the Hong Kong Monetary Authority as appropriate and are dependent on, among other factors, the creditworthiness of the customers and the maturity characteristics of each type of contract.

The credit risk weighted amounts of derivative financial instruments are as follows:

	As at 30 June 2013	As at 31 December 2012
Exchange rate derivatives		
Currency forwards and swaps, and cross-currency interest rate swaps	**13,477**	8,610
Currency options	**100**	58
Interest rate derivatives		
Interest rate swaps	**3,988**	4,073
Equity derivatives	**84**	31
Commodity derivatives	**33**	9
	17,682	12,781

The credit risk weighted amounts stated above have not taken into account any effects of netting arrangements.

1.4 Repossessed assets

The Group obtained assets by taking possession of collateral held as security. Detailed information of such repossessed assets of the Group is disclosed in Note III.19.

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk

2.1 Market risk measurement techniques and limits

(1) Trading book

Market risk in trading book is managed by establishing Value at Risk (VaR) limits. Total exposures, stress testing and utilisation of VaR are monitored on a daily basis for each trading desk and dealer.

VaR is used to estimate the largest potential loss arising from adverse market movements in a specific holding period and within a certain confidence level.

VaR is performed separately by the Bank and its major subsidiaries that are exposed to market risk, BOCHK (Holdings) and BOCI. The Bank, BOCHK (Holdings) and BOCI used a 99% level of confidence (therefore 1% statistical probability that actual losses could be greater than the VaR estimate) and a historical simulation model to calculate the VaR estimate. The holding period of the VaR calculations is one day. To enhance the Group's market risk management, the Group has established the market risk data mart, which enabled a group level trading book VaR calculation on a daily basis.

Accuracy and reliability of the VaR model is verified by daily back-testing the VaR result on trading book. The back-testing results are regularly reported to senior management.

Stress testing is performed based on the characteristics of trading transactions to simulate and estimate losses in adverse and exceptional market conditions. The Group sets stress testing limits, adjusts and enhances the scenarios for stress testing taking into account financial market fluctuations in order to capture the potential impact of market price fluctuations and volatility on the trading book, enhancing the Group's market risk management capabilities.

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.1 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

The table below shows the VaR of the trading book by type of risk for the six month periods ended 30 June 2013 and 2012:

Unit: USD million

	Six month period ended 30 June					
	2013			2012		
	Average	High	Low	Average	High	Low
The Bank's trading VaR						
Interest rate risk	**2.40**	**3.02**	**1.84**	2.53	3.65	1.73
Foreign exchange risk	**0.40**	**1.76**	**0.14**	1.93	7.63	1.40
Volatility risk	**0.02**	**0.09**	**0.00**	0.04	0.08	0.01
Total of the Bank's trading VaR	**2.47**	**3.13**	**1.88**	2.95	7.94	2.09

The Bank's VaR for the six month periods ended 30 June 2013 and 2012 was calculated on the Group's trading positions, excluding those of BOCHK (Holdings) and BOCI and excluding foreign currency against RMB transactions.

The reporting of risk in relation to bullion is included in foreign exchange risk above. The exposure of the Bank to potential price movement in other commodity financial instruments and the related potential impact to the Bank's income statement are considered to be insignificant.

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.1 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

Unit: USD million

	Six month period ended 30 June					
	2013			2012		
	Average	High	Low	Average	High	Low
BOCHK (Holdings)'s trading VaR						
Interest rate risk	**2.09**	**2.80**	**1.14**	2.18	3.81	1.24
Foreign exchange risk	**1.91**	**3.56**	**1.32**	2.08	3.25	1.31
Equity risk	**0.13**	**0.31**	**0.00**	0.06	0.29	0.00
Commodity risk	**0.02**	**0.09**	**0.00**	0.02	0.13	0.00
Total of BOCHK (Holdings)'s trading VaR	**2.65**	**3.49**	**1.79**	3.09	4.35	2.18
BOCI's trading VaR [(1)]						
Equity derivatives unit	**0.93**	**1.81**	**0.34**	0.48	1.04	0.21
Fixed income unit	**1.21**	**1.84**	**0.75**	1.16	2.21	0.76
Total of BOCI's trading VaR	**1.65**	**2.50**	**0.99**	1.40	2.31	0.69

(1) BOCI monitors its trading VaR for equity derivatives unit and fixed income unit separately, which include equity risk, interest rate risk and foreign exchange risk.

VaR for each risk factor is the independently derived largest potential loss in a specific holding period and within a certain confidence level due to fluctuations solely in that risk factor. The individual VaRs did not add up to the total VaR as there was diversification effect due to correlation amongst the risk factors.

(2) Banking book

The banking book is exposed to interest rate risk arising from mismatches in maturities, repricing periods and inconsistent adjustments between the benchmark interest rates of assets and liabilities. The Group manages interest rate risk in the banking book primarily through an interest rate repricing gap analysis. The interest rate gap analysis is set out in Note IV.2.2 and also covers the trading book.

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.2 GAP analysis

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

	As at 30 June 2013						
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	176,931	65,499	344,704	1,358	–	71,655	660,147
Balances with central banks	1,888,318	68	65	–	–	69,189	1,957,640
Placements with and loans to banks and other financial institutions	229,159	73,419	275,894	5,053	–	–	583,525
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	75,638	75,638
Precious metals	–	–	–	–	–	138,838	138,838
Financial assets at fair value through profit or loss	6,894	9,732	9,708	29,203	13,197	3,583	72,317
Derivative financial assets	–	–	–	–	–	47,805	47,805
Loans and advances to customers, net	1,610,583	1,650,022	3,723,789	66,788	60,876	161,578	7,273,636
Investment securities							
— Available for sale	91,615	97,631	96,470	233,787	128,386	32,265	680,154
— Held to maturity	56,407	107,541	187,133	452,866	331,773	–	1,135,720
— Loans and receivables	4,026	6,291	26,662	21,659	217,975	–	276,613
Investment in associates and joint ventures	–	–	–	–	–	12,582	12,582
Property and equipment	–	–	–	–	–	150,603	150,603
Investment properties	–	–	–	–	–	17,340	17,340
Deferred income tax assets	–	–	–	–	–	20,939	20,939
Other assets	5,186	6,838	4,484	–	–	136,201	152,709
Total assets	4,069,119	2,017,041	4,668,909	810,714	752,207	938,216	13,256,206

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.2 GAP analysis (Continued)

	As at 30 June 2013						
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Non-interest bearing	Total
Liabilities							
Due to banks and other financial institutions	630,795	85,212	241,432	101,392	–	139,407	1,198,238
Due to central banks	79,924	27,547	51,638	–	–	676	159,785
Bank notes in circulation	–	–	–	–	–	75,703	75,703
Placements from banks and other financial institutions	293,264	85,064	43,772	–	–	–	422,100
Derivative financial liabilities	–	–	–	–	–	41,311	41,311
Due to customers	5,589,766	986,748	2,191,632	1,000,678	12,762	94,610	9,876,196
Bonds issued	12,440	3,168	3,484	70,554	123,365	–	213,011
Other borrowings	8,566	15,612	6,459	–	–	–	30,637
Current tax liabilities	–	–	–	–	–	25,311	25,311
Retirement benefit obligations	–	–	–	–	–	5,327	5,327
Deferred income tax liabilities	–	–	–	–	–	3,200	3,200
Other liabilities	9,770	3,225	1,039	173	111	304,736	319,054
Total liabilities	6,624,525	1,206,576	2,539,456	1,172,797	136,238	690,281	12,369,873
Total interest repricing gap	(2,555,406)	810,465	2,129,453	(362,083)	615,969	247,935	886,333

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.2 GAP analysis (Continued)

	As at 31 December 2012						
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	219,410	135,208	314,942	31,167	–	74,847	775,574
Balances with central banks	1,876,905	447	189	25	–	56,731	1,934,297
Placements with and loans to banks and other financial institutions	195,821	84,274	163,214	3,990	–	–	447,299
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	70,554	70,554
Precious metals	–	–	–	–	–	150,534	150,534
Financial assets at fair value through profit or loss	10,946	5,217	9,956	30,052	12,886	2,533	71,590
Derivative financial assets	–	–	–	–	–	40,188	40,188
Loans and advances to customers, net	1,679,050	1,593,215	3,214,918	53,154	32,853	136,850	6,710,040
Investment securities							
— Available for sale	82,909	129,969	107,435	221,121	113,286	31,680	686,400
— Held to maturity	35,171	71,813	265,339	505,125	305,632	–	1,183,080
— Loans and receivables	1,604	6,015	25,998	20,855	214,982	–	269,454
Investment in associates and joint ventures	–	–	–	–	–	12,382	12,382
Property and equipment	–	–	–	–	–	150,324	150,324
Investment properties	–	–	–	–	–	17,142	17,142
Deferred income tax assets	–	–	–	–	–	21,292	21,292
Other assets	3,352	5,467	8,074	–	–	123,572	140,465
Total assets	4,105,168	2,031,625	4,110,065	865,489	679,639	888,629	12,680,615

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.2 GAP analysis (Continued)

	As at 31 December 2012						
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Non-interest bearing	Total
Liabilities							
Due to banks and other financial institutions	931,428	196,750	194,344	95,447	–	135,223	1,553,192
Due to central banks	88,137	7,746	32,038	–	–	2,101	130,022
Bank notes in circulation	–	–	–	–	–	70,733	70,733
Placements from banks and other financial institutions	198,660	71,078	43,266	–	–	–	313,004
Derivative financial liabilities	–	–	–	–	–	32,457	32,457
Due to customers	5,320,214	996,436	1,858,379	896,180	4,687	98,099	9,173,995
Bonds issued	726	3,879	6,048	72,047	116,433	–	199,133
Other borrowings	7,675	17,664	5,775	2,931	–	–	34,045
Current tax liabilities	–	–	–	–	–	34,994	34,994
Retirement benefit obligations	–	–	–	–	–	5,642	5,642
Deferred income tax liabilities	–	–	–	–	–	3,838	3,838
Other liabilities	8,895	3,634	2,742	217	113	252,417	268,018
Total liabilities	6,555,735	1,297,187	2,142,592	1,066,822	121,233	635,504	11,819,073
Total interest repricing gap	(2,450,567)	734,438	1,967,473	(201,333)	558,406	253,125	861,542

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.3 Foreign currency risk

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 30 June 2013 and 31 December 2012. The Group's exposure to RMB is provided in the tables below for comparison purposes. Included in the tables are the carrying amounts of the assets and liabilities of the Group along with off-balance sheet positions and credit commitments in RMB equivalent, categorised by the original currencies. Derivative financial instruments are included in net off-balance sheet position using notional amounts.

	As at 30 June 2013							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	529,923	100,704	8,467	8,422	1,992	819	9,820	660,147
Balances with central banks	1,797,706	95,103	9,795	37,697	2,605	45	14,689	1,957,640
Placements with and loans to banks and other financial institutions	476,517	71,257	8,925	1,997	254	4,876	19,699	583,525
Government certificates of indebtedness for bank notes issued	–	–	71,758	–	–	–	3,880	75,638
Precious metals	–	–	3,856	–	–	–	134,982	138,838
Financial assets at fair value through profit or loss	13,514	32,390	25,098	1,004	59	–	252	72,317
Derivative financial assets	11,312	14,067	20,011	594	238	558	1,025	47,805
Loans and advances to customers, net	5,449,948	1,140,271	523,664	50,876	10,976	9,320	88,581	7,273,636
Investment securities								
— Available for sale	267,641	279,002	97,400	7,088	857	277	27,889	680,154
— Held to maturity	1,057,292	69,387	5,096	56	876	–	3,013	1,135,720
— Loans and receivables	255,580	5,509	1,196	–	–	516	13,812	276,613
Investment in associates and joint ventures	5,970	1,492	5,120	–	–	–	–	12,582
Property and equipment	77,370	57,086	11,854	127	993	1,343	1,830	150,603
Investment properties	6,182	–	9,573	–	–	–	1,585	17,340
Deferred income tax assets	20,015	553	236	–	–	2	133	20,939
Other assets	115,549	17,870	13,744	1,245	457	1,395	2,449	152,709
Total assets	10,084,519	1,884,691	815,793	109,106	19,307	19,151	323,639	13,256,206

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.3 Foreign currency risk (Continued)

	As at 30 June 2013							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Liabilities								
Due to banks and other financial institutions	736,091	273,209	14,723	26,331	5,866	5,810	136,208	1,198,238
Due to central banks	12,363	136,012	11,363	–	–	–	47	159,785
Bank notes in circulation	–	–	71,758	–	–	–	3,945	75,703
Placements from banks and other financial institutions	220,445	180,600	5,227	4,803	4,122	3,410	3,493	422,100
Derivative financial liabilities	4,470	17,333	13,181	1,132	1,291	1,850	2,054	41,311
Due to customers	7,956,106	772,548	712,421	139,447	31,524	53,189	210,961	9,876,196
Bonds issued	171,037	33,614	3	2,766	–	5,423	168	213,011
Other borrowings	–	30,637	–	–	–	–	–	30,637
Current tax liabilities	20,803	15	2,578	119	135	897	764	25,311
Retirement benefit obligations	5,327	–	–	–	–	–	–	5,327
Deferred income tax liabilities	1,262	1,116	679	10	–	–	133	3,200
Other liabilities	237,288	23,499	52,589	1,955	373	1,532	1,818	319,054
Total liabilities	9,365,192	1,468,583	884,522	176,563	43,311	72,111	359,591	12,369,873
Net on-balance sheet position	719,327	416,108	(68,729)	(67,457)	(24,004)	(52,960)	(35,952)	886,333
Net off-balance sheet position	58,966	(402,246)	141,053	63,649	25,637	53,044	64,000	4,103
Credit commitments	1,534,685	643,745	122,768	75,691	7,302	13,940	43,536	2,441,667

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.3 Foreign currency risk (Continued)

	As at 31 December 2012							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	518,287	220,997	8,157	10,989	1,777	2,632	12,735	775,574
Balances with central banks	1,685,566	150,441	2,428	65,972	9,550	47	20,293	1,934,297
Placements with and loans to banks and other financial institutions	307,661	69,515	8,903	6,517	4,057	24,761	25,885	447,299
Government certificates of indebtedness for bank notes issued	–	–	67,240	–	–	–	3,314	70,554
Precious metals	–	–	5,360	–	–	–	145,174	150,534
Financial assets at fair value through profit or loss	12,114	31,122	27,065	1,069	87	–	133	71,590
Derivative financial assets	5,601	10,936	20,656	770	160	930	1,135	40,188
Loans and advances to customers, net	5,111,675	943,794	501,062	46,102	13,700	10,212	83,495	6,710,040
Investment securities								
— Available for sale	226,486	246,743	102,142	11,319	63,775	302	35,633	686,400
— Held to maturity	1,095,327	74,163	4,783	2,720	2,425	–	3,662	1,183,080
— Loans and receivables	252,409	4,569	2	–	–	1,204	11,270	269,454
Investment in associates and joint ventures	5,716	1,523	5,143	–	–	–	–	12,382
Property and equipment	80,325	53,228	12,185	132	1,160	1,438	1,856	150,324
Investment properties	5,930	–	9,592	–	–	–	1,620	17,142
Deferred income tax assets	20,551	448	158	–	–	–	135	21,292
Other assets	104,249	16,110	15,266	1,124	275	865	2,576	140,465
Total assets	9,431,897	1,823,589	790,142	146,714	96,966	42,391	348,916	12,680,615

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.3 Foreign currency risk (Continued)

	As at 31 December 2012							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Liabilities								
Due to banks and other financial institutions	992,268	371,410	20,011	28,985	8,285	3,797	128,436	1,553,192
Due to central banks	890	120,372	8,757	–	–	–	3	130,022
Bank notes in circulation	–	–	67,239	–	–	–	3,494	70,733
Placements from banks and other financial institutions	154,230	140,086	10,289	2,197	175	2,551	3,476	313,004
Derivative financial liabilities	4,052	11,545	13,530	936	395	927	1,072	32,457
Due to customers	7,268,004	739,364	720,594	169,878	29,110	53,304	193,741	9,173,995
Bonds issued	170,539	28,591	3	–	–	–	–	199,133
Other borrowings	–	34,045	–	–	–	–	–	34,045
Current tax liabilities	32,577	16	1,493	52	125	113	618	34,994
Retirement benefit obligations	5,642	–	–	–	–	–	–	5,642
Deferred income tax liabilities	1,268	1,003	1,384	10	1	–	172	3,838
Other liabilities	179,427	23,388	59,719	1,352	360	931	2,841	268,018
Total liabilities	8,808,897	1,469,820	903,019	203,410	38,451	61,623	333,853	11,819,073
Net on-balance sheet position	623,000	353,769	(112,877)	(56,696)	58,515	(19,232)	15,063	861,542
Net off-balance sheet position	143,353	(320,960)	170,678	54,470	(55,018)	20,317	(3,228)	9,612
Credit commitments	1,438,619	612,942	124,165	71,743	8,751	12,733	48,552	2,317,505

2.4 Price risk

The Group is exposed to equity risk on its available for sale listed equity securities. As at 30 June 2013, a 5 percentage variance in listed equity prices from the 30 June 2013 price would impact the fair value of available for sale listed equity positions by RMB223 million (31 December 2012: RMB226 million). For those available for sale equities considered impaired, the impact would be taken to the income statement. The Group is also exposed to commodity risk, mainly related to bullion. The Group manages such risk together with foreign exchange risk (Note IV.2.1).

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

3 Liquidity risk

The tables below analyse the Group's assets and liabilities into relevant maturity groupings based on the remaining period from the financial reporting date to the contractual maturity date.

	As at 30 June 2013							
	Overdue	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	–	151,731	13,743	146,081	347,234	1,358	–	660,147
Balances with central banks	–	391,756	1,565,751	68	65	–	–	1,957,640
Placements with and loans to banks and other financial institutions	–	–	228,812	72,544	276,257	5,912	–	583,525
Government certificates of indebtedness for bank notes issued	–	75,638	–	–	–	–	–	75,638
Precious metals	–	138,838	–	–	–	–	–	138,838
Financial assets at fair value through profit or loss	–	1,384	5,597	8,350	8,662	31,977	16,347	72,317
Derivative financial assets	–	13,120	3,710	9,346	14,426	3,418	3,785	47,805
Loans and advances to customers, net	18,619	70,818	462,637	897,349	1,794,423	1,703,082	2,326,708	7,273,636
Investment securities								
— Available for sale	–	–	56,812	58,033	117,794	308,252	139,263	680,154
— Held to maturity	–	–	33,445	72,595	146,325	530,107	353,248	1,135,720
— Loans and receivables	–	–	3,873	6,291	21,662	26,812	217,975	276,613
Investment in associates and joint ventures	–	–	–	–	–	4,654	7,928	12,582
Property and equipment	–	–	–	–	–	–	150,603	150,603
Investment properties	–	–	–	–	–	–	17,340	17,340
Deferred income tax assets	–	–	–	–	41	20,898	–	20,939
Other assets	1,063	17,661	30,006	25,189	41,312	11,573	25,905	152,709
Total assets	19,682	860,946	2,404,386	1,295,846	2,768,201	2,648,043	3,259,102	13,256,206

IV FINANCIAL RISK MANAGEMENT (Continued)

3 Liquidity risk (Continued)

	As at 30 June 2013							
	Overdue	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Liabilities								
Due to banks and other financial institutions	–	512,960	111,211	86,776	245,149	242,142	–	1,198,238
Due to central banks	–	64,333	16,267	27,547	51,638	–	–	159,785
Bank notes in circulation	–	75,703	–	–	–	–	–	75,703
Placements from banks and other financial institutions	–	–	292,920	85,408	43,772	–	–	422,100
Derivative financial liabilities	–	9,458	6,201	8,986	10,006	5,097	1,563	41,311
Due to customers	–	4,392,915	1,277,972	954,095	2,214,259	1,015,624	21,331	9,876,196
Bonds issued	–	–	10,427	3,181	3,484	47,554	148,365	213,011
Other borrowings	–	–	145	–	894	12,874	16,724	30,637
Current tax liabilities	–	–	5,648	27	19,602	34	–	25,311
Retirement benefit obligations	–	–	64	128	574	2,165	2,396	5,327
Deferred income tax liabilities	–	–	–	–	97	3,103	–	3,200
Other liabilities	–	52,946	104,181	23,835	66,808	47,528	23,756	319,054
Total liabilities	–	5,108,315	1,825,036	1,189,983	2,656,283	1,376,121	214,135	12,369,873
Net liquidity gap	19,682	(4,247,369)	579,350	105,863	111,918	1,271,922	3,044,967	886,333

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

3 Liquidity risk (Continued)

	As at 31 December 2012							
	Overdue	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	–	165,632	128,625	135,208	314,942	31,167	–	775,574
Balances with central banks	–	306,449	1,627,187	447	189	25	–	1,934,297
Placements with and loans to banks and other financial institutions	–	–	195,821	84,274	163,214	3,990	–	447,299
Government certificates of indebtedness for bank notes issued	–	70,554	–	–	–	–	–	70,554
Precious metals	–	150,534	–	–	–	–	–	150,534
Financial assets at fair value through profit or loss	–	571	9,877	4,783	8,710	31,902	15,747	71,590
Derivative financial assets	–	14,379	4,108	3,486	9,562	4,168	4,485	40,188
Loans and advances to customers, net	12,331	64,838	316,012	775,364	1,740,016	1,613,651	2,187,828	6,710,040
Investment securities								
— Available for sale	–	–	56,911	97,049	124,890	280,366	127,184	686,400
— Held to maturity	–	–	14,980	35,541	216,901	582,887	332,771	1,183,080
— Loans and receivables	–	–	1,326	5,069	21,675	26,402	214,982	269,454
Investment in associates and joint ventures	–	–	–	–	–	4,688	7,694	12,382
Property and equipment	–	–	–	–	–	11	150,313	150,324
Investment properties	–	–	–	–	–	–	17,142	17,142
Deferred income tax assets	–	–	–	–	41	21,251	–	21,292
Other assets	847	12,048	31,745	26,702	35,358	12,430	21,335	140,465
Total assets	13,178	785,005	2,386,592	1,167,923	2,635,498	2,612,938	3,079,481	12,680,615

3 Liquidity risk (Continued)

	As at 31 December 2012							
	Overdue	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 ears	Over 5 years	Total
Liabilities								
Due to banks and other financial institutions	–	647,019	197,796	274,064	192,724	241,589	–	1,553,192
Due to central banks	–	85,373	4,865	7,746	32,038	–	–	130,022
Bank notes in circulation	–	70,733	–	–	–	–	–	70,733
Placements from banks and other financial institutions	–	–	198,660	71,078	43,266	–	–	313,004
Derivative financial liabilities	–	10,560	2,505	2,609	7,503	6,652	2,628	32,457
Due to customers	–	4,213,199	1,159,015	986,503	1,885,171	918,590	11,517	9,173,995
Bonds issued	–	–	726	3,879	4,048	44,047	146,433	199,133
Other borrowings	–	–	–	814	1,970	14,848	16,413	34,045
Current tax liabilities	–	–	817	13	33,594	570	–	34,994
Retirement benefit obligations	–	–	67	134	604	2,324	2,513	5,642
Deferred income tax liabilities	–	–	–	–	550	3,288	–	3,838
Other liabilities	–	57,843	50,164	45,906	55,187	41,036	17,882	268,018
Total liabilities	–	5,084,727	1,614,615	1,392,746	2,256,655	1,272,944	197,386	11,819,073
Net liquidity gap	13,178	(4,299,722)	771,977	(224,823)	378,843	1,339,994	2,882,095	861,542

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

4 Fair value of financial assets and liabilities

4.1 Financial instruments not measured at fair value

Financial assets and liabilities not presented at their fair value on the statement of financial position mainly represent "balances with central banks", "due from banks and other financial institutions", "placements with and loans to banks and other financial institutions", "loans and advances to customers, net", "investment securities" classified as held to maturity and loans and receivables, "due to central banks", "due to banks and other financial institutions", "placements from banks and other financial institutions", and "due to customers" measured at amortised cost, and "bonds issued".

The tables below summarise the carrying amounts and fair values of "investment securities" classified as held to maturity and loans and receivables, and "bonds issued" not presented at fair value on the statement of financial position.

	Carrying value		Fair value	
	As at 30 June 2013	As at 31 December 2012	As at 30 June 2013	As at 31 December 2012
Financial assets				
Investment securities [(1)]				
— Held to maturity	**1,135,720**	1,183,080	**1,129,319**	1,179,903
— Loans and receivables	**276,613**	269,454	**276,636**	269,471
Financial liabilities				
Bonds issued [(2)]	**213,011**	199,133	**213,168**	195,885

(1) Investment securities classified as held to maturity and loans and receivables

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.

(2) Bonds issued

The aggregate fair values are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity. The fair value for the convertible bonds (including the conversion option value) is based on the quoted market price on the Shanghai Stock Exchange.

Other than the above, the difference between the carrying amounts and fair values of those financial assets and liabilities not presented at their fair value on the statement of financial position are insignificant. Fair value is measured using a discounted cash flow model.

IV FINANCIAL RISK MANAGEMENT (Continued)

4 Fair value of financial assets and liabilities (Continued)

4.2 Financial instruments measured at fair value

Financial instruments measured at fair value are classified into following three levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities, including listed 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, debt securities for which quotations are available from pricing services providers, traded loans and issued structured deposits.

- 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.

The Group uses valuation techniques or counterparty quotations to determine the fair value of financial instruments when it is unable to obtain open market quotation in active markets.

The main parameters used in valuation techniques for financial instruments held by the Group include bond prices, interest rates, foreign exchange rates, equity and stock prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are all observable and obtainable from open market.

For certain illiquid debt securities (mainly asset-backed securities), unlisted equity (private equity) and over-the-counter structured derivative contracts held by the Group, management obtains valuation quotations from counterparties or uses valuation technique such as a discounted cash flow analysis. The fair value of these financial instruments may be based on unobservable inputs which may have significant impact on the valuation of these financial instruments, and therefore, these instruments have been classified by the Group as level 3. Management assesses the impact of changes in macro-economic factors, engaged external valuer and other inputs, including loss coverage ratios, to determine the fair value for the Group's level 3 financial instruments. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

4 Fair value of financial assets and liabilities (Continued)

4.2 Financial instruments measured at fair value (Continued)

	As at 30 June 2013			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
— Debt securities	367	63,747	272	64,386
— Fund investments and others	708	–	–	708
— Loans	–	4,496	–	4,496
— Equity securities	2,529	198	–	2,727
Derivative financial assets	13,370	34,434	1	47,805
Investment securities available for sale				
— Debt securities	77,823	564,004	6,062	647,889
— Fund investments and others	1,563	–	6,341	7,904
— Equity securities	4,252	2,145	17,964	24,361
Financial liabilities				
Due to customers at fair value	–	(108,311)	(1,381)	(109,692)
Short position in debt securities	–	(11,599)	–	(11,599)
Derivative financial liabilities	(9,544)	(31,767)	–	(41,311)

IV FINANCIAL RISK MANAGEMENT (Continued)

4 Fair value of financial assets and liabilities (Continued)

4.2 Financial instruments measured at fair value (Continued)

	As at 31 December 2012			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
— Debt securities	332	64,173	268	64,773
— Fund investments	780	–	–	780
— Loans	–	4,566	–	4,566
— Equity securities	1,299	172	–	1,471
Derivative financial assets	14,501	25,687	–	40,188
Investment securities available for sale				
— Debt securities	128,481	523,286	2,952	654,719
— Fund investments and others	586	–	7,054	7,640
— Equity securities	4,326	1,869	17,846	24,041
Financial liabilities				
Due to customers at fair value	–	(163,395)	(622)	(164,017)
Short position in debt securities	–	(14,061)	–	(14,061)
Derivative financial liabilities	(10,898)	(21,559)	–	(32,457)

During the six month period ended 30 June 2013, there were no significant transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments of the Group.

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

5 Capital management

The capital adequacy ratio and core capital adequacy ratio calculated in accordance with the *Regulation Governing Capital Adequacy of Commercial Banks* promulgated by the CBRC are set forth in the table below.

The Group

	As at 30 June 2013	As at 31 December 2012
Capital adequacy ratio	**13.33%**	13.63%
Core capital adequacy ratio	**10.47%**	10.54%
Components of capital base		
Core capital:		
Share capital	**279,044**	279,132
Reserves [1]	**532,839**	478,876
Minority interests	**36,355**	36,865
Total core capital	**848,238**	794,873
Supplementary capital:		
Collective impairment allowances	**74,396**	68,647
Long-term subordinated bonds issued	**144,988**	146,433
Convertible bonds issued	**39,775**	39,776
Other [1]	**6,516**	11,141
Total supplementary capital	**265,675**	265,997
Total capital base before deductions	**1,113,913**	1,060,870
Deductions:		
Goodwill	**(1,767)**	(1,796)
Investment in entities engaged in banking and financial activities which are not consolidated	**(10,584)**	(10,581)
Investment properties	**(17,340)**	(17,142)
Investment in commercial corporations	**(29,086)**	(27,313)
Other deductible items [2]	**(15,216)**	(15,380)
Total capital base after deductions	**1,039,920**	988,658
Core capital base after deductions [3]	**816,781**	764,261
Risk weighted assets and market risk capital adjustment	**7,803,262**	7,253,230

IV FINANCIAL RISK MANAGEMENT (Continued)

5 Capital management (Continued)

(1) Pursuant to the relevant regulations, all net unrealised fair value gains after tax consideration are removed from the core capital calculation. The fair value gains on trading activities recognised in profit or loss are included in the supplementary capital. Only a certain percentage of fair value gain recognised in equity can be included in the supplementary capital.

(2) Pursuant to the relevant regulations, other deductible items include investment in asset-backed securities, long-term subordinated debts issued by other banks and acquired by the Group after 1 July 2009.

(3) Pursuant to the relevant regulations, 100% of goodwill and 50% of certain other deductions were applied in deriving the core capital base.

The capital adequacy ratios calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* (Yin Jian Hui Ling [2012] No.1) are set forth in the table below.

	As at 30 June 2013	
	Group(4)	Bank(4)
Net core tier 1 capital	844,678	736,561
Net tier 1 capital	845,383	736,561
Net capital	1,106,145	974,622
Risk weighted assets	9,114,544	8,131,938
Core tier 1 CAR	9.27%	9.06%
Tier 1 CAR	9.28%	9.06%
CAR	12.14%	11.99%

(4) The Bank excluded BOCG Investment, BOC Insurance and BOCG Insurance from the scope of consolidation when calculating the Group's CARs, while including other branches and subsidiaries in consolidation. For the Bank's CAR calculations, only the branches were included, and the subsidiaries were excluded.

Please refer to Appendix III — capital adequacy ratio supplementary information for other disclosures stipulated by the CBRC.

APPENDIX I — UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

According to Hong Kong Listing Rules and disclosure regulations of the banking industry, the Group discloses the following supplementary financial information:

1 Liquidity ratios

	As at 30 June 2013	As at 31 December 2012
RMB current assets to RMB current liabilities	**45.13%**	49.85%
Foreign currency current assets to foreign currency current liabilities	**52.63%**	65.16%

The liquidity ratios are calculated in accordance with the relevant provisions of the PBOC and the CBRC. Financial data as at 30 June 2013 and 31 December 2012 is based on Chinese Accounting Standards ("CAS").

2 Currency concentrations

The following information is computed in accordance with the provisions of the CBRC.

	Equivalent in millions of RMB			
	USD	HKD	Other	Total
As at 30 June 2013				
Spot assets	**1,143,020**	**22,101**	**135,984**	**1,301,105**
Spot liabilities	**(751,510)**	**(185,805)**	**(350,355)**	**(1,287,670)**
Forward purchases	**885,950**	**195,004**	**499,093**	**1,580,047**
Forward sales	**(1,296,707)**	**(53,733)**	**(288,000)**	**(1,638,440)**
Net options position*	**4,766**	**621**	**(1,380)**	**4,007**
Net long/(short) position	**(14,481)**	**(21,812)**	**(4,658)**	**(40,951)**
Net structural position	**18,886**	**101,973**	**31,412**	**152,271**
As at 31 December 2012				
Spot assets	1,080,354	20,700	270,823	1,371,877
Spot liabilities	(746,660)	(230,636)	(303,685)	(1,280,981)
Forward purchases	876,526	232,423	443,453	1,552,402
Forward sales	(1,182,702)	(58,725)	(422,891)	(1,664,318)
Net options position*	(7,286)	79	(1,936)	(9,143)
Net long/(short) position	20,232	(36,159)	(14,236)	(30,163)
Net structural position	19,191	103,566	31,688	154,445

* The net option position is calculated using the delta equivalent approach as set out in the requirements of the CBRC.

3 Cross-border claims

The Group is principally engaged in business operations within Chinese mainland, and regards all claims on third parties outside Chinese mainland as cross-border claims.

Cross-border claims include "balances with central banks", "placements with and loans to banks and other financial institutions", "government certificates of indebtedness for bank notes issued", "financial assets at fair value through profit or loss", "loans and advances to customers, net" and "investment securities".

Cross-border claims have been disclosed by country or geographical area. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	Banks and other financial institutions	Public sector entities	Other*	Total
As at 30 June 2013				
Asia Pacific excluding Chinese mainland				
Hong Kong	**18,981**	**5,313**	**711,301**	**735,595**
Other Asia Pacific locations	**80,176**	**22,284**	**199,324**	**301,784**
Subtotal	**99,157**	**27,597**	**910,625**	**1,037,379**
North and South America	**60,026**	**31,571**	**215,814**	**307,411**
Europe	**63,420**	**10,955**	**52,570**	**126,945**
Middle East and Africa	**2,101**	**571**	**9,892**	**12,564**
Total	**224,704**	**70,694**	**1,188,901**	**1,484,299**
As at 31 December 2012				
Asia Pacific excluding Chinese mainland				
Hong Kong	14,044	5,849	661,357	681,250
Other Asia Pacific locations	97,126	22,884	245,279	365,289
Subtotal	111,170	28,733	906,636	1,046,539
North and South America	92,604	33,351	321,796	447,751
Europe	80,018	9,335	116,355	205,708
Middle East and Africa	4,682	134	15,738	20,554
Total	288,474	71,553	1,360,525	1,720,552

* Claims to the government entities are included in "Other".

(Amount in millions of Renminbi, unless otherwise stated)

APPENDIX I — UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

4 Overdue assets

For the purpose of the table below, the entire outstanding balance of "loans and advances to customers" and "placements with and loans to banks and other financial institutions" are considered overdue if either principal or interest payment is overdue.

(1) Total amount of overdue loans and advances to customers

	As at 30 June 2013	As at 31 December 2012
Total loans and advances to customers which have been overdue		
within 3 months	**36,629**	29,819
between 3 and 6 months	**11,081**	5,188
between 6 and 12 months	**11,338**	7,691
over 12 months	**31,908**	32,197
Total	**90,956**	74,895
Percentage		
within 3 months	**0.49%**	0.43%
between 3 and 6 months	**0.15%**	0.08%
between 6 and 12 months	**0.15%**	0.11%
over 12 months	**0.43%**	0.47%
Total	**1.22%**	1.09%

(2) Total amount of overdue placements with and loans to banks and other financial institutions

The total amount of overdue "placements with and loans to banks and other financial institutions" as at 30 June 2013 and 31 December 2012 is not considered material.

APPENDIX II — SUPPLEMENTARY INFORMATION — DIFFERENCES BETWEEN CAS AND IFRS CONSOLIDATED FINANCIAL INFORMATION

There are no differences in the Group's operating results for the six month periods ended 30 June 2013 and 2012 or total equity as at 30 June 2013 and as at 31 December 2012 presented in the Group's condensed consolidated interim financial information prepared under IFRS and those prepared under CAS.

pwc 羅兵咸永道

To the shareholders of Bank of China Limited
(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Bank of China Limited (the "Bank") and its subsidiaries (together, the "Group") set out on pages 124 to 312, which comprise the consolidated and the Bank's statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Bank are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial positions of the Bank and of the Group as at 31 December 2012, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Other Matters

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2013

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Consolidated Income Statement

For the year ended 31 December 2012 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Year ended 31 December 2012	2011 (Restated)*
Interest income	V.1	**506,528**	413,102
Interest expense	V.1	**(249,564)**	(185,038)
Net interest income		**256,964**	228,064
Fee and commission income	V.2	**75,198**	70,018
Fee and commission expense	V.2	**(5,275)**	(5,356)
Net fee and commission income		**69,923**	64,662
Net trading gains	V.3	**8,451**	7,858
Net gains on investment securities		**2,288**	3,442
Other operating income	V.4	**28,550**	24,272
Operating income		**366,176**	328,298
Operating expenses	V.5	**(160,022)**	(140,815)
Impairment losses on assets	V.8	**(19,387)**	(19,355)
Operating profit		**186,767**	168,128
Share of results of associates and joint ventures	V.19	**613**	516
Profit before income tax		**187,380**	168,644
Income tax expense	V.9	**(41,858)**	(38,142)
Profit for the year		**145,522**	130,502
Attributable to:			
Equity holders of the Bank		**139,432**	124,276
Non-controlling interests		**6,090**	6,226
		145,522	130,502
Earnings per share for profit attributable to equity holders of the Bank during the year (Expressed in RMB per ordinary share)	V.10		
— Basic		**0.50**	0.45
— Diluted		**0.48**	0.43

* For details of the restatement please refer to Note II.23.

For details of the dividends paid or proposed please refer to Note V.37.3.

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012 (Amount in millions of Renminbi, unless otherwise stated)

	Year ended 31 December	
	2012	2011 (Restated)*
Profit for the year	**145,522**	130,502
Other comprehensive income:		
Fair value gains on available for sale financial assets:		
Amount recorded in equity	**7,123**	2,642
Less: related income tax impact	**(1,361)**	(546)
Amount transferred to income statement	**(1,520)**	(3,228)
Less: related income tax impact	**435**	555
Subtotal	**4,677**	(577)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	**(57)**	254
Less: related income tax impact	**2**	–
Subtotal	**(55)**	254
Exchange differences from the translation of foreign operations	**670**	(6,493)
Less: net amount transferred to income statement from other comprehensive income	**311**	647
Subtotal	**981**	(5,846)
Other	**101**	106
Other comprehensive income/(loss) for the year, net of tax	**5,704**	(6,063)
Total comprehensive income for the year	**151,226**	124,439
Total comprehensive income attributable to:		
Equity holders of the Bank	**144,021**	119,699
Non-controlling interests	**7,205**	4,740
	151,226	124,439

* For details of the restatement please refer to Note II.23.

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

Consolidated Statement of Financial Position

As at 31 December 2012 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 31 December	
		2012	2011 (Restated)*
ASSETS			
Cash and due from banks and other financial institutions	V.11	**775,574**	590,964
Balances with central banks	V.12	**1,934,297**	1,919,651
Placements with and loans to banks and other financial institutions	V.13	**447,299**	618,366
Government certificates of indebtedness for bank notes issued	V.26	**70,554**	56,108
Precious metals		**150,534**	95,907
Financial assets at fair value through profit or loss	V.14	**71,590**	73,807
Derivative financial assets	V.15	**40,188**	42,757
Loans and advances to customers, net	V.16	**6,710,040**	6,203,138
Investment securities	V.17	**2,138,934**	1,926,952
— available for sale		**686,400**	553,318
— held to maturity		**1,183,080**	1,074,116
— loans and receivables		**269,454**	299,518
Investment in associates and joint ventures	V.19	**12,382**	13,293
Property and equipment	V.20	**150,324**	138,234
Investment properties	V.21	**17,142**	14,616
Deferred income tax assets	V.34	**21,292**	19,264
Other assets	V.22	**140,465**	116,732
Total assets		**12,680,615**	11,829,789

* For details of the restatement please refer to Note II.23.

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

Consolidated Statement of Financial Position (Continued)

As at 31 December 2012 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 31 December 2012	2011 (Restated)*
LIABILITIES			
Due to banks and other financial institutions	V.24	**1,553,192**	1,370,943
Due to central banks	V.25	**130,022**	81,456
Bank notes in circulation	V.26	**70,733**	56,259
Placements from banks and other financial institutions	V.27	**313,004**	265,838
Derivative financial liabilities	V.15	**32,457**	35,473
Due to customers	V.28	**9,173,995**	8,817,961
— at amortised cost		**9,009,978**	8,256,874
— at fair value		**164,017**	561,087
Bonds issued	V.29	**199,133**	169,902
Other borrowings	V.30	**34,045**	26,724
Current tax liabilities	V.31	**34,994**	29,353
Retirement benefit obligations	V.32	**5,642**	6,086
Deferred income tax liabilities	V.34	**3,838**	2,966
Other liabilities	V.35	**268,018**	209,691
Total liabilities		**11,819,073**	11,072,652
EQUITY			
Capital and reserves attributable to equity holders of the Bank			
Share capital	V.36.1	**279,147**	279,147
Capital reserve	V.36.1	**115,451**	115,403
Treasury shares	V.36.2	**(15)**	(25)
Statutory reserves	V.37.1	**65,362**	52,165
General and regulatory reserves	V.37.2	**131,909**	81,243
Undistributed profits		**242,899**	210,599
Reserve for fair value changes of available for sale securities	V.38	**7,276**	3,642
Currency translation differences		**(17,352)**	(18,260)
		824,677	723,914
Non-controlling interests	V.39	**36,865**	33,223
Total equity		**861,542**	757,137
Total equity and liabilities		**12,680,615**	11,829,789

* For details of the restatement please refer to Note II.23.

Approved and authorised for issue by the Board of Directors on 26 March 2013.

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

LI Lihui
Director

WANG Yongli
Director

Statement of Financial Position

As at 31 December 2012 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 31 December 2012	As at 31 December 2011
ASSETS			
Cash and due from banks and other financial institutions	V.11	**745,593**	576,155
Balances with central banks	V.12	**1,859,362**	1,785,152
Placements with and loans to banks and other financial institutions	V.13	**435,483**	577,233
Government certificates of indebtedness for bank notes issued	V.26	**3,314**	2,691
Precious metals		**145,174**	91,642
Financial assets at fair value through profit or loss	V.14	**29,654**	31,887
Derivative financial assets	V.15	**15,939**	20,969
Loans and advances to customers, net	V.16	**5,990,570**	5,546,805
Investment securities	V.17	**1,731,688**	1,587,371
— available for sale		**307,010**	271,364
— held to maturity		**1,163,416**	1,025,620
— loans and receivables		**261,262**	290,387
Investment in subsidiaries	V.18	**87,274**	83,789
Investment in associates and joint ventures	V.19	**55**	48
Property and equipment	V.20	**81,223**	74,529
Investment properties	V.21	**1,474**	1,280
Deferred income tax assets	V.34	**22,084**	19,648
Other assets	V.22	**93,233**	79,638
Total assets		**11,242,120**	10,478,837

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

Statement of Financial Position (Continued)

As at 31 December 2012 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 31 December 2012	2011
LIABILITIES			
Due to banks and other financial institutions	V.24	**1,516,858**	1,273,561
Due to central banks	V.25	**118,262**	73,847
Bank notes in circulation	V.26	**3,494**	2,842
Placements from banks and other financial institutions	V.27	**313,116**	304,309
Derivative financial liabilities	V.15	**16,382**	17,387
Due to customers	V.28	**8,111,074**	7,806,900
— at amortised cost		**7,953,141**	7,249,861
— at fair value		**157,933**	557,039
Bonds issued	V.29	**178,438**	148,271
Current tax liabilities	V.31	**32,900**	26,527
Retirement benefit obligations	V.32	**5,642**	6,086
Deferred income tax liabilities	V.34	**186**	124
Other liabilities	V.35	**172,364**	133,769
Total liabilities		**10,468,716**	9,793,623
EQUITY			
Capital and reserves attributable to equity holders of the Bank			
Share capital	V.36.1	**279,147**	279,147
Capital reserve	V.36.1	**113,671**	113,670
Statutory reserves	V.37.1	**63,562**	50,487
General and regulatory reserves	V.37.2	**126,663**	76,515
Undistributed profits		**191,079**	166,950
Reserve for fair value changes of available for sale securities	V.38	**1,099**	604
Currency translation differences		**(1,817)**	(2,159)
Total equity		**773,404**	685,214
Total equity and liabilities		**11,242,120**	10,478,837

Approved and authorised for issue by the Board of Directors on 26 March 2013.

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

LI Lihui
Director

WANG Yongli
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012 (Amount in millions of Renminbi, unless otherwise stated)

		Attributable to equity holders of the Bank									
	Note	Share capital	Capital reserve	Statutory reserves	General and regulatory reserves	Undistributed profits	Reserve for fair value changes of available for sale securities	Currency translation differences	Treasury shares	Non-controlling interests	Total
As at 1 January 2012 as restated		**279,147**	**115,403**	**52,165**	**81,243**	**210,599**	**3,642**	**(18,260)**	**(25)**	**33,223**	**757,137**
Profit for the year		–	–	–	–	139,432	–	–	–	6,090	145,522
Other comprehensive income		–	47	–	–	–	3,634	908	–	1,115	5,704
Total comprehensive income for the year		–	47	–	–	139,432	3,634	908	–	7,205	151,226
Appropriation to statutory reserves	V.37.1	–	–	13,187	–	(13,187)	–	–	–	–	–
Appropriation to general reserve and regulatory reserve	V.37.2	–	–	–	50,667	(50,667)	–	–	–	–	–
Dividends	V.37.3	–	–	–	–	(43,268)	–	–	–	(3,571)	(46,839)
Exercise of subsidiary share options		–	–	–	–	–	–	–	–	2	2
Net change in treasury shares	V.36.2	–	–	–	–	–	–	–	10	–	10
Other		–	1	10	(1)	(10)	–	–	–	6	6
As at 31 December 2012		**279,147**	**115,451**	**65,362**	**131,909**	**242,899**	**7,276**	**(17,352)**	**(15)**	**36,865**	**861,542**

		Attributable to equity holders of the Bank (Restated)*									
	Note	Share capital	Capital reserve	Statutory reserves	General and regulatory reserves	Undistributed profits	Reserve for fair value changes of available for sale securities	Currency translation differences	Treasury shares	Non-controlling interests	Total
As at 1 January 2011 as previously reported		279,147	114,988	40,227	71,195	148,355	4,015	(13,624)	(138)	31,985	676,150
Adoption of IAS 12 Amendment		–	36	–	–	690	–	(33)	–	419	1,112
As at 1 January 2011 as restated		279,147	115,024	40,227	71,195	149,045	4,015	(13,657)	(138)	32,404	677,262
Profit for the year as restated		–	–	–	–	124,276	–	–	–	6,226	130,502
Other comprehensive income/(losses) as restated		–	400	–	–	(1)	(373)	(4,603)	–	(1,486)	(6,063)
Total comprehensive income for the year as restated		–	400	–	–	124,275	(373)	(4,603)	–	4,740	124,439
Appropriation to statutory reserves	V.37.1	–	–	11,922	–	(11,922)	–	–	–	–	–
Appropriation to general reserve and regulatory reserve	V.37.2	–	–	–	10,054	(10,054)	–	–	–	–	–
Dividends	V.37.3	–	–	–	–	(40,756)	–	–	–	(3,978)	(44,734)
Net change in treasury shares	V.36.2	–	–	–	–	–	–	–	113	–	113
Other		–	(21)	16	(6)	11	–	–	–	57	57
As at 31 December 2011 as restated		279,147	115,403	52,165	81,243	210,599	3,642	(18,260)	(25)	33,223	757,137

* For details of the restatement please refer to Note II.23.

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2012 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Year ended 31 December 2012	2011
Cash flows from operating activities			
Profit before income tax		**187,380**	168,644
Adjustments:			
Impairment losses on assets		**19,387**	19,355
Depreciation of property and equipment		**11,757**	10,301
Amortisation of intangible assets and other assets		**2,318**	1,956
Net gains on disposal of property and equipment, intangible assets and other long-term assets		**(395)**	(372)
Net gains on disposal of investment in subsidiaries, associates and joint ventures		**(441)**	(7)
Share of results of associates and joint ventures		**(613)**	(516)
Interest income arising from investment securities		**(62,941)**	(54,600)
Dividends arising from investment securities		**(287)**	(188)
Net gains on de-recognition of investment securities		**(2,288)**	(3,442)
Interest expense arising from bonds issued		**7,359**	6,554
Net changes in operating assets and liabilities:			
Net increase in balances with central banks		**(7,845)**	(356,193)
Net decrease/(increase) in due from and placements with and loans to banks and other financial institutions		**45,789**	(88,624)
Net increase in precious metals		**(54,634)**	(9,689)
Net decrease/(increase) in financial assets at fair value through profit or loss		**3,216**	(597)
Net increase in loans and advances to customers		**(525,682)**	(683,599)
Net increase in other assets		**(28,922)**	(14,303)
Net increase in due to banks and other financial institutions		**182,249**	95,129
Net increase in due to central banks		**48,566**	8,041
Net increase in placements from banks and other financial institutions		**47,166**	35,037
Net increase in due to customers		**356,034**	1,084,424
Net increase in other borrowings		**7,321**	7,225
Net increase in other liabilities		**67,370**	17,810
Cash inflow from operating activities		**301,864**	242,346
Income tax paid		**(37,940)**	(27,989)
Net cash inflow from operating activities		**263,924**	214,357

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

	Note	Year ended 31 December 2012	2011
Cash flows from investing activities			
Proceeds from disposal of property and equipment, intangible assets and other long-term assets		**2,019**	3,949
Proceeds from disposal of investment in subsidiaries, associates and joint ventures		**2,737**	471
Dividends received		**416**	380
Interest income received from investment securities		**59,754**	54,882
Proceeds from disposal/maturity of investment securities		**1,211,882**	1,336,845
Increase in investment in subsidiaries, associates and joint ventures		**(1,028)**	(1,200)
Purchase of property and equipment, intangible assets and other long-term assets		**(29,490)**	(32,455)
Purchase of investment securities		**(1,428,836)**	(1,307,098)
Net cash (outflow)/inflow from investing activities		**(182,546)**	55,774
Cash flows from financing activities			
Proceeds from issuance of bonds		**43,522**	36,841
Repayments of debts issued		**(15,342)**	(793)
Cash payments for interest on bonds issued		**(6,451)**	(4,444)
Dividend payments to equity holders of the Bank		**(43,268)**	(40,756)
Dividend payments to non-controlling interests		**(3,571)**	(3,978)
Other net cash flows from financing activities		**18**	170
Net cash outflow from financing activities		**(25,092)**	(12,960)
Effect of exchange rate changes on cash and cash equivalents		**(1,371)**	(9,174)
Net increase in cash and cash equivalents		**54,915**	247,997
Cash and cash equivalents at beginning of year		**1,017,368**	769,371
Cash and cash equivalents at end of year	V.41	**1,072,283**	1,017,368

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

I GENERAL INFORMATION AND PRINCIPAL ACTIVITIES

Bank of China Limited (the "Bank"), formerly known as Bank of China, a State-owned joint stock commercial bank, was founded on 5 February 1912. From its formation until 1949, the Bank performed various functions of a central bank, foreign exchange bank and commercial bank specialising in trade finance. Following the founding of the People's Republic of China (the "PRC") in 1949, the Bank was designated as a specialised foreign exchange bank. Since 1994, the Bank has evolved into a State-owned commercial bank. In this regard, in accordance with the Master Implementation Plan for the Joint Stock Reform approved by the State Council of the PRC, the Bank was converted into a joint stock commercial bank on 26 August 2004 and its name was changed from Bank of China to Bank of China Limited. In 2006, the Bank listed on the Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange.

The Bank is licensed as a financial institution by the China Banking Regulatory Commission (the "CBRC") [No. B0003H111000001] and is registered as a business enterprise with the State Administration of Industry and Commerce of the PRC [No. 100000000001349].

The Bank and its subsidiaries (together the "Group") provide a full range of corporate banking, personal banking, treasury operations, investment banking, insurance and other services to its customers in the Chinese mainland, Hong Kong, Macau, Taiwan and other major international financial centres.

The Bank's principal regulator is the CBRC. The operations in Hong Kong, Macau, Taiwan and other countries and regions of the Group are subject to the supervision of local regulators.

The parent company is Central Huijin Investment Limited ("Huijin"), a wholly owned subsidiary of China Investment Corporation ("CIC"), which owned 67.72% of the ordinary shares of the Bank as at 31 December 2012 (31 December 2011: 67.60%).

These consolidated financial statements have been approved by the Board of Directors on 26 March 2013.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). In addition, the consolidated financial statements comply with the disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets available for sale, financial assets and financial liabilities at fair value through profit or loss (including derivative financial instruments) and investment properties.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note III.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.1 Standards, amendments and interpretations effective in 2012

On 1 January 2012, the Group adopted the following new standards, amendments and interpretations.

IAS 12 Amendment	Deferred Tax: Recovery of Underlying Assets
IFRS 7 Amendment	Disclosures: Transfers of Financial Assets

In 2012, the Group adopted IAS 12 Amendment — Deferred Tax: Recovery of Underlying Assets. Pursuant to the amendment, the Group restated the deferred tax assets and liabilities related to investment properties measured using the fair value model under IAS 40 Investment Property retrospectively. For the impact of the retrospective application, refer to Note II.23.

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2012

The standards, amendments and interpretations noted below are relevant to the Group but are not yet effective and have not been early adopted by the Group in 2012.

		Effective for annual period beginning on or after
IAS 1 Amendment	Presentation of Financial Statements: Other Comprehensive Income	1 July 2012
IAS 19 Amendment	Employee Benefits	1 January 2013
IAS 32 Amendment	Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities	1 January 2014
IFRS 7 Amendment	Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities	1 January 2013
IFRS 9, IFRS 9 Amendments and IFRS 7 Amendment	Financial Instruments and Financial Instruments: Disclosures	1 January 2015
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IAS 27 Revised	Separate Financial Statements	1 January 2013
IAS 28 Revised	Investments in Associates and Joint Ventures	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013
IFRS 10, IFRS 11 and IFRS 12 Amendments	Transition Guidance	1 January 2013
IFRS 10, IFRS 12 and IAS 27 Amendments	Investment Entities	1 January 2014

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2012 (Continued)

IAS 1 Amendment requires to separate items presented in other comprehensive income into two groups based on whether or not they may be recycled to profit or loss in the future.

IAS 19 Amendment makes changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The most significant change is that actuarial gains and losses will be recognised in other comprehensive income rather than operating expenses.

IAS 32 Amendment provides additional application guidance to clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. IFRS 7 Amendment — Financial Instruments: Disclosure is also amended to require disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

IFRS 9 and IFRS 9 Amendments replaced those parts of IAS 39 relating to the classification, measurement and de-recognition of financial assets and liabilities with key changes mainly related to the classification and measurement of financial assets and certain types of financial liabilities. Together with the amendments to IFRS 9, IFRS 7 — Financial Instruments: Disclosures is also amended to require additional disclosures on transition from IAS 39 to IFRS 9.

The five standards (IFRS 10, IFRS 11, IFRS 12, IAS 27 Revised and IAS 28 Revised) establish new guidance for consolidation and joint arrangements and principally address:

- A revised definition of control for the purposes of determining which arrangements should be consolidated;

- A reduction in the types of joint arrangements to two: joint operations and joint ventures, and classification based on rights and obligations rather than legal structure;

- Elimination of the policy choice of proportionate consolidation for joint ventures; and

- New requirements to disclose significant judgements and assumptions in determining whether an entity controls, jointly controls or significantly influences its interests in other entities.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2012 (Continued)

IFRS 13 defines and sets out in a single IFRS a framework for measuring fair value, and requires disclosures about fair value measurement.

IFRS 10, IFRS 11 and IFRS 12 Amendments provide additional transition relief to IFRS 10, IFRS 11 and IFRS 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

IFRS 10, IFRS 12 and IAS 27 Amendments apply to a particular class of business that qualifies as investment entities. Investment entity refers to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. The amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities.

The Group is in the process of assessing the impact of these new standards and amendments on the consolidated and separate financial statements of the Group and the Bank respectively.

In addition, Annual Improvements 2011 was issued in May 2012. This annual improvements process was established to make non-urgent but necessary amendments to IFRSs. The amendments are effective for annual period beginning on or after 1 January 2013. No amendment was early adopted by the Group and no material changes to accounting policies were made in 2012 or are expected in 2013 as a result of these amendments.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

2 Consolidation

2.1 Subsidiaries

Subsidiaries are all entities over which the Group has control, that is having the power to govern the financial and operating policies, so as to obtain benefits from its activities generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. If there is any indication that goodwill is impaired, recoverable amount is estimated and the difference between carrying amount and recoverable amount is recognised as an impairment charge. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the assets transferred. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the Bank's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The results of subsidiaries are accounted for by the Bank on the basis of dividend received and receivable. The Group assesses at each financial reporting date whether there is objective evidence that investment in subsidiaries is impaired. An impairment loss is recognised for the amount by which the investment in subsidiaries' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the investment in subsidiaries' fair value less costs to sell and value in use.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

2 Consolidation (Continued)

2.1 Subsidiaries (Continued)

The Group sponsors the formation of special purpose entities ("SPEs") primarily to provide structured products to investors. SPEs are consolidated if their relationship indicates they are controlled by the Group. When assessing whether the Group has in substance control over the SPEs, the Group evaluates a range of factors, including whether:

- the activities of the SPEs are being conducted on behalf of the Group and according to the Group's specific business needs so that the Group obtains benefits from the SPEs' operations;
- the Group has the decision-making powers to obtain the majority of the benefits of the activities of the SPEs, or by setting up an "autopilot" mechanism, the Group has delegated these decision-making powers;
- the Group has rights to obtain the majority of the benefits of the SPEs and therefore may be exposed to risks incident to the activities of the SPEs; or
- the Group retains the majority of the residual or ownership risks related to the SPEs or its assets in order to obtain benefits from its activities.

The Group performs a re-assessment of consolidation where there is a change in the substance of the relationship between the Group and a SPE.

2.2 Associates and joint ventures

Associates are all entities over which the Group has significant influence but no control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Joint ventures exist where the Group has a contractual arrangement with one or more parties to undertake economic activities which are subject to joint control.

Investments in associates and joint ventures are initially recognised at cost and are accounted for using the equity method of accounting. The Group's "Investment in associates and joint ventures" includes goodwill.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interests in the associates and joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group assesses at each financial reporting date whether there is objective evidence that investments in associates and joint ventures are impaired. Impairment losses are recognised for the amounts by which the investments in associates and joint ventures' carrying amounts exceed its recoverable amounts. The recoverable amounts are the higher of investments in associates and joint ventures' fair value less costs to sell and value in use.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

2 Consolidation (Continued)

2.3 Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income are reclassified to the income statement.

3 Foreign currency translation

3.1 Functional and presentation currency

The functional currency of the operations in the Chinese mainland is the Renminbi ("RMB"). Items included in the financial statements of each of the Group's operations in Hong Kong, Macau, Taiwan and other countries and regions are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The presentation currency of the Group is RMB.

3.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, or the exchange rates that approximate the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement.

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are translated at the foreign exchange rates ruling at that date. Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount are recognised in other comprehensive income. Translation differences on all other monetary assets and liabilities are recognised in the income statement.

Non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the foreign exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the foreign exchange rates at the date the fair value is determined. Translation differences on non-monetary financial assets classified as available for sale are recognised in other comprehensive income. Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised as "Net trading gains" in the income statement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

3 Foreign currency translation (Continued)

3.2 Transactions and balances (Continued)

The results and financial positions of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each income statement are translated at exchange rates at the date of the transactions, or a rate that approximates the exchange rates of the date of the transaction; and

(iii) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of deposit taken and other currency instruments designated as hedges of such investments are taken to other comprehensive income. When a foreign entity is disposed, these exchange differences are recognised in the income statement. The effect of exchange rate changes on cash and cash equivalent is presented individually in the statement of cash flows.

4 Financial instruments

4.1 Classification

The Group classifies its financial assets into the following four categories:

- financial assets at fair value through profit or loss, including financial assets held for trading, and those designated at fair value through profit or loss at inception;
- held to maturity investments;
- loans and receivables; and
- available for sale investments.

Financial liabilities are classified into two categories:

- financial liabilities at fair value through profit or loss, including financial liabilities held for trading, and those designated at fair value through profit or loss at inception; and
- other financial liabilities.

The Group determines the classification of its financial assets and financial liabilities at initial recognition.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.1 Classification (Continued)

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

Financial assets and financial liabilities at fair value through profit or loss have two sub-categories: financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss at inception.

A financial asset or financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of recent actual pattern of short-term profit-making. Derivatives are also categorised as held for trading unless they are financial guarantee contracts or designated and effective as hedging instruments.

A financial asset or financial liability is classified at fair value through profit or loss at inception if it meets either of the following criteria and is designated as such by management on initial recognition:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on them on different bases; or

- A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information is provided internally on that basis to key management personnel; or

- Financial assets and financial liabilities containing one or more embedded derivatives which significantly modify the cash flows and for which separation of the embedded derivative is not prohibited on initial consideration.

(2) Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity and that do not meet the definition of loans and receivables nor are designated at fair value through profit or loss or as available for sale.

The Group shall not classify any financial assets as held to maturity if the entity has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held to maturity investments before maturity other than restricted circumstances such as sales or reclassifications due to a significant deterioration in the issuer's creditworthiness or industry's regulatory requirements.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.1 Classification (Continued)

(3) Loans and receivables

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

- those that the Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the Group upon initial recognition designates as at fair value through profit or loss;

- those that the Group upon initial recognition designates as available for sale; or

- those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

(4) Available for sale investments

Available for sale investments are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

(5) Other financial liabilities

Other financial liabilities are non-derivative financial liabilities that are not classified or designated as financial liabilities at fair value through profit or loss.

4.2 Initial recognition

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

For all financial assets and financial liabilities not carried at fair value through profit or loss, financial assets are initially recognised at fair value together with transaction costs and financial liabilities are initially recognised at fair value net of transaction costs. Financial assets and financial liabilities carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

4.3 Subsequent measurement

Financial assets available for sale and financial assets and financial liabilities at fair value through profit or loss are subsequently carried at fair value. Financial assets classified as loans and receivables and held to maturity and other financial liabilities are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the financial assets and financial liabilities at fair value through profit or loss category are included in the income statement in the period in which they arise. Dividends on equity instruments of this category are also recognised in the income statement when the Group's right to receive payments is established.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.3 Subsequent measurement (Continued)

Gains and losses arising from changes in the fair value of available for sale assets are recognised in other comprehensive income and ultimately in the equity item of "Reserve for fair value changes of available for sale securities", until the financial asset is de-recognised or impaired. At this time the cumulative gain or loss previously recognised in the "Reserve for fair value changes of available for sale securities" is reclassified from equity to the income statement. Interest on available for sale debt instruments calculated using the effective interest method as well as dividends on equity instruments of this category when the Group's right to receive such payments is established are recognised in the income statement.

4.4 Determination of fair value

The fair values of quoted financial assets and financial liabilities in active markets are based on current bid prices and ask prices, as appropriate. If there is no active market, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and option pricing models, and other valuation techniques commonly used by market participants.

The Group uses the valuation techniques commonly used by market participants to price financial instruments and techniques which have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. The Group makes use of all factors that market participants would consider in setting a price, and incorporates these into its chosen valuation techniques and tests for validity using prices from any observable current market transactions in the same instruments.

4.5 De-recognition of financial instruments

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired, or when the Group has transferred substantially all risks and rewards of ownership, or when the Group neither transfers nor retains substantially all risks or rewards of ownership of the financial asset but has not retained control of the financial asset.

On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in equity through other comprehensive income is recognised in the income statement.

Financial liabilities are de-recognised when they are extinguished — that is, when the obligation is discharged, cancelled or expires. The difference between the carrying amount of a financial liability de-recognised and the consideration paid is recognised in the income statement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment of financial assets

The Group assesses at each financial reporting date whether there is objective evidence that a financial asset or a group of financial assets excluding those fair valued through profit or loss 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 Group about the following loss events:

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

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

(iii) the Group 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 into bankruptcy or other financial re-organisation;

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

(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, including adverse changes in the payment status of borrowers in the group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property price for the mortgages in the relevant area or national or local economic conditions that correlate with defaults on the assets in the group;

(vii) any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of investments in equity instruments may not be recovered;

(viii) a significant or prolonged decline in the fair value of an equity instrument is an indicator of impairment in such investments where a decline in the fair value of equity instrument below its initial cost by 50% or more; or fair value below cost for one year or longer. An impairment is also indicated by a decline in fair value of 20% or more below initial cost for six consecutive months or longer or where fair value is below initial cost by 30% or more over a short period of time (i.e., one month); or

(ix) other objective evidence indicating impairment of the financial asset.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment of financial assets (Continued)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence of impairment, the impairment loss is recognised in the income statement. The Group performs a collective assessment for all other financial assets that are not individually significant or for which impairment has not yet been identified by including the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

(1) Assets carried at amortised cost

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

The calculation of the present value of the estimated future cash flows of a collateralised 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.

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

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 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.

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.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment of financial assets (Continued)

(1) Assets carried at amortised cost (Continued)

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 Group to reduce any differences between loss estimates and actual loss experience.

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. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

(2) Assets classified as available for sale

If objective evidence of impairment exists for available for sale financial assets, the cumulative loss recognised in "Reserve for 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 previously recognised impairment loss is reversed through the income statement.

With respect to equity instruments, impairment losses recognised in the income statement are not subsequently reversed through the income statement. If there is objective evidence that an impairment loss has been incurred on an unquoted equity investment that is not carried at fair value because its fair value cannot be reliably measured, the impairment loss is not reversed.

4.7 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow analysis and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.7 Derivative financial instruments and hedge accounting (Continued)

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. For derivatives not designated or qualified as hedging instruments, including those are intended to provide effective economic hedges of specific interest rate and foreign exchange risks, but do not qualify for hedge accounting, changes in the fair value of these derivatives are recognised in "Net trading gains" in the income statement.

The Group documents, at inception, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. These criteria should be met before a hedge can be qualified to be accounted for under hedge accounting.

(1) Fair value hedge

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect income statement.

The changes in fair value of hedging instruments that are designated and qualify as fair value hedges are recorded in the income statement, together with the changes in fair value of the hedged item attributable to the hedged risk. The net result is included as ineffectiveness in the income statement.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity. If the hedged item is de-recognised, the unamortised carrying value adjustment is recognised immediately in the income statement.

(2) Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction that could ultimately affect income statement.

The effective portion of changes in the fair value of hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in equity in the "Capital reserve". The ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to the income statement in the same periods when the hedged item affects the income statement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.7 Derivative financial instruments and hedge accounting (Continued)

(2) Cash flow hedge (Continued)

When a hedging instrument expires or is sold, or the hedge designation is revoked or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss on the hedging instrument existing in equity at that time remains in equity and is reclassified to the income statement when the forecast transaction ultimately occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss existing in equity is immediately transferred to the income statement.

(3) Net investment hedge

Net investment hedge is a hedge of a net investment in a foreign operation.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of as part of the gain or loss on the disposal.

4.8 Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the hybrid (combined) instrument vary in a way similar to a stand-alone derivative.

The Group separates embedded derivatives from the host contract and accounts for these as derivatives, if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the income statement.

These embedded derivatives separated from the host contract are measured at fair value with changes in fair value recognised in the income statement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.9 Convertible bonds

Convertible bonds comprise of the liability and equity components. The liability component, representing the obligation to make fixed payments of principal and interest, is classified as liability and initially recognised at the fair value, calculated using the market interest rate of a similar liability that does not have an equity conversion option, and subsequently measured at amortised cost using the effective interest method. The equity component, representing an embedded option to convert the liability into common shares, is initially recognised in "Capital reserve" as the difference between the proceeds received from the convertible bonds as a whole and the amount of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds.

On conversion of the bonds into shares, the amount transferred to Share capital is calculated as the par value of the shares multiplied by the number of shares converted. The difference between the carrying value of the related component of the converted bonds and the amount transferred to Share capital is recognised in capital surplus under "Capital reserve".

4.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

5 Precious metals and precious metals swaps

Precious metals comprise gold, silver and other precious metals. The Group retains all risks and rewards of ownership related to precious metals deposited with the Group as precious metals deposits, including the right to freely pledge or transfer, and it records the precious metals received as an asset. A liability to return the amount of precious metals deposited is also recognised. Precious metals that are not related to the Group's precious metals market making and trading activities are initially measured at acquisition cost and subsequently measured at lower of cost and net realisable value. Precious metals that are related to the Group's market making and trading activities are initially recognised at fair value and subsequent changes in fair value included in "Net trading gains" are recognised in the income statement.

Consistent with the substance of the transaction, if the precious metals swaps are for financing purpose, they are accounted for as precious metals subject to collateral agreements. Precious metals collateralised are not de-recognised and the related counterparty liability is recorded in "Placements from banks and other financial institutions". If precious metal swaps are for trading purpose, they are accounted for as derivatives transactions.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

6 Repurchase agreements, agreements to re-sell and securities lending

Securities and bills sold subject to repurchase agreements ("Repos") continue to be recognised, and are recorded as "Investment securities". The counterparty liability is included in "Placements from banks and other financial institutions" and "Due to central banks". Securities and bills purchased under agreements to re-sell ("Reverse repos") are not recognised. The receivables are recorded as "Placements with and loans to banks and other financial institutions" or "Balances with central banks", as appropriate.

The difference between purchase and sale price is recognised as "Interest expense" or "Interest income" in the income statement over the life of the agreements using the effective interest method.

Securities lending transactions are generally secured, with collateral taking the form of securities or cash. Securities lent to counterparties by the Group are recorded in the consolidated financial statements. Securities borrowed from counterparties by the Group are not recognised in the consolidated financial statements of the Group. Cash collateral received or advanced is recognised as a liability or an asset in the consolidated financial statements.

7 Property and equipment

The Group's fixed assets mainly comprise buildings, equipment and motor vehicles, aircraft and construction in progress. When the costs attributable to the land use rights cannot be reliably measured and separated from that of the building at inception, the costs are included in the cost of properties and buildings and recorded in "Property and equipment".

The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate. Such initial cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Property and equipment are reviewed for impairment at each financial reporting date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by the difference between proceeds and carrying amount, after deduction of relevant taxes and expenses. These are included in the income statement.

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

7 Property and equipment (Continued)

7.1 Buildings, equipment and motor vehicles

Buildings comprise primarily branch and office premises. The estimated useful lives, depreciation rate and estimated residual value rate of buildings, equipment and motor vehicles are as follows:

Type of assets	Estimated useful lives	Estimated residual value rate	Annual depreciation rate
Buildings	15–50 years	3%	1.9%–6.5%
Equipment	3–15 years	3%	6.4%–32.4%
Motor vehicles	4–6 years	3%	16.1%–24.3%

7.2 Aircraft

Aircraft are used in the Group's aircraft operating leasing business.

Aircraft are depreciated using the straight-line method over the expected useful life of 25 years, less the years in service at the time of purchase to an estimated residual value rate varying from 0% to 15%.

7.3 Construction in progress

Construction in progress consists of assets under construction or being installed and is stated at cost. Cost includes equipment cost, cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use and the depreciation charge commences after such assets are transferred to property and equipment.

8 Leases

8.1 Lease classification

Leases of assets where substantially all the risks and rewards of ownership have been transferred are classified as finance leases. Title may or may not eventually be transferred. All leases other than finance leases are classified as operating leases.

8.2 Finance leases

When the Group is a lessee under finance leases, the leased assets are capitalised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in "Other liabilities". Finance charges are charged over the term of the lease using an interest rate which reflects a constant rate of return.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

8 Leases (Continued)

8.2 Finance leases (Continued)

The Group adopts the same depreciation policy for the finance leased assets as those for which it has title rights. If the Group can reasonably determine that a lease will transfer ownership of the asset to the Group by the end of the lease term, related assets are depreciated over their useful life. If there is no reasonable certainty that the Group can determine that a lease will transfer ownership of the asset to the Group by the end of the lease term, related assets are depreciated over the shorter of the lease term and useful life.

When the Group is a lessor under finance leases, the present value of the aggregation of the minimum lease payment receivable from the lessee, unguaranteed residual value and initial direct costs is recognised as a receivable. The difference between the receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using an interest rate which reflects a constant rate of return.

8.3 Operating leases

When the Group is the lessee under an operating lease, rental expenses are charged to "Operating expenses" in the income statement on a straight-line basis over the period of the lease.

When the Group is the lessor under operating leases, the assets subject to the operating lease are accounted for as the Group's assets. Rental income is recognised as "Other operating income" in the income statement on a straight-line basis over the lease term net of any incentives given to lessees.

9 Investment properties

Investment properties, principally consisting of office buildings, are held to generate rental income or earn capital gains or both and is not occupied by the Group. Investment properties are carried at fair value and changes in fair value are recorded in the income statement, representing the open market value determined periodically by independent appraisers.

10 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, including computer software and other intangible assets.

Computer software and other intangible assets are stated at acquisition cost less accumulated amortisation and impairment. These costs are amortised on a straight-line basis over their estimated useful lives with the amortisation recognised in the income statement.

The value of intangible assets is reviewed for impairment at each financial reporting date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

The recoverable amount of an intangible asset is the higher of the asset's fair value less costs to sell and value in use.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

11 Repossessed assets

Repossessed assets are initially recognised at fair value plus related costs when they are obtained as the compensation for the loans principal and interest. When there are indicators that the recoverable amount is lower than carrying amount, the carrying amount is written down immediately to its recoverable amount.

12 Employee benefits

12.1 Defined contribution plans

In accordance with the policies of relevant state and local governments, employees in Chinese mainland participate in various defined contribution retirement schemes administered by local Labour and Social Security Bureaus. Operations in Chinese mainland contribute to pension and insurance schemes administered by the local pension and insurance agencies using applicable contribution rates stipulated in the relevant local regulations. Upon retirement, the local Labour and Social Security Bureaus are responsible for the payment of the basic retirement benefits to the retired employees. In addition to these basic staff pension schemes, employees in Chinese mainland who retire after 1 January 2004 can also voluntarily participate in a defined contribution plan established by the Bank ("the Annuity Plan"). The Bank contributes to the Annuity Plan based on certain percentages of the employees' gross salaries.

All eligible employees in operations in Hong Kong, Macau, Taiwan and other countries and regions participate in local defined contribution schemes. The above operations contribute to these defined contribution plans based on certain percentages of the employees' basic salaries.

Contributions made by the Group to the retirement schemes described above are recognised as "Operating expenses" in the income statement as incurred. Forfeited contributions by those employees who leave the schemes prior to the full vesting of their contributions are used to reduce the existing level of contributions or retained in the retirement schemes in accordance with the requirements of the respective defined contribution plans.

12.2 Retirement benefit obligations

The Group pays supplemental retirement benefits to employees in Chinese mainland who retired prior to 31 December 2003 and early retirement benefits to those employees who accepted an early retirement arrangement.

Supplemental retirement benefits include supplemental pension payments and medical expense coverage.

Early retirement benefits have been paid to those employees who accept voluntary retirement before the normal retirement date, as approved by management. The related benefit payments are made from the date of early retirement to the normal retirement date.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

12 Employee benefits (Continued)

12.2 Retirement benefit obligations (Continued)

The liability related to the above supplemental benefit obligations and early retirement obligations existing at each financial reporting date, is calculated by independent actuaries using the projected unit credit method and is recorded as a liability under "Retirement benefit obligations" in the statement of financial position. The present value of the liability is determined through discounting the estimated future cash outflows using interest rates of RMB treasury bonds which have terms to maturity approximating the terms of the related liability. The gains or losses including those arising from the changes in actuarial assumptions and amendments to pension plans are charged or credited to the income statement immediately as "Operating expenses" when they occur.

12.3 Housing funds

Pursuant to local government regulations, all employees in Chinese mainland participate in various local housing funds administered by local governments. Operations in Chinese mainland contribute on a monthly basis to these funds based on certain percentages of the salaries of the employees. These payments are recognised as "Operating expenses" in the income statement as incurred.

12.4 Share-based compensation

(1) *Equity-settled share-based compensation schemes*

The fair value of the employee services received in exchange for the grant of the options under these schemes is recognised as an expense over the vesting period, with a corresponding increase in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. The fair value of the equity instruments is measured at grant date, and is not subsequently re-measured. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each financial reporting date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement over the remaining vesting period, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to "Share capital" (nominal value) and "Capital reserve" when the options are exercised.

(2) *Cash-settled share-based compensation scheme*

The related cost of services received from the employees and the liability to pay for such services are measured at fair value and recognised over the vesting period as the employees render services. Fair value is established at the grant date, re-measured at each financial reporting date with any changes in fair value recognised as "Operating expenses" in the income statement for the period and de-recognised when the liability is settled.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

12 Employee benefits (Continued)

12.4 Share-based compensation (Continued)

(2) Cash-settled share-based compensation scheme (Continued)

The total amount to be expensed over the vesting period is determined by reference to the fair value of the rights granted, excluding the impact of any non-market vesting conditions. Non-market conditions are included in the assumptions about the number of rights that are expected to vest. At each financial reporting date, the Group revises its estimates of the number of rights that are expected to vest. It recognises the impact of the revision to original estimates, if any, as "Operating expenses" in the income statement, with a corresponding adjustment to liability.

12.5 Bonus plans

The Group recognises a liability and an expense for bonuses, taking into consideration its business performance and profit attributable to the Bank's equity holders. The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation.

13 Provisions

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

14 Insurance contracts

14.1 Insurance contracts classification

The Group's insurance subsidiaries issue insurance contracts that transfer significant insurance risk. The Group perform significant insurance risk test at the contract initial recognition date. Insurance risk is significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. The Group issues non-life insurance contracts, which cover casualty and property insurance risk, and life insurance contracts, which insure events associated with human life (for example death, or survival) over a long duration.

The Group does not separately measure embedded derivatives that itself meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

14 Insurance contracts (Continued)

14.2 Insurance contracts recognition and measurement

(1) Non-life insurance contracts

Premiums on non-life insurance contracts are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the financial reporting date is reported as the unearned premium liability in "Other liabilities".

Claims and loss adjustment expenses are charged to the income statement as "Operating expenses" when incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the financial reporting date even if they have not yet been reported to the Group.

(2) Life insurance contracts

Premiums on life insurance contracts are recognised as revenue when they become payable by the contract holders. Benefits and claims are recorded as an expense when they are incurred. A liability for contractual benefits that are expected to be incurred in the future is recorded when premiums are recognised. For certain long-term insurance contracts (linked long-term insurance contracts) with embedded derivatives linking payments on the contract to units of an investment fund set up by the Group with the consideration received from the contract holders, the liability is adjusted for all changes in the fair value of the underlying assets, and includes a liability for contractual benefits that are expected to be incurred in the future which is recorded when the premiums are recognised.

14.3 Liability adequacy test

At each financial reporting date, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities (including unearned premium in the case of non-life insurance contracts). In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the income statement and reported as "Operating expenses", with a provision established for losses arising from the liability adequacy test.

15 Treasury shares

Where the Bank or other members of the Group purchase the Bank's ordinary shares, "Treasury shares" are recorded at the amount of consideration paid and deducted from total equity holders' equity until they are cancelled, sold or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in capital and reserves attributable to equity holders of the Bank.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

16 Contingent liabilities

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

17 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. Such financial guarantees are given to banks, financial institutions and other bodies to secure customer loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement less amortisation calculated and the best estimate of the expenditure required to settle any financial obligation arising at the financial reporting date. Any increase in the liability relating to guarantees is taken to the income statement. These estimates are determined based on experience of similar transactions, historical losses and by the judgement of management.

18 Fiduciary activities

The Group acts as a custodian, trustee or in other fiduciary capacities, that result in its holding or placing of assets on behalf of individuals, securities investment funds, social security funds, insurance companies, qualified foreign institutional investors, annuity schemes and other customers. These assets are not included in the statement of financial position of the Group, as they are not assets of the Group.

The Group also administers entrusted loans on behalf of third-party lenders. In this regard, the Group grants loans to borrowers, as an intermediary, at the direction of third-party lenders, who fund these loans. The Group has been contracted by these third-party lenders to manage the administration and collection of these loans on their behalf. The third-party lenders determine both the underwriting criteria for and all terms of the entrusted loans, including their purposes, amounts, interest rates, and repayment schedule. The Group charges a commission related to its activities in connection with the entrusted loans, but the risk of loss is borne by the third-party lenders. Entrusted loans are not recognised in the statement of financial position of the Group.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

19 Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except derivatives, are recognised within "Interest income" and "Interest expense" in the income statement using the effective interest method. Interest income and expense for derivatives is recognised in "Net trading gains" in the income statement.

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 Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

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

20 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income are accrued over that period. For other services, fee and commission income are recognised when the transactions are completed.

21 Income taxes

Income taxes comprise current income tax and deferred income tax. Tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In these cases, tax is also recognised in other comprehensive income or directly in equity, respectively.

21.1 Current income tax

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the financial reporting date, and any adjustment to tax payable in respect of previous years.

21.2 Deferred income tax

Deferred income tax is provided in full, and recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the financial reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from asset impairment allowances, revaluation of certain financial assets and financial liabilities including derivative contracts, revaluation of investment properties, depreciation of property and equipment, provisions for pension, retirement benefits and salary payable.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

21 Income taxes (Continued)

21.2 Deferred income tax (Continued)

"Deferred income tax assets" are recognised to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilised except the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

For deductible temporary differences associated with investment in subsidiaries, associates and joint ventures, a deferred tax asset is recognised to the extent that, and only to the extent that, it is probable that the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilised.

Deferred tax liabilities shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

Deferred income tax liabilities on taxable temporary differences arising from investment in subsidiaries, associates and joint ventures are recognised, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

The tax effects of income tax losses available for carrying forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

22 Segment reporting

The Group reviews the internal reporting in order to assess performance and allocate resources. Segment information is presented on the same basis as the Group's management and internal reporting.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

23 Comparatives

As mentioned in Note II.1.1, in 2012, the Group adopted IAS 12 Amendment — Deferred Tax: Recovery of Underlying Assets. Pursuant to the Amendment, retrospective adjustments were made to certain assets and liabilities, and items in equity as at 31 December 2011 and 1 January 2011, and income tax expense for the year ended 31 December 2011 were restated. Comparative financial statements are presented based on the restated figures.

Items in the Group's consolidated statement of financial position as at 31 December 2011 and 1 January 2011, and the consolidated income statement, basic and diluted earnings per share for the year ended 31 December 2011 affected by the adoption of IAS 12 Amendment, are as follows:

Group

	As at 31 December 2011		
	Before restatement	Impact of restatement	Restated
ASSETS			
Deferred income tax assets	19,516	(252)	19,264
Other assets	116,757	(25)	116,732
Other	11,693,793	–	11,693,793
Total assets	11,830,066	(277)	11,829,789
LIABILITIES			
Deferred income tax liabilities	4,486	(1,520)	2,966
Other	11,069,686	–	11,069,686
Total liabilities	11,074,172	(1,520)	11,072,652
EQUITY			
Capital and reserves attributable to equity holders of the Bank			
Capital reserve	115,359	44	115,403
Undistributed profits	209,816	783	210,599
Currency translation differences	(18,185)	(75)	(18,260)
Other	416,172	–	416,172
	723,162	752	723,914
Non-controlling interests	32,732	491	33,223
Total equity	755,894	1,243	757,137
Total equity and liabilities	11,830,066	(277)	11,829,789

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

23 Comparatives (Continued)

Group

	As at 1 January 2011		
	Before restatement	Impact of restatement	Restated
ASSETS			
Deferred income tax assets	24,041	(136)	23,905
Other assets	100,272	(26)	100,246
Other	10,335,552	–	10,335,552
Total assets	10,459,865	(162)	10,459,703
LIABILITIES			
Deferred income tax liabilities	3,919	(1,274)	2,645
Other	9,779,796	–	9,779,796
Total liabilities	9,783,715	(1,274)	9,782,441
EQUITY			
Capital and reserves attributable to equity holders of the Bank			
Capital reserve	114,988	36	115,024
Undistributed profits	148,355	690	149,045
Currency translation differences	(13,624)	(33)	(13,657)
Other	394,446	–	394,446
	644,165	693	644,858
Non-controlling interests	31,985	419	32,404
Total equity	676,150	1,112	677,262
Total equity and liabilities	10,459,865	(162)	10,459,703

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

23 Comparatives (Continued)

Group

	Year ended 31 December 2011		
	Before restatement	Impact of restatement	Restated
Profit before income tax	168,644	–	168,644
Income tax expense	(38,325)	183	(38,142)
Profit for the year	130,319	183	130,502
Attributable to:			
Equity holders of the Bank	124,182	94	124,276
Non-controlling interests	6,137	89	6,226
	130,319	183	130,502
Earnings per share for profit attributable to equity holders of the Bank during the year (Expressed in RMB per ordinary share)			
— Basic	0.44	0.01	0.45
— Diluted	0.43	–	0.43

The effects of adoption of IAS 12 Amendment to the consolidated income statement and both basic and diluted earnings per share for the year ended 31 December 2012 were not material.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and judgements that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group has taken into consideration the impact of the economic environment on the industries and territories in which the Group operates when determining critical accounting estimates and judgements in applying accounting policies.

Areas susceptible to changes in critical estimates and judgements, which affect the carrying value of assets and liabilities, are set out below. It is possible that actual results may be materially different from the estimates and judgements referred below.

1 Impairment allowances on loans and advances

The Group reviews its loans and advances 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 Group makes judgements and assumptions when calculating loan impairment allowances related to loans and advances. These allowances, which reflect the difference between the carrying amount of a loan, or a portfolio of similar loans, and the present value of estimated future cash flows, are assessed individually, for significant loans, and collectively, for smaller portfolios of similar loans.

The estimate of future cash flows is most significantly related to impaired loans for which the impairment loss is assessed individually. Factors affecting this estimate include, among other things, the granularity of financial information related to specific borrowers, the availability of meaningful information related to industry competitors and the relevance of sector trends to the future performance of individual borrowers. China continues to experience economic growth and these facts are not as well established as those in more developed markets. The effect of these factors requires significant judgement to be applied in the estimation of future cash flows. This is especially true in emerging sectors.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

1 Impairment allowances on loans and advances (Continued)

Significant judgement is also applied to the calculation of collectively assessed impairment allowances. The Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and advances before the decrease can be identified with an individual loan in that portfolio. 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 similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The Group has considered the impact of the changes and uncertainty in the macro-economic environments in which the Group operates when assessing the methodology and assumptions used for loss estimates and made adjustments where appropriate.

2 Fair value of derivatives and other financial instruments

The Group establishes fair value of financial instruments with reference to a quoted market price in an active market or, if there is no active market, using valuation techniques. These valuation techniques include the use of recent arm's length transactions, observable prices for similar instruments, discounted cash flow analysis using risk-adjusted interest rates, and commonly used market pricing models. Whenever possible these models use observable market inputs and data including, for example, interest rate yield curves, foreign currency rates and option volatilities. The results of using valuation techniques are calibrated against industry practice and observable current market transactions in the same or similar instruments.

The Group assesses assumptions and estimates used in valuation techniques including review of valuation model assumptions and characteristics, changes to model assumptions, the quality of market data, whether markets are active or inactive, other fair value adjustments not specifically captured by models and consistency of application of techniques between reporting periods as part of its normal review and approval processes. Valuation techniques are validated and periodically reviewed and, where appropriate, have been updated to reflect market conditions at the financial reporting date.

With respect to PRC government obligations related to large-scale policy directed financing transactions, fair value is determined using the stated terms of the related instrument and with reference to terms determined by the PRC government in similar transactions engaged in or directed by the PRC government. In this regard, there are no other relevant market prices or yields reflecting arm's length transactions of a comparable size and tenor.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

3 Impairment of available for sale investment securities and held to maturity investment securities

The Group follows the guidance of IAS 39 to determine when an available for sale or held to maturity investment security is impaired and when impairment on a debt security is reversed. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, the extent to which changes in fair value relate to credit events, and the financial health of and near-term business outlook for the investee/underlying portfolio, including factors such as industry and sector performance, technological innovations, credit ratings, delinquency rates, loss coverage ratios and counterparty risk.

4 Held to maturity securities

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity date as held to maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

5 Provisions

The Group uses judgement to assess whether the Group has a present legal or constructive obligation as a result of past events at each financial reporting date, and judgement is used to determine if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and to determine a reliable estimate of the amount of the obligation and relevant disclosure in the consolidated financial statements.

6 Employee retirement benefit obligations

As described in Note II.12.2 and Note V.32, the Bank has established liabilities in connection with benefits payable to certain retired and early retired employees. The amounts of employee benefit expense and these liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, pension benefit inflation rates, medical benefit inflation rates, and other factors. Actual results that differ from the assumptions are recognised immediately and, therefore, affect recognised expense in the year in which such differences arise. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect the Bank’s expense related to its employee retirement benefit obligations.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

7 Taxes

The Group is subject to income and business taxes in numerous jurisdictions, principally in Chinese mainland and Hong Kong. There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. The Group has made estimates for items of uncertainty and application of new tax legislation taking into account existing tax legislation and past practice, in particular, the treatment of supplementary PRC tax applied to results of overseas operations.

Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax, deferred income tax and business tax in the period during which such a determination is made.

8 Impairment of non-financial assets

Non-financial assets are periodically reviewed for impairment and where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

When estimating the value in use of aircraft held by subsidiaries, the Group estimates expected future cash flows from the aircraft and uses a suitable discount rate to calculate present value. The Group obtains valuations of aircraft from independent appraisers for which the principal assumptions underlying aircraft value are based on current market transactions for similar aircraft in the same location and condition. The Group also uses the fair value of aircraft obtained from independent appraisers in its assessment of the recoverable amount of intangible assets and the goodwill arising from the purchase of the Group's aircraft leasing subsidiary.

IV TAXATION

The principal income and other taxes to which the Group is subject are listed below:

		Statutory rates	
		Year ended 31 December	
Taxes	Tax basis	2012	2011
Chinese mainland			
Corporate income tax	Taxable income	**25%**	25%
Business tax	Business income	**5%**	5%
City construction and maintenance tax	Turnover tax paid	**1%–7%**	1%–7%
Education surcharges	Turnover tax paid	**3%–3.5%**	3%–3.5%
Hong Kong			
Hong Kong profits tax	Assessable profits	**16.5%**	16.5%

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Net interest income

	Year ended 31 December	
	2012	2011
Interest income		
Loans and advances to customers	**371,394**	296,913
Investment securities and financial assets at fair value through profit or loss (1)	**64,973**	56,728
Due from central banks	**26,996**	25,177
Due from and placements with and loans to banks and other financial institutions	**43,165**	34,284
Subtotal	**506,528**	413,102
Interest expense		
Due to customers	**(186,667)**	(139,905)
Due to and placements from banks and other financial institutions	**(54,858)**	(38,227)
Bonds issued and other	**(8,039)**	(6,906)
Subtotal	**(249,564)**	(185,038)
Net interest income (2)	**256,964**	228,064
Interest income accrued on impaired financial assets (included within interest income)	**557**	666

(1) Interest income on "Investment securities" and "Financial assets at fair value through profit or loss" is principally derived from debt securities listed on China Domestic Interbank Bond Market and unlisted debt securities in Hong Kong, Macau, Taiwan and other countries and regions.

(2) Included within "Interest income" and "Interest expense" are RMB504,318 million (2011: RMB410,913 million) and RMB224,727 million (2011: RMB169,535 million) for financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 Net fee and commission income

	Year ended 31 December	
	2012	2011
Bank card fees	**14,952**	10,747
Agency commissions	**14,171**	12,139
Settlement and clearing fees	**14,051**	12,389
Credit commitment fees	**11,099**	13,268
Spread income from foreign exchange business	**6,808**	8,545
Consultancy and advisory fees	**5,690**	6,507
Custodian and other fiduciary service fees	**2,371**	1,809
Other	**6,056**	4,614
Fee and commission income	**75,198**	70,018
Fee and commission expense	**(5,275)**	(5,356)
Net fee and commission income	**69,923**	64,662

3 Net trading gains

	Year ended 31 December	
	2012	2011
Net gains from foreign exchange and foreign exchange products (1)	**6,174**	9,618
Net gains/(losses) from interest rate products	**1,273**	(1,983)
Net gains/(losses) from equity products	**361**	(235)
Net gains from commodity products	**643**	458
Total (2)	**8,451**	7,858

(1) The net gains from foreign exchange and foreign exchange products for the year ended 31 December 2012 include losses in connection with the retranslation of foreign currency denominated monetary assets and liabilities of RMB3,527 million (2011: losses of RMB9,051 million), and net realised and unrealised gains on foreign exchange derivatives (including the foreign exchange derivatives entered into in conjunction with the Group's asset and liability management and funding arrangements) of RMB9,738 million (2011: gains of RMB18,782 million).

(2) Included in "Net trading gains" above for the year ended 31 December 2012 are gains of RMB1,119 million in relation to financial assets and financial liabilities designated at fair value through profit or loss (2011: gains of RMB88 million).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4 Other operating income

	Year ended 31 December	
	2012	2011
Insurance premiums [1]	**9,126**	7,678
Revenue from sale of precious metals products	**9,376**	6,955
Aircraft leasing income	**4,176**	3,804
Gains on disposal of property and equipment, intangible assets and other assets	**464**	436
Dividend income	**335**	248
Changes in fair value of investment properties	**1,006**	1,864
Gains on disposal of subsidiaries, associates and joint ventures	**441**	7
Other	**3,626**	3,280
Total	**28,550**	24,272

(1) Details of insurance premium income are as follows:

	Year ended 31 December	
	2012	2011
Life insurance contracts		
Gross earned premiums	**10,021**	10,702
Less: gross written premiums ceded to reinsurers	**(4,403)**	(5,997)
Net insurance premium income	**5,618**	4,705
Non-life insurance contracts		
Gross earned premiums	**4,237**	3,521
Less: gross written premiums ceded to reinsurers	**(729)**	(548)
Net insurance premium income	**3,508**	2,973
Total	**9,126**	7,678

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5 Operating expenses

	Year ended 31 December	
	2012	2011
Staff costs (Note V.6)	**66,994**	60,793
General operating and administrative expenses (1)	**37,153**	35,461
Business tax and surcharges	**22,925**	18,581
Depreciation and amortisation	**12,289**	10,651
Insurance benefits and claims		
— Life insurance contracts	**6,928**	5,673
— Non-life insurance contracts	**1,793**	1,905
Cost of sale of precious metals products	**8,615**	6,310
Allowance for litigation losses	**102**	21
Losses on disposal of property and equipment	**69**	64
Lehman Brothers related products	**(78)**	(2,316)
Other	**3,232**	3,672
Total	**160,022**	140,815

(1) Included in the general operating and administrative expenses are principal auditors' remuneration of RMB222 million for the year ended 31 December 2012 (2011: RMB215 million), of which RMB50 million was for Hong Kong, Macau, Taiwan and other countries and regions of the Group (2011: RMB48 million).

Included in the general operating and administrative expenses are operating lease expenses of RMB5,303 million and other premises and equipment related expenses (mainly comprised of property management and building maintenance expenses) of RMB10,286 million (2011: RMB4,517 million and RMB9,479 million, respectively).

6 Staff costs

	Year ended 31 December	
	2012	2011
Salary, bonus and subsidy	**47,629**	44,429
Staff welfare	**2,009**	1,591
Retirement benefits (Note V.32)	**479**	626
Social insurance, including:		
Medical	**2,311**	1,984
Pension	**4,876**	4,130
Annuity	**1,380**	920
Unemployment	**390**	325
Injury at work	**125**	102
Maternity insurance	**154**	120
Housing funds	**3,891**	3,331
Labour union fee and staff education fee	**1,838**	1,558
Reimbursement for cancellation of labour contract	**25**	23
Other	**1,887**	1,654
Total	**66,994**	60,793

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Directors', supervisors' and senior management's emoluments

Details of the directors' and supervisors' emoluments are as follows:

For the year ended 31 December 2012

	Fees	Remuneration paid	Contributions to pension schemes	Benefits in kind	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
XIAO Gang [3]	–[2]	794	65	244	1,103
LI Lihui [3]	–[2]	715	73	225	1,013
LI Zaohang [3]	–[2]	686	68	219	973
WANG Yongli [3] [5]	–[2]	678	52	215	945
Non-executive directors					
CAI Haoyi [1] [4]	–	–	–	–	–
SUN Zhijun [1]	–	–	–	–	–
LIU Lina [1]	–	–	–	–	–
JIANG Yansong [1]	–	–	–	–	–
ZHANG Xiangdong [1]	–	–	–	–	–
ZHANG Qi [1]	–	–	–	–	–
Independent non-executive directors					
Anthony Francis NEOH	550	–	–	–	550
Alberto TOGNI [4]	400	–	–	–	400
HUANG Shizhong [1]	–	–	–	–	–
HUANG Danhan	379	–	–	–	379
CHOW Man Yiu, Paul	426	–	–	–	426
Jackson TAI	350	–	–	–	350
Nout WELLINK [5]	65	–	–	–	65
Supervisors					
LI Jun [3]	–	695	46	221	962
WANG Xueqiang [3]	–	575	59	190	824
LIU Wanming [3]	–	575	57	186	818
DENG Zhiying [3]	–	740	54	195	989
LI Chunyu [3] [4]	–	238	32	80	350
JIANG Kuiwei [3] [4]	–	235	8	15	258
LIU Xiaozhong [3] [5]	–	385	25	87	497
XIANG Xi [3] [5]	–	528	32	26	586
MEI Xingbao	180	–	–	–	180
BAO Guoming	260	–	–	–	260
	2,610	6,844	571	1,903	11,928

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Directors', supervisors' and senior management's emoluments (Continued)

For the year ended 31 December 2011

	Fees	Basic salaries	Contributions to pension schemes	Benefits in kind	Discretionary bonuses [3] Paid	Discretionary bonuses [3] Deferred	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors							
XIAO Gang [3]	–[2]	465	60	227	556	558	1,866
LI Lihui [3]	–[2]	419	63	210	501	502	1,695
LI Zaohang [3]	–[2]	402	62	205	480	482	1,631
ZHOU Zaiqun [3]	–[2]	168	28	82	196	197	671
Non-executive directors							
HONG Zhihua [1]	–	–	–	–	–	–	–
HUANG Haibo [1]	–	–	–	–	–	–	–
CAI Haoyi [1]	–	–	–	–	–	–	–
SUN Zhijun [1]	–	–	–	–	–	–	–
LIU Lina [1]	–	–	–	–	–	–	–
JIANG Yansong [1]	–	–	–	–	–	–	–
ZHANG Xiangdong [1]	–	–	–	–	–	–	–
ZHANG Qi [1]	–	–	–	–	–	–	–
Independent non-executive directors							
Anthony Francis NEOH	550	–	–	–	–	–	550
Alberto TOGNI	955	–	–	–	–	–	955
HUANG Shizhong [1]	–	–	–	–	–	–	–
HUANG Danhan	350	–	–	–	–	–	350
CHOW Man Yiu, Paul	350	–	–	–	–	–	350
Jackson TAI	273	–	–	–	–	–	273
Supervisors							
LI Jun [3]	–	407	43	206	486	489	1,631
WANG Xueqiang [3]	–	448	53	173	663	–	1,337
LIU Wanming [3]	–	448	52	170	623	–	1,293
DENG Zhiying [3]	–	479	48	165	665	–	1,357
LI Chunyu [3]	–	278	45	112	211	–	646
JIANG Kuiwei [3]	–	367	41	69	959	–	1,436
QIN Rongsheng	104	–	–	–	–	–	104
BAI Jingming	88	–	–	–	–	–	88
MEI Xingbao	93	–	–	–	–	–	93
BAO Guoming	134	–	–	–	–	–	134
	2,897	3,881	495	1,619	5,340	2,228	16,460

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Directors', supervisors' and senior management's emoluments (Continued)

(1) For the years ended 31 December 2012 and 2011, these non-executive directors of the Bank signed agreements to waive the emoluments for their services to the Bank. For the year ended 31 December 2012 and 2011, the independent non-executive director of the Bank HUANG Shizhong signed an agreement to waive the emoluments for his service to the Bank.

(2) For the years ended 31 December 2012 and 2011, these executive directors of the Bank did not receive any fees.

(3) The total compensation packages for executive directors and supervisors for the year ended 31 December 2012 including discretionary bonus have not yet been finalised in accordance with relevant regulations of the PRC authorities. The amount of the compensation not provided for is not expected to have any significant impact on the Group's and the Bank's 2012 financial statements. The final compensation for the year ended 31 December 2012 will be disclosed in a separate announcement when determined.

The compensation amounts for these directors and supervisors for the year ended 31 December 2011 were restated based on the finalised amounts determined during 2011 as disclosed in the Bank's announcement dated 30 May 2012.

A portion of the discretionary bonus payments for executive directors and the chairman of the board of supervisors are deferred for a minimum of 3 years contingent upon the future performance in accordance with relevant regulations of the PRC authorities.

(4) CAI Haoyi ceased to be non-executive director effective from 19 November 2012, Alberto TOGNI ceased to be independent non-executive director effective from 31 May 2012. LI Chunyu ceased to be supervisors effective from 19 August 2012, JIANG Kuiwei ceased to be supervisors effective from 21 February 2012.

(5) WANG Yongli was elected to be executive director effective from 15 February 2012. Nout WELLINK was elected to be independent non-executive director effective from 25 October 2012. LIU Xiaozhong and XIANG Xi were elected to be supervisors effective from 19 August 2012.

In July 2002, options to purchase shares of BOCHK Holdings were granted to several directors of the Bank under the Pre-Listing Share Option Scheme. During the years ended 31 December 2012 and 2011, no such options were exercised by any director.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Directors', supervisors' and senior management's emoluments (Continued)

Five highest paid individuals

Of the five individuals with the highest emoluments, none of them are directors or supervisors whose emoluments are disclosed above.

The emoluments payable to the five individuals whose emoluments were the highest in the Group for the years ended 31 December 2012 and 2011 respectively are as follows:

	Year ended 31 December	
	2012	2011
Basic salaries and allowances	**15**	16
Discretionary bonuses	**46**	42
Contributions to pension schemes and other	**3**	5
	64	63

Emoluments of the individuals were within the following bands:

	Year ended 31 December	
Amounts in RMB	**2012**	2011
9,500,001–10,000,000	**–**	1
10,000,001–10,500,000	**1**	1
10,500,001–11,000,000	**2**	–
11,000,001–11,500,000	**1**	–
12,000,001–12,500,000	**–**	1
14,500,001–15,000,000	**–**	1
16,000,001–16,500,000	**–**	1
21,500,001–22,000,000	**1**	–

The above five highest paid individuals' emoluments are based on best estimates of discretionary bonuses. Discretionary bonuses include portions of payments that are deferred to future periods.

During the years ended 31 December 2012 and 2011, the Group has not paid any emoluments to the directors, supervisors, or senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 Impairment losses on assets

	Year ended 31 December	
	2012	2011
Loans and advances		
— Individually assessed	**4,248**	191
— Collectively assessed	**14,838**	19,081
Subtotal	**19,086**	19,272
Investment securities (1)		
Available for sale		
— Debt securities	**(374)**	(711)
— Other available for sale financial assets	**531**	647
	157	(64)
Held to maturity	**(39)**	58
Loans and receivables	**(2)**	10
Subtotal	**116**	4
Other	**185**	79
Total (2)	**19,387**	19,355

(1) Impairment charges/(reversal) on investment securities:

	Year ended 31 December	
	2012	2011
US Subprime mortgage related debt securities	**(296)**	(434)
US Alt-A mortgage-backed securities	**(25)**	(108)
US Non-Agency mortgage-backed securities	**(113)**	(221)
Other securities	**550**	767
Net charges	**116**	4

(2) Details of new allowances and reversal of impairment losses on loans and advances and investment securities are disclosed in Notes V.16 and V.23, respectively.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9 Income tax expense

	Year ended 31 December	
	2012	2011
Current income tax		
— Chinese mainland income tax	**38,407**	28,795
— Hong Kong profits tax	**3,167**	3,289
— Macau, Taiwan and other countries and regions taxation	**2,378**	1,458
Subtotal	**43,952**	33,542
Deferred income tax (Note V.34)	**(2,094)**	4,600
Total	**41,858**	38,142

The principal tax rates applicable to the Group are set out in Note IV.

The provision for Chinese mainland income tax includes income tax based on the statutory tax rate of 25% of the taxable income of the Bank and each of the subsidiaries established in the Chinese mainland, and supplementary PRC tax on overseas operations as determined in accordance with the relevant PRC income tax rules and regulations (Note III.7).

Taxation on profits of Hong Kong, Macau, Taiwan and other countries and regions has been calculated on the estimated assessable profits in accordance with local tax regulations at the rates of taxation prevailing in the countries or regions in which the Group operates.

The tax rate on the Group's profit before tax differs from the theoretical amount that would arise using the basic Chinese mainland tax rate of the Bank as follows:

	Year ended 31 December	
	2012	2011
Profit before income tax	**187,380**	168,644
Tax calculated at applicable statutory tax rate	**46,845**	42,161
Effect of different tax rates on Hong Kong, Macau, Taiwan and other countries and regions	**(2,324)**	(2,208)
Supplementary PRC tax on overseas income	**1,618**	1,553
Income not subject to tax (1)	**(5,635)**	(4,969)
Items not deductible for tax purposes (2)	**2,410**	1,752
Other	**(1,056)**	(147)
Income tax expense	**41,858**	38,142

(1) Income not subject to tax mainly comprises interest income from PRC Treasury bonds.

(2) Non-deductible items primarily include losses resulting from write-off of certain non-performing loans, and marketing and entertainment expenses in excess of the relevant deductible threshold under the relevant PRC tax regulations.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10 Earnings per share (basic and diluted)

Basic earnings per share

Basic earnings per share was computed by dividing the profit attributable to the equity holders of the Bank by the weighted average number of ordinary shares in issue during the period.

	Year ended 31 December	
	2012	2011
Profit attributable to equity holders of the Bank	**139,432**	124,276
Weighted average number of ordinary shares in issue (in million shares)	**279,127**	279,123
Basic earnings per share (in RMB per share)	**0.50**	0.45

Weighted average number of ordinary shares in issue (in million shares)

	Year ended 31 December	
	2012	2011
Issued ordinary shares as at 1 January	**279,147**	279,147
Weighted average number of shares from rights issue	**–**	–
Conversion of the bonds into shares (Note V.29)	**–**	–
Weighted average number of treasury shares	**(20)**	(24)
Weighted average number of ordinary shares in issue	**279,127**	279,123

Diluted earnings per share

Diluted earnings per share was computed by dividing the adjusted profit attributable to the equity holders of the Bank based on assuming conversion of all dilutive potential shares for the year by the adjusted weighted average number of ordinary shares in issue. The Bank has convertible bonds as dilutive potential ordinary shares.

	Year ended 31 December	
	2012	2011
Profit attributable to equity holders of the Bank	**139,432**	124,276
Add: interest expense on convertible bonds, net of tax, outstanding as at 31 December	**1,041**	949
Profit used to determine diluted earnings per share	**140,473**	125,225
Adjusted weighted average number of ordinary shares in issue (in million shares)	**279,127**	279,123
Add: weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	**11,410**	10,946
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	**290,537**	290,069
Diluted earnings per share (in RMB per share)	**0.48**	0.43

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11 Cash and due from banks and other financial institutions

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Cash	**72,475**	61,833	**66,081**	55,830
Due from banks in Chinese mainland	**617,598**	416,233	**579,105**	385,164
Due from other financial institutions in Chinese mainland	**2,525**	3,541	**2,510**	3,378
Due from banks in Hong Kong, Macau, Taiwan and other countries and regions	**82,796**	109,306	**97,792**	131,735
Due from other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions	**180**	51	**105**	48
Total (1)	**775,574**	590,964	**745,593**	576,155

(1) Included in the Bank's due from banks and other financial institutions are balances with the Bank's subsidiaries (Note V.42.7).

12 Balances with central banks

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Mandatory reserves (1)	**1,476,088**	1,467,139	**1,466,433**	1,457,962
Surplus reserves (2)	**204,943**	181,020	**200,636**	179,390
Other deposits (3)	**253,266**	271,492	**192,293**	147,800
Total	**1,934,297**	1,919,651	**1,859,362**	1,785,152

(1) The Group places mandatory reserve funds with the People's Bank of China (the "PBOC") and the central banks of Hong Kong, Macau, Taiwan and other countries and regions where it has operations. As at 31 December 2012, mandatory reserve funds placed with the PBOC were calculated at 20.0% (31 December 2011: 21.0%) and 5.0% (31 December 2011: 5.0%) of qualified RMB deposits and foreign currency deposits from customers of branches in Chinese mainland of the Bank respectively. The mandatory reserve funds placed with the central bank of domestic subsidiaries of the Group is determined by the PBOC. The amount of mandatory reserve funds placed with the central banks of other jurisdictions is determined by local regulations.

(2) This mainly represented the surplus reserve funds placed with the PBOC by branches in Chinese mainland of the Group.

(3) This mainly represented balances, other than mandatory reserves and surplus reserves, placed with central banks by operations in Hong Kong, Macau, Taiwan and other countries and regions.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13 Placements with and loans to banks and other financial institutions

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Placements with and loans to:				
Banks in Chinese mainland	**233,865**	410,655	**200,118**	359,284
Other financial institutions in Chinese mainland	**122,332**	112,629	**119,181**	112,629
Banks in Hong Kong, Macau, Taiwan and other countries and regions (1)	**91,305**	95,320	**87,462**	83,086
Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions (1)	**–**	–	**28,925**	22,472
Subtotal (2)	**447,502**	618,604	**435,686**	577,471
Allowance for impairment losses	**(203)**	(238)	**(203)**	(238)
Total (3)	**447,299**	618,366	**435,483**	577,233
Impaired placements	**203**	238	**203**	238
Percentage of impaired placements to total placements with and loans to banks and other financial institutions	**0.05%**	0.04%	**0.05%**	0.04%

(1) Included in the Bank's placements with and loans to "Banks in Hong Kong, Macau, Taiwan and other countries and regions" and "Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions" are loans to the Bank's subsidiaries (Note V.42.7).

(2) "Placements with and loans to banks and other financial institutions" include balances arising from reverse repo agreements and collateralised financing agreements. These are presented by collateral type as follows:

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Debt securities				
— Governments	**38,924**	90,925	**37,834**	88,596
— Policy banks	**54,698**	72,773	**54,698**	72,297
— Financial institutions	**4,426**	–	**4,426**	–
Total	**98,048**	163,698	**96,958**	160,893

(3) As at 31 December 2012, included in the balance of "Placements with and loans to banks and other financial institutions" were assets acquired in beneficial trust rights repurchase transactions in the amount of RMB 62.2 billion.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 Financial assets at fair value through profit or loss

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Trading financial assets				
Debt securities				
Issuers in Chinese mainland				
— Government	**1,362**	6,355	**566**	5,931
— Public sector and quasi-governments	**10**	–	**10**	–
— Policy banks	**6,060**	2,135	**4,445**	1,803
— Financial institutions	**148**	204	**–**	40
— Corporate	**2,761**	2,054	**2,162**	1,436
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Governments	**17,282**	15,127	**–**	–
— Public sector and quasi-governments	**148**	153	**–**	–
— Financial institutions	**274**	417	**–**	–
— Corporate	**4,403**	4,723	**–**	–
	32,448	31,168	**7,183**	9,210
Other				
Fund investments	**265**	409	**–**	–
Equity securities	**488**	729	**–**	–
Subtotal	**33,201**	32,306	**7,183**	9,210

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 Financial assets at fair value through profit or loss (Continued)

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Financial assets designated at fair value through profit or loss				
Debt securities				
Issuers in Chinese mainland				
— Government	**71**	69	**71**	69
— Policy banks	**1,893**	1,822	**1,893**	1,822
— Financial institutions	**196**	–	**196**	–
— Corporate	**4,758**	327	**2,845**	–
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Governments	**332**	–	**–**	–
— Public sector and quasi-governments	**384**	463	**384**	393
— Financial institutions	**21,025**	26,690	**11,431**	14,276
— Corporate	**3,666**	3,936	**1,085**	1,705
	32,325	33,307	**17,905**	18,265
Other				
Fund investments	**515**	3,115	**–**	–
Loans [(1)]	**4,566**	4,412	**4,566**	4,412
Equity securities	**983**	667	**–**	–
Subtotal	**38,389**	41,501	**22,471**	22,677
Total [(2)] [(3)]	**71,590**	73,807	**29,654**	31,887
Analysed as:				
Listed in Hong Kong	**12,024**	9,463	**5,045**	4,475
Listed outside Hong Kong [(4)]	**29,732**	29,693	**19,166**	22,688
Unlisted	**29,834**	34,651	**5,443**	4,724
Total	**71,590**	73,807	**29,654**	31,887

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 Financial assets at fair value through profit or loss (Continued)

(1) There was no significant change during the years ended 31 December 2012 and 2011 and cumulatively, in the fair value of the loans that was attributable to changes in the credit risk of the loans.

(2) As at 31 December 2012, the Group and the Bank held bonds issued by the Ministry of Finance of PRC ("MOF") and bills issued by the PBOC included in "Financial assets at fair value through profit or loss" with the carrying value and the related interest rate range on such bonds and bills as follows:

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Carrying value	**1,432**	6,424	**636**	6,000
Interest rate range	**1.40%–3.58%**	0.72%–4.33%	**2.70%–3.58%**	2.71%–4.33%

(3) As at 31 December 2012, included in the Group's "Financial assets at fair value through profit or loss" were certificates of deposit held of RMB1,230 million (31 December 2011: RMB1,377 million).

(4) Debt securities traded on the China Domestic Interbank Bond Market are included in "Listed outside Hong Kong".

15 Derivative financial instruments and hedge accounting

The Group enters into foreign currency exchange rate, interest rate, equity, credit or precious metals and other commodity related derivative financial instruments for trading, hedging, asset and liability management and on behalf of customers.

The contractual/notional amounts and fair values of derivative instruments held by the Group and the Bank are set out in the following tables. The contractual/notional amounts of financial instruments provide a basis for comparison with fair value instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's or the Bank's exposure to credit or market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or credit or equity/commodity prices relative to their terms. The aggregate fair values of Derivative financial assets and liabilities can fluctuate significantly from time to time.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 Derivative financial instruments and hedge accounting (Continued)

15.1 Derivative financial instruments

Group

	As at 31 December 2012			As at 31 December 2011		
	Contractual/ notional amount	Fair value Assets	Fair value Liabilities	Contractual/ notional amount	Fair value Assets	Fair value Liabilities
Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps [(1)]	**2,025,786**	**29,962**	**(20,715)**	1,930,235	31,615	(21,687)
Currency options	**56,881**	**201**	**(235)**	17,404	203	(50)
Subtotal	**2,082,667**	**30,163**	**(20,950)**	1,947,639	31,818	(21,737)
Interest rate derivatives						
Interest rate swaps	**645,376**	**7,785**	**(9,001)**	618,375	9,027	(11,390)
Interest rate options	**1,917**	**–**	**(3)**	2,201	1	(18)
Interest rate futures	**249**	**2**	**–**	3,424	1	(1)
Subtotal	**647,542**	**7,787**	**(9,004)**	624,000	9,029	(11,409)
Equity derivatives	**4,721**	**22**	**(106)**	3,991	102	(98)
Commodity derivatives	**148,365**	**2,216**	**(2,397)**	77,347	1,808	(2,229)
Credit derivatives	**–**	**–**	**–**	315	–	–
Total	**2,883,295**	**40,188**	**(32,457)**	2,653,292	42,757	(35,473)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 Derivative financial instruments and hedge accounting (Continued)

15.1 Derivative financial instruments (Continued)

Bank

	As at 31 December 2012			As at 31 December 2011		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps [1]	**1,500,454**	**11,565**	**(9,888)**	1,506,582	15,637	(9,501)
Currency options	**43,718**	**179**	**(209)**	8,730	102	(25)
Subtotal	**1,544,172**	**11,744**	**(10,097)**	1,515,312	15,739	(9,526)
Interest rate derivatives						
Interest rate swaps	**359,463**	**3,144**	**(4,772)**	262,617	4,337	(6,360)
Interest rate options	**1,886**	**–**	**(3)**	945	–	(14)
Subtotal	**361,349**	**3,144**	**(4,775)**	263,562	4,337	(6,374)
Equity derivatives	**104**	**–**	**–**	107	–	–
Commodity derivatives	**96,344**	**1,051**	**(1,510)**	40,143	893	(1,487)
Credit derivatives	**–**	**–**	**–**	315	–	–
Total	**2,001,969**	**15,939**	**(16,382)**	1,819,439	20,969	(17,387)

(1) These exchange rate derivatives primarily include foreign exchange transactions with customers; foreign exchange transactions to manage foreign currency exchange risks arising from customers; and foreign currency exchange transactions entered into as part of asset and liability management and funding requirements.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 Derivative financial instruments and hedge accounting (Continued)

15.2 Hedge accounting

Included in the derivative financial instruments above are those designated as hedging instruments by the Group as follows (the Bank: Nil):

Group

	As at 31 December 2012			As at 31 December 2011		
	Contractual/ notional amount	Fair value Assets	Fair value Liabilities	Contractual/ notional amount	Fair value Assets	Fair value Liabilities
Derivatives designated as hedging instruments in fair value hedges						
Cross-currency interest rate swaps	**–**	**–**	**–**	1,121	26	–
Interest rate swaps	**38,003**	**2,707**	**(1,373)**	28,040	2,389	(900)
Subtotal (1)	**38,003**	**2,707**	**(1,373)**	29,161	2,415	(900)
Derivatives designated as hedging instruments in cash flow hedges						
Cross-currency interest rate swaps	**2,574**	**34**	**(44)**	3,432	48	(81)
Interest rate swaps	**523**	**–**	**(11)**	576	–	(16)
Subtotal (2)	**3,097**	**34**	**(55)**	4,008	48	(97)
Total	**41,100**	**2,741**	**(1,428)**	33,169	2,463	(997)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 Derivative financial instruments and hedge accounting (Continued)

15.2 Hedge accounting (Continued)

(1) Fair value hedges

The Group uses cross-currency interest rate swaps and interest rate swaps to hedge against changes in fair value of bonds issued and debt securities available for sale arising from changes in foreign exchange rates and interest rates.

Gains or losses on fair value hedges are as follows:

	Year ended 31 December	
	2012	2011
Net gains/(losses) on		
— hedging instruments	**390**	1,158
— hedged items	**(359)**	(1,275)
Ineffectiveness recognised in Net trading gains	**31**	(117)

(2) Cash flow hedges

The Group uses cross-currency interest rate swaps and interest rate swaps to hedge against exposure to cash flow variability primarily from foreign exchange rates and interest rate risks of debt securities held and variable rate borrowings.

For the year ended 31 December 2012, a net loss from cash flow hedges of RMB31 million was recognised in "Capital reserve" through other comprehensive income (2011: net gain of RMB9 million), and there was no ineffectiveness for the year ended 31 December 2012 and 2011.

There were no transactions for which cash flow hedge accounting had to be ceased in the year ended 31 December 2012 or 2011 as a result of the highly probable cash flows no longer being expected to occur.

(3) Net investment hedges

The Group's consolidated statement of financial position is affected by exchange differences between the functional currencies of respective holding companies and functional currencies of their branches and subsidiaries. The Group hedges such exchange exposures only in limited circumstances. Hedging is undertaken using deposits taken in the same currencies as the functional currencies of related branches and subsidiaries which are accounted for as hedges of certain net investment in foreign operations.

For the year ended 31 December 2012, a net loss from the hedging instrument of RMB15 million was recognised in "Currency translation differences" through other comprehensive income on net investment hedges (2011: net gain of RMB826 million), and there was no ineffectiveness in the years ended 31 December 2012 and 2011.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Loans and advances to customers, net

16.1 Analysis of loans and advances to customers

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Corporate loans and advances				
Loans and advances	**4,813,749**	4,628,846	**4,317,362**	4,168,833
Discounted bills	**166,650**	96,459	**163,742**	93,551
Subtotal	**4,980,399**	4,725,305	**4,481,104**	4,262,384
Personal loans				
Mortgages	**1,348,359**	1,213,322	**1,167,766**	1,050,046
Credit cards	**160,865**	97,659	**151,510**	89,828
Other	**375,073**	306,528	**341,228**	281,199
Subtotal	**1,884,297**	1,617,509	**1,660,504**	1,421,073
Total loans and advances	**6,864,696**	6,342,814	**6,141,608**	5,683,457
Allowance for impairment losses				
Individually assessed	**(38,537)**	(36,265)	**(37,813)**	(35,749)
Collectively assessed	**(116,119)**	(103,411)	**(113,225)**	(100,903)
Total allowance for impairment losses	**(154,656)**	(139,676)	**(151,038)**	(136,652)
Loans and advances to customers, net	**6,710,040**	6,203,138	**5,990,570**	5,546,805

16.2 Analysis of loans and advances to customers by geographical area, industry, collateral type and analysis of overdue loans and advances to customers by collateral type is presented in Note VI. 3.5.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Loans and advances to customers, net (Continued)

16.3 Analysis of loans and advances to customers by collective and individual allowance assessments

Group

	Loans and advances for which allowance is collectively assessed (1)	Identified impaired loans and advances (2)			Total	Identified impaired loans and advances as % of total loans and advances
		for which allowance is collectively assessed	for which allowance is individually assessed	Subtotal		
As at 31 December 2012						
Total loans and advances	**6,799,241**	**15,106**	**50,349**	**65,455**	**6,864,696**	**0.95%**
Allowance for impairment losses	**(106,918)**	**(9,201)**	**(38,537)**	**(47,738)**	**(154,656)**	
Loans and advances to customers, net	**6,692,323**	**5,905**	**11,812**	**17,717**	**6,710,040**	
As at 31 December 2011						
Total loans and advances	6,279,508	12,842	50,464	63,306	6,342,814	1.00%
Allowance for impairment losses	(95,052)	(8,359)	(36,265)	(44,624)	(139,676)	
Loans and advances to customers, net	6,184,456	4,483	14,199	18,682	6,203,138	

Bank

	Loans and advances for which allowance is collectively assessed (1)	Identified impaired loans and advances (2)			Total	Identified impaired loans and advances as % of total loans and advances
		for which allowance is collectively assessed	for which allowance is individually assessed	Subtotal		
As at 31 December 2012						
Total loans and advances	**6,077,776**	**15,013**	**48,819**	**63,832**	**6,141,608**	**1.04%**
Allowance for impairment losses	**(104,058)**	**(9,167)**	**(37,813)**	**(46,980)**	**(151,038)**	
Loans and advances to customers, net	**5,973,718**	**5,846**	**11,006**	**16,852**	**5,990,570**	
As at 31 December 2011						
Total loans and advances	5,621,032	12,790	49,635	62,425	5,683,457	1.10%
Allowance for impairment losses	(92,573)	(8,330)	(35,749)	(44,079)	(136,652)	
Loans and advances to customers, net	5,528,459	4,460	13,886	18,346	5,546,805	

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Loans and advances to customers, net (Continued)

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

(1) Loans and advances for which allowance is collectively assessed consist of loans and advances which have not been specifically identified as impaired.

(2) Identified impaired loans and advances are loans for which objective evidence of impairment exists and which have been identified as bearing an impairment loss and assessed either:

- individually (including mainly significant corporate loans and advances over a certain amount which are impaired); or
- collectively (portfolios of individually insignificant homogenous loans which share similar credit risk characteristics, including insignificant corporate loans and advances and personal loans which are impaired).

16.4 Reconciliation of allowance for impairment losses on loans and advances to customers by individual and collective assessments

	Year ended 31 December					
	2012			2011		
	Individually assessed allowance	Collectively assessed allowance	Total	Individually assessed allowance	Collectively assessed allowance	Total
Group						
As at 1 January	36,265	103,411	139,676	36,834	86,022	122,856
Impairment losses for the year	15,203	37,287	52,490	12,066	41,425	53,491
Reversal	(10,955)	(22,449)	(33,404)	(11,875)	(22,344)	(34,219)
Written off and transfer out	(2,409)	(1,800)	(4,209)	(949)	(860)	(1,809)
Recovery of loans and advances written off in previous years	600	66	666	589	21	610
Unwind of discount on allowance	(104)	(259)	(363)	(98)	(216)	(314)
Exchange differences	(63)	(137)	(200)	(302)	(637)	(939)
As at 31 December	38,537	116,119	154,656	36,265	103,411	139,676
Bank						
As at 1 January	35,749	100,903	136,652	36,427	83,965	120,392
Impairment losses for the year	14,690	36,619	51,309	11,760	40,655	52,415
Reversal	(10,484)	(22,314)	(32,798)	(11,490)	(22,280)	(33,770)
Written off and transfer out	(2,388)	(1,626)	(4,014)	(876)	(744)	(1,620)
Recovery of loans and advances written off in previous years	409	40	449	314	1	315
Unwind of discount on allowance	(96)	(259)	(355)	(97)	(214)	(311)
Exchange differences	(67)	(138)	(205)	(289)	(480)	(769)
As at 31 December	37,813	113,225	151,038	35,749	100,903	136,652

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Loans and advances to customers, net (Continued)

16.5 Reconciliation of allowance account for impairment losses on loans and advances to customers by customer type

	Year ended 31 December					
	2012			2011		
	Corporate	Personal	Total	Corporate	Personal	Total
Group						
As at 1 January	**115,855**	**23,821**	**139,676**	101,376	21,480	122,856
Impairment losses for the year	**48,709**	**3,781**	**52,490**	50,248	3,243	53,491
Reversal	**(33,341)**	**(63)**	**(33,404)**	(34,135)	(84)	(34,219)
Written off and transfer out	**(3,192)**	**(1,017)**	**(4,209)**	(1,197)	(612)	(1,809)
Recovery of loans and advances written off in previous years	**604**	**62**	**666**	577	33	610
Unwind of discount on allowance	**(147)**	**(216)**	**(363)**	(140)	(174)	(314)
Exchange differences	**(193)**	**(7)**	**(200)**	(874)	(65)	(939)
As at 31 December	**128,295**	**26,361**	**154,656**	115,855	23,821	139,676
Bank						
As at 1 January	**113,232**	**23,420**	**136,652**	99,252	21,140	120,392
Impairment losses for the year	**47,782**	**3,527**	**51,309**	49,414	3,001	52,415
Reversal	**(32,785)**	**(13)**	**(32,798)**	(33,722)	(48)	(33,770)
Written off and transfer out	**(3,171)**	**(843)**	**(4,014)**	(1,129)	(491)	(1,620)
Recovery of loans and advances written off in previous years	**425**	**24**	**449**	315	–	315
Unwind of discount on allowance	**(139)**	**(216)**	**(355)**	(137)	(174)	(311)
Exchange differences	**(202)**	**(3)**	**(205)**	(761)	(8)	(769)
As at 31 December	**125,142**	**25,896**	**151,038**	113,232	23,420	136,652

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Investment securities

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Investment securities available for sale				
Debt securities available for sale				
Issuers in Chinese mainland				
— Government	**80,361**	56,338	**70,154**	49,384
— Public sector and quasi-governments	**2,950**	1,872	**1,855**	1,368
— Policy banks	**77,224**	48,667	**49,943**	39,270
— Financial institutions	**45,852**	13,294	**15,247**	3,136
— Corporate	**81,716**	67,116	**61,708**	59,303
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Governments	**171,057**	133,912	**58,423**	55,691
— Public sector and quasi-governments	**40,156**	34,175	**7,992**	5,385
— Financial institutions	**129,297**	148,506	**34,740**	50,058
— Corporate	**26,106**	20,212	**5,045**	6,133
	654,719	524,092	**305,107**	269,728
Equity securities	**24,041**	23,281	**1,903**	1,636
Fund investments and other	**7,640**	5,945	**–**	–
Total investment securities available for sale [1]	**686,400**	553,318	**307,010**	271,364
Debt securities held to maturity				
Issuers in Chinese mainland				
— Government	**645,607**	575,744	**644,906**	562,103
— Public sector and quasi-governments	**15,350**	16,220	**15,350**	16,220
— Policy banks	**259,900**	270,346	**259,104**	270,000
— Financial institutions	**38,969**	23,182	**36,516**	21,368
— Corporate	**141,317**	123,828	**140,596**	123,120
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Governments	**64,561**	33,762	**61,907**	29,475
— Public sector and quasi-governments	**4,439**	5,443	**3,413**	195
— Financial institutions	**10,613**	22,590	**1,110**	2,543
— Corporate	**2,630**	3,355	**813**	930
	1,183,386	1,074,470	**1,163,715**	1,025,954
Allowance for impairment losses	**(306)**	(354)	**(299)**	(334)
Total debt securities held to maturity	**1,183,080**	1,074,116	**1,163,416**	1,025,620

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Investment securities (Continued)

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Debt securities classified as loans and receivables				
Issuers in Chinese mainland				
— China Orient Bond (2)	**160,000**	160,000	**160,000**	160,000
— Special Purpose Treasury Bond (3)	**42,500**	42,500	**42,500**	42,500
— PBOC Target Bills (4)	**–**	22,291	**–**	22,291
— Financial institutions	**20,979**	14,480	**17,480**	14,480
— Certificate and Saving-type Treasury Bonds and other (5)	**32,492**	41,483	**31,564**	41,483
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Public sector and quasi-governments	**11,638**	12,845	**9,077**	9,124
— Financial institutions	**1,319**	5,410	**115**	–
— Corporate	**591**	584	**591**	584
	269,519	299,593	**261,327**	290,462
Allowance for impairment losses	**(65)**	(75)	**(65)**	(75)
Total debt securities classified as loans and receivables	**269,454**	299,518	**261,262**	290,387
Total investment securities (6) (7)	**2,138,934**	1,926,952	**1,731,688**	1,587,371

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Investment securities (Continued)

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Analysed as follows:				
Investment securities available for sale				
Debt securities				
— Listed in Hong Kong	**21,871**	14,294	**5,301**	5,560
— Listed outside Hong Kong	**303,350**	262,669	**211,872**	179,857
— Unlisted	**329,498**	247,129	**87,934**	84,311
Equity, fund and other				
— Listed in Hong Kong	**4,242**	5,138	**–**	–
— Listed outside Hong Kong	**279**	340	**–**	–
— Unlisted	**27,160**	23,748	**1,903**	1,636
Debt securities held to maturity				
— Listed in Hong Kong	**2,520**	2,206	**1,346**	1,204
— Listed outside Hong Kong	**1,076,690**	1,010,958	**1,068,938**	998,511
— Unlisted	**103,870**	60,952	**93,132**	25,905
Debt securities classified as loans and receivables				
— Unlisted	**269,454**	299,518	**261,262**	290,387
Total	**2,138,934**	1,926,952	**1,731,688**	1,587,371
Listed in Hong Kong	**28,633**	21,638	**6,647**	6,764
Listed outside Hong Kong	**1,380,319**	1,273,967	**1,280,810**	1,178,368
Unlisted	**729,982**	631,347	**444,231**	402,239
Total	**2,138,934**	1,926,952	**1,731,688**	1,587,371

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Investment securities (Continued)

Group

	As at 31 December			
	2012		2011	
	Carrying value	Market value	Carrying value	Market value
Debt securities held to maturity				
— Listed in Hong Kong	**2,520**	**2,634**	2,206	2,288
— Listed outside Hong Kong	**1,076,690**	**1,072,920**	1,010,958	1,012,649

Bank

	As at 31 December			
	2012		2011	
	Carrying value	Market value	Carrying value	Market value
Debt securities held to maturity				
— Listed in Hong Kong	**1,346**	**1,411**	1,204	1,254
— Listed outside Hong Kong	**1,068,938**	**1,064,836**	998,511	1,000,082

(1) The Group's accumulated impairment charge on debt and equity securities available for sale held as at 31 December 2012 amounted to RMB3,591 million and RMB4,260 million, respectively (31 December 2011: RMB9,135 million and RMB3,788 million, respectively).

(2) The Bank transferred certain non-performing assets to China Orient Asset Management Corporation ("China Orient") in 1999 and 2000. On 1 July 2000, China Orient issued a ten-year bond ("Orient Bond") with a par value of RMB160,000 million and interest rate of 2.25% to the Bank as consideration. During the year ended 31 December 2010, the maturity of this bond was extended to 30 June 2020 with the other terms unchanged. The MOF shall continue to provide funding support for the principal and interest of the Orient Bond held by the Bank pursuant to Caijin [2004] No. 87 "Notice of the MOF Regarding Relevant Issues Relating to the Principal and Interest of Debt Securities of Financial Asset Management Companies Held by Bank of China and China Construction Bank".

(3) On 18 August 1998, a Special Purpose Treasury Bond was issued by the MOF with a par value of RMB42,500 million maturing on 18 August 2028. This bond was originally issued with an annual coupon rate of 7.20% and its coupon rate was restructured to 2.25% per annum from 1 December 2004.

(4) The Target Bills issued by the PBOC in 2011 amounted to RMB23,000 million matured in 2012 and the Bank received the principal and interest amount in full.

(5) The Group underwrites certain Treasury bonds issued by the MOF and undertakes the role of a distributor of these Treasury bonds through its branch network earning commission income on bonds sold. The investors of these 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 balance of these bonds held by the Group and the Bank as at 31 December 2012 amounted to RMB16,266 million (31 December 2011: RMB33,217 million). During the year, the total distribution of these Treasury bonds amounted to RMB7,876 million (2011: RMB16,800 million) and commission income amounted to RMB197 million (2011: RMB231 million).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Investment securities (Continued)

(6) As at 31 December 2012, the Group and the Bank held bonds issued by the MOF and bills issued by the PBOC included in investment securities with the carrying value and the related interest rate range on such bonds and bills as follows:

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Carrying value	**670,705**	639,751	**659,795**	619,156
Interest rate range	**1.00%– 4.89%**	1.12%– 4.92%	**1.00%– 4.75%**	1.12%– 4.92%

(7) Included in the Group's investment securities were certificates of deposit held amounting to RMB65,520 million as at 31 December 2012 (31 December 2011: RMB40,402 million).

18 Investment in subsidiaries

The carrying amount by principal subsidiary was as follows, and further details are disclosed in Note V.42.7. These directly held principal subsidiaries are unlisted companies. All holdings are in the ordinary share capital of the undertaking concerned, and the ability of the subsidiary to transfer funds to the Group and the Bank is not restricted.

	As at 31 December	
	2012	2011
BOC Hong Kong (Group) Limited	**36,915**	36,915
BOC Group Investment Limited	**29,633**	29,633
BOC Group Insurance Company Limited	**4,509**	4,509
BOC International Holdings Limited	**3,753**	3,753
BOC (UK) Limited	**3,223**	2,126
BOC Insurance Company Limited	**1,998**	1,998
Tai Fung Bank Limited	**82**	82
Other	**7,161**	4,773
Total	**87,274**	83,789

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 Investment in associates and joint ventures

	Year ended 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
As at 1 January	**13,293**	12,631	**48**	45
Additions	**1,028**	1,335	**4**	–
Disposals	**(2,296)**	(464)	**–**	–
Share of results, net of tax	**613**	516	**7**	6
Share of reserve movement	**(57)**	254	**–**	–
Dividends received	**(129)**	(192)	**–**	–
Exchange differences and other	**(70)**	(787)	**(4)**	(3)
As at 31 December	**12,382**	13,293	**55**	48

Investment in associates and joint ventures of the Group and the Bank comprise of ordinary shares of unlisted companies, and the ability of associates and joint ventures to transfer funds to the Group and the Bank is not restricted. The carrying amount by principal investees was as follows:

	As at 31 December	
	2012	2011
Huaneng International Power Development Corporation	**5,062**	4,665
BOC International (China) Limited	**2,438**	2,273
Hong Kong Bora Holdings Limited	**946**	785
CGN Phase I Private Equity Fund Company Limited	**885**	731
Guangdong Small and Medium Enterprises Equity Investment Fund Company Limited	**631**	637
Farun Glass Industry Company Limited	**496**	475
Hubei Zhongqi Investment and Guarantee Company Limited	**316**	–
JCC Financial Company Limited	**226**	133
Guangdong Haomei Aluminum Company Limited	**218**	–
Silver Union Investments Limited	**188**	57
Other	**976**	3,537
Total	**12,382**	13,293

Further details are disclosed in Note V.42.4.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment

Group

	Year ended 31 December				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
Cost					
As at 1 January 2012	78,989	47,415	19,840	46,584	192,828
Additions	781	8,290	11,194	6,481	26,746
Transfer to investment properties, net (Note V.21)	(979)	–	–	–	(979)
Reclassification	4,346	485	(6,932)	2,101	–
Disposals	(973)	(2,080)	(328)	(1,395)	(4,776)
Exchange differences	(22)	10	(30)	(185)	(227)
As at 31 December 2012	82,142	54,120	23,744	53,586	213,592
Accumulated depreciation					
As at 1 January 2012	(20,819)	(28,317)	–	(4,411)	(53,547)
Depreciation charge	(2,405)	(7,566)	–	(1,786)	(11,757)
Disposals	954	2,000	–	247	3,201
Exchange differences	2	–	–	19	21
As at 31 December 2012	(22,268)	(33,883)	–	(5,931)	(62,082)
Allowance for impairment losses					
As at 1 January 2012	(775)	–	(252)	(20)	(1,047)
Impairment losses	(3)	–	(4)	(150)	(157)
Disposals	13	–	4	1	18
Exchange differences	–	–	–	–	–
As at 31 December 2012	(765)	–	(252)	(169)	(1,186)
Net book value					
As at 1 January 2012	57,395	19,098	19,588	42,153	138,234
As at 31 December 2012	59,109	20,237	23,492	47,486	150,324

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment (Continued)

Group

	Year ended 31 December				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
Cost					
As at 1 January 2011	74,058	40,752	12,806	43,707	171,323
Additions	1,331	8,337	14,069	6,791	30,528
Transfer from/(to) investment properties, net (Note V.21)	706	–	(10)	–	696
Reclassification	4,561	542	(6,860)	1,757	–
Disposals	(765)	(1,977)	(16)	(3,604)	(6,362)
Exchange differences	(902)	(239)	(149)	(2,067)	(3,357)
As at 31 December 2011	78,989	47,415	19,840	46,584	192,828
Accumulated depreciation					
As at 1 January 2011	(19,378)	(23,942)	–	(3,371)	(46,691)
Depreciation charge	(2,275)	(6,420)	–	(1,606)	(10,301)
Disposals	666	1,875	–	406	2,947
Exchange differences	168	170	–	160	498
As at 31 December 2011	(20,819)	(28,317)	–	(4,411)	(53,547)
Allowance for impairment losses					
As at 1 January 2011	(798)	–	(257)	(9)	(1,064)
Impairment losses	–	–	–	(11)	(11)
Disposals	23	–	5	–	28
Exchange differences	–	–	–	–	–
As at 31 December 2011	(775)	–	(252)	(20)	(1,047)
Net book value					
As at 1 January 2011	53,882	16,810	12,549	40,327	123,568
As at 31 December 2011	57,395	19,098	19,588	42,153	138,234

As at 31 December 2012, the net book amount of aircraft owned by BOC Aviation Pte. Ltd., a wholly owned subsidiary of the Group, acquired under finance lease arrangements was RMB459 million (31 December 2011: RMB477 million).

As at 31 December 2012, the net book amount of aircraft leased out by BOC Aviation Pte. Ltd., a wholly owned subsidiary of the Group, under operating leases was RMB46,884 million (31 December 2011: RMB41,287 million).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment (Continued)

As at 31 December 2012, the net book amount of aircraft owned by BOC Aviation Pte. Ltd., a wholly owned subsidiary of the Group, that has been pledged for loan facilities was RMB38,573 million (31 December 2011: RMB31,998 million) (Note V.30).

Bank

	Year ended 31 December			
	Buildings	Equipment and motor vehicles	Construction in progress	Total
Cost				
As at 1 January 2012	61,484	42,386	14,135	118,005
Additions	428	7,913	7,812	16,153
Transfer from investment properties, net (Note V.21)	10	–	–	10
Reclassification	4,273	178	(4,451)	–
Disposals	(885)	(1,883)	(326)	(3,094)
Exchange differences	(44)	8	–	(36)
As at 31 December 2012	65,266	48,602	17,170	131,038
Accumulated depreciation				
As at 1 January 2012	(17,612)	(24,837)	–	(42,449)
Depreciation charge	(2,071)	(6,964)	–	(9,035)
Disposals	860	1,823	–	2,683
Exchange differences	3	–	–	3
As at 31 December 2012	(18,820)	(29,978)	–	(48,798)
Allowance for impairment losses				
As at 1 January 2012	(775)	–	(252)	(1,027)
Impairment losses	(3)	–	(4)	(7)
Disposals	13	–	4	17
Exchange differences	–	–	–	–
As at 31 December 2012	(765)	–	(252)	(1,017)
Net book value				
As at 1 January 2012	43,097	17,549	13,883	74,529
As at 31 December 2012	45,681	18,624	16,918	81,223

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment (Continued)

Bank

	Year ended 31 December			
	Buildings	Equipment and motor vehicles	Construction in progress	Total
Cost				
As at 1 January 2011	57,727	36,051	9,743	103,521
Additions	335	7,985	8,784	17,104
Transfer from investment properties, net (Note V.21)	16	–	–	16
Reclassification	4,253	124	(4,377)	–
Disposals	(667)	(1,741)	(15)	(2,423)
Exchange differences	(180)	(33)	–	(213)
As at 31 December 2011	61,484	42,386	14,135	118,005
Accumulated depreciation				
As at 1 January 2011	(16,307)	(20,665)	–	(36,972)
Depreciation charge	(1,919)	(5,855)	–	(7,774)
Disposals	567	1,658	–	2,225
Exchange differences	47	25	–	72
As at 31 December 2011	(17,612)	(24,837)	–	(42,449)
Allowance for impairment losses				
As at 1 January 2011	(798)	–	(257)	(1,055)
Impairment losses	–	–	–	–
Disposals	23	–	5	28
Exchange differences	–	–	–	–
As at 31 December 2011	(775)	–	(252)	(1,027)
Net book value				
As at 1 January 2011	40,622	15,386	9,486	65,494
As at 31 December 2011	43,097	17,549	13,883	74,529

According to relevant PRC laws and regulations, after conversion into a joint stock limited liability company, the Bank is required to re-register its property and equipment under the name of Bank of China Limited. As at 31 December 2012, the process of re-registration has not been completed. However, this registration process does not affect the rights of Bank of China Limited to these assets.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment (Continued)

The carrying value of buildings is analysed based on the remaining terms of the leases as follows:

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Held in Hong Kong				
on long-term lease (over 50 years)	**3,701**	4,003	**–**	–
on medium-term lease (10–50 years)	**7,063**	7,777	**–**	–
on short-term lease (less than 10 years)	**6**	8	**–**	8
Subtotal	**10,770**	11,788	**–**	8
Held outside Hong Kong				
on long-term lease (over 50 years)	**4,239**	4,538	**3,780**	3,901
on medium-term lease (10–50 years)	**43,612**	40,568	**41,421**	38,687
on short-term lease (less than 10 years)	**488**	501	**480**	501
Subtotal	**48,339**	45,607	**45,681**	43,089
Total	**59,109**	57,395	**45,681**	43,097

21 Investment properties

	Year ended 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
As at 1 January	**14,616**	13,839	**1,280**	1,285
Additions	**560**	502	**–**	–
Transfer from/(to) property and equipment, net (Note V.20)	**979**	(696)	**(10)**	(16)
Disposals	**(113)**	(273)	**–**	–
Fair value changes (Note V.4)	**1,006**	1,864	**165**	100
Exchange differences	**94**	(620)	**39**	(89)
As at 31 December	**17,142**	14,616	**1,474**	1,280

The Group's investment properties are located in active real estate markets, and external appraisers make reasonable estimation of fair value using market prices of the same or similar properties from the real estate market.

Investment properties are mainly held by BOCHK Holdings and BOCGI, subsidiaries of the Group. The carrying value of investment properties held by BOCHK Holdings and BOCGI as at 31 December 2012 amounted to RMB8,782 million and RMB6,865 million, respectively (31 December 2011: RMB7,529 million and RMB5,791 million). The valuation of these investment properties as at 31 December 2012 were principally performed by either Savills Valuation and Professional Services Limited or Knight Frank Petty Limited based on open market price.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 Investment properties (Continued)

The carrying value of investment properties is analysed based on the remaining terms of the leases as follows:

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Held in Hong Kong				
on long-term lease (over 50 years)	**2,515**	2,086	**–**	–
on medium-term lease (10–50 years)	**6,907**	6,004	**–**	–
on short-term lease (less than 10 years)	**20**	–	**–**	–
Subtotal	**9,442**	8,090	**–**	–
Held outside Hong Kong				
on long-term lease (over 50 years)	**1,938**	1,829	**276**	714
on medium-term lease (10–50 years)	**5,569**	4,502	**1,005**	371
on short-term lease (less than 10 years)	**193**	195	**193**	195
Subtotal	**7,700**	6,526	**1,474**	1,280
Total	**17,142**	14,616	**1,474**	1,280

22 Other assets

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Interest receivable (1)	**54,188**	54,817	**49,288**	50,174
Accounts receivable and prepayments (2)	**63,022**	38,245	**26,791**	13,235
Intangible assets (3)	**3,119**	2,602	**2,898**	2,406
Land use rights (4)	**9,239**	9,353	**8,471**	8,561
Repossessed assets (5)	**1,124**	1,057	**834**	712
Goodwill (6)	**1,796**	1,727	**–**	–
Other	**7,977**	8,931	**4,951**	4,550
Total	**140,465**	116,732	**93,233**	79,638

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(1) Interest receivable

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Debt securities	**25,705**	22,494	**22,823**	19,957
Loans and advances to customers	**21,850**	22,164	**20,524**	20,982
Due from and placements with and loans to banks, other financial institutions and central banks	**6,633**	10,159	**5,941**	9,235
Total	**54,188**	54,817	**49,288**	50,174

The movements of interest receivable are as follows:

	Year ended 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
As at 1 January	**54,817**	42,025	**50,174**	38,254
Accrued during the year	**505,577**	411,650	**475,030**	384,370
Received during the year	**(506,206)**	(398,858)	**(475,916)**	(372,450)
As at 31 December	**54,188**	54,817	**49,288**	50,174

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(2) Accounts receivable and prepayments

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Accounts receivable and prepayments	**65,098**	40,209	**28,784**	15,122
Impairment allowance	**(2,076)**	(1,964)	**(1,993)**	(1,887)
Net value	**63,022**	38,245	**26,791**	13,235

Accounts receivable and prepayments mainly include items in the process of clearing and settlement. The analysis of the aging of accounts receivable and prepayments is as follows:

Group

	As at 31 December			
	2012		2011	
	Balance	**Impairment allowance**	Balance	Impairment allowance
Within 1 year	**59,231**	**(159)**	35,299	(92)
From 1 year to 3 years	**1,469**	**(546)**	1,705	(270)
Over 3 years	**4,398**	**(1,371)**	3,205	(1,602)
Total	**65,098**	**(2,076)**	40,209	(1,964)

Bank

	As at 31 December			
	2012		2011	
	Balance	**Impairment allowance**	Balance	Impairment allowance
Within 1 year	**25,074**	**(141)**	11,803	(80)
From 1 year to 3 years	**836**	**(540)**	322	(257)
Over 3 years	**2,874**	**(1,312)**	2,997	(1,550)
Total	**28,784**	**(1,993)**	15,122	(1,887)

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(3) Intangible assets

	Year ended 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Cost				
As at 1 January	**4,944**	4,172	**4,457**	3,741
Additions	**1,234**	907	**1,126**	728
Disposals	**(31)**	(95)	**(9)**	(3)
Exchange differences	**1**	(40)	**1**	(9)
As at 31 December	**6,148**	4,944	**5,575**	4,457
Accumulated amortisation				
As at 1 January	**(2,342)**	(1,830)	**(2,051)**	(1,580)
Amortisation charge	**(702)**	(538)	**(634)**	(481)
Disposals	**16**	6	**9**	3
Exchange differences	**(1)**	20	**(1)**	7
As at 31 December	**(3,029)**	(2,342)	**(2,677)**	(2,051)
Allowance for impairment losses				
As at 1 January	**–**	–	**–**	–
Impairment losses	**–**	–	**–**	–
Disposals	**–**	–	**–**	–
Exchange differences	**–**	–	**–**	–
As at 31 December	**–**	–	**–**	–
Net book value				
As at 1 January	**2,602**	2,342	**2,406**	2,161
As at 31 December	**3,119**	2,602	**2,898**	2,406

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(4) Land use rights

The carrying value of land use rights is analysed based on the remaining terms of the leases as follows:

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Held outside Hong Kong				
on long-term lease (over 50 years)	**177**	189	**177**	189
on medium-term lease (10–50 years)	**8,866**	8,969	**8,098**	8,177
on short-term lease (less than 10 years)	**196**	195	**196**	195
	9,239	9,353	**8,471**	8,561

(5) Repossessed assets

The Group and the Bank obtained repossessed assets by taking possession of collateral held as security. Such repossessed assets are as follows:

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Commercial properties	**1,265**	1,246	**843**	821
Residential properties	**136**	136	**80**	80
Other	**788**	730	**611**	559
	2,189	2,112	**1,534**	1,460
Allowance for impairment	**(1,065)**	(1,055)	**(700)**	(748)
Repossessed assets, net	**1,124**	1,057	**834**	712

The total book value of repossessed assets disposed of during the year ended 31 December 2012 amounted to RMB180 million (2011: RMB1,346 million). The Group plans to dispose of the repossessed assets held at 31 December 2012 by auction, bidding or transfer.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(6) Goodwill

Group

	Year ended 31 December	
	2012	2011
As at 1 January	1,727	1,825
Addition through acquisition of subsidiaries	75	–
Decrease resulting from disposal of subsidiaries	–	–
Exchange differences	(6)	(98)
As at 31 December	1,796	1,727

The goodwill mainly arose from the acquisition of BOC Aviation Pte. Ltd. in 2006, amounting to USD241 million (equivalent to RMB1,513 million).

23 Impairment allowance

Group

	As at 1 January 2012	Additions	Decrease: Reversal	Decrease: Write-off and transfer out	Exchange differences	As at 31 December 2012
Impairment allowance						
— Placements with and loans to banks and other financial institutions	238	–	(31)	(4)	–	203
— Loans and advances to customers (1)	139,676	52,490	(33,404)	(3,906)	(200)	154,656
— Investment securities						
— available for sale (Note V.17)	12,923	608	(451)	(5,239)	10	7,851
— held to maturity	354	37	(76)	(11)	2	306
— loans and receivables	75	–	(2)	(9)	1	65
— Property and equipment	1,047	157	–	(18)	–	1,186
— Repossessed assets	1,055	155	(63)	(82)	–	1,065
— Land use rights	22	–	–	–	–	22
— Accounts receivable and prepayments	1,964	453	(494)	151	2	2,076
— Other	367	8	–	(19)	1	357
Total	157,721	53,908	(34,521)	(9,137)	(184)	167,787

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 Impairment allowance (Continued)

Group

	As at 1 January 2011	Additions	Decrease: Reversal	Decrease: Write-off and transfer out	Exchange differences	As at 31 December 2011
Impairment allowance						
— Placements with and loans to banks and other financial institutions	243	–	–	(5)	–	238
— Loans and advances to customers [1]	122,856	53,491	(34,219)	(1,513)	(939)	139,676
— Investment securities						
— available for sale (Note V.17)	19,411	1,027	(1,091)	(5,679)	(745)	12,923
— held to maturity	438	121	(63)	(123)	(19)	354
— loans and receivables	77	10	–	(11)	(1)	75
— Property and equipment	1,064	11	–	(28)	–	1,047
— Repossessed assets	1,720	32	(86)	(598)	(13)	1,055
— Land use rights	23	–	–	(1)	–	22
— Accounts receivable and prepayments	2,119	506	(529)	(90)	(42)	1,964
— Other	267	145	–	(32)	(13)	367
Total	148,218	55,343	(35,988)	(8,080)	(1,772)	157,721

Bank

	As at 1 January 2012	Additions	Decrease: Reversal	Decrease: Write-off and transfer out	Exchange differences	As at 31 December 2012
Impairment allowance						
— Placements with and loans to banks and other financial institutions	238	–	(31)	(4)	–	203
— Loans and advances to customers [1]	136,652	51,309	(32,798)	(3,920)	(205)	151,038
— Investment securities						
— available for sale	9,100	76	(441)	(5,135)	(35)	3,565
— held to maturity	334	12	(49)	–	2	299
— loans and receivables	75	–	(2)	(9)	1	65
— Property and equipment	1,027	7	–	(17)	–	1,017
— Repossessed assets	748	94	(62)	(79)	(1)	700
— Land use rights	22	–	–	–	–	22
— Accounts receivable and prepayments	1,887	433	(492)	161	4	1,993
— Other	–	7	–	–	–	7
Total	150,083	51,938	(33,875)	(9,003)	(234)	158,909

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 Impairment allowance (Continued)

Bank

	As at 1 January 2011	Additions	Decrease: Reversal	Decrease: Write-off and transfer out	Exchange differences	As at 31 December 2011
Impairment allowance						
— Placements with and loans to banks and other financial institutions	243	–	–	(5)	–	238
— Loans and advances to customers (1)	120,392	52,415	(33,770)	(1,616)	(769)	136,652
— Investment securities						
— available for sale	15,794	351	(1,039)	(5,401)	(605)	9,100
— held to maturity	396	9	(53)	–	(18)	334
— loans and receivables	77	10	–	(11)	(1)	75
— Property and equipment	1,055	–	–	(28)	–	1,027
— Repossessed assets	1,227	32	(84)	(414)	(13)	748
— Land use rights	23	–	–	(1)	–	22
— Accounts receivable and prepayments	2,045	490	(526)	(82)	(40)	1,887
— Other	19	3	–	(22)	–	–
Total	141,271	53,310	(35,472)	(7,580)	(1,446)	150,083

(1) Included within "Write-off and transfer out" on loans and advances to customers are amounts relating to loans and advances written-off, transferred out, recovery of loans and advances written-off in previous years and unwind of discount on allowance.

24 Due to banks and other financial institutions

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Due to:				
Banks in Chinese mainland	**828,892**	717,084	**794,338**	666,886
Other financial institutions in Chinese mainland	**626,816**	538,677	**626,620**	539,188
Banks in Hong Kong, Macau, Taiwan and other countries and regions	**96,602**	110,376	**87,626**	54,859
Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions	**882**	4,806	**8,274**	12,628
Total (1)	**1,553,192**	1,370,943	**1,516,858**	1,273,561

(1) Included in the Bank's due to banks and other financial institutions are balances with the Bank's subsidiaries (Note V.42.7).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25 Due to central banks

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Foreign exchange deposits	**117,449**	73,825	**117,449**	73,825
Other	**12,573**	7,631	**813**	22
Total	**130,022**	81,456	**118,262**	73,847

26 Government certificates of indebtedness for bank notes issued and bank notes in circulation

Bank of China (Hong Kong) Limited and Bank of China Macau Branch are note issuing banks for Hong Kong Dollar and Macau Pataca notes in Hong Kong and Macau, respectively. Under local regulations, these two entities are required to place deposits with the Hong Kong and Macau governments, respectively to secure the currency notes in circulation.

Bank notes in circulation represent the liabilities in respect of Hong Kong Dollar notes and Macau Pataca notes in circulation, issued respectively by Bank of China (Hong Kong) Limited and Bank of China Macau Branch.

27 Placements from banks and other financial institutions

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Placements from:				
Banks in Chinese mainland	**152,442**	101,453	**141,721**	95,800
Other financial institutions in Chinese mainland	**72,994**	50,229	**72,994**	49,862
Banks in Hong Kong, Macau, Taiwan and other countries and regions	**81,965**	110,378	**89,677**	150,452
Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions	**5,603**	3,778	**8,724**	8,195
Total (1) (2)	**313,004**	265,838	**313,116**	304,309

(1) Included in the Bank's "Placements from banks and other financial institutions" are balances with the Bank's subsidiaries (Note V.42.7).

(2) Included in "Placements from banks and other financial institutions" are amounts received from counterparties under repurchase agreements and collateral agreements as follows:

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Repurchase debt securities (i)	**69,461**	34,640	**69,389**	33,993

(i) Debt securities used as collateral under repurchase agreements were principally government bonds and were included in the amount disclosed under Note V.40.2.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

28 Due to customers

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
At amortised cost				
Demand deposits				
Corporate deposits	**2,506,854**	2,451,185	**2,270,747**	2,259,344
Personal deposits	**1,634,545**	1,423,524	**1,276,431**	1,118,250
Subtotal	**4,141,399**	3,874,709	**3,547,178**	3,377,594
Time deposits				
Corporate deposits	**2,216,104**	2,021,651	**1,942,254**	1,717,473
Personal deposits	**2,373,145**	2,171,950	**2,165,991**	1,965,971
Subtotal	**4,589,249**	4,193,601	**4,108,245**	3,683,444
Certificates of deposit	**226,867**	138,880	**246,434**	139,986
Other deposits (1)	**52,463**	49,684	**51,284**	48,837
Total due to customers at amortised cost	**9,009,978**	8,256,874	**7,953,141**	7,249,861
At fair value				
Structured deposits				
Corporate deposits	**90,567**	221,479	**86,636**	217,848
Personal deposits	**73,450**	339,608	**71,297**	339,191
Total due to customers at fair value (2)	**164,017**	561,087	**157,933**	557,039
Total due to customers (3)	**9,173,995**	8,817,961	**8,111,074**	7,806,900

(1) Included in other deposits are special purpose fundings, which represent long-term fundings provided in multiple currencies from foreign governments and/or entities in the form of export credit, foreign government and other subsidised credit. These special purpose fundings are normally used to finance projects with a special commercial purpose in the PRC as determined by the foreign governments or entities and the Bank is obliged to repay these fundings when they fall due.

As at 31 December 2012, the remaining maturity of special purpose fundings ranges from 41 days to 35 years. The interest bearing special purpose fundings bear floating and fixed interest rates ranging from 0.15% to 7.59% (31 December 2011: 0.15% to 7.59%). These terms are consistent with those related development loans granted to customers.

(2) "Due to customers" measured at fair value are structured deposits designated at fair value through profit or loss at inception.

There were no significant changes in the Group's or the Bank's credit risk and therefore there were no significant gains or losses attributable to changes in the Group's or the Bank's credit risk for these financial liabilities designated at fair value through profit or loss during the years ended 31 December 2012 and 2011.

(3) "Due to customers" include margin deposits for security received by the Group and the Bank as at 31 December 2012 of RMB373,305 million and RMB355,224 million, respectively (31 December 2011: RMB445,289 million and RMB428,650 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29 Bonds issued

				As at 31 December			
		Maturity	Annual	Group		Bank	
	Issue date	date	interest rate	2012	2011	2012	2011
Subordinated bonds issued							
2005 RMB Debt Securities (1)							
Second Tranche (fixed rate)	18 February 2005	4 March 2020	5.18%	**9,000**	9,000	**9,000**	9,000
2009 RMB Debt Securities (2)							
First Tranche (fixed rate)	6 July 2009	8 July 2019	3.28%	**14,000**	14,000	**14,000**	14,000
	6 July 2009	8 July 2024	4.00%	**24,000**	24,000	**24,000**	24,000
First Tranche (floating rate)	6 July 2009	8 July 2019	Floating interest rate	**2,000**	2,000	**2,000**	2,000
2010 RMB Debt Securities (3)	9 March 2010	11 March 2025	4.68%	**24,930**	24,930	**24,930**	24,930
2010 US Dollar Subordinated notes issued by BOCHK	11 February 2010	11 February 2020	5.55%	**17,503**	17,521	**–**	–
2011 RMB Debt Securities (4)	17 May 2011	19 May 2026	5.30%	**32,000**	32,000	**32,000**	32,000
2012 RMB Debt Securities (5)	27 November 2012	29 November 2022	4.70%	**5,000**	–	**5,000**	–
	27 November 2012	29 November 2027	4.99%	**18,000**	–	**18,000**	–
Subtotal (6)				**146,433**	123,451	**128,930**	105,930
Convertible bonds issued							
2010 RMB Convertible Bond (7)	2 June 2010	2 June 2016	Step-up interest rate	**38,199**	37,201	**38,199**	37,201

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29 Bonds issued (Continued)

				As at 31 December			
				Group		Bank	
	Issue date	Maturity date	Annual interest rate	2012	2011	2012	2011
Other bonds issued							
1994 US Dollar Debt Securities	10 March 1994	15 March 2014	8.25%	**139**	140	**139**	140
2010 RMB Debt Securities issued in Hong Kong							
Tranche A	30 September 2010	30 September 2012	2.65%	**–**	1,806	**–**	2,200
Tranche B	30 September 2010	30 September 2013	2.90%	**2,521**	2,479	**2,800**	2,800
2011 US Dollar Debt Securities issued by BOCHK	8 November 2011	8 November 2016	3.75%	**4,773**	4,721	**–**	–
2012 RMB Debt Securities issued in Hong Kong (8)	23 July 2012	23 July 2015	3.10%	**742**	–	**1,000**	–
Other (9)				**6,326**	104	**7,370**	–
Subtotal				**14,501**	9,250	**11,309**	5,140
Total bonds issued (10)				**199,133**	169,902	**178,438**	148,271

(1) The fixed rate portion of the second tranche of the subordinated bonds issued on 18 February 2005 has a maturity of 15 years, with a fixed coupon rate of 5.18%, paid annually. The Bank has the option to redeem all or part of the bonds at face value on 4 March 2015. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall be the original coupon rate plus 3.00%, and shall remain fixed until the maturity date.

(2) The subordinated bonds issued on 6 July 2009 comprise two fixed rate portions and one floating rate portion.

The first portion of fixed rate bonds has a maturity of 10 years, with a fixed coupon rate of 3.28%, paid annually. The Bank has the option to early redeem all of the bonds at face value on 8 July 2014. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall be the original coupon rate plus 3.00%, and shall remain fixed until the maturity date.

The second portion of fixed rate bonds has a maturity of 15 years, with a fixed coupon rate of 4.00%, paid annually. The Bank has the option to early redeem all of the bonds at face value on 8 July 2019. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall be the original coupon rate plus 3.00%, and shall remain fixed until the maturity date.

The floating rate bonds has a maturity of 10 years, with a floating rate based on the specified 1-year deposit interest rate published by the PBOC, paid annually. The Bank has the option to redeem all of the bonds at face value on 8 July 2014. If the Bank does not exercise this option, the floating rate for the remaining 5-year period shall be the original floating rate plus 3.00%.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29 Bonds issued (Continued)

(3) The subordinated bonds issued on 9 March 2010 have a maturity of 15 years, with a fixed coupon rate of 4.68%, paid annually. The Bank has the option to redeem all of the bonds at face value on 11 March 2020. If the Bank does not exercise this option, the coupon rate of the bonds for the third 5-year period shall be the original coupon rate plus 3.00%, and shall remain fixed until the maturity date.

(4) The subordinated bonds issued on 17 May 2011, have a maturity of 15 years, with a fixed coupon rate of 5.30%, paid annually. The Bank is entitled to redeem all the subordinated bonds on the tenth anniversary. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall remain fixed at 5.30%.

(5) Two subordinated bonds issued on 27 November 2012 in the domestic interbank bond markets. The first subordinated bond has a maturity of 10 years, with a fixed coupon rate of 4.70%, payable annually. The Bank is entitled to redeem these bonds on the fifth anniversary. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall remain fixed at 4.70%. The second subordinated bond has a maturity of 15 years, with a fixed coupon rate of 4.99%, payable annually. The Bank is entitled to redeem all these bonds on the tenth anniversary. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall remain fixed at 4.99%.

(6) Subordinated bonds are subordinated to all other claims on the assets of the Group, except those of the equity holders. In the calculation of the Group's capital adequacy ratio, these bonds are qualified for inclusion as supplementary capital in accordance with the relevant guidelines issued by the CBRC.

(7) Pursuant to the approval by relevant PRC authorities, on 2 June 2010, the Bank issued A-share convertible bonds with a total principal amount of RMB40 billion. The convertible bonds have a maturity term of six years from 2 June 2010 and bear a fixed interest rate of 0.50% for the first year, with an annual increase of 0.30% through the remaining term. The convertible bond holders may exercise their rights to convert the convertible bonds into the Bank's A shares at the stipulated conversion price during the period ("Conversion Period") beginning six months after the date of issuance until the maturity date. Within 5 trading days after maturity, the Bank shall redeem the outstanding convertible bonds at 106% of par value, including interest for the sixth year.

During the Conversion Period, if the closing price of the Bank's A Shares is not lower than or equal to 130% of the prevailing conversion price in at least 15 trading days out of any 30 consecutive trading days, the Bank has the right to redeem all or part of the outstanding convertible bonds at par value plus accrued interest on the first day on which the redemption criteria is met. This right may be exercised only once in any year. Subject to the Board approval, the Bank also has the right to redeem all the convertible bonds at par value plus accrued interest should the total outstanding amount be less than RMB30 million.

The conversion price of the convertible bonds will be adjusted, subject to terms and formulae provided for in the bond contracts, to adjust for the dilutive effects of distributions of cash dividends and specified increases in share capital. During the term of the convertible bonds, if the closing price of the A Shares in 15 trading days out of any 30 consecutive trading days is lower than 80% of the prevailing conversion price of the convertible bonds, the Board may also propose downward adjustments to the conversion price for the Shareholders' approval. During the period from the date of issuance to 31 December 2012, the conversion price was adjusted from RMB4.02 per share to RMB3.44 per share, as a result of paid cash dividends distribution and rights issue of A Share and H Share.

Interest paid by the Bank related to the convertible bonds was RMB320 million for the year ended 31 December 2012 (2011: RMB200 million).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29 Bonds issued (Continued)

The details of convertible bonds are as follows:

Group and Bank

	Year ended 31 December	
	2012	2011
Liability component as at 1 January	**37,201**	36,206
Accretion	**998**	995
Amounts converted to shares [(i)]	**–**	–
Liability component as at 31 December	**38,199**	37,201

(i) Convertible bonds in the principal amount of RMB34,000 (2011: RMB411,000) were converted into 9,686 ordinary A shares (2011: 110,384 shares) during the year ended 31 December 2012 as verified by PricewaterhouseCoopers Zhong Tian CPAs Limited Company (Verification Report PwC ZT YZ [2013] No.080, see Notes V.36.1).

(8) With the approval of the National Development and Reform Commission and the PBOC, the Bank issued RMB Bonds listed on the Hong Kong Stock Exchange on 23 July 2012, with an aggregate principal amount of RMB1 billion and an original maturity of 3 years at a rate of 3.10% per annum.

(9) Others mainly comprised of short-term commercial papers issued by the Branch in Hong Kong, which due dates ranging from 2013 to 2016.

(10) During the years ended 31 December 2012 and 2011, the Group did not default on any principal, interest or redemption amounts with respect to its bonds issued.

30 Other borrowings

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Term loans and other borrowings [(1)]	**34,045**	26,724	**–**	–

(1) These term loans and other borrowings relate to the financing of the aircraft leasing business of BOC Aviation Pte. Ltd., a wholly owned subsidiary of the Bank.

As at 31 December 2012, these term loans and other borrowings have a maturity ranging from 39 days to 12 years and bear floating and fixed interest rates ranging from 0.55% to 3.25% (31 December 2011: 0.60% to 2.70%). The term loans and other borrowings of RMB29,222 million (31 December 2011: RMB24,940 million) are secured by aircraft of the Group (Note V.20).

During the years ended 31 December 2012 and 2011, the Group did not default on any principal, interest or redemption amounts with respect to its other borrowings.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 Current tax liabilities

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Corporate Income Tax	**28,435**	23,405	**26,531**	20,757
Business Tax	**5,913**	5,041	**5,788**	4,925
City Construction and Maintenance Tax	**395**	336	**392**	334
Education Surcharges	**282**	235	**280**	234
Value-added Tax and other	**(31)**	336	**(91)**	277
Total	**34,994**	29,353	**32,900**	26,527

32 Retirement benefit obligations

As at 31 December 2012, the actuarial liabilities existing in relation to the retirement benefit obligations for employees who retired prior to 31 December 2003 and the early retirement obligations for employees who early retired were RMB2,530 million (31 December 2011: RMB2,597 million) and RMB3,112 million (31 December 2011: RMB3,489 million) respectively, which were assessed by Hewitt Associates LLC, using the projected unit credit method.

The movements of the net liabilities recognised in the statements of financial position are as follows:

Group and Bank

	Year ended 31 December	
	2012	2011
As at 1 January	**6,086**	6,440
Amounts recognised in the income statement:		
Interest cost	**185**	223
Net actuarial loss recognised in the year	**294**	403
Benefits paid	**(923)**	(980)
As at 31 December	**5,642**	6,086

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32 Retirement benefit obligations (Continued)

Primary assumptions used:

Group and Bank

	As at 31 December	
	2012	2011
Discount rate		
— Normal retiree	**3.79%**	3.64%
— Early retiree	**3.18%**	3.01%
Pension benefit inflation rate		
— Normal retiree	**6.0%~4.0%**	6.0%~4.0%
— Early retiree	**10.0%~4.0%**	8.0%~4.0%
Medical benefit inflation rate	**8.0%**	8.0%
Retiring age		
— Male	**60**	60
— Female	**50/55**	50/55

Assumptions regarding future mortality experience are based on the China Life Insurance Mortality Table (published historical statistics in China).

33 Share option schemes

33.1 Share Appreciation Rights Plan

In November 2005, the Bank's Board of Directors and equity holders approved and adopted a Share Appreciation Rights Plan under which eligible participants including directors, supervisors, management and other personnel designated by the Board, will be granted share appreciation rights, up to 25% of which will be exercisable each year beginning on the third anniversary date from the date of grant. The share appreciation rights will be valid for seven years from the date of grant. Eligible participants will be entitled to receive an amount equal to the difference, if any, between the average closing market price of the Bank's H shares in the ten days prior to the date of grant and the average closing market price of the Bank's H shares in the 12 months prior to the date of exercise as adjusted for any change in the Bank's equity. The plan provides cash-settled share-based payment only and accordingly, no shares will be issued under the share appreciation rights plan.

No share appreciation rights were granted since the inception of the plan.

33.2 Share Option Scheme and Sharesave Plan

On 10 July 2002, the equity holders of BOCHK Holdings approved adoption of two share option schemes, namely, the Share Option Scheme and the Sharesave Plan.

Since the establishment of the Share Option Scheme and the Sharesave Plan, no options were granted.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 Share option schemes (Continued)

33.2 Share Option Scheme and Sharesave Plan (Continued)

The expiry of the Share Option Scheme and Sharesave Plan took effect from 25 July 2012 and 10 July 2012 respectively.

33.3 BOCHK Holdings Pre-listing Share Option Scheme

On 5 July 2002, certain of the Bank's directors, senior management personnel and employees of the Group were granted options by BOC Hong Kong (BVI) Limited ("BOCHK (BVI)"), the immediate holding company of BOCHK Holdings, pursuant to a Pre-listing Share Option Scheme to purchase from BOCHK (BVI) an aggregate of 31,132,600 previously issued and outstanding shares of BOCHK Holdings for HKD8.50 per share. These options, with a ten-year term, vest ratably over four years from 25 July 2002. No further offers to grant any options under the Pre-listing Share Option Scheme will be made. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The Group has taken advantage of the transitional provision of IFRS 2 under which the required recognition and measurements have not been applied to the options granted to employees of the Group on or before 7 November 2002.

Details of the movement of share options outstanding are as follows:

Unit: Share

	Key management personnel	Other employees	Other (1)	Total number of share options
As at 1 January 2012	**1,446,000**	**1,331,800**	**1,446,000**	**4,223,800**
Less: share options exercised during the period (2)	**–**	**(247,300)**	**–**	**(247,300)**
Less: share options lapsed during the period (3)	**(1,446,000)**	**(1,084,500)**	**(1,446,000)**	**(3,976,500)**
As at 31 December 2012	**–**	**–**	**–**	**–**
As at 1 January 2011	3,976,500	247,300	–	4,223,800
Transferred	(2,530,500)	1,084,500	1,446,000	–
As at 31 December 2011	1,446,000	1,331,800	1,446,000	4,223,800

(1) These represent share options held by former directors or former employees of BOCHK Holdings.

(2) The weighted average share price of BOCHK Holdings' shares at the time of exercise was HKD23.70 (equivalent to RMB19.28).

(3) According to the rules of the Pre-Listing Share Option Scheme, all outstanding options granted pursuant to the said Scheme lapsed on 5 July 2012. Prior to that, pursuant to the relevant government regulations, the aforesaid outstanding options granted under the said Scheme had been suspended.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34 Deferred income taxes

34.1 Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes are related to the same fiscal authority. The table below includes the deferred income tax assets and liabilities of the Group and the Bank after offsetting qualifying amounts and related temporary differences.

Group

	As at 31 December			
	2012		2011	
	Temporary differences	Deferred tax assets/ (liabilities)	Temporary differences	Deferred tax assets/ (liabilities)
Deferred income tax assets	**80,481**	**21,292**	73,583	19,264
Deferred income tax liabilities	**(21,075)**	**(3,838)**	(16,079)	(2,966)
	59,406	**17,454**	57,504	16,298

Bank

	As at 31 December			
	2012		2011	
	Temporary differences	Deferred tax assets/ (liabilities)	Temporary differences	Deferred tax assets/ (liabilities)
Deferred income tax assets	**87,084**	**22,084**	77,625	19,648
Deferred income tax liabilities	**(916)**	**(186)**	(640)	(124)
	86,168	**21,898**	76,985	19,524

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34 Deferred income taxes (Continued)

34.2 Deferred income tax assets/(liabilities) and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

Group

	As at 31 December			
	2012		2011	
	Temporary differences	Deferred tax assets/ (liabilities)	Temporary differences	Deferred tax assets/ (liabilities)
Deferred income tax assets				
Asset impairment allowances	**89,120**	**22,339**	84,060	21,018
Pension, retirement benefits and salary payable	**20,670**	**5,167**	19,363	4,841
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	**12,756**	**3,185**	15,181	3,796
Fair value changes of available for sale investment securities credited to equity	**301**	**72**	379	92
Other temporary differences	**3,521**	**864**	3,797	961
Subtotal	**126,368**	**31,627**	122,780	30,708
Deferred income tax liabilities				
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	**(14,431)**	**(3,614)**	(20,132)	(5,035)
Fair value changes of available for sale investment securities charged to equity	**(7,140)**	**(1,491)**	(2,407)	(587)
Depreciation of property and equipment	**(8,975)**	**(1,690)**	(7,977)	(1,370)
Revaluation of property and investment properties	**(9,010)**	**(1,742)**	(7,876)	(1,620)
Other temporary differences	**(27,406)**	**(5,636)**	(26,884)	(5,798)
Subtotal	**(66,962)**	**(14,173)**	(65,276)	(14,410)
Net	**59,406**	**17,454**	57,504	16,298

As at 31 December 2012, deferred tax liabilities relating to temporary differences of RMB38,902 million associated with the Group's investments in subsidiaries have not been recognised (31 December 2011: RMB30,895 million). See Note II.21.2.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34 Deferred income taxes (Continued)

34.2 Deferred income tax assets/(liabilities) and related temporary differences, before offsetting qualifying amounts, are attributable to the following items (Continued):

Bank

	As at 31 December			
	2012		2011	
	Temporary differences	Deferred tax assets/ (liabilities)	Temporary differences	Deferred tax assets/ (liabilities)
Deferred income tax assets				
Asset impairment allowances	**86,342**	**21,820**	81,467	20,525
Pension, retirement benefits and salary payable	**20,670**	**5,167**	19,363	4,841
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	**12,696**	**3,174**	15,181	3,796
Fair value changes of available for sale investment securities credited to equity	**104**	**21**	246	64
Other temporary differences	**1,146**	**288**	1,552	389
Subtotal	**120,958**	**30,470**	117,809	29,615
Deferred income tax liabilities				
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	**(14,421)**	**(3,611)**	(20,132)	(5,035)
Fair value changes of available for sale investment securities charged to equity	**(1,517)**	**(391)**	(1,065)	(257)
Other temporary differences	**(18,852)**	**(4,570)**	(19,627)	(4,799)
Subtotal	**(34,790)**	**(8,572)**	(40,824)	(10,091)
Net	**86,168**	**21,898**	76,985	19,524

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34 Deferred income taxes (Continued)

34.3 The movements of the deferred income tax account are as follows:

	Year ended 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
As at 1 January	**16,298**	21,260	**19,524**	24,182
Credited/(charged) to income statement (Note V.9)	**2,094**	(4,600)	**2,545**	(4,452)
(Charged)/credited to equity	**(924)**	9	**(177)**	(193)
Other	**(14)**	(371)	**6**	(13)
As at 31 December	**17,454**	16,298	**21,898**	19,524

34.4 The deferred income tax charge in the income statement comprises the following temporary differences:

	Year ended 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Asset impairment allowances	**1,321**	133	**1,295**	31
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	**810**	(661)	**802**	(662)
Pension, retirement benefits and salary payable	**326**	509	**326**	509
Other temporary differences	**(363)**	(4,581)	**122**	(4,330)
Total	**2,094**	(4,600)	**2,545**	(4,452)

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Other liabilities

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Items in the process of clearance and settlement	**29,918**	27,848	**22,464**	22,030
Interest payable [(1)]	**107,486**	75,352	**105,450**	73,809
Insurance liabilities				
— Life insurance contracts	**43,732**	38,281	**–**	–
— Non-life insurance contracts	**5,877**	5,054	**–**	–
Salary and welfare payable [(2)]	**23,191**	19,938	**21,212**	18,481
Provision [(3)]	**2,091**	2,396	**1,777**	2,087
Short position in debt securities	**14,061**	2,106	**–**	–
Deferred Income	**4,398**	2,772	**4,307**	2,720
Other [(4)]	**37,264**	35,944	**17,154**	14,642
Total	**268,018**	209,691	**172,364**	133,769

(1) Interest payable

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Due to customers	**94,379**	64,531	**92,173**	63,045
Due to and placements from banks and other financial institutions	**9,217**	7,110	**9,754**	7,419
Bonds issued and other	**3,890**	3,711	**3,523**	3,345
Total	**107,486**	75,352	**105,450**	73,809

The movements of interest payable are as follows:

	Year ended 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
As at 1 January	**75,352**	58,665	**73,809**	57,758
Accrued during the year	**249,564**	185,038	**241,156**	177,384
Paid during the year	**(217,430)**	(168,351)	**(209,515)**	(161,333)
As at 31 December	**107,486**	75,352	**105,450**	73,809

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Other liabilities (Continued)

(2) Salary and welfare payable

Group

	As at 1 January 2012	Accrual	Payment	As at 31 December 2012
Salary, bonus and subsidy	**17,822**	**47,629**	**(45,248)**	**20,203**
Staff welfare	**–**	**2,009**	**(2,009)**	**–**
Social insurance, including:				
Medical	**463**	**2,311**	**(2,217)**	**557**
Pension	**59**	**4,876**	**(4,852)**	**83**
Annuity	**–**	**1,380**	**(1,098)**	**282**
Unemployment	**7**	**390**	**(393)**	**4**
Injury at work	**1**	**125**	**(125)**	**1**
Maternity insurance	**1**	**154**	**(153)**	**2**
Housing funds	**20**	**3,891**	**(3,886)**	**25**
Labour union fee and staff education fee	**1,447**	**1,838**	**(1,396)**	**1,889**
Reimbursement for cancellation of labour contract	**19**	**25**	**(20)**	**24**
Other	**99**	**1,887**	**(1,865)**	**121**
Total (i)	**19,938**	**66,515**	**(63,262)**	**23,191**

	As at 1 January 2011	Accrual	Payment	As at 31 December 2011
Salary, bonus and subsidy	15,771	44,429	(42,378)	17,822
Staff welfare	–	1,591	(1,591)	–
Social insurance, including:				
Medical	370	1,984	(1,891)	463
Pension	84	4,130	(4,155)	59
Annuity	3	920	(923)	–
Unemployment	8	325	(326)	7
Injury at work	1	102	(102)	1
Maternity insurance	1	120	(120)	1
Housing funds	26	3,331	(3,337)	20
Labour union fee and staff education fee	1,389	1,558	(1,500)	1,447
Reimbursement for cancellation of labour contract	15	23	(19)	19
Other	93	1,654	(1,648)	99
Total (i)	17,761	60,167	(57,990)	19,938

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Other liabilities (Continued)

(2) Salary and welfare payable (Continued)

Bank

	As at 1 January 2012	Accrual	Payment	As at 31 December 2012
Salary, bonus and subsidy	**16,385**	**40,016**	**(38,147)**	**18,254**
Staff welfare	**–**	**1,829**	**(1,829)**	**–**
Social insurance, including:				
Medical	**461**	**2,306**	**(2,211)**	**556**
Pension	**56**	**4,864**	**(4,840)**	**80**
Annuity	**–**	**1,380**	**(1,098)**	**282**
Unemployment	**7**	**389**	**(392)**	**4**
Injury at work	**1**	**125**	**(125)**	**1**
Maternity insurance	**1**	**153**	**(152)**	**2**
Housing funds	**18**	**3,884**	**(3,879)**	**23**
Labour union fee and staff education fee	**1,444**	**1,823**	**(1,384)**	**1,883**
Reimbursement for cancellation of labour contract	**19**	**16**	**(11)**	**24**
Other	**89**	**808**	**(794)**	**103**
Total (i)	**18,481**	**57,593**	**(54,862)**	**21,212**

	As at 1 January 2011	Accrual	Payment	As at 31 December 2011
Salary, bonus and subsidy	13,790	37,845	(35,250)	16,385
Staff welfare	–	1,399	(1,399)	–
Social insurance, including:				
Medical	370	1,981	(1,890)	461
Pension	83	4,122	(4,149)	56
Annuity	3	920	(923)	–
Unemployment	8	325	(326)	7
Injury at work	1	102	(102)	1
Maternity insurance	1	120	(120)	1
Housing funds	26	3,328	(3,336)	18
Labour union fee and staff education fee	1,389	1,549	(1,494)	1,444
Reimbursement for cancellation of labour contract	15	13	(9)	19
Other	82	670	(663)	89
Total (i)	15,768	52,374	(49,661)	18,481

(i) There was no overdue payment for staff salary and welfare payables as at 31 December 2012 and 2011.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Other liabilities (Continued)

(3) Provision

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Allowance for litigation losses (Note V.40.1)	**746**	700	**709**	689
Other	**1,345**	1,696	**1,068**	1,398
Total	**2,091**	2,396	**1,777**	2,087

Provision movements:

	Year ended 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
As at 1 January	**2,396**	1,372	**2,087**	1,109
(Reversal)/provision for the year, net	**(284)**	1,094	**(245)**	985
Utilised during the year	**(21)**	(70)	**(65)**	(7)
As at 31 December	**2,091**	2,396	**1,777**	2,087

(4) Other

Other includes finance lease payments which are principally related to aircraft held by BOC Aviation Pte. Ltd. under finance lease.

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Within 1 year (inclusive)	**49**	50	**–**	1
1 year to 2 years (inclusive)	**49**	50	**–**	–
2 years to 3 years (inclusive)	**50**	51	**–**	–
Over 3 years	**301**	355	**–**	–
Total minimum rental payments	**449**	506	**–**	1
Unrecognised finance charge	**(34)**	(50)	**–**	–
Finance lease payments, net	**415**	456	**–**	1

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Share capital, capital reserve and treasury shares

36.1 Share capital and capital reserve

For the year ended 31 December 2012, the movement of the Bank's share capital was as follows:

Unit: Share

	Domestic listed A shares, par value RMB1.00 per share	Overseas listed H shares, par value RMB1.00 per share	Total
As at 1 January 2012	**195,525,057,184**	**83,622,276,395**	**279,147,333,579**
Increase as a result of conversion of convertible bonds (Note V.29)	**9,686**	**–**	**9,686**
As at 31 December 2012	**195,525,066,870**	**83,622,276,395**	**279,147,343,265**

All A shares and H shares rank pari passu with the same rights and benefits.

As at 31 December 2012, capital reserve included capital surplus on issuance of ordinary shares of RMB110,525 million (31 December 2011: RMB110,525 million).

36.2 Treasury shares

A wholly owned subsidiary of the Group holds certain listed shares of the Bank in relation to its derivative and arbitrage business. These shares are treated as treasury shares, a deduction from equity holders' equity. Gains and losses on sale or redemption of the treasury shares are credited or charged to equity. The total number of treasury shares as at 31 December 2012 was approximately 5.17 million (31 December 2011: approximately 10.98 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37 Statutory reserves, general and regulatory reserves and undistributed profits

37.1 Statutory reserves

Under relevant PRC laws, the Bank is required to transfer 10% of its net profit to a non-distributable statutory surplus reserves. Appropriation to the statutory surplus reserves may cease when the balance of such reserves has reached 50% of the share capital. Subject to the approval of the equity holders, the statutory surplus reserves can be used for replenishing the accumulated losses or increasing the Bank's share capital. The statutory surplus reserves amount used to increase the share capital is limited to a level where the balance of the statutory surplus reserves after such capitalisation is not less than 25% of the share capital.

In accordance with a resolution of the Board of Directors dated 26 March 2013, the Bank appropriated 10% of the net profit for the year ended 31 December 2012 to the statutory surplus reserves, amounting to RMB13,062 million (2011: RMB11,695 million).

In addition, some operations in Hong Kong, Macau, Taiwan and other countries and regions are required to transfer certain percentages of their net profits to the statutory surplus reserves as stipulated by local banking authorities.

37.2 General and regulatory reserves

Pursuant to Caijin [2012] No. 20 "Requirements on Impairment Allowance for Financial Institutions" ("Requirement"), issued by the MOF, in addition to the impairment allowance, the Bank establishes a general reserve within the equity holders' equity through the appropriation of profit to address unidentified potential impairment losses. The general reserve should not be less than 1.5% of the aggregate amount of risk assets as defined by the Requirement, and the minimum threshold can be accumulated over a period of no more than five years.

In accordance with a resolution dated 26 March 2013 and on the basis of the Bank's profit for the year ended 31 December 2012, the Board of Directors of the Bank approved the appropriation of RMB50,148 million (2011: RMB8,912 million) to the general reserve for the year ended 31 December 2012.

The regulatory reserve mainly refers to the reserve amount set aside by BOC Hong Kong (Group) Limited, a subsidiary of the Group, for general banking risks, including future losses or other unforeseeable risks. As at 31 December 2012 and 2011, the reserve amount set aside by BOC Hong Kong (Group) Limited was RMB4,985 million and RMB4,554 million, respectively.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37 Statutory reserves, general and regulatory reserves and undistributed profits (Continued)

37.3 Dividends

A dividend of RMB43,268 million in respect of profit for the year ended 31 December 2011 was approved by the equity holders of the Bank at the Annual General Meeting held on 30 May 2012 and was distributed during the year.

A dividend of RMB0.175 per share in respect of profit for the year ended 31 December 2012 (2011: RMB0.155 per share), amounting to a total dividend of RMB48,851 million based on the number of shares issued as at 31 December 2012, will be proposed for approval at the Annual General Meeting to be held on 29 May 2013. The actual amount of dividend payable will factor in ordinary shares issued in respect of conversion of convertible bonds after 31 December 2012 to the ex-dividend date. These financial statements do not reflect this dividend payable in liabilities.

37.4 Profit attributable to the equity holders of the Bank

The profit attributable to equity holders of the Bank for the year ended 31 December 2012 was recognised in the financial statements of the Bank to the extent of RMB130,617 million (2011: RMB116,946 million).

38 Reserve for fair value changes of available for sale securities

	Year ended 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
As at 1 January	**3,642**	4,015	**604**	(2)
Net changes in fair value	**5,833**	2,778	**1,868**	2,039
Share of associates' reserve for fair value changes of available for sale securities	**(33)**	(35)	**–**	–
Net impairment charge/(reversal) transferred to income statement	**158**	(70)	**(365)**	(688)
Net fair value changes transferred to income statement on de-recognition	**(2,182)**	(3,507)	**(1,478)**	(1,038)
Deferred income taxes	**(739)**	(25)	**(177)**	(193)
Other	**597**	486	**647**	486
As at 31 December	**7,276**	3,642	**1,099**	604

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 Non-controlling interests

Non-controlling interests of the subsidiaries of the Group are as follows:

	As at 31 December	
	2012	2011
BOC Hong Kong (Group) Limited	**34,273**	30,870
Tai Fung Bank Limited	**1,795**	1,661
Other	**797**	692
Total	**36,865**	33,223

40 Contingent liabilities and commitments

40.1 Legal proceedings and arbitrations

As at 31 December 2012, the Group was involved in certain legal proceedings and arbitrations arising from its normal business operations. In addition, in terms of the range and scale of its international operations, the Group may face a wide variety of legal proceedings within different jurisdictions, including sensitive issues related to anti-money laundering. As at 31 December 2012, provisions of RMB746 million (31 December 2011: RMB700 million) were made based on court judgements or the advice of counsel (Note V.35). After consulting legal professionals, senior management of the Group believes that at the current stage these legal proceedings and arbitrations will not have a material impact on the financial position or operations of the Group.

40.2 Assets pledged

Assets pledged by the Group as collateral for placement, repurchase, short positions, derivatives transactions with other banks and financial institutions and for local statutory requirements are set forth in the table below. These transactions are conducted under standard and normal business terms.

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Debt securities	**156,784**	55,269	**141,508**	49,909
Bills	**885**	22	**813**	22
Total	**157,669**	55,291	**142,321**	49,931

40.3 Collateral accepted

The Group and the Bank accept securities collateral and precious metals collateral that are permitted to sell or re-pledge in connection with their placements and reverse repurchase agreements with banks and other financial institutions. As at 31 December 2012, the fair value of collateral received from banks and other financial institutions accepted by the Group and the Bank amounted to RMB9,831 million and RMB9,821 million respectively (31 December 2011: RMB11,297 million received by the Group and the Bank both). As at 31 December 2012, the Group had sold or re-pledged such collateral accepted amounted to RMB10 million, none for the Bank (31 December 2011: none for both the Group and the Bank). These transactions are conducted under standard terms in the normal course of business.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 Contingent liabilities and commitments (Continued)

40.4 Capital commitments

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Property and equipment				
Contracted but not provided for	**70,044**	55,437	**5,061**	5,426
Authorised but not contracted for	**8,124**	6,997	**7,973**	6,956
Intangible assets				
Contracted but not provided for	**650**	351	**595**	258
Authorised but not contracted for	**1**	52	**–**	46
Total	**78,819**	62,837	**13,629**	12,686

40.5 Operating leases

(1) *Operating lease commitments — As lessee*

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

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Within 1 year	**8,003**	4,420	**7,214**	3,725
Between 1 to 2 years	**4,115**	3,615	**3,577**	3,112
Between 2 to 3 years	**3,363**	2,887	**3,001**	2,611
Over 3 years	**8,698**	6,985	**7,860**	6,441
Total	**24,179**	17,907	**21,652**	15,889

(2) *Operating lease commitments — As lessor*

The Group acts as lessor in operating leases principally through aircraft leasing undertaken by its subsidiary BOC Aviation Pte. Ltd. Under irrevocable operating lease contracts, as at 31 December 2012, the minimum lease payments which will be received by the Group under the operating leases for existing aircraft and aircraft yet to be delivered amounted to RMB5,228 million not later than one year (31 December 2011: RMB4,174 million), RMB23,390 million later than one year and not later than five years (31 December 2011: RMB18,859 million) and RMB24,886 million later than five years (31 December 2011: RMB20,530 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 Contingent liabilities and commitments (Continued)

40.6 Treasury bonds 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 MOF will not provide funding for the early redemption of these Treasury bonds on a back-to-back basis but will pay interest and repay the principal at maturity. The redemption price is the principal value of the bonds plus unpaid interest in accordance with the early redemption arrangement.

As at 31 December 2012, the outstanding principal value of the Treasury bonds sold by the Bank amounted to RMB35,050 million (31 December 2011: RMB45,113 million). The original maturities of these Treasury bonds vary from 3 to 5 years and management expects the amount of redemption before the maturity dates of these bonds through the Bank will not be material.

40.7 Credit commitments

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Loan commitments (1)				
— with an original maturity of under 1 year	**79,689**	63,670	**60,325**	51,595
— with an original maturity of 1 year or over	**645,725**	686,745	**588,111**	639,632
Letters of guarantee issued (2)	**791,156**	727,891	**802,214**	742,462
Bank bill acceptance	**396,460**	402,524	**391,008**	398,668
Accepted bills of exchange under letters of credit	**203,106**	172,229	**195,465**	162,248
Letters of credit issued	**176,337**	191,250	**148,573**	161,100
Other	**25,032**	67,563	**27,629**	68,825
Total (3)	**2,317,505**	2,311,872	**2,213,325**	2,224,530

(1) Loan commitments mainly represent undrawn loan facilities agreed and granted to customers.

(2) Letters of guarantee issued include financial guarantees and performance guarantees. These obligations on the Group to make payment are dependent on the outcome of a future event.

(3) Credit risk weighted amounts of credit commitments

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Credit commitments	**754,824**	734,041	**735,117**	720,430

The credit risk weighted amounts are the amounts calculated in accordance with the guidelines issued by the CBRC and are dependent on, among other factors, the creditworthiness of the counterparties and the maturity characteristics. The risk weights used range from 0% to 100% for commitments.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 Contingent liabilities and commitments (Continued)

40.8 Underwriting obligations

As at 31 December 2012, the underwriting obligations of securities of the Group and the Bank amounted to RMB157,921 million (31 December 2011: RMB85,149 million).

41 Note to the consolidated statement of cash flows

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with an original maturity of less than three months:

Group

	As at 31 December	
	2012	2011
Cash and due from banks and other financial institutions	**353,687**	234,385
Balances with central banks	**446,763**	439,962
Placements with and loans to banks and other financial institutions	**216,383**	276,384
Short term bills and notes	**55,450**	66,637
Total	**1,072,283**	1,017,368

42 Related party transactions

42.1 CIC was established on 29 September 2007 with a registered capital of RMB1,550 billion. CIC is a wholly State-owned company engaging in foreign currency investment management. The Group is subject to the control of the State Council of the PRC Government through CIC and its wholly owned subsidiary Huijin.

The Group enters into banking transactions with CIC in the normal course of its business at commercial terms.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Related party transactions (Continued)

42.2 Transactions with the Huijin and companies under Huijin

(1) General information of Huijin

Central Huijin Investment Ltd.

Legal representative	LOU Jiwei
Registered Capital	RMB828,209 million
Location of registration	Beijing
Capital shares in the Bank	67.72%
Voting rights in the Bank	67.72%
Nature	Wholly State-owned company
Principal activities	Investment in major State-owned financial institutions on behalf of the State
National organisation code	71093296-1

(2) Transactions with Huijin

The Group enters into banking transactions with Huijin in the normal course of its business at commercial terms.

Due to Huijin

	Year ended 31 December	
	2012	2011
As at 1 January	**15,933**	21,026
Received during the year	**55,023**	57,859
Repaid during the year	**(42,920)**	(62,952)
As at 31 December	**28,036**	15,933

Bonds issued by Huijin

As at 31 December 2012, the Bank held "government backed bonds held to maturity" issued by Huijin in the carrying value of RMB5,749 million (31 December 2011 RMB5,708 million). These bonds have maturity of not more than 30 years and bear fixed interest rates, payable annually. Purchasing of these bonds was in the ordinary course of business of the Group, complying with requirements of related regulations and corporate governance.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Related party transactions (Continued)

42.2 Transactions with the Huijin and companies under Huijin (Continued)

(3) Transactions with companies under Huijin

Companies under Huijin include its equity interests in subsidiaries, joint ventures and associates in certain other bank and non-bank entities in the PRC. The Group enters into banking transactions with these companies in the normal course of business at commercial terms which include mainly purchase and sale of debt securities, money market transactions and derivative transactions.

The Group's outstanding balances and related interest rate ranges with these companies as at 31 December 2012 and 2011 were as follows:

	As at 31 December	
	2012	2011
Due from banks and other financial institutions	**108,139**	38,868
Placements with and loans to banks and other financial institutions	**99,286**	73,282
Financial assets at fair value through profit or loss and Investment securities	**216,367**	193,767
Derivative financial assets	**996**	443
Loans and advances to customer	**1,649**	2,577
Due to banks and other financial institutions	**(244,237)**	(156,135)
Placements from banks and other financial institutions	**(50,595)**	(33,247)
Derivative financial liabilities	**(722)**	(956)
Credit commitments	**549**	3,702

	As at 31 December	
	2012	2011
Interest rate ranges at the end of the year		
Due from banks and other financial institutions	**0.00%–6.16%**	0.00%–6.73%
Placements with and loans to banks and other financial institutions	**0.02%–7.40%**	0.19%–10.50%
Financial assets at fair value through profit or loss and Investment securities	**0.79%–6.38%**	0.58%–6.38%
Loans and advances to customer	**4.90%–6.70%**	5.76%–11.00%
Due to banks and other financial institutions	**0.00%–5.90%**	0.00%–6.20%
Placements from banks and other financial institutions	**0.12%–6.40%**	0.10%–5.50%

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Related party transactions (Continued)

42.3 Transactions with government authorities, agencies, affiliates and other State controlled entities

The State Council of the PRC Government directly and indirectly controls a significant number of entities through its government authorities, agencies, affiliates and other State controlled entities. The Group enters into extensive banking transactions with these entities in the normal course of business at commercial terms.

Transactions conducted with government authorities, agencies, affiliates and other State controlled entities include purchase and redemption of investment securities issued by government agencies, underwriting and distribution of Treasury bonds issued by government agencies through the Group's branch network, foreign exchange transactions and derivative transactions, lending, provision of credit and guarantees and deposit placing and taking.

42.4 Transactions with associates and joint ventures

The Group enters into banking transactions with associates and joint ventures in the normal course of business at commercial terms. These include loans and advances, deposit taking and other normal banking businesses. The outstanding balances with associates and joint ventures as of the respective year end dates are stated below:

	As at 31 December	
	2012	2011
Loans and advances to customers	**711**	1,594
Due to customers, banks and other financial institutions	**(3,384)**	(4,475)
Credit commitments	**1,414**	2,803

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Related party transactions (Continued)

42.4 Transactions with associates and joint ventures (Continued)

The general information of principal associates and joint ventures is as follows:

Name	Place of incorporation/ establishment	National organisation code	Effective equity held (%)	Voting right (%)	Paid-in capital (in millions)	Principal business
Huaneng International Power Development Corporation	PRC	60000324-8	20.00	20.00	USD450	Power plant operations
BOC International (China) Limited	PRC	73665036-4	49.00	49.00	RMB1,500	Securities underwriting, investment advisory, and brokerage services
Hong Kong Bora Holdings Limited	Hong Kong	NA	19.50	Note (1)	HKD0.01	Investment holding
CGN Phase I Private Equity Fund Company limited	PRC	71782747-8	20.00	20.00	RMB100	Investment
Guangdong Small and Medium Enterprises Equity Investment Fund Company Limited	PRC	56456896-1	40.00	40.00	RMB1,600	Investment
Farun Glass Industry Company Limited	PRC	74942101-8	11.30	Note (1)	RMB458	Special glass production, sales and agency business
Hubei Zhongqi Investment and Guarantee Company Limited	PRC	77076550-1	33.76	33.76	RMB936	Loan guarantees, Financial guarantees
JCC Financial Company Limited	PRC	79478975-1	12.65	Note (1)	RMB300	Provide financial services for all subsidiaries of JCC Corporation
Guangdong Haomei Aluminum Company Limited	PRC	76573427-6	12.35	Note (1)	USD13	Aluminum material production, manufacture and sales
Silver Union Investments Limited	Cayman	NA	70.00	70.00	USD30	Investment holding

(1) In accordance with the respective articles of association, the Group has significant influence over these companies.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Related party transactions (Continued)

42.5 Transactions with the Annuity Plan

Apart from the obligations for defined contributions to Annuity Fund and normal banking transactions, no other transactions were conducted between the Group and the Annuity Fund for the years ended 31 December 2012 and 2011.

42.6 Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and Executive officers.

The Group enters into banking transactions with key management personnel in the normal course of business. During the years ended 31 December 2012 and 2011, there were no material transactions and balances with key management personnel on an individual basis.

The key management compensation for the years ended 31 December 2012 and 2011 comprises:

	Year ended 31 December	
	2012	2011
Compensation for short-term employment benefits [1]	**17**	29
Compensation for post-employment benefits	**1**	1
Total	**18**	30

(1) The total compensation package for these key management personnel for the year ended 31 December 2012 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact to the Group's and the Bank's 2012 financial statements. The final compensation will be disclosed in a separate announcement when determined.

42.7 Balances with subsidiaries

Included in the following captions of the Bank's statement of financial position are balances with subsidiaries:

	As at 31 December	
	2012	2011
Due from banks and other financial institutions	**22,035**	26,610
Placements with and loans to banks and other financial institutions [1]	**52,891**	38,684
Due to banks and other financial institutions	**(43,270)**	(33,261)
Placements from banks and other financial institutions	**(24,679)**	(54,105)

(1) Includes subordinated loans to Bank of China (Hong Kong) Limited of RMB5,490 million as at 31 December 2012 (31 December 2011: RMB5,387 million) which were provided in the normal course of business at commercial terms. The claim to such subordinated loans by the Bank is subordinated to other liabilities, and prior to equity of the subsidiary.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Related party transactions (Continued)

42.7 Balances with subsidiaries (Continued)

The general information of principal subsidiaries is as follows:

Name	Place of incorporation and operation	Date of incorporation/ establishment	Paid-in capital (in millions)	Effective equity held (%)	Voting right (%)	Principal business
Directly held						
BOC Hong Kong (Group) Limited	Hong Kong	12 September 2001	HKD34,806	100.00	100.00	Holding company
BOC International Holdings Limited (4)	Hong Kong	10 July 1998	HKD3,539	100.00	100.00	Investment banking
Bank of China Group Insurance Company Limited	Hong Kong	23 July 1992	HKD3,749	100.00	100.00	Insurance services
Bank of China Group Investment Limited	Hong Kong	18 May 1993	HKD34,052	100.00	100.00	Investment holding
Tai Fung Bank Limited	Macau	1942	MOP 1,000	50.31	50.31	Commercial banking
Bank of China (UK) Limited	United Kingdom	24 September 2007	GBP 250	100.00	100.00	Commercial banking
BOC Insurance Company Limited	Beijing	5 January 2005	RMB3,035	100.00	100.00	Insurance services
Indirectly held						
BOC Hong Kong (Holdings) Limited (2)	Hong Kong	12 September 2001	HKD52,864	66.06	66.06	Holding company
Bank of China (Hong Kong) Limited (3) (4)	Hong Kong	16 October 1964	HKD43,043	66.06	100.00	Commercial banking
Nanyang Commercial Bank, Limited (4)	Hong Kong	2 February 1948	HKD700	66.06	100.00	Commercial banking
Chiyu Banking Corporation Limited (3) (4)	Hong Kong	24 April 1947	HKD300	46.57	70.49	Commercial banking
BOC Credit Card (International) Limited	Hong Kong	9 September 1980	HKD480	66.06	100.00	Credit card services
BOC Group Trustee Company Limited (4)	Hong Kong	1 December 1997	HKD200	76.43	100.00	Provision of trustee services
BOC Aviation Pte. Ltd.	Singapore	25 November 1993	USD608	100.00	100.00	Aircraft leasing

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Related party transactions (Continued)

42.7 Balances with subsidiaries (Continued)

(2) BOC Hong Kong (Holdings) Limited is listed on the Stock Exchanges of Hong Kong Limited.

(3) Bank of China (Hong Kong) Limited, in which the Group holds a 66.06% equity interest, holds 70.49% of the equity interest of Chiyu Banking Corporation Limited.

(4) Bank of China (Hong Kong) Limited, Nanyang Commercial Bank, Limited, Chiyu Banking Corporation Limited and BOC International Holdings Limited, in which the Group holds 66.06%, 66.06%, 46.57% and 100% of their equity interests, respectively, hold 54%, 6%, 6% and 34% equity interest of BOC Group Trustee Company Limited, respectively.

For the year ended 31 December 2012, the financial statements of the principal subsidiaries stated above were audited by the firms within the worldwide network of PricewaterhouseCoopers firms.

For certain subsidiaries listed above, the voting rights ratio is not equal to the effective equity held ratio, mainly due to the impact of the indirect holdings.

43 Segment reporting

The Group manages the business from both a geographic and business perspective. From the geographic perspective, the Group operates in three principal regions: Chinese mainland, Hong Kong, Macau and Taiwan, and other countries and regions. From the business perspective, the Group provides services through six main business segments: corporate banking, personal banking, treasury operations, investment banking, insurance and other operations.

Measurement of segment assets, liabilities, income, expenses, results and capital expenditure is based on the Group's accounting policies. The segment information presented includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Funding is provided to and from individual business segments through treasury operations as part of the asset and liability management process. The pricing of these transactions is based on market rates. The transfer price takes into account the specific features and maturities of the product. Internal transactions are eliminated on consolidation.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Segment reporting (Continued)

Geographical segments

Chinese mainland — Corporate banking, personal banking, treasury operations and insurance services are performed in the Chinese mainland.

Hong Kong, Macau and Taiwan — Corporate banking, personal banking, treasury operations, investment banking and insurance services are performed in Hong Kong, Macau and Taiwan. The business of this segment is centralised in BOC Hong Kong (Group) Limited.

Other countries and regions — Corporate and personal banking services are provided in other countries and regions. Significant locations include New York, London, Singapore and Tokyo.

Business segments

Corporate banking — Services to corporate customers, government authorities and financial institutions including current accounts, deposits, overdrafts, loans, trade related products and other credit facilities, foreign currency, derivative products and wealth management products.

Personal banking — Services to retail customers including savings deposits, personal loans, credit cards and debit cards, payments and settlements, wealth management products and funds and insurance agency services.

Treasury operations — Consisting of foreign exchange transactions, customer-based interest rate and foreign exchange derivative transactions, money market transactions, proprietary trading and asset and liability management. The results of this segment include the inter-segment funding income and expenses, results from interest bearing assets and liabilities; and foreign currency translation gains and losses.

Investment banking — Consisting of debt and equity underwriting and financial advisory, sales and trading of securities, stock brokerage, investment research and asset management services, and private equity investment services.

Insurance — Underwriting of general and life insurance business and insurance agency services.

Other operations of the Group comprise investment holding and other miscellaneous activities, none of which constitutes a separately reportable segment.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Segment reporting (Continued)

The Group as at and for the year ended 31 December 2012

		Hong Kong, Macau and Taiwan					
	Chinese mainland	BOC Hong Kong Group	Other	Subtotal	Other countries and regions	Elimination	Total
Interest income	458,412	29,648	9,869	39,517	18,952	(10,353)	506,528
Interest expense	(233,790)	(9,213)	(7,280)	(16,493)	(9,634)	10,353	(249,564)
Net interest income	224,622	20,435	2,589	23,024	9,318	–	256,964
Fee and commission income	60,287	8,705	3,921	12,626	3,965	(1,680)	75,198
Fee and commission expense	(1,715)	(2,606)	(761)	(3,367)	(1,222)	1,029	(5,275)
Net fee and commission income	58,572	6,099	3,160	9,259	2,743	(651)	69,923
Net trading gains	5,135	2,761	718	3,479	(163)	–	8,451
Net gains on investment securities	1,467	611	193	804	17	–	2,288
Other operating income (1)	13,950	6,726	7,641	14,367	287	(54)	28,550
Operating income	303,746	36,632	14,301	50,933	12,202	(705)	366,176
Operating expenses (1)	(133,853)	(15,817)	(7,573)	(23,390)	(3,484)	705	(160,022)
Impairment losses on assets	(17,396)	(699)	(761)	(1,460)	(531)	–	(19,387)
Operating profit	152,497	20,116	5,967	26,083	8,187	–	186,767
Share of results of associates and joint ventures	–	2	611	613	–	–	613
Profit before income tax	152,497	20,118	6,578	26,696	8,187	–	187,380
Income tax expense							(41,858)
Profit for the year							145,522
Segment assets	10,196,577	1,453,681	582,307	2,035,988	1,087,203	(651,535)	12,668,233
Investment in associates and joint ventures	–	49	12,333	12,382	–	–	12,382
Total assets	10,196,577	1,453,730	594,640	2,048,370	1,087,203	(651,535)	12,680,615
Include: non-current assets (2)	93,313	21,210	68,087	89,297	5,316	(161)	187,765
Segment liabilities	9,531,288	1,353,345	529,274	1,882,619	1,056,540	(651,374)	11,819,073
Other segment items:							
Intersegment net interest income/(expense)	(2,655)	1,571	1,673	3,244	(589)	–	–
Intersegment net fee and commission income	249	132	696	828	(426)	(651)	–
Capital expenditure	17,843	848	8,877	9,725	410	–	27,978
Depreciation and amortisation	10,880	759	2,213	2,972	223	–	14,075
Credit commitments	2,216,766	113,970	95,454	209,424	178,453	(287,138)	2,317,505

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Segment reporting (Continued)

The Group as at and for the year ended 31 December 2011

	Chinese mainland	Hong Kong, Macau and Taiwan: BOC Hong Kong Group	Hong Kong, Macau and Taiwan: Other	Hong Kong, Macau and Taiwan: Subtotal	Other countries and regions	Elimination	Total
Interest income	373,107	27,218	6,156	33,374	12,308	(5,687)	413,102
Interest expense	(172,086)	(8,683)	(3,673)	(12,356)	(6,283)	5,687	(185,038)
Net interest income	201,021	18,535	2,483	21,018	6,025	–	228,064
Fee and commission income	55,322	9,015	3,977	12,992	3,296	(1,592)	70,018
Fee and commission expense	(1,690)	(2,504)	(1,321)	(3,825)	(900)	1,059	(5,356)
Net fee and commission income	53,632	6,511	2,656	9,167	2,396	(533)	64,662
Net trading gains	6,346	668	476	1,144	359	9	7,858
Net gains on investment securities	992	372	2,104	2,476	(26)	–	3,442
Other operating income (1)	8,293	6,503	10,318	16,821	210	(1,052)	24,272
Operating income	270,284	32,589	18,037	50,626	8,964	(1,576)	328,298
Operating expenses (1)	(118,751)	(11,815)	(8,288)	(20,103)	(2,807)	846	(140,815)
Impairment (losses)/reversal on assets	(18,112)	(419)	(1,333)	(1,752)	509	–	(19,355)
Operating profit	133,421	20,355	8,416	28,771	6,666	(730)	168,128
Share of results of associates and joint ventures	–	4	512	516	–	–	516
Profit before income tax	133,421	20,359	8,928	29,287	6,666	(730)	168,644
Income tax expense							(38,142)
Profit for the year							130,502
Segment assets	9,612,716	1,387,651	467,926	1,855,577	904,756	(556,553)	11,816,496
Investment in associates and joint ventures	–	49	13,244	13,293	–	–	13,293
Total assets	9,612,716	1,387,700	481,170	1,868,870	904,756	(556,553)	11,829,789
Include: non-current assets (2)	85,936	20,660	62,016	82,676	5,027	(161)	173,478
Segment liabilities	9,025,576	1,297,822	421,427	1,719,249	884,219	(556,392)	11,072,652
Other segment items:							
Intersegment net interest income/(expense)	(519)	1,025	588	1,613	(1,094)	–	–
Intersegment net fee and commission income	279	111	324	435	(181)	(533)	–
Capital expenditure	19,702	749	11,228	11,977	244	–	31,923
Depreciation and amortisation	9,313	746	1,993	2,739	205	–	12,257
Credit commitments	2,234,227	100,569	55,247	155,816	164,247	(242,418)	2,311,872

(1) "Other operating income" includes insurance premium income earned, and "Operating expenses" include insurance benefits and claims.

(2) Non-current assets include property and equipment, investment properties and other long-term assets.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Segment reporting (Continued)

The Group as at and for the year ended 31 December 2012

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	304,357	152,450	104,327	1,033	1,709	833	(58,181)	506,528
Interest expense	(158,472)	(77,344)	(69,527)	(425)	–	(1,977)	58,181	(249,564)
Net interest income/(expense)	145,885	75,106	34,800	608	1,709	(1,144)	–	256,964
Fee and commission income	42,110	23,631	7,894	2,327	1	413	(1,178)	75,198
Fee and commission expense	(2,264)	(1,650)	(426)	(530)	(1,386)	(27)	1,008	(5,275)
Net fee and commission income	39,846	21,981	7,468	1,797	(1,385)	386	(170)	69,923
Net trading gains	355	458	5,580	447	853	751	7	8,451
Net gains on investment securities	20	4	1,986	–	109	169	–	2,288
Other operating income	615	9,801	736	43	9,612	9,064	(1,321)	28,550
Operating income	186,721	107,350	50,570	2,895	10,898	9,226	(1,484)	366,176
Operating expenses	(67,689)	(63,234)	(13,865)	(1,952)	(10,051)	(4,715)	1,484	(160,022)
Impairment (losses)/reversal on assets	(14,560)	(4,772)	438	–	(14)	(479)	–	(19,387)
Operating profit	104,472	39,344	37,143	943	833	4,032	–	186,767
Share of results of associates and joint ventures	–	–	–	214	(3)	409	(7)	613
Profit before income tax	104,472	39,344	37,143	1,157	830	4,441	(7)	187,380
Income tax expense								(41,858)
Profit for the year								145,522
Segment assets	5,589,896	2,009,137	4,831,145	53,797	65,409	232,835	(113,986)	12,668,233
Investment in associates and joint ventures	–	–	–	2,561	–	9,876	(55)	12,382
Total assets	5,589,896	2,009,137	4,831,145	56,358	65,409	242,711	(114,041)	12,680,615
Segment liabilities	6,214,916	4,117,118	1,341,361	48,545	57,680	153,279	(113,826)	11,819,073
Other segment items:								
Intersegment net interest income/(expense)	(29,020)	56,751	(26,929)	104	107	(1,013)	–	–
Intersegment net fee and commission income	–	104	–	–	(993)	1,059	(170)	–
Capital expenditure	5,377	5,939	284	41	64	16,273	–	27,978
Depreciation and amortisation	4,867	5,865	969	94	40	2,240	–	14,075

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Segment reporting (Continued)

The Group as at and for the year ended 31 December 2011

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	246,940	127,627	89,811	1,032	1,620	502	(54,430)	413,102
Interest expense	(105,109)	(58,674)	(73,861)	(295)	–	(1,529)	54,430	(185,038)
Net interest income/(expense)	141,831	68,953	15,950	737	1,620	(1,027)	–	228,064
Fee and commission income	39,980	21,386	6,170	2,527	563	402	(1,010)	70,018
Fee and commission expense	(2,022)	(1,694)	(492)	(618)	(1,305)	(103)	878	(5,356)
Net fee and commission income	37,958	19,692	5,678	1,909	(742)	299	(132)	64,662
Net trading gains	468	513	6,690	(178)	31	326	8	7,858
Net gains on investment securities	(13)	(3)	1,342	–	(6)	2,122	–	3,442
Other operating income	278	7,188	297	70	8,856	9,341	(1,758)	24,272
Operating income	180,522	96,343	29,957	2,538	9,759	11,061	(1,882)	328,298
Operating expenses	(62,582)	(55,764)	(11,551)	(1,152)	(8,598)	(2,320)	1,152	(140,815)
Impairment (losses)/reversal on assets	(16,053)	(3,056)	760	–	(144)	(862)	–	(19,355)
Operating profit	101,887	37,523	19,166	1,386	1,017	7,879	(730)	168,128
Share of results of associates and joint ventures	–	–	–	271	–	250	(5)	516
Profit before income tax	101,887	37,523	19,166	1,657	1,017	8,129	(735)	168,644
Income tax expense								(38,142)
Profit for the year								130,502
Segment assets	5,330,401	1,753,022	4,512,493	43,619	57,117	208,769	(88,925)	11,816,496
Investment in associates and joint ventures	–	–	–	2,403	–	10,938	(48)	13,293
Total assets	5,330,401	1,753,022	4,512,493	46,022	57,117	219,707	(88,973)	11,829,789
Segment liabilities	5,703,156	3,730,827	1,506,248	39,103	50,804	131,276	(88,762)	11,072,652
Other segment items:								
Intersegment net interest income/(expense)	(9,709)	53,342	(42,950)	26	77	(786)	–	–
Intersegment net fee and commission income	–	91	–	–	(833)	874	(132)	–
Capital expenditure	5,662	6,257	300	75	760	18,869	–	31,923
Depreciation and amortisation	4,281	4,996	832	96	43	2,009	–	12,257

VI FINANCIAL RISK MANAGEMENT

1 Overview

The Group's primary risk management objectives are to maximise value for equity holders while maintaining risk within acceptable parameters, optimising capital allocation and satisfying the requirements of the regulatory authorities, the Group's depositors and other stakeholders for the Group's prudent and stable development.

The Group has designed a series of risk management policies and has set up controls to analyse, identify, monitor and report risks by means of relevant and up-to-date information systems. The Group regularly reviews and revises its risk management policies and systems to reflect changes in markets, products and emerging best practice.

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

2 Financial risk management framework

The Board of Directors is responsible for establishing the overall risk appetite of the Group and reviewing and approving the risk management objectives and strategies.

Within this framework, the Group's senior management has overall responsibility for managing all aspects of risks, including implementing risk management strategies, initiatives and credit policies and approving internal policies, measures and procedures related to risk management. The Risk Management Unit, the Financial Management Department and other relevant functional units are responsible for monitoring financial risks.

The Group manages the risks at the branch level through direct reporting from the branches to the relevant departments responsible for risk management at the Head Office. Business line related risks are monitored through establishing specific risk management teams within the business departments. The Group monitors and controls risk management at subsidiaries by appointing members of their boards of directors and risk management committees as appropriate.

3 Credit risk

The Group takes on exposure to credit risk, which is the risk that a customer or counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is one of the most significant risks for the Group's business.

Credit risk exposures arise principally in lending activities and debt securities investment activities. There is also credit risk in off-balance sheet financial instruments, such as derivatives, loan commitments, letters of guarantee, bill acceptance and letters of credit.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement

(1) Loans and advances and off-balance sheet commitments

Monitoring and measurement of credit risk over loans and advances and off-balance sheet credit related exposures are performed by the Risk Management Unit, and reported to the senior management and the Board of Directors regularly.

In measuring the credit risk of loans and advances to corporate customers, the Group mainly reflects the "probability of default" by the customer on its contractual obligations and considers the current financial position of the customer and the exposures to the customer and its likely future development. For retail customers, the Group uses standard approval procedures to manage credit risk for personal loans, and uses credit score-card models, which are based on historical default data to measure credit risk for credit cards.

For credit risk arising from off-balance sheet commitments, the Group manages the risks according to the characteristics of the products. These mainly include loan commitments, guarantees, bill acceptances and letters of credit. Loan commitments, guarantees, bill acceptances and standby letters of credit carry similar credit risk to loans and the Group takes a similar approach on risk management. Documentary and commercial letters of credit are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions and are collateralised by the underlying shipment documents of goods to which they relate or deposits and are therefore assessed to have less credit risk than a direct loan. Besides, the Group monitors the term to maturity of off-balance sheet commitments and those with longer-terms are assessed to have greater credit risk than shorter-term commitments.

The Group measures and manages the credit quality of loans and advances to corporate and personal 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. Off-balance sheet commitments with credit exposures are also assessed and categorised with reference to the Guideline. For operations in Hong Kong, Macau, Taiwan and other countries and regions, where local regulations and requirements are more prudent than the Guideline, the credit assets are classified according to local regulations and requirements.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement (Continued)

(1) Loans and advances and off-balance sheet commitments (Continued)

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 Group 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 Group 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.

The Group has developed an internal customer credit rating system, using measurements of the probability of default within one year based on regression analysis. These probability of default measurements are then mapped to internal credit ratings. The Group performs back testing to actual default rates and refines the model according to the results.

The customer credit ratings in the internal model are based on four categories of A, B, C and D which are further classified into fifteen grades as AAA, AA, A, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B-, CCC, CC, C, and D. Credit grading D equates to defaulted customers while the others are assigned to performing customers.

Five-category loan classifications and customer credit ratings are determined by Head Office and tier-one branch management under approved delegated authorities. The Bank performs centralised review on customer credit ratings and five-category loan classifications on an annual basis. Further, five-category loan classifications are re-examined on a quarterly basis. Adjustments are made to these classifications and ratings as necessary according to customers' operational and financial position.

The Group identifies credit risk collectively based on industry, geography and customer type. This information is monitored regularly by management.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement (Continued)

(1) Loans and advances and off-balance sheet commitments (Continued)

Management periodically reviews various elements of the Group's credit risk management process, in the context of loan portfolio growth, the changing mix and concentration of assets, and the evolving risk profile of the credit portfolio. From time to time, in this regard, refinements are made to the Group's credit risk management processes to most effectively manage the effects of these changes on the Group's credit risk. These refinements include, among other things, adjustments to portfolio level controls, such as revisions to lists of approved borrowers, industry quotas and underwriting criteria. Where circumstances related to specific loans or a group of loans increase the Bank's credit risk, actions are taken, to the extent possible, to strengthen the Group's security position. The actions may include obtaining additional guarantors or collateral.

(2) Due from, placements with and loans to banks and other financial institutions

The Group manages the credit quality of due from, placements with and loans to banks and other financial institutions considering the size, financial position and the internal and external credit rating of banks and financial institutions. In response to adverse credit market conditions, various initiatives were implemented since 2008 to better manage and report credit risk, including establishing a special committee which meets periodically and on an ad hoc basis to discuss actions in response to market changes impacting the Group's exposure to credit risk, and formulating a watch list process over counterparty names at risk.

(3) Debt securities and derivatives

Credit risk within debt securities arises from exposure to movements in credit spreads, default rates and loss given default, as well as changes in the credit of underlying assets.

The Group manages the credit risk within debt securities by monitoring the external credit rating, such as Standard & Poor's ratings or their equivalents, of the security, the internal credit rating of the issuers of debt securities, and the credit quality of underlying assets of securitisation products, including review of default rates, prepayment rates, industry and sector performance, loss coverage ratios and counterparty risk, to identify exposure to credit risk.

The Group has policies to maintain strict control limits on net open derivative positions based on notional amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets for which fair value is positive). The derivative credit risk exposure is managed as part of the overall exposure lending limits set for customers and financial institutions. Collateral or other security is not usually obtained for credit risk exposures on these financial instruments.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.2 Credit risk limit control and mitigation policies

The Group manages limits and controls concentrations of credit risk in particular, to individual customers and to industries.

(1) Credit risk limits and controls

(i) Loans and advances and off-balance sheet commitments

In order to manage the exposure to credit risk, the Group has adopted credit approval policies and procedures that are reviewed and updated by the Risk Management Unit at Head Office. The credit approval process for both corporate loans and personal loans can be broadly divided into three stages: (1) credit origination and assessment; (2) credit review and approval; and (3) fund disbursement and post-disbursement management.

Credit to corporate customers in the Chinese mainland are originated by the Corporate Banking Unit at Head Office and Corporate Banking Department at branch level and submitted to the Risk Management Unit for due diligence and approval. All credit applications for corporate customers must be approved by authorised credit application approvers at Head Office and tier-one branches level in Chinese mainland, except for credit applications that are identified as low risk, such as loans sufficiently secured by PRC treasury bonds, bills or pledged funds or loans supported by the credit of financial institutions that are within pre-approved credit limits. The exposure to any one borrower, including banks, is restricted by credit limits covering on and off-balance sheet exposures.

Personal loans in the Chinese mainland are originated by the Personal Banking Departments at branch level and must be approved by authorised approvers at tier-one branches level in Chinese mainland, except for individual pledged loans and government-sponsored student loans, which may be approved by authorised approvers at sub-branches below tier-one level. High risk personal loans such as personal loans for business purposes in excess of certain limits must also be reviewed by the Risk Management Department.

The Head Office also oversees the risk management of the branches in Hong Kong, Macau, Taiwan and other countries and regions. In particular, any credit application at these branches exceeding the authorisation limits is required to be submitted to the Head Office for approval.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.2 Credit risk limit control and mitigation policies (Continued)

(1) Credit risk limits and controls (Continued)

(ii) Debt securities and derivatives

The Group is also exposed to credit risk through investment activities and trading activities. Credit limits are established based on type of instruments and the credit quality of counterparties, securities issuers and securities and set limits are actively monitored.

(2) Credit risk mitigation policies

(i) Collateral and guarantees

The Group 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 Group implements guidelines on the acceptability of specific classes of collateral. The amount of acceptable collateral at the time of loan origination is determined by the Risk Management Unit and is subject to loan-to-value ratio limits based on type and is monitored on an ongoing basis by the Risk Management Unit. The principal collateral types for corporate loans and advances are:

Collateral	Maximum loan-to-value ratio
Cash deposits with the Group	90%
PRC Treasury bonds	90%
PRC financial institution bonds	85%
Publicly traded stocks	50%
Property	70%
Land use rights	60%
Automobiles	40%

Mortgages to retail customers are generally collateralised by mortgages over residential properties. Other loans are collateralised dependant on the nature of the loan.

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

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.2 Credit risk limit control and mitigation policies (Continued)

(2) Credit risk mitigation policies (Continued)

(i) Collateral and guarantees (Continued)

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of certain asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

Collateral is also held as part of reverse repurchase agreements. Under such agreements, the Group is permitted to sell or repledge collateral in the absence of default by the owner of the collateral. Details of collateral accepted and which the Group is obligated to return are disclosed in Note V.40.3.

(ii) Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in the offsetting of assets and liabilities in the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the customer are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

3.3 Impairment and provisioning policies

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.3 Impairment and provisioning policies (Continued)

(1) Loans and advances

Management determines whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group including consideration of:

- significant financial difficulty incurred by the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payment;
- for economic or legal reasons related to the borrower's financial difficulty, whether the Group has granted to the borrower a concession that it would not otherwise consider;
- probability that the borrower will become bankrupt or will undergo other financial re-organisation;
- deterioration in the value of collateral;
- deterioration in credit rating; or
- other observable data indicating that there is a measurable decrease in the estimated future cash flows from such loans and advances.

The Group's policy requires the review of individual financial assets that are above certain thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at financial reporting date on a case-by-case basis using discounted cash flow analysis. The assessment normally encompasses guarantees and collateral held and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been specifically identified, by using the available historical data, experience, professional judgement and statistical techniques.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.3 Impairment and provisioning policies (Continued)

(2) Debt securities

Debt securities are assessed for individual impairment using similar criteria as loans and advances. Management determines whether objective evidence of debt securities impairment exists under IAS 39 based on criteria set out by the Group including consideration of:

- a breach of contract or a trigger event, such as a default or delinquency in interest or principal payment;
- significant financial difficulty of issuers or underlying asset holders;
- probable that the issuer or underlying asset holders will become bankrupt or will undergo other financial re-organisation;
- deterioration in credit rating; or
- other observable data indicating that there is a measurable decrease in the estimated future cash flows from such debt securities.

Impairment allowances on individually assessed securities are determined by an evaluation of the incurred loss at financial reporting date on a case-by-case basis using available data, including default rates, loss given default and assessment of the quality of the underlying assets of securitisation products, industry and sector performance, loss coverage ratios and counterparty risk.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.4 Maximum exposure to credit risk before collateral held or other credit enhancements

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Credit risk exposures relating to on-balance sheet financial assets are as follows:				
Due from banks and other financial institutions	**703,099**	529,131	**679,512**	520,325
Balances with central banks	**1,934,297**	1,919,651	**1,859,362**	1,785,152
Placements with and loans to banks and other financial institutions	**447,299**	618,366	**435,483**	577,233
Government certificates of indebtedness for bank notes issued	**70,554**	56,108	**3,314**	2,691
Financial assets at fair value through profit or loss	**69,339**	68,887	**29,654**	31,887
Derivative financial assets	**40,188**	42,757	**15,939**	20,969
Loans and advances to customers, net	**6,710,040**	6,203,138	**5,990,570**	5,546,805
Investment securities				
— available for sale	**656,150**	525,382	**305,107**	269,728
— held to maturity	**1,183,080**	1,074,116	**1,163,416**	1,025,620
— loans and receivables	**269,454**	299,518	**261,262**	290,387
Other assets	**104,236**	84,101	**72,812**	61,190
Subtotal	**12,187,736**	11,421,155	**10,816,431**	10,131,987
Credit risk exposures relating to off-balance sheet items are as follows:				
Letters of guarantee issued	**791,156**	727,891	**802,214**	742,462
Loan commitments and other credit commitments	**1,526,349**	1,583,981	**1,411,111**	1,482,068
Subtotal	**2,317,505**	2,311,872	**2,213,325**	2,224,530
Total	**14,505,241**	13,733,027	**13,029,756**	12,356,517

The table above represents a worst case scenario of credit risk exposure of the Group and the Bank as at 31 December 2012 and 2011, without taking into account of any collateral held, master netting agreements or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the statements of financial position.

As at 31 December 2012, 46.26% of the Group's total maximum credit exposure is derived from loans and advances to customers (31 December 2011: 45.17%) and 14.97% represents investments in debt securities (31 December 2011: 14.29%).

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances

(1) Concentrations of risk for loans and advances to customers

The total loans and advances of the Group and the Bank are set out below:

(i) Analysis of loans and advances to customers by geographical area

Group

	As at 31 December			
	2012		2011	
	Amount	**% of total**	Amount	% of total
Chinese mainland	**5,558,682**	**80.98%**	5,209,694	82.14%
Hong Kong, Macau and Taiwan	**828,844**	**12.07%**	743,233	11.72%
Other countries and regions	**477,170**	**6.95%**	389,887	6.14%
Total loans and advances to customers	**6,864,696**	**100.00%**	6,342,814	100.00%

Bank

	As at 31 December			
	2012		2011	
	Amount	**% of total**	Amount	% of total
Chinese mainland	**5,554,797**	**90.45%**	5,208,405	91.64%
Hong Kong, Macau and Taiwan	**130,838**	**2.13%**	101,142	1.78%
Other countries and regions	**455,973**	**7.42%**	373,910	6.58%
Total loans and advances to customers	**6,141,608**	**100.00%**	5,683,457	100.00%

Chinese mainland

	As at 31 December			
	2012		2011	
	Amount	**% of total**	Amount	% of total
Northern China	**872,120**	**15.69%**	841,436	16.15%
Northeastern China	**399,844**	**7.19%**	374,612	7.19%
Eastern China	**2,277,622**	**40.98%**	2,137,377	41.03%
Central and Southern China	**1,350,778**	**24.30%**	1,251,136	24.02%
Western China	**658,318**	**11.84%**	605,133	11.61%
Total loans and advances to customers	**5,558,682**	**100.00%**	5,209,694	100.00%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(ii) Analysis of loans and advances to customers by customer type

Group

	As at 31 December 2012				As at 31 December 2011			
	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total
Corporate loans								
— Trade bills	742,084	117,522	187,826	1,047,432	614,376	112,003	141,294	867,673
— Other	3,198,438	460,263	274,266	3,932,967	3,204,079	413,680	239,873	3,857,632
Personal loans	1,618,160	251,059	15,078	1,884,297	1,391,239	217,550	8,720	1,617,509
Total loans and advances to customers	5,558,682	828,844	477,170	6,864,696	5,209,694	743,233	389,887	6,342,814

Bank

	As at 31 December 2012				As at 31 December 2011			
	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total
Corporate loans								
— Trade bills	742,084	26,205	184,587	952,876	614,376	18,133	139,258	771,767
— Other	3,197,118	67,497	263,613	3,528,228	3,203,747	54,610	232,260	3,490,617
Personal loans	1,615,595	37,136	7,773	1,660,504	1,390,282	28,399	2,392	1,421,073
Total loans and advances to customers	5,554,797	130,838	455,973	6,141,608	5,208,405	101,142	373,910	5,683,457

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

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

Group

	As at 31 December			
	2012		2011	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Manufacturing	**1,482,664**	**21.60%**	1,379,197	21.75%
Commerce and services	**1,007,853**	**14.68%**	943,788	14.88%
Transportation and logistics	**674,260**	**9.82%**	618,591	9.75%
Real estate	**554,618**	**8.08%**	500,423	7.89%
Production and supply of electric power, gas and water	**396,230**	**5.77%**	427,311	6.74%
Mining	**307,358**	**4.48%**	280,441	4.42%
Water, environment and public utility management	**215,711**	**3.14%**	261,396	4.12%
Construction	**114,449**	**1.67%**	104,757	1.65%
Financial services	**109,977**	**1.60%**	76,366	1.20%
Public utilities	**70,380**	**1.03%**	77,759	1.23%
Other	**46,899**	**0.68%**	55,276	0.87%
Subtotal	**4,980,399**	**72.55%**	4,725,305	74.50%
Personal loans				
Mortgages	**1,348,359**	**19.65%**	1,213,322	19.13%
Credit cards	**160,865**	**2.34%**	97,659	1.54%
Other	**375,073**	**5.46%**	306,528	4.83%
Subtotal	**1,884,297**	**27.45%**	1,617,509	25.50%
Total loans and advances to customers	**6,864,696**	**100.00%**	6,342,814	100.00%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iii) Analysis of loans and advances to customers by industry (Continued)

Bank

	As at 31 December			
	2012		2011	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Manufacturing	**1,413,401**	**23.01%**	1,321,227	23.26%
Commerce and services	**854,223**	**13.91%**	791,363	13.92%
Transportation and logistics	**618,463**	**10.07%**	567,219	9.98%
Real estate	**412,007**	**6.71%**	376,495	6.62%
Production and supply of electric power, gas and water	**372,551**	**6.07%**	404,103	7.11%
Mining	**290,299**	**4.73%**	262,447	4.62%
Water, environment and public utility management	**215,658**	**3.51%**	261,377	4.60%
Construction	**103,751**	**1.69%**	98,562	1.73%
Financial services	**97,907**	**1.59%**	57,564	1.01%
Public utilities	**69,487**	**1.13%**	76,668	1.35%
Other	**33,357**	**0.54%**	45,359	0.80%
Subtotal	**4,481,104**	**72.96%**	4,262,384	75.00%
Personal loans				
Mortgages	**1,167,766**	**19.01%**	1,050,046	18.48%
Credit cards	**151,510**	**2.47%**	89,828	1.58%
Other	**341,228**	**5.56%**	281,199	4.94%
Subtotal	**1,660,504**	**27.04%**	1,421,073	25.00%
Total loans and advances to customers	**6,141,608**	**100.00%**	5,683,457	100.00%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iii) Analysis of loans and advances to customers by industry (Continued)

Chinese mainland

	As at 31 December			
	2012		2011	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Manufacturing	**1,293,806**	**23.28%**	1,237,694	23.75%
Commerce and services	**693,405**	**12.47%**	645,276	12.39%
Transportation and logistics	**590,014**	**10.61%**	537,908	10.33%
Real estate	**362,212**	**6.52%**	333,434	6.40%
Production and supply of electric power, gas and water	**372,558**	**6.70%**	404,103	7.76%
Mining	**188,847**	**3.40%**	175,203	3.36%
Water, environment and public utility management	**215,658**	**3.88%**	261,377	5.02%
Construction	**98,796**	**1.78%**	93,317	1.79%
Financial services	**47,441**	**0.85%**	32,580	0.63%
Public utilities	**64,696**	**1.16%**	73,080	1.40%
Other	**13,089**	**0.24%**	24,483	0.47%
Subtotal	**3,940,522**	**70.89%**	3,818,455	73.30%
Personal loans				
Mortgages	**1,132,027**	**20.36%**	1,025,988	19.69%
Credit cards	**151,006**	**2.72%**	89,453	1.72%
Other	**335,127**	**6.03%**	275,798	5.29%
Subtotal	**1,618,160**	**29.11%**	1,391,239	26.70%
Total loans and advances to customers	**5,558,682**	**100.00%**	5,209,694	100.00%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

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

Group

	As at 31 December			
	2012		2011	
	Amount	% of total	Amount	% of total
Unsecured loans	2,020,733	29.44%	1,914,569	30.18%
Guaranteed loans	1,177,880	17.16%	1,133,818	17.88%
Collateralised and other secured loans				
— loans secured by property and other immovable assets	2,705,738	39.41%	2,471,936	38.97%
— other pledged loans	960,345	13.99%	822,491	12.97%
Total loans and advances to customers	6,864,696	100.00%	6,342,814	100.00%

Bank

	As at 31 December			
	2012		2011	
	Amount	% of total	Amount	% of total
Unsecured loans	1,714,765	27.92%	1,639,664	28.85%
Guaranteed loans	1,143,459	18.62%	1,097,883	19.32%
Collateralised and other secured loans				
— loans secured by property and other immovable assets	2,460,095	40.05%	2,254,752	39.67%
— other pledged loans	823,289	13.41%	691,158	12.16%
Total loans and advances to customers	6,141,608	100.00%	5,683,457	100.00%

Chinese mainland

	As at 31 December			
	2012		2011	
	Amount	% of total	Amount	% of total
Unsecured loans	1,487,652	26.76%	1,461,846	28.06%
Guaranteed loans	1,045,941	18.82%	973,326	18.68%
Collateralised and other secured loans				
— loans secured by property and other immovable assets	2,343,563	42.16%	2,156,711	41.40%
— other pledged loans	681,526	12.26%	617,811	11.86%
Total loans and advances to customers	5,558,682	100.00%	5,209,694	100.00%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status

	As at 31 December					
	Group		Bank		Chinese mainland	
	2012	2011	**2012**	2011	**2012**	2011
Corporate loans and advances						
— Neither past due nor impaired	**4,920,849**	4,666,337	**4,423,974**	4,205,204	**3,884,573**	3,763,646
— Past due but not impaired	**4,460**	4,780	**3,580**	3,802	**3,254**	2,527
— Impaired	**55,090**	54,188	**53,550**	53,378	**52,695**	52,282
Subtotal	**4,980,399**	4,725,305	**4,481,104**	4,262,384	**3,940,522**	3,818,455
Personal loans						
— Neither past due nor impaired	**1,852,483**	1,586,417	**1,631,631**	1,392,215	**1,590,375**	1,363,248
— Past due but not impaired	**21,449**	21,974	**18,591**	19,811	**17,636**	19,114
— Impaired	**10,365**	9,118	**10,282**	9,047	**10,149**	8,877
Subtotal	**1,884,297**	1,617,509	**1,660,504**	1,421,073	**1,618,160**	1,391,239
Total	**6,864,696**	6,342,814	**6,141,608**	5,683,457	**5,558,682**	5,209,694

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(i) Loans and advances neither past due nor impaired

The Group classifies loans and advances based on regulatory guidance including the "Guiding Principles on Classification of Loan Risk Management" issued by the CBRC as set out in Note VI.3.1. The loans and advances neither past due nor impaired are classified under these principles and guidelines as set out in the table below.

Group

	As at 31 December					
	2012			2011		
	Pass	Special-mention	Total	Pass	Special-mention	Total
Corporate loans and advances	**4,737,465**	**183,384**	**4,920,849**	4,498,389	167,948	4,666,337
Personal loans	**1,851,489**	**994**	**1,852,483**	1,585,048	1,369	1,586,417
Total	**6,588,954**	**184,378**	**6,773,332**	6,083,437	169,317	6,252,754

Bank

	As at 31 December					
	2012			2011		
	Pass	Special-mention	Total	Pass	Special-mention	Total
Corporate loans and advances	**4,246,163**	**177,811**	**4,423,974**	4,041,999	163,205	4,205,204
Personal loans	**1,631,033**	**598**	**1,631,631**	1,391,119	1,096	1,392,215
Total	**5,877,196**	**178,409**	**6,055,605**	5,433,118	164,301	5,597,419

Chinese mainland

	As at 31 December					
	2012			2011		
	Pass	Special-mention	Total	Pass	Special-mention	Total
Corporate loans and advances	**3,711,418**	**173,155**	**3,884,573**	3,603,111	160,535	3,763,646
Personal loans	**1,589,947**	**428**	**1,590,375**	1,362,548	700	1,363,248
Total	**5,301,365**	**173,583**	**5,474,948**	4,965,659	161,235	5,126,894

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(i) Loans and advances neither past due nor impaired (Continued)

Collectively assessed impairment allowances are provided on loans and advances neither past due nor impaired to estimate losses that have been incurred but not yet specifically identified. As part of this assessment, the Group considers information collected as part of the process to classify loans and advances under the CBRC regulatory guidelines, as well as additional information on industry and portfolio exposure.

(ii) Loans and advances past due but not impaired

The total amount of loans and advances to customers that were past due but not impaired is as follows:

Group

	As at 31 December 2012			
	Within 1 month	1–3 months	More than 3 months	Total
Corporate loans and advances	**3,413**	**878**	**169**	**4,460**
Personal loans	**14,332**	**7,071**	**46**	**21,449**
Total	**17,745**	**7,949**	**215**	**25,909**

	As at 31 December 2011			
	Within 1 month	1–3 months	More than 3 months	Total
Corporate loans and advances	4,286	438	56	4,780
Personal loans	16,155	5,800	19	21,974
Total	20,441	6,238	75	26,754

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(ii) Loans and advances past due but not impaired (Continued)

Bank

	As at 31 December 2012			
	Within 1 month	1–3 months	More than 3 months	Total
Corporate loans and advances	**2,576**	**850**	**154**	**3,580**
Personal loans	**11,745**	**6,846**	**–**	**18,591**
Total	**14,321**	**7,696**	**154**	**22,171**

	As at 31 December 2011			
	Within 1 month	1–3 months	More than 3 months	Total
Corporate loans and advances	3,409	355	38	3,802
Personal loans	14,227	5,584	–	19,811
Total	17,636	5,939	38	23,613

Chinese mainland

	As at 31 December 2012			
	Within 1 month	1–3 months	More than 3 months	Total
Corporate loans and advances	**2,294**	**842**	**118**	**3,254**
Personal loans	**10,889**	**6,747**	**–**	**17,636**
Total	**13,183**	**7,589**	**118**	**20,890**

	As at 31 December 2011			
	Within 1 month	1–3 months	More than 3 months	Total
Corporate loans and advances	2,211	314	2	2,527
Personal loans	13,579	5,535	–	19,114
Total	15,790	5,849	2	21,641

Collateral held against loans and advances to customers which have been overdue for more than 3 months principally includes properties, equipments and cash deposits.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans and advances

(a) Impaired loans and advances by geographical area

Group

	As at 31 December					
	2012			2011		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland	**62,844**	**96.01%**	**1.13%**	61,159	96.61%	1.17%
Hong Kong, Macau and Taiwan	**1,691**	**2.58%**	**0.20%**	1,171	1.85%	0.16%
Other countries and regions	**920**	**1.41%**	**0.19%**	976	1.54%	0.25%
Total	**65,455**	**100.00%**	**0.95%**	63,306	100.00%	1.00%

Bank

	As at 31 December					
	2012			2011		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland	**62,834**	**98.43%**	**1.13%**	61,159	97.97%	1.17%
Hong Kong, Macau and Taiwan	**241**	**0.38%**	**0.18%**	440	0.70%	0.44%
Other countries and regions	**757**	**1.19%**	**0.17%**	826	1.33%	0.22%
Total	**63,832**	**100.00%**	**1.04%**	62,425	100.00%	1.10%

Chinese mainland

	As at 31 December					
	2012			2011		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Northern China	**10,535**	**16.76%**	**1.21%**	9,796	16.02%	1.16%
Northeastern China	**3,516**	**5.59%**	**0.88%**	7,322	11.97%	1.95%
Eastern China	**23,476**	**37.36%**	**1.03%**	16,558	27.07%	0.77%
Central and Southern China	**20,372**	**32.42%**	**1.51%**	21,959	35.90%	1.76%
Western China	**4,945**	**7.87%**	**0.75%**	5,524	9.04%	0.91%
Total	**62,844**	**100.00%**	**1.13%**	61,159	100.00%	1.17%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans and advances (Continued)

(b) Impaired loans and advances by customer type

Group

	As at 31 December					
	2012			2011		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	**55,090**	**84.16%**	**1.11%**	54,188	85.60%	1.15%
Personal loans	**10,365**	**15.84%**	**0.55%**	9,118	14.40%	0.56%
Total	**65,455**	**100.00%**	**0.95%**	63,306	100.00%	1.00%

Bank

	As at 31 December					
	2012			2011		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	**53,550**	**83.89%**	**1.20%**	53,378	85.51%	1.25%
Personal loans	**10,282**	**16.11%**	**0.62%**	9,047	14.49%	0.64%
Total	**63,832**	**100.00%**	**1.04%**	62,425	100.00%	1.10%

Chinese mainland

	As at 31 December					
	2012			2011		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	**52,695**	**83.85%**	**1.34%**	52,282	85.49%	1.37%
Personal loans	**10,149**	**16.15%**	**0.63%**	8,877	14.51%	0.64%
Total	**62,844**	**100.00%**	**1.13%**	61,159	100.00%	1.17%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans and advances (Continued)

(c) Impaired loans and advances by geographical area and industry

	As at 31 December					
	2012			2011		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland						
Corporate loans and advances						
Manufacturing	22,410	34.24%	1.73%	21,894	34.58%	1.77%
Commerce and services	9,359	14.30%	1.35%	7,752	12.25%	1.20%
Transportation and logistics	12,658	19.34%	2.15%	12,716	20.09%	2.36%
Real estate	2,670	4.08%	0.74%	1,850	2.92%	0.55%
Production and supply of electric power, gas and water	3,843	5.87%	1.03%	6,017	9.50%	1.49%
Mining	232	0.35%	0.12%	219	0.35%	0.12%
Water, environment and public utility management	29	0.04%	0.01%	394	0.62%	0.15%
Construction	572	0.87%	0.58%	281	0.44%	0.30%
Financial services	4	0.01%	0.01%	3	0.00%	0.01%
Public utilities	691	1.06%	1.07%	968	1.53%	1.32%
Other	227	0.35%	1.73%	188	0.31%	0.77%
Subtotal	52,695	80.51%	1.34%	52,282	82.59%	1.37%
Personal loans						
Mortgages	4,127	6.31%	0.36%	3,990	6.30%	0.39%
Credit cards	2,308	3.53%	1.53%	1,475	2.33%	1.65%
Other	3,714	5.67%	1.11%	3,412	5.39%	1.24%
Subtotal	10,149	15.51%	0.63%	8,877	14.02%	0.64%
Total for Chinese mainland	62,844	96.02%	1.13%	61,159	96.61%	1.17%
Hong Kong, Macau, Taiwan and Other countries and regions	2,611	3.98%	0.20%	2,147	3.39%	0.19%
Total	65,455	100.00%	0.95%	63,306	100.00%	1.00%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans and advances (Continued)

(d) Impaired loans and advances and related allowance by geographical area

	As at 31 December 2012			
	Impaired loans	**Individually assessed allowance**	**Collectively assessed allowance**	**Net**
Chinese mainland	**62,844**	**(37,187)**	**(9,121)**	**16,536**
Hong Kong, Macau and Taiwan	**1,691**	**(693)**	**(74)**	**924**
Other countries and regions	**920**	**(657)**	**(6)**	**257**
Total	**65,455**	**(38,537)**	**(9,201)**	**17,717**

	As at 31 December 2011			
	Impaired loans	Individually assessed allowance	Collectively assessed allowance	Net
Chinese mainland	61,159	(35,228)	(8,270)	17,661
Hong Kong, Macau and Taiwan	1,171	(613)	(79)	479
Other countries and regions	976	(424)	(10)	542
Total	63,306	(36,265)	(8,359)	18,682

For description of allowances on identified impaired loans, refer to Note V 16.3.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(3) Loans and advances rescheduled

Rescheduling (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 Group and a borrower and/or its guarantor, if any, rescheduled credit terms as a result of deterioration in the borrower's financial condition or of the borrower's inability to make payments when due. The Group reschedules a non-performing loan only if the borrower has good prospects. In addition, prior to approving the rescheduling of loans, the Group typically requires additional guarantees, pledges and/or collateral, or the assumption of the loan by a borrower with better repayment ability.

All rescheduled loans are classified as "substandard" or below. All rescheduled loans are subject to a surveillance period of six months. During the surveillance period, rescheduled loans remain as non-performing loans and the Group monitors the borrower's business operations and loan repayment patterns. After the surveillance period, rescheduled loans may be upgraded to "special-mention" upon review if certain criteria are met. If the rescheduled loans fall overdue or if the borrower is unable to demonstrate its repayment ability, these loans will be reclassified to "doubtful" or below. All rescheduled loans are determined to be impaired, therefore, there were no rescheduled loans that were not past due nor impaired as at 31 December 2012 and 2011.

As at 31 December 2012 and 2011, within impaired loans and advances, rescheduled loans and advances that were overdue for 90 days or less were insignificant.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(4) Overdue loans and advances to customers

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

Group

	As at 31 December 2012				
	Past due up to 90 days (inclusive)	Past due 91–360 days (inclusive)	Past due 361 days–3 years (inclusive)	Past due over 3 years	Total
Unsecured loans	7,736	1,973	1,136	3,153	13,998
Guaranteed loans	2,631	4,340	2,606	4,761	14,338
Collateralised and other secured loans					
— loans secured by property and other immovable assets	18,343	6,371	8,256	7,199	40,169
— other pledged loans	1,109	195	3,434	1,652	6,390
Total	29,819	12,879	15,432	16,765	74,895

	As at 31 December 2011				
	Past due up to 90 days (inclusive)	Past due 91–360 days (inclusive)	Past due 361 days–3 years (inclusive)	Past due over 3 years	Total
Unsecured loans	4,393	1,612	2,984	858	9,847
Guaranteed loans	2,234	1,524	3,203	4,770	11,731
Collateralised and other secured loans					
— loans secured by property and other immovable assets	21,985	6,970	5,399	7,302	41,656
— other pledged loans	1,113	1,268	807	1,708	4,896
Total	29,725	11,374	12,393	14,638	68,130

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(4) Overdue loans and advances to customers (Continued)

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

Bank

	As at 31 December 2012				
	Past due up to 90 days (inclusive)	Past due 91–360 days (inclusive)	Past due 361 days–3 years (inclusive)	Past due over 3 years	Total
Unsecured loans	6,818	1,895	1,066	3,138	12,917
Guaranteed loans	2,586	4,317	2,571	4,706	14,180
Collateralised and other secured loans					
— loans secured by property and other immovable assets	15,894	6,331	8,222	7,190	37,637
— other pledged loans	649	100	3,414	1,653	5,816
Total	25,947	12,643	15,273	16,687	70,550

	As at 31 December 2011				
	Past due up to 90 days (inclusive)	Past due 91–360 days (inclusive)	Past due 361 days–3 years (inclusive)	Past due over 3 years	Total
Unsecured loans	4,085	1,547	2,957	674	9,263
Guaranteed loans	2,180	1,503	3,184	4,724	11,591
Collateralised and other secured loans					
— loans secured by property and other immovable assets	19,735	6,942	5,374	7,074	39,125
— other pledged loans	533	1,246	799	1,701	4,279
Total	26,533	11,238	12,314	14,173	64,258

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(4) Overdue loans and advances to customers (Continued)

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

Chinese mainland

	As at 31 December 2012				
	Past due up to 90 days (inclusive)	Past due 91–360 days (inclusive)	Past due 361 days–3 years (inclusive)	Past due over 3 years	Total
Unsecured loans	6,754	1,894	1,018	3,132	12,798
Guaranteed loans	2,437	4,190	2,543	4,643	13,813
Collateralised and other secured loans					
— loans secured by property and other immovable assets	14,884	5,716	8,202	7,185	35,987
— other pledged loans	628	100	3,378	1,653	5,759
Total	24,703	11,900	15,141	16,613	68,357

	As at 31 December 2011				
	Past due up to 90 days (inclusive)	Past due 91–360 days (inclusive)	Past due 361 days–3 years (inclusive)	Past due over 3 years	Total
Unsecured loans	4,066	1,485	2,909	669	9,129
Guaranteed loans	1,962	1,503	3,120	4,725	11,310
Collateralised and other secured loans					
— loans secured by property and other immovable assets	18,047	6,939	5,328	7,070	37,384
— other pledged loans	521	1,104	799	1,700	4,124
Total	24,596	11,031	12,156	14,164	61,947

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(4) Overdue loans and advances to customers (Continued)

(ii) Analysis of overdue loans and advances by geographical area

	As at 31 December	
	2012	2011
Chinese mainland	**68,357**	61,947
Hong Kong, Macau and Taiwan	**5,407**	5,835
Other countries and regions	**1,131**	348
Subtotal	**74,895**	68,130
Less: total loans and advances to customers which have been overdue for less than 3 months	**(29,819)**	(29,725)
Total loans and advances to customers which have been overdue for more than 3 months	**45,076**	38,405
Individually assessed impairment allowance — for loans and advances to customers which have been overdue for more than 3 months	**(26,559)**	(24,679)

3.6 Due from and placements with and loans to banks and other financial institutions

Banks and other financial institutions comprise those institutions in Chinese mainland, Hong Kong, Macau, Taiwan and other countries and regions.

The Group monitors the credit risk of counterparties by collecting and analysing counterparty information and establishing credit limits taking into account the nature, size and credit rating of counterparties.

As at 31 December 2012, majority balances of due from and placements with and loans to banks and other financial institutions were with banks in Chinese mainland, including policy banks, large-sized and medium-sized commercial banks (Note V.11 and Note V.13). As at 31 December 2012, the majority of the credit ratings of the banks in Hong Kong, Macau, Taiwan and other countries and regions were above A.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities

The tables below represent an analysis of the carrying value of debt securities by credit or issuer rating and credit risk characteristic.

Group

	As at 31 December 2012					
	Unrated	AAA	AA	A	Lower than A	Total
Issuers in Chinese mainland						
— Government	–	–	784,499	1,668	–	786,167
— Public sector and quasi-governments	20,810	–	–	–	–	20,810
— Policy banks	–	–	27,749	322,328	–	350,077
— Financial institutions	2,434	360	88	75,966	22,296	101,144
— Corporate	183,358	19	4,224	40,036	16,586	244,223
— China Orient	160,000	–	–	–	–	160,000
Subtotal	366,602	379	816,560	439,998	38,882	1,662,421
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
— Governments	–	55,367	141,303	54,857	1,705	253,232
— Public sector and quasi-governments	11,725	25,338	19,139	209	310	56,721
— Financial institutions	874	31,867	62,982	49,985	16,680	162,388
— Corporate	8,717	2,008	1,729	17,397	7,413	37,264
Subtotal (1)	21,316	114,580	225,153	122,448	26,108	509,605
Total (2)	387,918	114,959	1,041,713	562,446	64,990	2,172,026

(1) Included mortgage backed securities as follows:

	As at 31 December 2012					
	Unrated	AAA	AA	A	Lower than A	Total
US subprime mortgage related debt securities	–	306	487	573	2,849	4,215
US Alt-A mortgage-backed securities	–	15	5	60	840	920
US Non-Agency mortgage-backed securities	–	15	92	106	1,585	1,798
Total	–	336	584	739	5,274	6,933

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities (Continued)

Group

	As at 31 December 2011					
	Unrated	AAA	AA	A	Lower than A	Total
Issuers in Chinese mainland						
— Government	–	–	734,964	1,551	–	736,515
— Public sector and quasi-governments	20,593	–	–	–	–	20,593
— Policy banks	6	–	9,636	318,329	–	327,971
— Financial institutions	4,385	347	311	35,754	5,363	46,160
— Corporate	140,890	248	3,203	38,498	16,186	199,025
— China Orient	160,000	–	–	–	–	160,000
Subtotal	325,874	595	748,114	394,132	21,549	1,490,264
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
— Governments	–	32,038	144,362	4,268	2,133	182,801
— Public sector and quasi-governments	179	30,975	20,537	872	474	53,037
— Financial institutions	227	51,229	74,155	64,763	13,083	203,457
— Corporate	6,076	2,949	1,783	15,595	6,239	32,642
Subtotal (1)	6,482	117,191	240,837	85,498	21,929	471,937
Total (2)	332,356	117,786	988,951	479,630	43,478	1,962,201

(1) Included mortgage backed securities as follows:

	As at 31 December 2011					
	Unrated	AAA	AA	A	Lower than A	Total
US subprime mortgage related debt securities	–	580	740	963	3,182	5,465
US Alt-A mortgage-backed securities	–	26	48	29	1,209	1,312
US Non-Agency mortgage-backed securities	–	212	73	153	2,633	3,071
Total	–	818	861	1,145	7,024	9,848

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities (Continued)

Bank

	As at 31 December 2012					
	Unrated	AAA	AA	A	Lower than A	Total
Issuers in Chinese mainland						
— Government	–	–	772,792	1,668	–	774,460
— Public sector and quasi-governments	19,715	–	–	–	–	19,715
— Policy banks	–	–	50	320,335	–	320,385
— Financial institutions	1,760	360	–	43,413	18,906	64,439
— Corporate	171,057	–	2,000	35,117	11,880	220,054
— China Orient	160,000	–	–	–	–	160,000
Subtotal	352,532	360	774,842	400,533	30,786	1,559,053
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
— Governments	–	9,267	105,686	4,579	800	120,332
— Public sector and quasi-governments	9,151	214	10,937	209	310	20,821
— Financial institutions	328	7,933	17,448	14,635	6,912	47,256
— Corporate	638	256	411	2,942	3,164	7,411
Subtotal (1)	10,117	17,670	134,482	22,365	11,186	195,820
Total (2)	362,649	18,030	909,324	422,898	41,972	1,754,873

(1) Included mortgage backed securities as follows:

	As at 31 December 2012					
	Unrated	AAA	AA	A	Lower than A	Total
US subprime mortgage related debt securities	–	238	462	568	2,849	4,117
US Alt-A mortgage-backed securities	–	–	–	60	807	867
US Non-Agency mortgage-backed securities	–	15	77	56	1,562	1,710
Total	–	253	539	684	5,218	6,694

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities (Continued)

Bank

	As at 31 December 2011					
	Unrated	AAA	AA	A	Lower than A	Total
Issuers in Chinese mainland						
— Government	–	–	713,945	1,551	–	715,496
— Public sector and quasi-governments	20,088	–	–	–	–	20,088
— Policy banks	–	–	96	317,802	–	317,898
— Financial institutions	631	347	311	28,588	4,146	34,023
— Corporate	136,310	248	1,984	36,778	14,239	189,559
— China Orient	160,000	–	–	–	–	160,000
Subtotal	317,029	595	716,336	384,719	18,385	1,437,064
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
— Governments	–	10,738	73,656	123	648	85,165
— Public sector and quasi-governments	166	641	13,051	840	356	15,054
— Financial institutions	220	16,778	15,966	27,987	5,772	66,723
— Corporate	607	696	522	3,480	3,899	9,204
Subtotal (1)	993	28,853	103,195	32,430	10,675	176,146
Total (2)	318,022	29,448	819,531	417,149	29,060	1,613,210

(1) Included mortgage backed securities as follows:

	As at 31 December 2011					
	Unrated	AAA	AA	A	Lower than A	Total
US subprime mortgage related debt securities	–	458	713	887	3,182	5,240
US Alt-A mortgage-backed securities	–	7	38	29	1,142	1,216
US Non-Agency mortgage-backed securities	–	160	70	77	2,567	2,874
Total	–	625	821	993	6,891	9,330

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities (Continued)

(2) The Group's Available for sale and Held to maturity debt securities are individually assessed for impairment. The Group's accumulated impairment charges on Available for sale and Held to maturity debt securities at 31 December 2012 amounted to RMB3,591 million and RMB306 million, respectively (31 December 2011: RMB9,135 million and RMB354 million). The carrying value of the available for sale and held to maturity debt securities considered impaired as at 31 December 2012 were RMB5,856 million and RMB638 million, respectively (31 December 2011: RMB8,323 million and RMB957 million).

3.8 Derivatives

The credit risk weighted amounts represent the counterparty credit risk associated with derivative transactions and are calculated with reference to the guidelines issued by the CBRC or Hong Kong Monetary Authority as appropriate and are dependent on, among other factors, the creditworthiness of the customer and the maturity characteristics of each type of contract. The amounts disclosed below differ from the carrying amount at fair value and the maximum exposure to credit risk disclosed in Note VI.3.4.

Credit risk weighted amounts

	As at 31 December			
	Group		Bank	
	2012	2011	**2012**	2011
Exchange rate derivatives				
Currency forwards and swaps, and cross-currency interest rate swaps	**8,610**	13,848	**5,731**	12,174
Currency options	**58**	153	**50**	147
Interest rate derivatives				
Interest rate swaps	**4,073**	5,826	**3,369**	4,302
Interest rate options	**–**	10	**–**	9
Equity derivatives	**31**	4	**–**	–
Commodity derivatives	**9**	17	**5**	5
	12,781	19,858	**9,155**	16,637

The credit risk weighted amounts stated above have not taken into account any effects of netting arrangements.

3.9 Repossessed assets

The Group obtained assets by taking possession of collateral held as security. Detailed information of such repossessed assets of the Group is disclosed in Note V.22.

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk

4.1 Overview

The Group is exposed to market risks that may cause losses to the Group 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. Both the Group's trading book and banking book face market risks. The trading book consists of positions in financial instruments and commodities that are held with trading intent or in order to hedge other elements of the trading book. The banking book consists of financial instruments not included in the trading book (including those financial instruments purchased with surplus funds and managed in the investment book).

The Board of Directors of the Group takes the ultimate responsibility for the oversight of market risk management, including the approval of market risk management policies and procedures and the determination of market risk tolerance. Senior management is responsible for execution of such policies and ensuring that the level of market risk is within the risk appetite determined by the Board, while meeting the Group's business objectives.

The Risk Management Unit is responsible for the identification, measurement, monitoring, control and reporting of market risks on a Group basis. Business units are responsible for monitoring and reporting of market risk within their respective business lines.

4.2 Market risk measurement techniques and limits

(1) Trading book

Market risk in trading book is managed by establishing Value at Risk (VaR) limits. Total exposures, stress testing and utilisation of VaR are monitored on a daily basis for each trading desk and dealer.

VaR is used to estimate the largest potential loss arising from adverse market movements in a specific holding period and within a certain confidence level.

VaR is performed separately by the Bank and its major subsidiaries that are exposed to market risk, BOC Hong Kong (Holdings) Limited ("BOCHK") and BOC International Holdings Limited ("BOCI"). The Bank, BOCHK and BOCI used a 99% level of confidence (therefore 1% statistical probability that actual losses could be greater than the VaR estimate) and a historical simulation model to calculate the VaR estimate. The holding period of the VaR calculations is one day. To enhance the Group's market risk management, the Group has established the market risk data mart, which enabled Group level trading book VaR calculation on a daily basis.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

Accuracy and reliability of the VaR model is verified by daily back-testing the VaR result on trading book. The back-testing results are regularly reported to senior management.

Stress testing is performed based on the characteristics of trading transactions to simulate and estimate losses in adverse and exceptional market conditions. The Group sets stress testing limits, adjusts and enhances the scenarios for stress testing taking into account financial market fluctuations in order to capture the potential impact of market price fluctuations and volatility on the trading book, enhancing the Group's market risk management capabilities.

The table below shows the VaR of the trading book by types of risk during the years ended 31 December 2012 and 2011:

Unit: USD million

	Year ended 31 December					
	2012			2011		
	Average	High	Low	Average	High	Low
Bank trading VaR						
Interest rate risk	**2.55**	**3.65**	**1.73**	1.37	3.04	0.47
Foreign exchange risk	**1.88**	**7.63**	**0.44**	0.61	10.67	0.12
Volatility risk	**0.03**	**0.10**	**0.00**	0.02	0.12	0.01
Total Bank trading VaR	**2.85**	**7.94**	**2.06**	1.49	10.96	0.60

The Bank's VaR for the year ended 31 December 2012 and 2011 was calculated on Group trading positions, excluding those of BOCHK and BOCI and excluding foreign currency against RMB transactions.

The reporting of risk in relation to bullion is included in foreign exchange risk above. The exposure of the Bank to potential price movement in other commodity financial instruments and the related potential impact to the Bank's income statement are considered to be insignificant.

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

Unit: USD million

	Year ended 31 December					
	2012			2011		
	Average	High	Low	Average	High	Low
BOCHK trading VaR						
Interest rate risk	**2.28**	**3.80**	**1.14**	1.00	1.41	0.63
Foreign exchange risk	**2.15**	**3.31**	**1.19**	1.25	2.45	0.27
Equity risk	**0.05**	**0.29**	**0.00**	0.02	0.17	0.00
Commodity risk	**0.03**	**0.21**	**0.00**	0.01	0.09	0.00
Total BOCHK trading VaR (i)	**3.27**	**4.52**	**1.89**	1.56	2.65	0.87
BOCI trading VaR (ii)						
Equity derivatives unit	**0.40**	**1.04**	**0.11**	1.47	3.33	0.32
Fixed income unit	**0.96**	**2.22**	**0.53**	2.10	3.22	0.79

(i) BOCHK's trading VaR for the year ended 31 December 2012 and 2011 was calculated including its subsidiaries of Nanyang Commercial Bank, Limited, BOC Credit Card (International) Limited and Chiyu Banking Corporation Limited.

(ii) BOCI monitors its trading VaR for equity derivatives unit and fixed income unit separately, which include equity risk, interest rate risk and foreign exchange risk.

VaR for each risk factor is the independently derived largest potential loss in a specific holding period and within a certain confidence level due to fluctuations solely in that risk factor. The individual VaRs did not add up to the total VaR as there was diversification effect due to correlation amongst the risk factors.

(2) Banking book

The banking book is exposed to interest rate risk arising from mismatches in maturities, repricing periods and inconsistent adjustments between the benchmark interest rates of assets and liabilities.

The Group takes on exposure to interest rate risk and fluctuations in market interest rates will impact the Group's financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses. Currently, benchmark interest rates for RMB loans and deposits in the Chinese mainland are set by the PBOC and the Group's operations in Chinese 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. This significantly mitigates the exposure of the Group to RMB interest rate risk. However, there is no guarantee that the PBOC will continue this practice in future.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(2) Banking book (Continued)

The Group manages interest rate risk in the banking book primarily through interest rate repricing gap analysis. Interest rate repricing gap analysis measures the difference between the amount of interest-earning assets and interest-bearing liabilities that mature or must be repriced within certain periods and is used to generate indicators of interest rate risk sensitivity of earnings to changing interest rates. The interest rate gap analysis is set out in Note VI.4.3 and also covers the trading book.

Sensitivity analysis on Net interest income

The Group 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. The Group calculates the change in net interest income during the year due to a parallel move in the RMB, USD and HKD, and monitors this as a percentage of the net interest income budget for the year. Limits of the net interest income change are set as a percentage of net interest income budget for the Group's commercial banking operations (excluding BOC Hong Kong and Tai Fung Bank Limited) and are approved by the Board and monitored by the Risk Management Unit on a monthly basis.

The table below illustrates the potential impact of a 25 basis points interest rate move on the net interest income of the Group. The actual situation may be different from the assumptions used and it is possible that actual outcomes could differ from the estimated impact on net interest income of the Group.

	(Decrease)/increase in Net interest income As at 31 December	
	2012	2011
+ 25 basis points parallel move in all yield curves	**(2,278)**	(2,332)
– 25 basis points parallel move in all yield curves	**2,278**	2,332

Given the nature of demand deposits, their interest rate fluctuations are less volatile than those of other products. Had the impact of yield curves movement on interest expenses related to demand deposits been excluded, the net interest income for the next twelve months from the reporting date would increase or decrease by RMB7,708 million (2011: RMB7,028 million) for every 25 basis points upwards or downwards parallel shift, respectively.

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis

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

Group

	As at 31 December 2012						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	219,410	135,208	314,942	31,167	–	74,847	775,574
Balances with central banks	1,876,905	447	189	25	–	56,731	1,934,297
Placements with and loans to banks and other financial institutions	195,821	84,274	163,214	3,990	–	–	447,299
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	70,554	70,554
Precious metals	–	–	–	–	–	150,534	150,534
Financial assets at fair value through profit or loss	10,946	5,217	9,956	30,052	12,886	2,533	71,590
Derivative financial assets	–	–	–	–	–	40,188	40,188
Loans and advances to customers, net	1,679,050	1,593,215	3,214,918	53,154	32,853	136,850	6,710,040
Investment securities							
— available for sale	82,909	129,969	107,435	221,121	113,286	31,680	686,400
— held to maturity	35,171	71,813	265,339	505,125	305,632	–	1,183,080
— loans and receivables	1,604	6,015	25,998	20,855	214,982	–	269,454
Investment in associates and joint ventures	–	–	–	–	–	12,382	12,382
Property and equipment	–	–	–	–	–	150,324	150,324
Investment properties	–	–	–	–	–	17,142	17,142
Deferred income tax assets	–	–	–	–	–	21,292	21,292
Other assets	3,352	5,467	8,074	–	–	123,572	140,465
Total assets	4,105,168	2,031,625	4,110,065	865,489	679,639	888,629	12,680,615
Liabilities							
Due to banks and other financial institutions	931,428	196,750	194,344	95,447	–	135,223	1,553,192
Due to central banks	88,137	7,746	32,038	–	–	2,101	130,022
Bank notes in circulation	–	–	–	–	–	70,733	70,733
Placements from banks and other financial institutions	198,660	71,078	43,266	–	–	–	313,004
Derivative financial liabilities	–	–	–	–	–	32,457	32,457
Due to customers	5,320,214	996,436	1,858,379	896,180	4,687	98,099	9,173,995
Bonds issued	726	3,879	6,048	72,047	116,433	–	199,133
Other borrowings	7,675	17,664	5,775	2,931	–	–	34,045
Current tax liabilities	–	–	–	–	–	34,994	34,994
Retirement benefit obligations	–	–	–	–	–	5,642	5,642
Deferred income tax liabilities	–	–	–	–	–	3,838	3,838
Other liabilities	8,895	3,634	2,742	217	113	252,417	268,018
Total liabilities	6,555,735	1,297,187	2,142,592	1,066,822	121,233	635,504	11,819,073
Total interest repricing gap	(2,450,567)	734,438	1,967,473	(201,333)	558,406	253,125	861,542

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Group

	As at 31 December 2011						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	207,347	88,251	202,897	30,121	50	62,298	590,964
Balances with central banks	1,869,868	273	–	9	–	49,501	1,919,651
Placements with and loans to banks and other financial institutions	278,478	86,170	250,489	3,229	–	–	618,366
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	56,108	56,108
Precious metals	–	–	–	–	–	95,907	95,907
Financial assets at fair value through profit or loss	5,608	9,059	9,937	28,319	15,768	5,116	73,807
Derivative financial assets	–	–	–	–	–	42,757	42,757
Loans and advances to customers, net	1,585,217	1,628,956	2,810,116	59,659	36,395	82,795	6,203,138
Investment securities							
— available for sale	75,059	84,084	86,657	196,424	81,868	29,226	553,318
— held to maturity	51,151	77,425	238,738	468,338	238,464	–	1,074,116
— loans and receivables	8,730	5,741	49,202	26,864	208,981	–	299,518
Investment in associates and joint ventures	–	–	–	–	–	13,293	13,293
Property and equipment	–	–	–	–	–	138,234	138,234
Investment properties	–	–	–	–	–	14,616	14,616
Deferred income tax assets	–	–	–	–	–	19,264	19,264
Other assets	947	1,177	2,835	–	–	111,773	116,732
Total assets	4,082,405	1,981,136	3,650,871	812,963	581,526	720,888	11,829,789
Liabilities							
Due to banks and other financial institutions	899,641	93,217	183,537	99,484	9,269	85,795	1,370,943
Due to central banks	41,922	7,525	32,006	–	–	3	81,456
Bank notes in circulation	–	–	–	–	–	56,259	56,259
Placements from banks and other financial institutions	177,018	66,946	21,874	–	–	–	265,838
Derivative financial liabilities	–	–	–	–	–	35,473	35,473
Due to customers	5,343,548	1,097,205	1,700,382	572,183	15,707	88,936	8,817,961
Bonds issued	78	16	3,816	67,541	98,451	–	169,902
Other borrowings	8,386	13,046	4,735	–	–	557	26,724
Current tax liabilities	–	–	–	–	–	29,353	29,353
Retirement benefit obligations	–	–	–	–	–	6,086	6,086
Deferred income tax liabilities	–	–	–	–	–	2,966	2,966
Other liabilities	837	316	615	383	18	207,522	209,691
Total liabilities	6,471,430	1,278,271	1,946,965	739,591	123,445	512,950	11,072,652
Total interest repricing gap	(2,389,025)	702,865	1,703,906	73,372	458,081	207,938	757,137

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Bank

	As at 31 December 2012						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	208,883	130,489	309,114	30,209	–	66,898	745,593
Balances with central banks	1,804,775	314	189	25	–	54,059	1,859,362
Placements with and loans to banks and other financial institutions	189,854	75,801	165,411	4,417	–	–	435,483
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	3,314	3,314
Precious metals	–	–	–	–	–	145,174	145,174
Financial assets at fair value through profit or loss	1,685	1,154	4,353	15,222	6,959	281	29,654
Derivative financial assets	–	–	–	–	–	15,939	15,939
Loans and advances to customers, net	1,128,820	1,492,224	3,162,905	42,977	32,080	131,564	5,990,570
Investment securities							
— available for sale	26,742	41,671	62,527	114,807	59,360	1,903	307,010
— held to maturity	31,317	65,436	264,240	498,332	304,091	–	1,163,416
— loans and receivables	415	3,462	21,548	20,855	214,982	–	261,262
Investment in subsidiaries	–	–	–	–	–	87,274	87,274
Investment in associates and joint ventures	–	–	–	–	–	55	55
Property and equipment	–	–	–	–	–	81,223	81,223
Investment properties	–	–	–	–	–	1,474	1,474
Deferred income tax assets	–	–	–	–	–	22,084	22,084
Other assets	3,246	5,367	8,074	–	–	76,546	93,233
Total assets	3,395,737	1,815,918	3,998,361	726,844	617,472	687,788	11,242,120
Liabilities							
Due to banks and other financial institutions	885,293	199,457	212,884	95,451	–	123,773	1,516,858
Due to central banks	78,481	7,746	32,035	–	–	–	118,262
Bank notes in circulation	–	–	–	–	–	3,494	3,494
Placements from banks and other financial institutions	184,353	76,443	52,320	–	–	–	313,116
Derivative financial liabilities	–	–	–	–	–	16,382	16,382
Due to customers	4,524,422	882,873	1,766,844	890,278	4,657	42,000	8,111,074
Bonds issued	722	3,879	7,569	67,338	98,930	–	178,438
Current tax liabilities	–	–	–	–	–	32,900	32,900
Retirement benefit obligations	–	–	–	–	–	5,642	5,642
Deferred income tax liabilities	–	–	–	–	–	186	186
Other liabilities	6,272	–	–	–	–	166,092	172,364
Total liabilities	5,679,543	1,170,398	2,071,652	1,053,067	103,587	390,469	10,468,716
Total interest repricing gap	(2,283,806)	645,520	1,926,709	(326,223)	513,885	297,319	773,404

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Bank

	As at 31 December 2011						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	211,889	83,414	195,010	30,000	–	55,842	576,155
Balances with central banks	1,736,809	273	–	9	–	48,061	1,785,152
Placements with and loans to banks and other financial institutions	249,611	79,694	244,116	3,229	583	–	577,233
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	2,691	2,691
Precious metals	–	–	–	–	–	91,642	91,642
Financial assets at fair value through profit or loss	1,239	879	5,999	17,467	6,108	195	31,887
Derivative financial assets	–	–	–	–	–	20,969	20,969
Loans and advances to customers, net	1,099,389	1,521,498	2,761,705	50,216	35,493	78,504	5,546,805
Investment securities							
— available for sale	25,198	30,690	52,407	117,615	43,818	1,636	271,364
— held to maturity	45,225	62,721	231,627	453,571	232,476	–	1,025,620
— loans and receivables	5,473	3,778	45,291	26,864	208,981	–	290,387
Investment in subsidiaries	–	–	–	–	–	83,789	83,789
Investment in associates and joint ventures	–	–	–	–	–	48	48
Property and equipment	–	–	–	–	–	74,529	74,529
Investment properties	–	–	–	–	–	1,280	1,280
Deferred income tax assets	–	–	–	–	–	19,648	19,648
Other assets	944	1,177	2,835	–	–	74,682	79,638
Total assets	3,375,777	1,784,124	3,538,990	698,971	527,459	553,516	10,478,837
Liabilities							
Due to banks and other financial institutions	794,830	94,837	195,762	99,977	9,269	78,886	1,273,561
Due to central banks	34,320	7,525	32,002	–	–	–	73,847
Bank notes in circulation	–	–	–	–	–	2,842	2,842
Placements from banks and other financial institutions	182,674	81,445	40,190	–	–	–	304,309
Derivative financial liabilities	–	–	–	–	–	17,387	17,387
Due to customers	4,584,888	971,501	1,628,888	563,894	15,574	42,155	7,806,900
Bonds issued	–	–	4,200	63,141	80,930	–	148,271
Current tax liabilities	–	–	–	–	–	26,527	26,527
Retirement benefit obligations	–	–	–	–	–	6,086	6,086
Deferred income tax liabilities	–	–	–	–	–	124	124
Other liabilities	620	–	–	–	–	133,149	133,769
Total liabilities	5,597,332	1,155,308	1,901,042	727,012	105,773	307,156	9,793,623
Total interest repricing gap	(2,221,555)	628,816	1,637,948	(28,041)	421,686	246,360	685,214

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk

The Group manages its exposure to currency exchange risk through management of its net foreign currency position and monitors its foreign currency risk on trading books using VaR (Note VI 4.2).

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. The major subsidiary, Bank of China Hong Kong (Group) Limited, conducts the majority of its business in HKD, RMB and USD. The Group conducts the majority of its foreign currency transactions in USD.

In 2005, the PRC Government introduced a managed floating exchange rate system to allow the value of the RMB to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies.

The Group endeavours to manage its sources and uses of foreign currencies to minimise potential mismatches in accordance with management directives. However, the Group's ability to manage its foreign currency positions in relation to the RMB is limited as the RMB is not a freely convertible currency. The PRC government's current foreign currency regulations require the conversion of foreign currency to be approved by relevant PRC government authorities.

The Group entered into certain foreign exchange transactions as part of asset and liability management and funding requirements including foreign currency deposit taking, placements, foreign currency bond issuance and derivatives.

The Group conducts sensitivity analysis on the net foreign currency position, to identify the impact to the income statement of potential movements in foreign currency exchange rates against the RMB and against functional currencies of its foreign operations that are not in RMB (in relation to which the principal exposure is to foreign currency movements against the HKD). The impact of fluctuations (e.g. 1 percent fluctuation) in exchange rates is not considered by management to be significant to the income statement. Such analysis does not take into account the correlation effect of changes in different foreign currencies, any further actions that may have been or could be taken by management after the financial reporting date, subject to the approval by the PRC government, to mitigate the effect of exchange differences, nor for any consequential changes in the foreign currency positions.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

The tables below summarise the Group's and the Bank's exposure to foreign currency exchange rate risk as at 31 December 2012 and 2011. The Group's and the Bank's exposure to RMB is provided in the tables below for comparison purposes. Included in the table are the carrying amounts of the assets and liabilities of the Group and the Bank along with off-balance sheet positions and credit commitments in RMB equivalent, categorised by the original currencies. Derivative financial instruments are included in the net off-balance sheet position using notional amounts.

Group

	As at 31 December 2012							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	518,287	220,997	8,157	10,989	1,777	2,632	12,735	775,574
Balances with central banks	1,685,566	150,441	2,428	65,972	9,550	47	20,293	1,934,297
Placements with and loans to banks and other financial institutions	307,661	69,515	8,903	6,517	4,057	24,761	25,885	447,299
Government certificates of indebtedness for bank notes issued	–	–	67,240	–	–	–	3,314	70,554
Precious metals	–	–	5,360	–	–	–	145,174	150,534
Financial assets at fair value through profit or loss	12,114	31,122	27,065	1,069	87	–	133	71,590
Derivative financial assets	5,601	10,936	20,656	770	160	930	1,135	40,188
Loans and advances to customers, net	5,111,675	943,794	501,062	46,102	13,700	10,212	83,495	6,710,040
Investment securities								
— available for sale	226,486	246,743	102,142	11,319	63,775	302	35,633	686,400
— held to maturity	1,095,327	74,163	4,783	2,720	2,425	–	3,662	1,183,080
— loans and receivables	252,409	4,569	2	–	–	1,204	11,270	269,454
Investment in associates and joint ventures	5,716	1,523	5,143	–	–	–	–	12,382
Property and equipment	80,325	53,228	12,185	132	1,160	1,438	1,856	150,324
Investment properties	5,930	–	9,592	–	–	–	1,620	17,142
Deferred income tax assets	20,551	448	158	–	–	–	135	21,292
Other assets	104,249	16,110	15,266	1,124	275	865	2,576	140,465
Total assets	9,431,897	1,823,589	790,142	146,714	96,966	42,391	348,916	12,680,615
Liabilities								
Due to banks and other financial institutions	992,268	371,410	20,011	28,985	8,285	3,797	128,436	1,553,192
Due to central banks	890	120,372	8,757	–	–	–	3	130,022
Bank notes in circulation	–	–	67,239	–	–	–	3,494	70,733
Placements from banks and other financial institutions	154,230	140,086	10,289	2,197	175	2,551	3,476	313,004
Derivative financial liabilities	4,052	11,545	13,530	936	395	927	1,072	32,457
Due to customers	7,268,004	739,364	720,594	169,878	29,110	53,304	193,741	9,173,995
Bonds issued	170,539	28,591	3	–	–	–	–	199,133
Other borrowings	–	34,045	–	–	–	–	–	34,045
Current tax liabilities	32,577	16	1,493	52	125	113	618	34,994
Retirement benefit obligations	5,642	–	–	–	–	–	–	5,642
Deferred income tax liabilities	1,268	1,003	1,384	10	1	–	172	3,838
Other liabilities	179,427	23,388	59,719	1,352	360	931	2,841	268,018
Total liabilities	8,808,897	1,469,820	903,019	203,410	38,451	61,623	333,853	11,819,073
Net on-balance sheet position	623,000	353,769	(112,877)	(56,696)	58,515	(19,232)	15,063	861,542
Net off-balance sheet position	143,353	(320,960)	170,678	54,470	(55,018)	20,317	(3,228)	9,612
Credit commitments	1,438,619	612,942	124,165	71,743	8,751	12,733	48,552	2,317,505

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Group

	As at 31 December 2011							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	440,755	113,207	10,914	8,344	3,202	934	13,608	590,964
Balances with central banks	1,727,847	107,088	2,564	52,434	12,904	2	16,812	1,919,651
Placements with and loans to banks and other financial institutions	515,092	50,717	10,451	20,202	1,663	3,584	16,657	618,366
Government certificates of indebtedness for bank notes issued	–	–	53,417	–	–	–	2,691	56,108
Precious metals	–	–	4,265	–	–	–	91,642	95,907
Financial assets at fair value through profit or loss	11,616	30,823	28,992	2,272	–	25	79	73,807
Derivative financial assets	12,636	9,615	16,897	820	642	662	1,485	42,757
Loans and advances to customers, net	4,652,867	951,297	465,590	39,950	23,034	9,587	60,813	6,203,138
Investment securities								
— available for sale	170,222	209,612	79,260	18,793	37,942	202	37,287	553,318
— held to maturity	1,005,878	44,399	10,392	5,348	2,692	1	5,406	1,074,116
— loans and receivables	280,688	1,359	–	1,526	–	3,763	12,182	299,518
Investment in associates and joint ventures	6,986	1,486	4,821	–	–	–	–	13,293
Property and equipment	73,511	46,878	13,237	128	1,293	1,364	1,823	138,234
Investment properties	4,858	–	8,370	–	–	–	1,388	14,616
Deferred income tax assets	18,547	348	217	–	–	–	152	19,264
Other assets	84,246	15,589	11,894	1,401	557	1,124	1,921	116,732
Total assets	9,005,749	1,582,418	721,281	151,218	83,929	21,248	263,946	11,829,789
Liabilities								
Due to banks and other financial institutions	908,820	348,387	9,945	11,721	8,699	1,571	81,800	1,370,943
Due to central banks	94	73,964	7,398	–	–	–	–	81,456
Bank notes in circulation	–	–	53,417	–	–	–	2,842	56,259
Placements from banks and other financial institutions	94,957	134,341	8,260	20,919	2,271	1,767	3,323	265,838
Derivative financial liabilities	6,150	12,054	13,324	1,419	549	778	1,199	35,473
Due to customers	7,282,091	584,531	608,878	114,031	21,418	33,991	173,021	8,817,961
Bonds issued	147,416	22,391	95	–	–	–	–	169,902
Other borrowings	–	26,724	–	–	–	–	–	26,724
Current tax liabilities	25,851	24	2,047	240	121	632	438	29,353
Retirement benefit obligations	6,086	–	–	–	–	–	–	6,086
Deferred income tax liabilities	986	826	1,048	5	2	–	99	2,966
Other liabilities	140,857	18,171	45,498	1,165	363	1,325	2,312	209,691
Total liabilities	8,613,308	1,221,413	749,910	149,500	33,423	40,064	265,034	11,072,652
Net on-balance sheet position	392,441	361,005	(28,629)	1,718	50,506	(18,816)	(1,088)	757,137
Net off-balance sheet position	238,471	(313,727)	94,009	(1,118)	(47,912)	20,247	17,294	7,264
Credit commitments	1,459,915	637,218	79,428	70,475	12,502	9,028	43,306	2,311,872

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Bank

	As at 31 December 2012							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	484,686	217,421	18,040	9,970	1,566	2,424	11,486	745,593
Balances with central banks	1,618,403	149,368	1,733	65,807	9,550	47	14,454	1,859,362
Placements with and loans to banks and other financial institutions	296,700	55,587	21,617	11,258	4,057	23,402	22,862	435,483
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	–	3,314	3,314
Precious metals	–	–	–	–	–	–	145,174	145,174
Financial assets at fair value through profit or loss	7,149	21,441	–	1,064	–	–	–	29,654
Derivative financial assets	5,717	7,876	–	754	154	910	528	15,939
Loans and advances to customers, net	5,029,994	783,657	55,918	40,216	12,815	7,232	60,738	5,990,570
Investment securities								
— available for sale	176,561	91,888	18,333	4,465	709	–	15,054	307,010
— held to maturity	1,093,628	65,488	88	2,720	877	–	615	1,163,416
— loans and receivables	251,489	1,070	1	–	–	–	8,702	261,262
Investment in subsidiaries	2,243	5,420	73,832	1,717	–	3,223	839	87,274
Investment in associates and joint ventures	–	–	–	–	–	–	55	55
Property and equipment	77,265	147	–	130	1,160	1,398	1,123	81,223
Investment properties	–	–	–	–	–	–	1,474	1,474
Deferred income tax assets	21,529	443	7	–	–	–	105	22,084
Other assets	82,891	7,544	843	531	68	192	1,164	93,233
Total assets	9,148,255	1,407,350	190,412	138,632	30,956	38,828	287,687	11,242,120
Liabilities								
Due to banks and other financial institutions	966,248	369,530	10,515	30,023	8,378	3,921	128,243	1,516,858
Due to central banks	813	110,659	6,790	–	–	–	–	118,262
Bank notes in circulation	–	–	–	–	–	–	3,494	3,494
Placements from banks and other financial institutions	157,481	144,188	2,678	2,197	212	2,551	3,809	313,116
Derivative financial liabilities	4,045	9,709	1	630	392	925	680	16,382
Due to customers	7,069,912	520,927	158,091	159,306	26,262	41,124	135,452	8,111,074
Bonds issued	170,929	7,509	–	–	–	–	–	178,438
Current tax liabilities	32,078	11	28	50	125	51	557	32,900
Retirement benefit obligations	5,642	–	–	–	–	–	–	5,642
Deferred income tax liabilities	–	15	–	10	1	–	160	186
Other liabilities	160,983	6,594	1,589	1,429	98	286	1,385	172,364
Total Liabilities	8,568,131	1,169,142	179,692	193,645	35,468	48,858	273,780	10,468,716
Net on-balance sheet position	580,124	238,208	10,720	(55,013)	(4,512)	(10,030)	13,907	773,404
Net off-balance sheet position	176,160	(219,629)	(5,981)	44,740	6,087	11,596	(10,422)	2,551
Credit commitments	1,435,727	580,714	69,393	69,335	8,321	10,403	39,432	2,213,325

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Bank

	As at 31 December 2011							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	415,566	112,853	22,691	8,031	3,001	735	13,278	576,155
Balances with central banks	1,600,157	106,544	1,549	52,399	12,904	2	11,597	1,785,152
Placements with and loans to banks and other financial institutions	471,321	47,950	15,334	24,351	284	3,797	14,196	577,233
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	–	2,691	2,691
Precious metals	–	–	–	–	–	–	91,642	91,642
Financial assets at fair value through profit or loss	9,176	20,439	–	2,272	–	–	–	31,887
Derivative financial assets	12,027	7,049	–	808	172	624	289	20,969
Loans and advances to customers, net	4,606,401	773,196	59,329	36,632	21,545	7,523	42,179	5,546,805
Investment securities								
— available for sale	147,225	89,235	7,513	10,576	1,861	–	14,954	271,364
— held to maturity	991,871	27,886	171	4,464	973	–	255	1,025,620
— loans and receivables	280,688	1,359	–	–	–	–	8,340	290,387
Investment in subsidiaries	2,189	4,221	73,831	584	–	2,126	838	83,789
Investment in associates and joint ventures	–	–	–	–	–	–	48	48
Property and equipment	70,527	145	–	125	1,293	1,356	1,083	74,529
Investment properties	–	–	–	–	–	–	1,280	1,280
Deferred income tax assets	19,166	348	12	–	–	–	122	19,648
Other assets	67,907	8,848	438	870	237	584	754	79,638
Total assets	8,694,221	1,200,073	180,868	141,112	42,270	16,747	203,546	10,478,837
Liabilities								
Due to banks and other financial institutions	816,203	346,046	5,682	12,616	8,840	1,618	82,556	1,273,561
Due to central banks	22	67,419	6,406	–	–	–	–	73,847
Bank notes in circulation	–	–	–	–	–	–	2,842	2,842
Placements from banks and other financial institutions	126,868	143,641	4,836	21,781	2,316	2,588	2,279	304,309
Derivative financial liabilities	5,434	9,530	1	1,011	74	768	569	17,387
Due to customers	7,075,444	376,645	101,453	101,221	19,395	19,546	113,196	7,806,900
Bonds issued	148,131	140	–	–	–	–	–	148,271
Current tax liabilities	25,278	8	6	232	121	504	378	26,527
Retirement benefit obligations	6,086	–	–	–	–	–	–	6,086
Deferred income tax liabilities	–	20	–	5	2	–	97	124
Other liabilities	125,525	4,018	1,037	779	126	650	1,634	133,769
Total Liabilities	8,328,991	947,467	119,421	137,645	30,874	25,674	203,551	9,793,623
Net on-balance sheet position	365,230	252,606	61,447	3,467	11,396	(8,927)	(5)	685,214
Net off-balance sheet position	237,260	(219,640)	(26,544)	(2,591)	(8,388)	10,737	12,464	3,298
Credit commitments	1,457,207	604,525	37,393	68,407	11,769	7,869	37,360	2,224,530

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.5 Price Risk

The Group is exposed to equity risk on its available for sale listed equity securities. As at 31 December 2012, a 5 percentage variance in listed equity prices from the year end price would impact the fair value of available for sale listed equity positions by RMB226 million (31 December 2011: RMB274 million). For those available for sale equities considered impaired, the impact would be taken to the income statement. The Group is also exposed to commodity risk, mainly related to bullion. The Group manages such risk together with foreign exchange risk (Note VI.4.2).

5 Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to timely obtain adequate funds at a reasonable cost, to maintain its asset growth, pay off debts upon maturity or meet other settlement obligations. The Group's objective in liquidity risk management is to enhance the liquidity of assets and stability of funding sources and maintain a reasonable liquidity level pursuant to the guiding principle of achieving a balance amongst "liquidity, safety and profitability".

5.1 Liquidity risk management policy and process

The Group adopts a liquidity risk management model that incorporates both centralised and decentralised elements. The Head Office is ultimately responsible for managing the Group's overall liquidity risk, while the branches and subsidiaries managing their own liquidity risk pursuant to the Head Office's policies within authorised scope.

The Group considers liquidity risk management a significant component of asset-liability management, and determines the size, structure and duration of assets and liabilities consistent with the principle of overall balance between assets and liabilities. The Group establishes its liquidity portfolio to mitigate liquidity risk, and to minimise the gaps in the amount and duration between the funding sources and the uses of funds. The Group refines its financing strategy, taking into consideration of various factors including customer risk sensitivity, financing cost and concentration of funding sources. In addition, the Group prioritises the development of customer deposits, dynamically adjusts the structure of fund sources by market-oriented financing modes, including due to banks and other financial institutions and inter-bank borrowing.

Sources of liquidity risk are regularly reviewed by a separate team in the Financial Management Department to maintain a wide diversification by currency, geography, provider, product and term. A liquidity maturity analysis is performed by the Financial Management Department on a monthly basis. The forecast net liquidity position is estimated and managed on a daily basis. The Group also performs stress testing for liquidity risk on a quarterly basis.

Assets available to meet all of the liabilities and to cover outstanding loan commitments include "Cash and due from banks and other financial institutions", "Balances with central banks", "Placements with and loans to banks and other financial institutions" and "Loans and advances to customers, net". In the normal course of business, a proportion of short-term customer loans contractually repayable will be extended and a portion of short-term customer deposits will not be withdrawn upon maturity. The Group would also be able to meet unexpected net cash outflows by entering into repurchase and reverse repurchase transactions, and by selling securities and accessing additional funding sources.

For purposes of the tables set forth, "Loans and advances to customers, net" are considered overdue only if principal payments are overdue. In addition, for Loans and advances to customers that are repayable by installments, only the portion of the loan that is actually overdue is reported as overdue. Any part of the loan that is not due is reported according to residual maturity.

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis

The tables below analyse the Group's and the Bank's assets and liabilities into relevant maturity groupings based on the remaining period at financial reporting date to the contractual maturity date.

Group

	As at 31 December 2012							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	–	165,632	128,625	135,208	314,942	31,167	–	775,574
Balances with central banks	–	306,449	1,627,187	447	189	25	–	1,934,297
Placements with and loans to banks and other financial institutions	–	–	195,821	84,274	163,214	3,990	–	447,299
Government certificates of indebtedness for bank notes issued	–	70,554	–	–	–	–	–	70,554
Precious metals	–	150,534	–	–	–	–	–	150,534
Financial assets at fair value through profit or loss	–	571	9,877	4,783	8,710	31,902	15,747	71,590
Derivative financial assets	–	14,379	4,108	3,486	9,562	4,168	4,485	40,188
Loans and advances to customers, net	12,331	64,838	316,012	775,364	1,740,016	1,613,651	2,187,828	6,710,040
Investment securities								
— available for sale	–	–	56,911	97,049	124,890	280,366	127,184	686,400
— held to maturity	–	–	14,980	35,541	216,901	582,887	332,771	1,183,080
— loans and receivables	–	–	1,326	5,069	21,675	26,402	214,982	269,454
Investment in associates and joint ventures	–	–	–	–	–	4,688	7,694	12,382
Property and equipment	–	–	–	–	–	11	150,313	150,324
Investment properties	–	–	–	–	–	–	17,142	17,142
Deferred income tax assets	–	–	–	–	41	21,251	–	21,292
Other assets	847	12,048	31,745	26,702	35,358	12,430	21,335	140,465
Total assets	13,178	785,005	2,386,592	1,167,923	2,635,498	2,612,938	3,079,481	12,680,615
Liabilities								
Due to banks and other financial institutions	–	647,019	197,796	274,064	192,724	241,589	–	1,553,192
Due to central banks	–	85,373	4,865	7,746	32,038	–	–	130,022
Bank notes in circulation	–	70,733	–	–	–	–	–	70,733
Placements from banks and other financial institutions	–	–	198,660	71,078	43,266	–	–	313,004
Derivative financial liabilities	–	10,560	2,505	2,609	7,503	6,652	2,628	32,457
Due to customers	–	4,213,199	1,159,015	986,503	1,885,171	918,590	11,517	9,173,995
Bonds issued	–	–	726	3,879	4,048	44,047	146,433	199,133
Other borrowings	–	–	–	814	1,970	14,848	16,413	34,045
Current tax liabilities	–	–	817	13	33,594	570	–	34,994
Retirement benefit obligations	–	–	67	134	604	2,324	2,513	5,642
Deferred income tax liabilities	–	–	–	–	550	3,288	–	3,838
Other liabilities	–	57,843	50,164	45,906	55,187	41,036	17,882	268,018
Total liabilities	–	5,084,727	1,614,615	1,392,746	2,256,655	1,272,944	197,386	11,819,073
Net liquidity gap	13,178	(4,299,722)	771,977	(224,823)	378,843	1,339,994	2,882,095	861,542

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Group

	As at 31 December 2011							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	–	178,633	91,012	78,251	182,897	60,121	50	590,964
Balances with central banks	–	351,600	1,567,769	273	–	9	–	1,919,651
Placements with and loans to banks and other financial institutions	–	–	278,478	86,150	250,509	3,229	–	618,366
Government certificates of indebtedness for bank notes issued	–	56,108	–	–	–	–	–	56,108
Precious metals	–	95,907	–	–	–	–	–	95,907
Financial assets at fair value through profit or loss	–	998	4,320	8,480	9,730	29,552	20,727	73,807
Derivative financial assets	–	15,960	2,747	4,291	9,679	4,884	5,196	42,757
Loans and advances to customers, net	11,630	55,764	304,255	657,969	1,692,512	1,458,596	2,022,412	6,203,138
Investment securities								
— available for sale	–	–	48,863	54,803	96,686	251,814	101,152	553,318
— held to maturity	–	–	23,960	36,637	188,346	536,726	288,447	1,074,116
— loans and receivables	–	–	8,445	4,664	44,853	32,575	208,981	299,518
Investment in associates and joint ventures	–	–	–	–	–	6,149	7,144	13,293
Property and equipment	–	–	–	–	–	8	138,226	138,234
Investment properties	–	–	–	–	–	–	14,616	14,616
Deferred income tax assets	–	–	–	–	54	19,210	–	19,264
Other assets	1,147	9,402	22,996	20,110	31,419	12,718	18,940	116,732
Total assets	12,777	764,372	2,352,845	951,628	2,506,685	2,415,591	2,825,891	11,829,789
Liabilities								
Due to banks and other financial institutions	–	569,170	164,071	106,232	203,469	298,732	29,269	1,370,943
Due to central banks	–	38,175	3,750	7,525	32,006	–	–	81,456
Bank notes in circulation	–	56,259	–	–	–	–	–	56,259
Placements from banks and other financial institutions	–	–	176,976	66,993	21,869	–	–	265,838
Derivative financial liabilities	–	11,788	4,095	3,216	4,700	7,355	4,319	35,473
Due to customers	–	3,911,685	1,351,795	1,144,898	1,798,373	594,017	17,193	8,817,961
Bonds issued	–	–	78	16	1,816	44,541	123,451	169,902
Other borrowings	–	–	935	273	282	8,865	16,369	26,724
Current tax liabilities	–	–	617	11	28,326	399	–	29,353
Retirement benefit obligations	–	–	73	147	661	2,489	2,716	6,086
Deferred income tax liabilities	–	–	–	–	–	2,966	–	2,966
Other liabilities	–	63,936	25,138	29,531	42,450	37,563	11,073	209,691
Total liabilities	–	4,651,013	1,727,528	1,358,842	2,133,952	996,927	204,390	11,072,652
Net liquidity gap	12,777	(3,886,641)	625,317	(407,214)	372,733	1,418,664	2,621,501	757,137

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Bank

	As at 31 December 2012							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	–	151,695	124,086	130,489	309,114	30,209	–	745,593
Balances with central banks	–	243,481	1,615,220	447	189	25	–	1,859,362
Placements with and loans to banks and other financial institutions	–	–	189,660	75,599	164,925	4,447	852	435,483
Government certificates of indebtedness for bank notes issued	–	3,314	–	–	–	–	–	3,314
Precious metals	–	145,174	–	–	–	–	–	145,174
Financial assets at fair value through profit or loss	–	–	884	897	3,677	16,209	7,987	29,654
Derivative financial assets	–	36	2,418	2,112	7,277	2,970	1,126	15,939
Loans and advances to customers, net	10,732	4,412	290,330	715,295	1,606,419	1,364,959	1,998,423	5,990,570
Investment securities								
— available for sale	–	–	15,241	24,255	69,122	130,920	67,472	307,010
— held to maturity	–	–	13,799	33,265	212,688	572,682	330,982	1,163,416
— loans and receivables	–	–	137	2,517	17,225	26,401	214,982	261,262
Investment in subsidiaries	–	–	–	–	–	–	87,274	87,274
Investment in associates and joint ventures	–	–	–	–	–	–	55	55
Property and equipment	–	–	–	–	–	9	81,214	81,223
Investment properties	–	–	–	–	–	–	1,474	1,474
Deferred income tax assets	–	–	–	–	90	21,994	–	22,084
Other assets	695	5,728	13,547	23,994	32,760	1,370	15,139	93,233
Total assets	11,427	553,840	2,265,322	1,008,870	2,423,486	2,172,195	2,806,980	11,242,120
Liabilities								
Due to banks and other financial institutions	–	580,139	207,094	276,771	211,353	241,501	–	1,516,858
Due to central banks	–	74,419	4,062	7,746	32,035	–	–	118,262
Bank notes in circulation	–	3,494	–	–	–	–	–	3,494
Placements from banks and other financial institutions	–	–	184,353	76,443	52,320	–	–	313,116
Derivative financial liabilities	–	2	2,140	2,045	6,617	3,975	1,603	16,382
Due to customers	–	3,609,597	914,231	866,617	1,797,661	912,169	10,799	8,111,074
Bonds issued	–	–	722	3,879	5,568	39,338	128,931	178,438
Current tax liabilities	–	–	99	–	32,801	–	–	32,900
Retirement benefit obligations	–	–	67	134	604	2,324	2,513	5,642
Deferred income tax liabilities	–	–	–	–	–	186	–	186
Other liabilities	–	41,718	26,855	36,528	49,813	17,261	189	172,364
Total liabilities	–	4,309,369	1,339,623	1,270,163	2,188,772	1,216,754	144,035	10,468,716
Net liquidity gap	11,427	(3,755,529)	925,699	(261,293)	234,714	955,441	2,662,945	773,404

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Bank

	As at 31 December 2011							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	–	183,747	83,984	73,414	175,010	60,000	–	576,155
Balances with central banks	–	220,759	1,564,111	273	–	9	–	1,785,152
Placements with and loans to banks and other financial institutions	–	–	249,403	79,320	243,626	3,264	1,620	577,233
Government certificates of indebtedness for bank notes issued	–	2,691	–	–	–	–	–	2,691
Precious metals	–	91,642	–	–	–	–	–	91,642
Financial assets at fair value through profit or loss	–	–	222	690	5,549	18,307	7,119	31,887
Derivative financial assets	–	710	2,512	3,714	8,563	3,265	2,205	20,969
Loans and advances to customers, net	9,744	3,038	276,105	595,254	1,550,863	1,258,200	1,853,601	5,546,805
Investment securities								
— available for sale	–	–	10,902	17,668	53,761	133,883	55,150	271,364
— held to maturity	–	–	22,037	31,969	175,287	515,275	281,052	1,025,620
— loans and receivables	–	–	5,188	2,701	40,942	32,575	208,981	290,387
Investment in subsidiaries	–	–	–	–	–	–	83,789	83,789
Investment in associates and joint ventures	–	–	–	–	–	–	48	48
Property and equipment	–	–	–	–	–	8	74,521	74,529
Investment properties	–	–	–	–	–	–	1,280	1,280
Deferred income tax assets	–	–	–	–	–	19,648	–	19,648
Other assets	1,002	4,319	11,604	18,273	27,925	1,697	14,818	79,638
Total assets	10,746	506,906	2,226,068	823,276	2,281,526	2,046,131	2,584,184	10,478,837
Liabilities								
Due to banks and other financial institutions	–	452,468	169,053	107,852	215,694	299,225	29,269	1,273,561
Due to central banks	–	30,569	3,751	7,525	32,002	–	–	73,847
Bank notes in circulation	–	2,842	–	–	–	–	–	2,842
Placements from banks and other financial institutions	–	–	182,612	81,507	40,190	–	–	304,309
Derivative financial liabilities	–	715	3,646	2,583	3,459	4,101	2,883	17,387
Due to customers	–	3,404,420	1,057,246	1,019,058	1,724,493	584,468	17,215	7,806,900
Bonds issued	–	–	–	–	2,200	40,141	105,930	148,271
Current tax liabilities	–	–	61	–	26,466	–	–	26,527
Retirement benefit obligations	–	–	73	147	661	2,489	2,716	6,086
Deferred income tax liabilities	–	–	–	–	–	124	–	124
Other liabilities	–	43,645	15,824	26,502	37,153	10,366	279	133,769
Total liabilities	–	3,934,659	1,432,266	1,245,174	2,082,318	940,914	158,292	9,793,623
Net liquidity gap	10,746	(3,427,753)	793,802	(421,898)	199,208	1,105,217	2,425,892	685,214

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities

The tables below present the cash flows of the Group and 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, except for certain customer driven derivatives which are disclosed at fair value (i.e. discounted cash flows basis). The Group also manages its inherent short-term liquidity risk based on expected undiscounted cash flows.

Group

	As at 31 December 2012							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	–	165,944	129,088	139,282	324,102	34,774	–	793,190
Balances with central banks	–	307,227	1,627,188	447	189	25	–	1,935,076
Placements with and loans to banks and other financial institutions	–	–	196,665	85,685	168,727	4,983	–	456,060
Financial assets at fair value through profit or loss	–	571	9,972	4,933	10,273	35,119	17,202	78,070
Loans and advances to customers, net	13,944	66,593	351,564	839,248	1,945,651	2,250,095	3,077,335	8,544,430
Investment securities								
— available for sale	–	–	58,353	99,954	137,227	323,281	144,985	763,800
— held to maturity	–	–	17,357	43,773	271,194	680,489	389,690	1,402,503
— loans and receivables	–	–	1,403	6,043	27,209	49,714	237,961	322,330
Other assets	148	5,267	20,270	7,189	12,105	1,379	996	47,354
Total financial assets	14,092	545,602	2,411,860	1,226,554	2,896,677	3,379,859	3,868,169	14,342,813
Due to banks and other financial institutions	–	647,036	199,077	289,971	197,778	295,558	–	1,629,420
Due to central banks	–	85,373	4,866	7,751	32,202	–	–	130,192
Placements from banks and other financial institutions	–	–	199,141	71,296	43,713	–	–	314,150
Due to customers	–	4,222,800	1,184,278	1,014,324	1,958,478	1,024,587	13,030	9,417,497
Bonds issued	–	–	749	5,960	9,160	71,962	190,777	278,608
Other borrowings	–	–	–	883	2,299	16,788	18,389	38,359
Other liabilities	–	19,725	25,161	5,807	8,150	2,963	406	62,212
Total financial liabilities	–	4,974,934	1,613,272	1,395,992	2,251,780	1,411,858	222,602	11,870,438
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	3,788	(304)	(48)	(1,506)	(978)	993	1,945
Derivative financial instruments settled on a gross basis								
Total inflow	–	39,655	582,266	377,189	981,656	93,826	990	2,075,582
Total outflow	–	(39,660)	(586,393)	(375,201)	(977,531)	(93,628)	(989)	(2,073,402)

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities (Continued)

Group

	As at 31 December 2011							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	–	178,842	92,361	81,387	192,542	66,198	68	611,398
Balances with central banks	–	352,355	1,567,781	273	–	9	–	1,920,418
Placements with and loans to banks and other financial institutions	–	–	279,296	88,982	261,961	4,067	–	634,306
Financial assets at fair value through profit or loss	–	998	4,463	8,674	10,790	32,379	21,067	78,371
Loans and advances to customers, net	13,058	56,409	337,881	717,930	1,876,392	2,020,228	2,780,920	7,802,818
Investment securities								
— available for sale	–	–	49,767	57,115	108,311	280,317	119,749	615,259
— held to maturity	–	–	27,410	41,542	216,364	625,576	335,239	1,246,131
— loans and receivables	–	–	8,447	5,565	50,999	55,528	235,446	355,985
Other assets	13	3,417	9,342	651	4,316	1,457	962	20,158
Total financial assets	13,071	592,021	2,376,748	1,002,119	2,721,675	3,085,759	3,493,451	13,284,844
Due to banks and other financial institutions	–	569,290	165,382	109,608	215,330	340,398	34,611	1,434,619
Due to central banks	–	38,175	3,751	7,529	32,187	–	–	81,642
Placements from banks and other financial institutions	–	–	177,376	67,317	22,256	–	–	266,949
Due to customers	–	3,921,852	1,366,674	1,164,272	1,859,160	660,070	19,299	8,991,327
Bonds issued	–	–	79	2,218	5,919	70,727	163,362	242,305
Other borrowings	–	–	937	278	289	9,736	18,121	29,361
Other liabilities	–	33,812	9,509	1,474	3,048	3,333	152	51,328
Total financial liabilities	–	4,563,129	1,723,708	1,352,696	2,138,189	1,084,264	235,545	11,097,531
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	4,036	(432)	237	288	(1,473)	383	3,039
Derivative financial instruments settled on a gross basis								
Total inflow	–	36,802	576,247	310,922	785,472	92,233	839	1,802,515
Total outflow	–	(36,801)	(581,920)	(309,803)	(777,443)	(91,992)	(841)	(1,798,800)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities (Continued)

Bank

	As at 31 December 2012							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	–	151,695	124,510	134,458	318,072	33,582	–	762,317
Balances with central banks	–	244,243	1,615,220	447	189	25	–	1,860,124
Placements with and loans to banks and other financial institutions	–	–	190,450	76,894	170,400	5,487	852	444,083
Financial assets at fair value through profit or loss	–	–	906	942	4,554	17,790	8,833	33,025
Loans and advances to customers, net	11,860	5,218	323,250	777,133	1,803,200	1,983,527	2,863,108	7,767,296
Investment securities	–							
— available for sale	–	–	16,147	27,826	76,224	145,041	76,554	341,792
— held to maturity	–	–	15,253	39,937	244,265	669,552	387,457	1,356,464
— loans and receivables	–	–	215	3,483	22,685	49,714	237,961	314,058
Other assets	61	2,126	3,409	5,943	11,434	–	991	23,964
Total financial assets	11,921	403,282	2,289,360	1,067,063	2,651,023	2,904,718	3,575,756	12,903,123
Due to banks and other financial institutions	–	580,139	208,390	292,692	217,004	295,451	–	1,593,676
Due to central banks	–	74,419	4,063	7,751	32,198	–	–	118,431
Placements from banks and other financial institutions	–	–	184,845	76,704	52,853	–	–	314,402
Due to customers	–	3,619,529	938,722	894,073	1,872,365	1,025,454	20,981	8,371,124
Bonds issued	–	–	753	5,524	12,104	91,327	142,886	252,594
Other liabilities	–	18,444	2,987	941	5,123	477	81	28,053
Total financial liabilities	–	4,292,531	1,339,760	1,277,685	2,191,647	1,412,709	163,948	10,678,280
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	–	(209)	(355)	(1,347)	(810)	221	(2,500)
Derivative financial instruments settled on a gross basis								
Total inflow	–	–	386,117	228,272	743,229	65,274	16	1,422,908
Total outflow	–	–	(407,327)	(229,847)	(740,353)	(64,866)	(16)	(1,442,409)

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities (Continued)

Bank

	As at 31 December 2011							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	–	183,747	85,247	76,430	184,328	66,046	–	595,798
Balances with central banks	–	221,485	1,564,123	273	–	9	–	1,785,890
Placements with and loans to banks and other financial institutions	–	–	250,116	81,721	254,656	4,102	1,620	592,215
Financial assets at fair value through profit or loss	–	–	335	796	6,337	20,858	7,377	35,703
Loans and advances to customers, net	11,089	3,575	308,672	653,665	1,731,060	1,804,413	2,590,784	7,103,258
Investment securities								
— available for sale	–	–	11,316	18,726	59,972	151,335	66,017	307,366
— held to maturity	–	–	23,856	36,648	202,456	602,652	326,858	1,192,470
— loans and receivables	–	–	5,189	3,602	47,064	55,528	235,446	346,829
Other assets	–	–	61	264	2,966	–	949	4,240
Total financial assets	11,089	408,807	2,248,915	872,125	2,488,839	2,704,943	3,229,051	11,963,769
Due to banks and other financial institutions	–	452,468	170,365	111,228	227,555	340,891	34,611	1,337,118
Due to central banks	–	30,569	3,751	7,529	32,184	–	–	74,033
Placements from banks and other financial institutions	–	–	182,987	81,798	40,549	–	–	305,334
Due to customers	–	3,414,843	1,071,556	1,037,624	1,783,950	649,607	19,289	7,976,869
Bonds issued	–	–	–	1,784	5,708	62,138	144,559	214,189
Other liabilities	–	25,627	1,686	704	2,900	158	112	31,187
Total financial liabilities	–	3,923,507	1,430,345	1,240,667	2,092,846	1,052,794	198,571	9,938,730
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	–	(244)	57	535	(1,016)	(21)	(689)
Derivative financial instruments settled on a gross basis								
Total inflow	–	–	414,911	235,974	673,734	73,869	60	1,398,548
Total outflow	–	–	(417,408)	(234,856)	(666,235)	(73,648)	(60)	(1,392,207)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.4 Off-balance sheet items

The Group's and the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities are summarised in the table below at the remaining period to the contractual maturity date. Financial guarantees are also included below at notional amounts and based on the earliest contractual maturity date. Where the Group and the Bank are the lessee under operating lease commitments, the future minimum lease payments under non-cancellable operating leases, as disclosed in Note V.40.5, are summarised in the table below.

Group

	As at 31 December 2012			
	Less than 1 year	Between 1 to 5 years	Over 5 years	Total
Loan commitments	**481,832**	**143,539**	**100,043**	**725,414**
Guarantees, acceptances and other financial facilities	**1,198,530**	**237,786**	**155,775**	**1,592,091**
Subtotal	**1,680,362**	**381,325**	**255,818**	**2,317,505**
Operating lease commitments	**8,003**	**12,040**	**4,136**	**24,179**
Capital commitments	**31,530**	**32,627**	**14,662**	**78,819**
Total	**1,719,895**	**425,992**	**274,616**	**2,420,503**

	As at 31 December 2011			
	Less than 1 year	Between 1 to 5 years	Over 5 years	Total
Loan commitments	496,304	181,140	72,971	750,415
Guarantees, acceptances and other financial facilities	1,079,253	323,214	158,990	1,561,457
Subtotal	1,575,557	504,354	231,961	2,311,872
Operating lease commitments	4,420	10,317	3,170	17,907
Capital commitments	29,887	32,923	27	62,837
Total	1,609,864	547,594	235,158	2,392,616

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.4 Off-balance sheet items (Continued)

Bank

	As at 31 December 2012			
	Less than 1 year	Between 1 to 5 years	Over 5 years	Total
Loan commitments	**405,723**	**142,670**	**100,043**	**648,436**
Guarantees, acceptances and other financial facilities	**1,160,586**	**242,728**	**161,575**	**1,564,889**
Subtotal	**1,566,309**	**385,398**	**261,618**	**2,213,325**
Operating lease commitments	**7,214**	**10,739**	**3,699**	**21,652**
Capital commitments	**9,754**	**3,862**	**13**	**13,629**
Total	**1,583,277**	**399,999**	**265,330**	**2,248,606**

	As at 31 December 2011			
	Less than 1 year	Between 1 to 5 years	Over 5 years	Total
Loan commitments	437,116	181,140	72,971	691,227
Guarantees, acceptances and other financial facilities	1,047,799	324,338	161,166	1,533,303
Subtotal	1,484,915	505,478	234,137	2,224,530
Operating lease commitments	3,725	9,261	2,903	15,889
Capital commitments	6,536	6,123	27	12,686
Total	1,495,176	520,862	237,067	2,253,105

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value of financial assets and liabilities

6.1 Financial instruments not measured at fair value

Financial assets and liabilities not presented at their fair value on the statement of financial position mainly represent "Balances with central banks", "Due from banks and other financial institutions", "Placements with and loans to banks and other financial institutions", "Loans and advances to customers, net", "Investment securities" classified as held to maturity and loans and receivables, "Due to central banks", "Due to banks and other financial institutions", "Placements from banks and other financial institutions", and "Due to customers" measured at amortised cost, and "Bonds issued".

The tables below summarise the carrying amounts and fair values of "Investment securities" classified as held to maturity and loans and receivables, and "Bonds issued" not presented at fair value on the statement of financial position.

Group

	As at 31 December			
	Carrying value		Fair value	
	2012	2011	**2012**	2011
Financial assets				
Investment securities [1]				
— held to maturity	**1,183,080**	1,074,116	**1,179,903**	1,076,218
— loans and receivables	**269,454**	299,518	**269,471**	299,518
Financial liabilities				
Bonds issued [2]	**199,133**	169,902	**195,885**	164,228

Bank

	As at 31 December			
	Carrying value		Fair value	
	2012	2011	**2012**	2011
Financial assets				
Investment securities [1]				
— held to maturity	**1,163,416**	1,025,620	**1,159,745**	1,027,499
— loans and receivables	**261,262**	290,387	**261,263**	290,387
Financial liabilities				
Bonds issued [2]	**178,438**	148,271	**174,661**	143,556

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value of financial assets and liabilities (Continued)

6.1 Financial instruments not measured at fair value (Continued)

(1) Investment securities classified as held to maturity and loans and receivables

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.

(2) Bonds issued

The aggregate fair values are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity. The fair value for the convertible bonds (including the conversion option value) is based on the quoted market price on Shanghai Stock Exchange.

Other than above, the difference between the carrying amounts and fair values of those financial assets and liabilities not presented at their fair value on the statement of financial position are insignificant. Fair value is measured using a discounted cash flow model.

6.2 Financial instruments measured at fair value

Financial instruments measured at fair value are classified into following three levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities, including listed 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, debt securities for which quotations are available from pricing services providers, traded loans and issued structured deposits.

- 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.

The Group uses valuation techniques or counterparty quotations to determine the fair value of financial instruments when it is unable to obtain open market quotation in active markets.

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value of financial assets and liabilities (Continued)

6.2 Financial instruments measured at fair value (Continued)

The main parameters used in valuation techniques for financial instruments held by the Group include bond prices, interest rates, foreign exchange rates, equity and stock prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are all observable and obtainable from open market.

For certain illiquid debt securities (mainly asset-backed securities), unlisted equity (private equity) and over-the-counter structured derivatives transactions held by the Group, management obtains valuation quotations from counterparties. The fair value of these financial instruments may be based on unobservable inputs which may have significant impact on the valuation of these financial instruments, and therefore, these instruments have been classified by the Group as level 3. Management assesses the impact of changes in macro-economic factors, engaged external valuer and other inputs, including loss coverage ratios, to determine the fair value for the Group's level 3 financial instruments. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

	As at 31 December 2012			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
— Debt securities	332	64,173	268	64,773
— Fund investments	780	–	–	780
— Loans	–	4,566	–	4,566
— Equity securities	1,299	172	–	1,471
Derivative financial assets	14,501	25,687	–	40,188
Investment securities available for sale				
— Debt securities	128,481	523,286	2,952	654,719
— Fund investments and other	586	–	7,054	7,640
— Equity securities	4,326	1,869	17,846	24,041
Financial liabilities				
Due to customers at fair value	–	(163,395)	(622)	(164,017)
Short position in debt securities	–	(14,061)	–	(14,061)
Derivative financial liabilities	(10,898)	(21,559)	–	(32,457)

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value of financial assets and liabilities (Continued)

6.2 Financial instruments measured at fair value (Continued)

	As at 31 December 2011			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
— Debt securities	–	64,367	108	64,475
— Fund investments	3,524	–	–	3,524
— Loans	–	4,412	–	4,412
— Equity securities	1,265	131	–	1,396
Derivative financial assets	15,219	27,538	–	42,757
Investment securities available for sale				
— Debt securities	99,321	420,105	4,666	524,092
— Fund investments and other	328	–	5,617	5,945
— Equity securities	5,274	1,390	16,617	23,281
Financial liabilities				
Due to customers at fair value	–	(560,923)	(164)	(561,087)
Short position in debt securities	–	(2,106)	–	(2,106)
Derivative financial liabilities	(11,103)	(24,370)	–	(35,473)

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value of financial assets and liabilities (Continued)

6.2 Financial instruments measured at fair value (Continued)

Reconciliation of Level 3 Items

	Financial assets at fair value through profit or loss	Investment securities available for sale			Derivative financial assets less liabilities	Due to customers at fair value
	Debt securities	Debt securities	Fund investments and other	Equity securities		Structured deposit
As at 1 January 2012	**108**	**4,666**	**5,617**	**16,617**	**–**	**(164)**
Total gains and losses						
— profit or loss	**27**	**73**	**42**	**(27)**	**–**	**–**
— other comprehensive income	**–**	**162**	**403**	**(183)**	**–**	**–**
Sales	**(4)**	**(626)**	**(463)**	**(294)**	**–**	**–**
Purchases	**–**	**1,499**	**1,455**	**1,733**	**–**	**–**
Issues	**–**	**–**	**–**	**–**	**–**	**(622)**
Settlements	**–**	**–**	**–**	**–**	**–**	**164**
Transfers into/(out of) Level 3, net	**137**	**(2,822)**	**–**	**–**	**–**	**–**
As at 31 December 2012	**268**	**2,952**	**7,054**	**17,846**	**–**	**(622)**
Total gains or losses for the year included in the income statement for assets/liabilities held as at 31 December 2012	**27**	**8**	**140**	**(132)**	**–**	**–**
As at 1 January 2011	308	6,954	4,970	12,326	4	–
Total gains and losses						
— profit or loss	(9)	125	(42)	1,564	(4)	–
— other comprehensive income	–	(132)	(106)	(1,176)	–	–
Sales	(191)	(3,711)	(969)	(879)	–	–
Purchases	–	1,302	1,764	4,782	–	–
Issues	–	–	–	–	–	(164)
Settlements	–	–	–	–	–	–
Transfers into Level 3, net	–	128	–	–	–	–
As at 31 December 2011	108	4,666	5,617	16,617	–	(164)
Total gains or losses for the year included in the income statement for assets/liabilities held as at 31 December 2011	(9)	79	101	38	(4)	–

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value of financial assets and liabilities (Continued)

6.2 Financial instruments measured at fair value (Continued)

Total gains or losses for the years ended 31 December 2012 and 2011 included in the income statement as well as total gains or losses included in the income statement relating to financial instruments held at 31 December 2012 and 2011 are presented in "Net trading gains", "Net gains on investment securities" or "Impairment losses on assets" depending on the nature or category of the related financial instruments.

There have been no significant transfers between levels 1 and 2 during 2012.

7 Capital management

The Group follows the principles below with regard to capital management:

- maintain levels of asset quality consistent with the Group's business strategy and adequate capital to support the implementation of the Group's strategic development plan and meet the regulatory requirements;

- effectively identify, quantify, monitor, mitigate and control the major risks to which the Group is exposed, and maintain capital appropriate to the Group's risk exposure and risk management needs; and

- optimise asset structure and allocate economic capital in a reasonable manner to ensure the sustainable development of the Group.

Capital adequacy and regulatory capital are monitored by the Group's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBRC, for supervisory purposes. The required information is filed with the CBRC on a quarterly basis.

The CBRC requires each bank or banking group to maintain a ratio of total regulatory capital to its risk-weighted assets at or above the agreed minimum of 8%, and a core capital ratio of above 4%. The minimum leverage ratio of each bank or banking group is 4%. The board of directors approved the "Capital Management Plans for Bank of China Limited (for the years from 2010 to 2012)" at the beginning of 2010, and strategically sets the Group's capital adequacy ratio at 11.5% for the years from 2010 to 2012.

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management (Continued)

The Group's regulatory capital as managed by its Financial Management Department is divided into two tiers:

- Core capital: share capital, capital reserve, specified reserves, retained earnings, minority interests; and

- Supplementary: long-term subordinated bonds issued, convertible bonds issued, collective impairment allowances and others.

Goodwill, investments in entities engaged in banking and other financial activities which are not consolidated in the financial statements, investment properties, investments in commercial corporations and other deductible items are deducted from core and supplementary capital to derive at the regulatory capital.

The on-balance sheet risk weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of, and reflecting an estimate of, credit and other risks associated with each asset and customer, and taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure with adjustments to reflect the contingent nature of the potential losses. The market risk capital adjustment is measured by means of a standardised approach.

During 2012, the Group replenished its capital through the issuance of subordinated bonds. The Group also took various measures to manage the level of risk weighted assets including adjusting the composition of its on-balance and off-balance sheet assets.

The tables below summarise the capital adequacy ratios, leverage ratio and the composition of regulatory capital of the Group as at 31 December 2012 and 2011. The Group complied with the externally imposed capital and leverage ratio requirements to which it is subject.

	As at 31 December	
	2012	2011
Capital adequacy ratio	**13.63%**	12.98%
Core capital adequacy ratio	**10.54%**	10.08%
Leverage ratio [(5)]	**5.15%**	N.A.

The capital adequacy ratios and leverage ratio above are calculated in accordance with the rules and regulations promulgated by the CBRC and generally accepted accounting principles of PRC ("CAS").

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management (Continued)

Group

	As at 31 December	
	2012	2011
Components of capital base		
Core capital:		
Share capital	**279,132**	279,122
Reserves [(1)]	**478,876**	389,156
Minority interests	**36,865**	33,223
Total core capital	**794,873**	701,501
Supplementary capital:		
Collective impairment allowances	**68,647**	63,428
Long-term subordinated bonds issued	**146,433**	123,451
Convertible bonds issued	**39,776**	39,776
Other [(1)]	**11,141**	8,108
Total supplementary capital	**265,997**	234,763
Total capital base before deductions	**1,060,870**	936,264
Deductions:		
Goodwill	**(1,796)**	(1,727)
Investments in entities engaged in banking and financial activities which are not consolidated	**(10,581)**	(9,383)
Investment properties	**(17,142)**	(14,616)
Investments in commercial corporations	**(27,313)**	(28,587)
Other deductible items [(2)]	**(15,380)**	(17,680)
Total capital base after deductions	**988,658**	864,271
Core capital base after deductions [(3)]	**764,261**	671,244
Risk weighted assets and market risk capital adjustment [(4)]	**7,253,230**	6,656,034
Adjusted on-balance sheet assets	**12,695,457**	N.A.
Adjusted off-balance sheet assets	**2,180,233**	N.A.
Adjusted on-balance and off-balance sheet assets [(5)]	**14,845,078**	N.A.

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management (Continued)

(1) Pursuant to regulations released by CBRC in November 2007, all net unrealised fair value gains after tax consideration are removed from the core capital calculation. The fair value gains on trading activities recognised in profit or loss are included in the supplementary capital. Only a certain percentage of fair value gain recognised in equity can be included in the supplementary capital.

(2) Pursuant to the relevant regulations, other deductible items include investments in asset-backed securities, long-term subordinated debts issued by other banks and acquired by the Group after 1 July 2009.

(3) Pursuant to the relevant regulations, 100% of goodwill and 50% of certain other deductions were applied in deriving the core capital base.

(4) Pursuant to the regulation "Notification on Regulating Wealth Management Product ("WMP") Trust Plans" (Yinjianfa [2010] No. 72) released by CBRC in August 2010, WMP Trust Plans have been reclassified from off-balance sheet to on-balance sheet risk weighted assets for the purpose of capital adequacy ratio calculations.

Pursuant to the regulation "Guideline on Strengthening Credit Risk Management for Local Government Financing Vehicle ("LGFV") Loans" (Yinjianfa [2010] No. 110) released by CBRC in December 2010, the risk weighted assets have been adjusted based on the coverage of cash flows for each LGFV loan.

(5) Pursuant to the regulation "Guidance on the leverage ratio management of commercial banks" (Yinjianhuiling [2011] No.3) released by CBRC in June 2011, The leverage ratio is calculated by dividing Tier 1 capital by the Bank's adjusted total assets. Under the current regulation "Rules for Regulating the Capital Adequacy Requirement of Commercial Banks", core capital base after deductions is used to calculate leverage ratio.

8 Insurance risk

Insurance contracts are mainly sold in Chinese mainland and Hong Kong denominated in RMB and HKD. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. This risk is inherently random and, therefore, unpredictable. The Group manages its portfolio of insurance risks through its underwriting strategy and policies, portfolio management techniques, adequate reinsurance arrangements and proactive claims handling and processing. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk and industry.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of the claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term life insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality. In order to assess the uncertainty due to the mortality assumption and lapse assumption, the Group conducted mortality rate studies and policy lapse studies in order to determine the appropriate assumptions.

According to Hong Kong Listing Rule and disclosure regulations of banking industry, the Group discloses the following supplementary financial information:

1 LIQUIDITY RATIOS

	As at 31 December	
	2012	2011
RMB current assets to RMB current liabilities	**49.85%**	47.04%
Foreign currency current assets to foreign currency current liabilities	**65.16%**	56.16%

The liquidity ratios are calculated in accordance with the relevant provisions of the PBOC and CBRC. Financial data as at 31 December 2012 and 2011 is based on the Chinese Accounting Standards 2006 ("CAS").

2 CURRENCY CONCENTRATIONS

The following information is computed in accordance with the provisions of the CBRC.

	Equivalent in millions of RMB			
	USD	HKD	Other	Total
As at 31 December 2012				
Spot assets	**1,080,354**	**20,700**	**270,823**	**1,371,877**
Spot liabilities	**(746,660)**	**(230,636)**	**(303,685)**	**(1,280,981)**
Forward purchases	**876,526**	**232,423**	**443,453**	**1,552,402**
Forward sales	**(1,182,702)**	**(58,725)**	**(422,891)**	**(1,664,318)**
Net options position*	**(7,286)**	**79**	**(1,936)**	**(9,143)**
Net long/(short) position	**20,232**	**(36,159)**	**(14,236)**	**(30,163)**
Net structural position	**19,191**	**103,566**	**31,688**	**154,445**
As at 31 December 2011				
Spot assets	935,162	29,073	245,344	1,209,579
Spot liabilities	(587,959)	(154,965)	(234,957)	(977,881)
Forward purchases	824,281	173,723	292,260	1,290,264
Forward sales	(1,129,130)	(77,005)	(305,352)	(1,511,487)
Net options position*	(4,913)	(323)	565	(4,671)
Net long/(short) position	37,441	(29,497)	(2,140)	5,804
Net structural position	15,864	92,275	22,658	130,797

* The net option position is calculated using the delta equivalent approach as set out in the requirements of the CBRC.

3 CROSS-BORDER CLAIMS

The Group is principally engaged in business operations within the Chinese mainland, and regards all claims on third parties outside the Chinese mainland as cross-border claims.

Cross-border claims include "Balances with central banks", "Placements with and loans to banks and other financial institutions", "Government certificates of indebtedness for bank notes issued", "Financial assets at fair value through profit or loss", "Loans and advances to customers, net" and "Investment securities".

Cross-border claims have been disclosed by country or geographical area. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	Banks and other financial institutions	Public sector entities	Other*	Total
As at 31 December 2012				
Asia Pacific excluding Chinese mainland				
Hong Kong	**14,044**	**5,849**	**661,357**	**681,250**
Other Asia Pacific locations	**97,126**	**22,884**	**245,279**	**365,289**
Subtotal	**111,170**	**28,733**	**906,636**	**1,046,539**
North and South America	**92,604**	**33,351**	**321,796**	**447,751**
Europe	**80,018**	**9,335**	**116,355**	**205,708**
Middle East and Africa	**4,682**	**134**	**15,738**	**20,554**
Total	**288,474**	**71,553**	**1,360,525**	**1,720,552**
As at 31 December 2011				
Asia Pacific excluding Chinese mainland				
Hong Kong	28,936	5,936	576,206	611,078
Other Asia Pacific locations	85,885	18,145	226,974	331,004
Subtotal	114,821	24,081	803,180	942,082
North and South America	99,961	23,283	243,221	366,465
Europe	149,058	12,821	90,653	252,532
Middle East and Africa	3,579	–	18,489	22,068
Total	367,419	60,185	1,155,543	1,583,147

* Claims on the government entities are included in "Other".

(Amount in millions of Renminbi, unless otherwise stated)

4 OVERDUE ASSETS

For the purposes of the table below, the entire outstanding balance of "Loans and advances to customers" and "Placements with and loans to banks and other financial institutions" are considered overdue if either principal or interest payment is overdue.

(1) Total amount of overdue loans and advances to customers

	As at 31 December	
	2012	2011
Total loans and advances to customers which have been overdue for		
within 3 months	**29,819**	29,725
between 3 to 6 months	**5,188**	7,718
between 6 to 12 months	**7,691**	3,656
over 12 months	**32,197**	27,031
Total	**74,895**	68,130
Percentage		
within 3 months	**0.43%**	0.47%
between 3 to 6 months	**0.08%**	0.12%
between 6 to 12 months	**0.11%**	0.05%
over 12 months	**0.47%**	0.43%
Total	**1.09%**	1.07%

(2) Total amount of overdue Placements with and loans to banks and other financial institutions

The total amount of overdue "Placements with and loans to banks and other financial institutions" as at 31 December 2012 and 2011 is not considered material.

Independent Auditor's Report

羅兵咸永道

To the shareholders of Bank of China Limited
(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Bank of China Limited (the "Bank") and its subsidiaries (together, the "Group") set out on pages 133 to 347, which comprise the consolidated and the Bank's statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Bank are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial positions of the Bank and of the Group as at 31 December 2011, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Other Matters

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2012

Consolidated Financial Statements

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Consolidated Income Statement

For the year ended 31 December 2011 (Amount in millions of Renminbi, unless otherwise stated)

		Year ended 31 December	
	Note	**2011**	2010
Interest income	V.1	**413,102**	313,533
Interest expense	V.1	**(185,038)**	(119,571)
Net interest income		**228,064**	193,962
Fee and commission income	V.2	**70,018**	59,214
Fee and commission expense	V.2	**(5,356)**	(4,731)
Net fee and commission income		**64,662**	54,483
Net trading gains	V.3	**7,858**	3,491
Net gains on investment securities		**3,442**	3,380
Other operating income	V.4	**24,272**	21,202
Operating income		**328,298**	276,518
Operating expenses	V.5	**(140,815)**	(122,409)
Impairment losses on assets	V.8	**(19,355)**	(12,993)
Operating profit		**168,128**	141,116
Share of results of associates and joint ventures	V.19	**516**	1,029
Profit before income tax		**168,644**	142,145
Income tax expense	V.9	**(38,325)**	(32,454)
Profit for the year		**130,319**	109,691
Attributable to:			
Equity holders of the Bank		**124,182**	104,418
Non-controlling interests		**6,137**	5,273
		130,319	109,691
Earnings per share for profit attributable to equity holders of the Bank during the year (Expressed in RMB per ordinary share)	V.10		
— Basic		**0.44**	0.39
— Diluted		**0.43**	0.39

For details of the dividends paid or proposed please refer to Note V.37.3.

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011 (Amount in millions of Renminbi, unless otherwise stated)

	Year ended 31 December	
	2011	2010
Profit for the year	**130,319**	109,691
Other comprehensive income:		
Fair value gains on available for sale financial assets:		
Amount taken to equity	**2,642**	4,660
Less: related income tax impact	**(546)**	(756)
Amount transferred to income statement	**(3,228)**	(6,163)
Less: related income tax impact	**555**	1,117
Subtotal	**(577)**	(1,142)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	**254**	97
Less: related income tax impact	**–**	1
Subtotal	**254**	98
Exchange differences on translating of foreign operations	**(6,430)**	(2,973)
Less: net amount transferred to income statement from other comprehensive income	**647**	120
Subtotal	**(5,783)**	(2,853)
Other	**95**	140
Other comprehensive losses for the year, net of tax	**(6,011)**	(3,757)
Total comprehensive income for the year	**124,308**	105,934
Total comprehensive income attributable to:		
Equity holders of the Bank	**119,640**	101,358
Non-controlling interests	**4,668**	4,576
	124,308	105,934

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

Consolidated Statement of Financial Position

As at 31 December 2011 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 31 December	
		2011	2010 (Restated)*
ASSETS			
Cash and due from banks and other financial institutions	V.11	**590,964**	636,126
Balances with central banks	V.12	**1,919,651**	1,573,922
Placements with and loans to banks and other financial institutions	V.13	**618,366**	213,716
Government certificates of indebtedness for bank notes issued	V.26	**56,108**	42,469
Precious metals		**95,907**	86,218
Financial assets at fair value through profit or loss	V.14	**73,807**	81,237
Derivative financial assets	V.15	**42,757**	39,974
Loans and advances to customers, net	V.16	**6,203,138**	5,537,765
Investment securities	V.17	**1,926,952**	1,974,087
— available for sale		**553,318**	656,738
— held to maturity		**1,074,116**	1,039,386
— loans and receivables		**299,518**	277,963
Investment in associates and joint ventures	V.19	**13,293**	12,631
Property and equipment	V.20	**138,234**	123,568
Investment properties	V.21	**14,616**	13,839
Deferred income tax assets	V.34	**19,516**	24,041
Other assets	V.22	**116,757**	100,272
Total assets		**11,830,066**	10,459,865

* For details of the restatement please refer to Note II.23.

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

Consolidated Statement of Financial Position (Continued)

As at 31 December 2011 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 31 December	
		2011	2010 (Restated)*
LIABILITIES			
Due to banks and other financial institutions	V.24	**1,370,943**	1,275,814
Due to central banks	V.25	**81,456**	73,415
Bank notes in circulation	V.26	**56,259**	42,511
Placements from banks and other financial institutions	V.27	**265,838**	230,801
Derivative financial liabilities	V.15	**35,473**	35,711
Due to customers	V.28	**8,817,961**	7,733,537
— at amortised cost		**8,256,874**	7,539,155
— at fair value		**561,087**	194,382
Bonds issued	V.29	**169,902**	131,887
Other borrowings	V.30	**26,724**	19,499
Current tax liabilities	V.31	**29,353**	22,775
Retirement benefit obligations	V.32	**6,086**	6,440
Deferred income tax liabilities	V.34	**4,486**	3,919
Other liabilities	V.35	**209,691**	207,406
Total liabilities		**11,074,172**	9,783,715
EQUITY			
Capital and reserves attributable to equity holders of the Bank			
Share capital	V.36.1	**279,147**	279,147
Capital reserve	V.36.1	**115,359**	114,988
Treasury shares	V.36.2	**(25)**	(138)
Statutory reserves	V.37.1	**52,165**	40,227
General and regulatory reserves	V.37.2	**81,243**	71,195
Undistributed profits		**209,816**	148,355
Reserve for fair value changes of available for sale securities	V.38	**3,642**	4,015
Currency translation differences		**(18,185)**	(13,624)
		723,162	644,165
Non-controlling interests	V.39	**32,732**	31,985
Total equity		**755,894**	676,150
Total equity and liabilities		**11,830,066**	10,459,865

* For details of the restatement please refer to Note II.23.

Approved and authorised for issue by the Board of Directors on 29 March 2012.

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

XIAO Gang
Director

LI Lihui
Director

Statement of Financial Position

As at 31 December 2011 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 31 December 2011	As at 31 December 2010 (Restated)*
ASSETS			
Cash and due from banks and other financial institutions	V.11	**576,155**	620,979
Balances with central banks	V.12	**1,785,152**	1,282,532
Placements with and loans to banks and other financial institutions	V.13	**577,233**	245,333
Government certificates of indebtedness for bank notes issued	V.26	**2,691**	2,486
Precious metals		**91,642**	83,100
Financial assets at fair value through profit or loss	V.14	**31,887**	17,814
Derivative financial assets	V.15	**20,969**	19,157
Loans and advances to customers, net	V.16	**5,546,805**	4,951,171
Investment securities	V.17	**1,587,371**	1,639,785
— available for sale		**271,364**	392,480
— held to maturity		**1,025,620**	984,127
— loans and receivables		**290,387**	263,178
Investment in subsidiaries	V.18	**83,789**	79,933
Investment in associates and joint ventures	V.19	**48**	45
Property and equipment	V.20	**74,529**	65,494
Investment properties	V.21	**1,280**	1,285
Deferred income tax assets	V.34	**19,648**	24,359
Other assets	V.22	**79,638**	75,066
Total assets		**10,478,837**	9,108,539

* For details of the restatement please refer to Note II.23.

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

Statement of Financial Position (Continued)

As at 31 December 2011 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 31 December	
		2011	2010 (Restated)*
LIABILITIES			
Due to banks and other financial institutions	V.24	**1,273,561**	1,098,337
Due to central banks	V.25	**73,847**	65,120
Bank notes in circulation	V.26	**2,842**	2,527
Placements from banks and other financial institutions	V.27	**304,309**	255,776
Derivative financial liabilities	V.15	**17,387**	17,232
Due to customers	V.28	**7,806,900**	6,793,418
— at amortised cost		**7,249,861**	6,601,698
— at fair value		**557,039**	191,720
Bonds issued	V.29	**148,271**	116,283
Current tax liabilities	V.31	**26,527**	20,181
Retirement benefit obligations	V.32	**6,086**	6,440
Deferred income tax liabilities	V.34	**124**	177
Other liabilities	V.35	**133,769**	122,772
Total liabilities		**9,793,623**	8,498,263
EQUITY			
Capital and reserves attributable to equity holders of the Bank			
Share capital	V.36.1	**279,147**	279,147
Capital reserve	V.36.1	**113,670**	114,368
Statutory reserves	V.37.1	**50,487**	38,777
General and regulatory reserves	V.37.2	**76,515**	67,604
Undistributed profits		**166,950**	111,380
Reserve for fair value changes of available for sale securities	V.38	**604**	(2)
Currency translation differences		**(2,159)**	(998)
Total equity		**685,214**	610,276
Total equity and liabilities		**10,478,837**	9,108,539

* For details of the restatement please refer to Note II.23.

Approved and authorised for issue by the Board of Directors on 29 March 2012.

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

XIAO Gang
Director

LI Lihui
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011 (Amount in millions of Renminbi, unless otherwise stated)

		Attributable to equity holders of the Bank									
	Note	Share capital	Capital reserve	Statutory reserves	General and regulatory reserves	Undistributed profits	Reserve for fair value changes of available for sale securities	Currency translation differences	Treasury shares	Non-controlling interests	Total
As at 1 January 2011		**279,147**	**114,988**	**40,227**	**71,195**	**148,355**	**4,015**	**(13,624)**	**(138)**	**31,985**	**676,150**
Profit for the year		**–**	**–**	**–**	**–**	**124,182**	**–**	**–**	**–**	**6,137**	**130,319**
Other comprehensive income		**–**	**392**	**–**	**–**	**–**	**(373)**	**(4,561)**	**–**	**(1,469)**	**(6,011)**
Total comprehensive income for the year		**–**	**392**	**–**	**–**	**124,182**	**(373)**	**(4,561)**	**–**	**4,668**	**124,308**
Appropriation to statutory reserves	V.37.1	**–**	**–**	**11,922**	**–**	**(11,922)**	**–**	**–**	**–**	**–**	**–**
Appropriation to general reserve and regulatory reserve	V.37.2	**–**	**–**	**–**	**10,054**	**(10,054)**	**–**	**–**	**–**	**–**	**–**
Dividends	V.37.3	**–**	**–**	**–**	**–**	**(40,756)**	**–**	**–**	**–**	**(3,978)**	**(44,734)**
Net change in treasury shares	V.36.2	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**113**	**–**	**113**
Other		**–**	**(21)**	**16**	**(6)**	**11**	**–**	**–**	**–**	**57**	**57**
As at 31 December 2011		**279,147**	**115,359**	**52,165**	**81,243**	**209,816**	**3,642**	**(18,185)**	**(25)**	**32,732**	**755,894**
As at 1 January 2010		253,839	76,710	30,391	60,328	100,758	4,750	(11,741)	(43)	30,402	545,394
Profit for the year		–	–	–	–	104,418	–	–	–	5,273	109,691
Other comprehensive income		–	139	–	–	(3)	(1,313)	(1,883)	–	(697)	(3,757)
Total comprehensive income for the year		–	139	–	–	104,415	(1,313)	(1,883)	–	4,576	105,934
Rights issue		25,308	33,991	–	–	–	–	–	–	–	59,299
Issuance of convertible bonds	V.29	–	4,148	–	–	–	–	–	–	–	4,148
Appropriation to statutory reserves	V.37.1	–	–	9,837	–	(9,837)	–	–	–	–	–
Appropriation to general reserve and regulatory reserve	V.37.2	–	–	–	10,874	(10,874)	–	–	–	–	–
Dividends	V.37.3	–	–	–	–	(35,537)	–	–	–	(3,283)	(38,820)
Exercise of subsidiary share options		–	–	–	–	–	–	–	–	6	6
Net change in treasury shares	V.36.2	–	–	–	–	–	–	–	(95)	–	(95)
Other		–	–	(1)	(7)	(570)	578	–	–	284	284
As at 31 December 2010		279,147	114,988	40,227	71,195	148,355	4,015	(13,624)	(138)	31,985	676,150

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2011 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
		2011	2010 (Restated)*
Cash flows from operating activities			
Profit before income tax		**168,644**	142,145
Adjustments:			
Impairment losses on assets		**19,355**	12,993
Depreciation of property and equipment		**10,301**	8,684
Amortisation of intangible assets and other assets		**1,956**	1,635
Net gains on disposal of property and equipment, intangible assets and other long-term assets		**(372)**	(341)
Net gains on disposal of investment in subsidiaries, associates and joint ventures		**(7)**	(128)
Share of results of associates and joint ventures		**(516)**	(1,029)
Interest income arising from investment securities		**(54,600)**	(51,936)
Dividends arising from investment securities		**(188)**	(165)
Net gains on de-recognition of investment securities		**(3,442)**	(3,380)
Interest expense arising from bonds issued		**6,554**	4,676
Net changes in operating assets and liabilities:			
Net increase in balances with central banks		**(356,193)**	(259,151)
Net increase in due from and placements with and loans to banks and other financial institutions		**(88,624)**	(263,656)
Net increase in precious metals		**(9,689)**	(26,563)
Net increase in financial assets at fair value through profit or loss		**(597)**	(17,630)
Net increase in loans and advances to customers		**(683,599)**	(755,998)
Net (increase)/decrease in other assets		**(14,303)**	30,067
Net increase in due to banks and other financial institutions		**95,129**	371,648
Net increase in due to central banks		**8,041**	11,800
Net increase in placements from banks and other financial institutions		**35,037**	44,158
Net increase in due to customers		**1,084,424**	1,016,715
Net increase in other borrowings		**7,225**	8,242
Net increase in other liabilities		**17,810**	64,462
Cash inflow from operating activities		**242,346**	337,248
Income tax paid		**(27,989)**	(28,251)
Net cash inflow from operating activities		**214,357**	308,997

* For details of the restatement please refer to Note II.23.

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

	Note	Year ended 31 December 2011	2010 (Restated)*
Cash flows from investing activities			
Proceeds from disposal of property and equipment, intangible assets and other long-term assets		**3,949**	2,977
Proceeds from disposal of investment in subsidiaries, associates and joint ventures		**471**	471
Dividends received		**380**	467
Interest income received from investment securities		**54,882**	51,077
Proceeds from disposal/maturity of investment securities		**1,336,845**	1,210,766
Increase in investment in subsidiaries, associates and joint ventures		**(1,200)**	(1,834)
Purchase of property and equipment, intangible assets and other long-term assets		**(32,455)**	(23,990)
Purchase of investment securities		**(1,307,098)**	(1,434,877)
Net cash inflow/(outflow) from investing activities		**55,774**	(194,943)
Cash flows from financing activities			
Proceeds from issuance of bonds		**36,841**	85,711
Proceeds from rights issue		**–**	59,299
Repayments of debts issued		**(793)**	(26,928)
Cash payments for interest on bonds issued		**(4,444)**	(3,406)
Dividend payments to equity holders of the Bank		**(40,756)**	(35,537)
Dividend payments to non-controlling interests		**(3,978)**	(3,283)
Other net cash flows from financing activities		**170**	173
Net cash (outflow)/inflow from financing activities		**(12,960)**	76,029
Effect of exchange rate changes on cash and cash equivalents		**(9,174)**	(7,031)
Net increase in cash and cash equivalents		**247,997**	183,052
Cash and cash equivalents at beginning of year		**769,371**	586,319
Cash and cash equivalents at end of year	V.41	**1,017,368**	769,371

* For details of the restatement please refer to Note II.23.

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

Notes to the Consolidated Financial Statements

(Amount in millions of Renminbi, unless otherwise stated)

I GENERAL INFORMATION AND PRINCIPAL ACTIVITIES

Bank of China Limited (the "Bank"), formerly known as Bank of China, was founded on 5 February 1912. From its formation until 1949, the Bank performed various functions of a central bank, foreign exchange bank and commercial bank specialising in trade finance. Following the founding of the People's Republic of China (the "PRC") in 1949, the Bank was designated as a specialised foreign exchange bank. Since 1994, the Bank has evolved into a State-owned commercial bank. In this regard, in accordance with the Master Implementation Plan for the Joint Stock Reform approved by the State Council of the PRC, the Bank was converted into a joint stock commercial bank on 26 August 2004 and its name was changed from Bank of China to Bank of China Limited. In 2006, the Bank listed on the Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange.

The Bank is licensed as a financial institution by the China Banking Regulatory Commission (the "CBRC") [No. B0003H111000001] and is registered as a business enterprise with the State Administration of Industry and Commerce of the PRC [No. 100000000001349].

The Bank and its subsidiaries (together the "Group") provide a full range of corporate banking, personal banking, treasury operations, investment banking, insurance and other services to its customers in the Chinese mainland, Hong Kong, Macau, Taiwan and other major international financial centres.

The Bank's principal regulator is the CBRC. The operations in Hong Kong, Macau, Taiwan and other countries and regions of the Group are subject to the supervision of local regulators.

The parent company is Central Huijin Investment Limited ("Huijin"), a wholly owned subsidiary of China Investment Corporation ("CIC"), which owned 67.60% of the ordinary shares of the Bank as at 31 December 2011 (31 December 2010: 67.55%).

These consolidated financial statements have been approved by the Board of Directors on 29 March 2012.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). In addition, the consolidated financial statements comply with the disclosure requirements of the Hong Kong Companies Ordinance.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets available for sale, financial assets and financial liabilities at fair value through profit or loss (including derivative financial instruments) and investment properties.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note III.

1.1 Standards, amendments and interpretations effective in 2011

International Accounting Standard ("IAS") 24 Revised – Related Party Disclosures clarifies and simplifies the definition of a related party, provides a partial exemption from the disclosure requirements for transactions with government-related entities, and requires for additional disclosure such as commitments with related parties. The Group has adopted the partial exemption regarding disclosure requirements for transactions with government-related entities in the consolidated financial statements for the year ended 31 December 2010. Full adoption of IAS 24 Revised effective from 1 January 2011 has resulted in revised scope of related parties and additional disclosures for commitments with related parties.

The standards, amendments and interpretations effective in 2011 as noted below are relevant to the Group but had no material impact on the consolidated annual financial statements of the Group.

IAS 1 Amendment	Presentation of Financial Statements: Clarification of Statement of Changes in Equity
IAS 21, IAS 28 and IAS 31 Amendment	Transition Requirements for Amendments Arising as a Result of IAS 27
IAS 34 Amendment	Interim Financial Reporting: Significant Events and Transactions
IFRS 3 Amendment	Business Combinations: Contingent Consideration, Measurement of Non-controlling Interest and Share-based Payment
The International Financial Reporting Interpretations Committee ("IFRIC") 13 Amendment	Customer Loyalty Programmes: Fair Value of Award Credits
IFRIC 14 Amendment	Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2011

The standards, amendments and interpretations noted below are relevant to the Group but are not yet effective and have not been early adopted by the Group in 2011.

		Effective for annual period beginning on or after
IAS 1 Amendment	Presentation of Financial Statements: Other Comprehensive Income	1 July 2012
IAS 12 Amendment	Deferred Tax: Recovery of Underlying Assets	1 January 2012
IAS 19 Amendment	Employee Benefits	1 January 2013
IAS 32 Amendment	Financial Instruments: Presentation	1 January 2014
IFRS 7 Amendment	Disclosure: Offsetting Financial Assets and Financial Liabilities	1 January 2013
IFRS 7 Amendment	Disclosures: Transfers of Financial Assets	1 July 2011
IFRS 9, IFRS 9 Amendments and IFRS 7 Amendment	Financial Instruments and Financial Instruments: Disclosures	1 January 2015
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IAS 27 Revised	Separate Financial Statements	1 January 2013
IAS 28 Revised	Investments in Associates and Joint Ventures	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013

IAS 1 Amendment requires to separate items presented in other comprehensive income into two groups based on whether or not they may be recycled to profit or loss in the future.

IAS 12 Amendment provides a practical approach for measuring deferred tax assets and liabilities related to investment properties measured using the fair value model under IAS 40 Investment Property.

IAS 19 Amendment makes changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The most significant change is that actuarial gains and losses will be recognised in other comprehensive income rather than operating expenses.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2011 (Continued)

IAS 32 Amendment provides additional application guidance to clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. IFRS 7 – Disclosure: Offsetting Financial Assets and Financial Liabilities is also amended to require disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

IFRS 7 Amendment – Disclosures: Transfers of Financial Assets introduces new disclosure requirements to help users of financial statements evaluate the risk exposures relating to transfer of financial assets and the effect of those risks on an entity's financial position.

IFRS 9 and IFRS 9 Amendments replaced those parts of IAS 39 relating to the classification, measurement and de-recognition of financial assets and financial liabilities with key changes mainly related to the classification and measurement of financial assets and certain types of financial liabilities. Together with the amendments to IFRS 9, IFRS 7 – Financial Instruments: Disclosures is also amended to require additional disclosures on transition from IAS 39 to IFRS 9.

The five new standards (IFRS 10, IFRS 11, IFRS 12, IAS 27 Revised and IAS 28 Revised) establish new guidance for consolidation and joint arrangements and principally address:

- A revised definition of control for the purposes of determining which arrangements should be consolidated;
- A reduction in the types of joint arrangements to two: joint operations and joint ventures, and classification based on rights and obligations rather than legal structure;
- Elimination of the policy choice of proportionate consolidation for joint ventures; and
- New requirements to disclose significant judgements and assumptions in determining whether an entity controls, jointly controls or significantly influences its interests in other entities.

IFRS 13 defines and sets out in a single IFRS a framework for measuring fair value, and requires disclosures about fair value measurement.

The Group is considering the impact of these new standards and amendments on the consolidated and separate financial statements of the Group and the Bank respectively.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

2 Consolidation

2.1 Subsidiaries

Subsidiaries are all entities over which the Group has control, that is having the power to govern the financial and operating policies, so as to obtain benefits from its activities generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. If there is any indication that goodwill is impaired, recoverable amount is estimated and the difference between carrying amount and recoverable amount is recognised as an impairment charge. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the assets transferred. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

2 Consolidation (Continued)

2.1 Subsidiaries (Continued)

In the Bank's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The results of subsidiaries are accounted for by the Bank on the basis of dividend received and receivable. The Group assesses at each financial reporting date whether there is objective evidence that investment in subsidiaries is impaired. An impairment loss is recognised for the amount by which the investment in subsidiaries' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the investment in subsidiaries' fair value less costs to sell and value in use.

2.2 Associates and joint ventures

Associates are all entities over which the Group has significant influence but no control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Joint ventures exist where the Group has a contractual arrangement with one or more parties to undertake economic activities which are subject to joint control.

Investments in associates and joint ventures are initially recognised at cost and are accounted for using the equity method of accounting. The Group's "Investment in associates and joint ventures" includes goodwill.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interests in the associates and joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group assesses at each financial reporting date whether there is objective evidence that investments in associates and joint ventures are impaired. Impairment losses are recognised for the amounts by which the investments in associates and joint ventures' carrying amounts exceed its recoverable amounts. The recoverable amounts are the higher of investments in associates and joint ventures' fair value less costs to sell and value in use.

In the Bank's statement of financial position, the investments in associates and joint ventures are initially recognised at cost and are accounted for using the cost method of accounting. The results of associates and joint ventures are accounted for by the Bank on the basis of dividend received and receivable.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

2 Consolidation (Continued)

2.3 Transactions with Non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income are transferred to the income statement.

3 Foreign currency translation

3.1 Functional and presentation currency

The functional currency of Chinese mainland is the Renminbi ("RMB"). Items included in the financial statements of each of the Group's operations in Hong Kong, Macau, Taiwan and other countries and regions are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The presentation currency of the Group is RMB.

3.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, or the exchange rates that approximate the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement.

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are translated at the foreign exchange rates ruling at that date. Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount are recognised in other comprehensive income. Translation differences on all other monetary assets and liabilities are recognised in the income statement.

Non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the foreign exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the foreign exchange rates at the date the fair value is determined. Translation differences on non-monetary financial assets classified as available for sale are recognised in other comprehensive income. Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised as "Net trading gains" in the income statement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

3 Foreign currency translation (Continued)

3.2 Transactions and balances (Continued)

The results and financial positions of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each income statement are translated at exchange rates at the date of the transactions, or a rate that approximates the exchange rates of the date of the transaction; and

(iii) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of deposit taken and other currency instruments designated as hedges of such investments are taken to other comprehensive income. When a foreign entity is disposed, these exchange differences are recognised in the income statement.

4 Financial instruments

4.1 Classification

The Group classifies its financial assets into the following four categories:

- financial assets at fair value through profit or loss, including financial assets held for trading, and those designated at fair value through profit or loss at inception;
- held to maturity investments;
- loans and receivables; and
- available for sale investments.

Financial liabilities are classified into two categories:

- financial liabilities at fair value through profit or loss, including financial liabilities held for trading, and those designated at fair value through profit or loss at inception; and
- other financial liabilities.

The Group determines the classification of its financial assets and financial liabilities at initial recognition.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.1 Classification (Continued)

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

Financial assets and financial liabilities at fair value through profit or loss have two sub-categories: financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss at inception.

A financial asset or financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of recent actual pattern of short-term profit-making. Derivatives are also categorised as held for trading unless they are financial guarantee contracts or designated and effective as hedging instruments.

A financial asset or financial liability is classified at fair value through profit or loss at inception if it meets either of the following criteria and is designated as such by management on initial recognition:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on them on different bases; or
- A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information is provided internally on that basis to key management personnel; or
- Financial assets and financial liabilities containing one or more embedded derivatives which significantly modify the cash flows and for which separation of the embedded derivative is not prohibited on initial consideration.

(2) *Held to maturity investments*

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity and that do not meet the definition of loans and receivables nor are designated at fair value through profit or loss or as available for sale.

The Group shall not classify any financial assets as held to maturity if the entity has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held to maturity investments before maturity other than restricted circumstances such as sales or reclassifications due to a significant deterioration in the issuer's creditworthiness or industry's regulatory requirements.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.1 Classification (Continued)

(3) Loans and receivables

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

- those that the Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the Group upon initial recognition designates as at fair value through profit or loss;
- those that the Group upon initial recognition designates as available for sale; or
- those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration

(4) Available for sale investments

Available for sale investments are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

(5) Other financial liabilities

Other financial liabilities are non-derivative financial liabilities that are not classified or designated as financial liabilities at fair value through profit or loss.

4.2 Initial recognition

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

For all financial assets and financial liabilities not carried at fair value through profit or loss, financial assets are initially recognised at fair value together with transaction costs and financial liabilities are initially recognised at fair value net of transaction costs. Financial assets and financial liabilities carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

4.3 Subsequent measurement

Financial assets available for sale and financial assets and financial liabilities at fair value through profit or loss are subsequently carried at fair value. Financial assets classified as loans and receivables and held to maturity and other financial liabilities are carried at amortised cost using the effective interest method.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.3 Subsequent measurement (Continued)

Gains and losses arising from changes in the fair value of the financial assets and financial liabilities at fair value through profit or loss category are included in the income statement in the period in which they arise. Dividends on equity instruments of this category are also recognised in the income statement when the Group's right to receive payments is established.

Gains and losses arising from changes in the fair value of available for sale assets are recognised in other comprehensive income and ultimately in the equity item of "Reserve for fair value changes of available for sale securities", until the financial asset is de-recognised or impaired. At this time the cumulative gain or loss previously recognised in the "Reserve for fair value changes of available for sale securities" is reclassified from equity to the income statement. Interest on available for sale debt instruments calculated using the effective interest method as well as dividends on equity instruments of this category when the Group's right to receive such payments is established are recognised in the income statement.

4.4 Determination of fair value

The fair values of quoted financial assets and financial liabilities in active markets are based on current bid prices and ask prices, as appropriate. If there is no active market, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and option pricing models, and other valuation techniques commonly used by market participants.

The Group uses the valuation techniques commonly used by market participants to price financial instruments and techniques which have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. The Group makes use of all factors that market participants would consider in setting a price, and incorporates these into its chosen valuation techniques and tests for validity using prices from any observable current market transactions in the same instruments.

4.5 De-recognition of financial instruments

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired, or when the Group has transferred substantially all risks and rewards of ownership, or when the Group neither transfers nor retains substantially all risks or rewards of ownership of the financial asset but has not retained control of the financial asset.

On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in equity through other comprehensive income is recognised in the income statement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.5 De-recognition of financial instruments (Continued)

Financial liabilities are de-recognised when they are extinguished — that is, when the obligation is discharged, cancelled or expires. The difference between the carrying amount of a financial liability de-recognised and the consideration paid is recognised in the income statement.

4.6 Impairment of financial assets

The Group assesses at each financial reporting date whether there is objective evidence that a financial asset or a group of financial assets excluding those fair valued through profit or loss 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 Group about the following loss events:

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

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

(iii) the Group 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 into bankruptcy or other financial re-organisation;

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

(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, including adverse changes in the payment status of borrowers in the group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property price for the mortgages in the relevant area or national or local economic conditions that correlate with defaults on the assets in the group;

(vii) any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of investments in equity instruments may not be recovered;

(viii) a significant or prolonged decline in the fair value of equity instrument investments; or

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment of financial assets (Continued)

(ix) other objective evidence indicating impairment of the financial asset.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence of impairment, the impairment loss is recognised in the income statement. The Group performs a collective assessment for all other financial assets that are not individually significant or for which impairment has not yet been identified by including the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

(1) Assets carried at amortised cost

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

The calculation of the present value of the estimated future cash flows of a collateralised 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.

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

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 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.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment of financial assets (Continued)

(1) Assets carried at amortised cost (Continued)

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.

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 Group to reduce any differences between loss estimates and actual loss experience.

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. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

(2) Assets classified as available for sale

If objective evidence of impairment exists for available for sale financial assets, the cumulative loss recognised in "Reserve for 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 previously recognised impairment loss is reversed through the income statement.

With respect to equity instruments, impairment losses recognised in the income statement are not subsequently reversed through the income statement. If there is objective evidence that an impairment loss has been incurred on an unquoted equity investment that is not carried at fair value because its fair value cannot be reliably measured, the impairment loss is not reversed.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.7 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow analysis and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. For derivatives not designated or qualified as hedging instruments, including those are intended to provide effective economic hedges of specific interest rate and foreign exchange risks, but do not qualify for hedge accounting, changes in the fair value of these derivatives are recognised in "Net trading gains" in the income statement.

The Group documents, at inception, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. These criteria should be met before a hedge can be qualified to be accounted for under hedge accounting.

(1) Fair value hedge

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect income statement.

The changes in fair value of hedging instruments that are designated and qualify as fair value hedges are recorded in the income statement, together with the changes in fair value of the hedged item attributable to the hedged risk. The net result is included as ineffectiveness in the income statement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.7 Derivative financial instruments and hedge accounting (Continued)

(1) Fair value hedge (Continued)

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity. If the hedged item is de-recognised, the unamortised carrying value adjustment is recognised immediately in the income statement.

(2) Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction that could ultimately affect income statement.

The effective portion of changes in the fair value of hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in equity in the "Capital reserve". The ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to the income statement in the same periods when the hedged item affects the income statement.

When a hedging instrument expires or is sold, or the hedge designation is revoked or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss on the hedging instrument existing in equity at that time remains in equity and is reclassified to the income statement when the forecast transaction ultimately occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss existing in equity is immediately transferred to the income statement.

(3) Net investment hedge

Net investment hedge is a hedge of a net investment in a foreign operation.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of as part of the gain or loss on the disposal.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.8 Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the hybrid (combined) instrument vary in a way similar to a stand-alone derivative.

The Group separates embedded derivatives from the host contract and accounts for these as derivatives, if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the income statement.

These embedded derivatives separated from the host contract are measured at fair value with changes in fair value recognised in the income statement.

4.9 Convertible bonds

Convertible bonds comprise of the liability and equity components. The liability component, representing the obligation to make fixed payments of principal and interest, is classified as liability and initially recognised at the fair value, calculated using the market interest rate of a similar liability that does not have an equity conversion option, and subsequently measured at amortised cost using the effective interest method. The equity component, representing an embedded option to convert the liability into common shares, is initially recognised in "Capital reserve" as the difference between the proceeds received from the convertible bonds as a whole and the amount of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds.

On conversion of the bonds into shares, the amount transferred to share capital is calculated as the par value of the shares multiplied by the number of shares converted. The difference between the carrying value of the related component of the converted bonds and the amount transferred to Share capital is recognised in capital surplus under "Capital reserve".

4.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

5 Precious metals and precious metals swaps

Precious metals comprise gold, silver and other precious metals. The Group retains all risks and rewards of ownership related to precious metals deposited with the Group as precious metals deposits, including the right to freely pledge or transfer, and it records the precious metals received as an asset. A liability to return the amount of precious metals deposited is also recognised. Precious metals that are not related to the Group's precious metals market making and trading activities are initially measured at acquisition cost and subsequently measured at lower of cost and net realisable value. Precious metals that are related to the Group's market making and trading activities are initially recognised at fair value and subsequent changes in fair value included in "Net trading gains" are recognised in the income statement.

Consistent with the substance of the transaction, if the precious metals swaps are for financing purpose, they are accounted for as precious metals subject to collateral agreements. Precious metals collateralised are not de-recognised and the related counterparty liability is recorded in "Placements from banks and other financial institutions". If precious metal swaps are for trading purpose, they are accounted for as derivatives transactions.

6 Repurchase agreements, agreements to re-sell and securities lending

Securities and bills sold subject to repurchase agreements ("Repos") continue to be recognised, and are recorded as "Investment securities". The counterparty liability is included in "Placements from banks and other financial institutions" and "Due to central banks". Securities and bills purchased under agreements to re-sell ("Reverse repos") are not recognised. The receivables are recorded as "Placements with and loans to banks and other financial institutions" or "Balances with central banks", as appropriate.

The difference between purchase and sale price is recognised as "Interest expense" or "Interest income" in the income statement over the life of the agreements using the effective interest method.

Securities lending transactions are generally secured, with collateral taking the form of securities or cash. Securities lent to counterparties by the Group are recorded in the consolidated financial statements. Securities borrowed from counterparties by the Group are not recognised in the consolidated financial statements of the Group. Cash collateral received or advanced is recognised as a liability or an asset in the consolidated financial statements.

7 Property and equipment

The Group's fixed assets mainly comprise buildings, equipment and motor vehicles, aircraft and construction in progress. When the costs attributable to the land use rights cannot be reliably measured and separated from that of the building at inception, the costs are included in the cost of properties and buildings and recorded in "Property and equipment".

The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate. Such initial cost includes expenditure that is directly attributable to the acquisition of the assets.

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

7 Property and equipment (Continued)

Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Property and equipment are reviewed for impairment at each financial reporting date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by the difference between proceeds and carrying amount, after deduction of relevant taxes and expenses. These are included in the income statement.

7.1 Buildings, equipment and motor vehicles

Buildings comprise primarily branch and office premises. The estimated useful lives, depreciation rate and estimated residual value rate of buildings, equipment and motor vehicles are as follows:

Type of assets	Estimated useful lives	Estimated residual value rate	Annual depreciation rate
Buildings	15-50 years	3%	1.9%-6.5%
Equipment	3-15 years	3%	6.4%-32.4%
Motor vehicles	4-6 years	3%	16.1%-24.3%

7.2 Aircraft

Aircraft are used in the Group's aircraft operating leasing business.

Aircraft are depreciated using the straight-line method over the expected useful life of 25 years, less the years in service at the time of purchase to an estimated residual value rate of 15%.

7.3 Construction in progress

Construction in progress consists of assets under construction or being installed and is stated at cost. Cost includes equipment cost, cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use and the depreciation charge commences after such assets are transferred to property and equipment.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

8 Leases

8.1 Lease classification

Leases of assets where substantially all the risks and rewards of ownership have been transferred are classified as finance leases. Title may or may not eventually be transferred. All leases other than finance leases are classified as operating leases.

8.2 Finance leases

When the Group is a lessee under finance leases, the leased assets are capitalised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in "Other liabilities". Finance charges are charged over the term of the lease using an interest rate which reflects a constant rate of return.

The Group adopts the same depreciation policy for the finance leased assets as those for which it has title rights. If the Group can reasonably determine that a lease will transfer ownership of the asset to the Group by the end of the lease term, related assets are depreciated over their useful life. If there is no reasonable certainty that the Group can determine that a lease will transfer ownership of the asset to the Group by the end of the lease term, related assets are depreciated over the shorter of the lease term and useful life.

When the Group is a lessor under finance leases, the present value of the aggregation of the minimum lease payment receivable from the lessee, unguaranteed residual value and initial direct costs is recognised as a receivable. The difference between the receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using an interest rate which reflects a constant rate of return.

8.3 Operating leases

When the Group is the lessee under an operating lease, rental expenses are charged to "Operating expenses" in the income statement on a straight-line basis over the period of the lease.

When the Group is the lessor under operating leases, the assets subject to the operating lease are accounted for as the Group's assets. Rental income is recognised as "Other operating income" in the income statement on a straight-line basis over the lease term net of any incentives given to lessees.

9 Investment properties

Investment properties, principally consisting of office buildings, are held to generate rental income or earn capital gains or both and is not occupied by the Group. Investment properties are carried at fair value and changes in fair value are recorded in the income statement, representing the open market value determined periodically by independent appraisers.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

10 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, including options and firm orders for aircraft, computer software and other intangible assets.

Options and firm orders for aircraft which arose from the acquisition of a subsidiary were initially recorded at fair value at the date of acquisition. The value of such options and firm orders are not amortised and will be added to the cost of aircraft when the related aircraft are purchased.

Computer software and other intangible assets are stated at acquisition cost less accumulated amortisation and impairment. These costs are amortised on a straight-line basis over their estimated useful lives with the amortisation recognised in the income statement.

The value of intangible assets is reviewed for impairment at each financial reporting date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

The recoverable amount of an intangible asset is the higher of the asset's fair value less costs to sell and value in use.

11 Repossessed assets

Repossessed assets are initially recognised at fair value plus related costs when they are obtained as the compensation for the loans principal and interest. When there are indicators that the recoverable amount is lower than carrying amount, the carrying amount is written down immediately to its recoverable amount.

12 Employee benefits

12.1 Defined contribution plans

In accordance with the policies of relevant state and local governments, employees in Chinese mainland participate in various defined contribution retirement schemes administered by local Labour and Social Security Bureaus. Operations in Chinese mainland contribute to pension and insurance schemes administered by the local pension and insurance agencies using applicable contribution rates stipulated in the relevant local regulations. Upon retirement, the local Labour and Social Security Bureaus are responsible for the payment of the basic retirement benefits to the retired employees. In addition to these basic staff pension schemes, employees in Chinese mainland who retire after 1 January 2004 can also voluntarily participate in a defined contribution plan established by the Bank ("the Annuity Plan"). The Bank contributes to the Annuity Plan based on certain percentages of the employees' gross salaries.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

12 Employee benefits (Continued)

12.1 Defined contribution plans (Continued)

All eligible employees in operations in Hong Kong, Macau, Taiwan and other countries and regions participate in local defined contribution schemes. Above operations contribute to these defined contribution plans based on certain percentages of the employees' basic salaries.

Contributions made by the Group to the retirement schemes described above are recognised as "Operating expenses" in the income statement as incurred. Forfeited contributions by those employees who leave the schemes prior to the full vesting of their contributions are used to reduce the existing level of contributions or retained in the retirement schemes in accordance with the requirements of the respective defined contribution plans.

12.2 Retirement benefit obligations

The Group pays supplemental retirement benefits to employees in Chinese mainland who retired prior to 31 December 2003 and early retirement benefits to those employees who accepted an early retirement arrangement.

Supplemental retirement benefits include supplemental pension payments and medical expense coverage.

Early retirement benefits have been paid to those employees who accept voluntary retirement before the normal retirement date, as approved by management. The related benefit payments are made from the date of early retirement to the normal retirement date.

The liability related to the above supplemental benefit obligations and early retirement obligations existing at each financial reporting date, is calculated by independent actuaries using the projected unit credit method and is recorded as a liability under "Retirement benefit obligations" in the statement of financial position. The present value of the liability is determined through discounting the estimated future cash outflows using interest rates of RMB treasury bonds which have terms to maturity approximating the terms of the related liability. The gains or losses including those arising from the changes in actuarial assumptions and amendments to pension plans are charged or credited to the income statement immediately as "Operating expenses" when they occur.

12.3 Housing funds

Pursuant to local government regulations, all employees in Chinese mainland participate in various local housing funds administered by local governments. Operations in Chinese mainland contribute on a monthly basis to these funds based on certain percentages of the salaries of the employees. These payments are recognised as "Operating expenses" in the income statement as incurred.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

12 Employee benefits (Continued)

12.4 Share-based compensation

(1) *Equity-settled share-based compensation schemes*

The fair value of the employee services received in exchange for the grant of the options under these schemes is recognised as an expense over the vesting period, with a corresponding increase in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. The fair value of the equity instruments is measured at grant date, and is not subsequently re-measured. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each financial reporting date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement over the remaining vesting period, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to "Share capital" and "Capital reserve" when the options are exercised.

(2) *Cash-settled share-based compensation scheme*

The related cost of services received from the employees and the liability to pay for such services are measured at fair value and recognised over the vesting period as the employees render services. Fair value is established at the grant date, re-measured at each financial reporting date with any changes in fair value recognised as "Operating expenses" in the income statement for the period and de-recognised when the liability is settled.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the rights granted, excluding the impact of any non-market vesting conditions. Non-market conditions are included in the assumptions about the number of rights that are expected to vest. At each financial reporting date, the Group revises its estimates of the number of rights that are expected to vest. It recognises the impact of the revision to original estimates, if any, as "Operating expenses" in the income statement, with a corresponding adjustment to liability.

12.5 Bonus plans

The Group recognises a liability and an expense for bonuses, taking into consideration its business performance and profit attributable to the Bank's equity holders. The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

13 Provisions

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

14 Insurance contracts

14.1 Insurance contract classification

The Group's insurance subsidiaries issue insurance contracts that transfer significant insurance risk. The Group perform significant insurance risk test at the contract initial recognition date. Insurance risk is significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. The Group issues non-life insurance contracts, which cover casualty and property insurance risk, and life insurance contracts, which insure events associated with human life (for example death, or survival) over a long duration.

The Group does not separately measure embedded derivatives that itself meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

14.2 Insurance contract recognition and measurement

(1) Non-life insurance contracts

Premiums on non-life insurance contracts are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the financial reporting date is reported as the unearned premium liability in "Other liabilities".

Claims and loss adjustment expenses are charged to the income statement as "Operating expenses" when incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the financial reporting date even if they have not yet been reported to the Group.

(2) Life insurance contracts

Premiums on life insurance contracts are recognised as revenue when they become payable by the contract holders. Benefits and claims are recorded as an expense when they are incurred. A liability for contractual benefits that are expected to be incurred in the future is recorded when premiums are recognised. For certain long-term insurance contracts (linked long-term insurance contracts) with embedded derivatives linking payments on the contract to units of an investment fund set up by the Group with the consideration received from the contract holders, the liability is adjusted for all changes in the fair value of the underlying assets, and includes a liability for contractual benefits that are expected to be incurred in the future which is recorded when the premiums are recognised.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

14 Insurance contracts (Continued)

14.3 Liability adequacy test

At each financial reporting date, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities (including unearned premium in the case of non-life insurance contracts). In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the income statement and reported as "Operating expenses", with a provision established for losses arising from the liability adequacy test.

15 Treasury shares

Where the Bank or other members of the Group purchase the Bank's ordinary shares, "Treasury shares" are recorded at the amount of consideration paid and deducted from total equity holders' equity until they are cancelled, sold or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in capital and reserves attributable to equity holders of the Bank.

16 Contingent liabilities

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

17 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. Such financial guarantees are given to banks, financial institutions and other bodies to secure customer loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement less amortisation calculated and the best estimate of the expenditure required to settle any financial obligation arising at the financial reporting date. Any increase in the liability relating to guarantees is taken to the income statement. These estimates are determined based on experience of similar transactions, historical losses and by the judgement of management.

18 Fiduciary activities

The Group acts as a custodian, trustee or in other fiduciary capacities, that result in its holding or placing of assets on behalf of individuals, securities investment funds, social security funds, insurance companies, qualified foreign institutional investors, annuity schemes and other customers. These assets are not included in the statement of financial position of the Group, as they are not assets of the Group.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

18 Fiduciary activities (Continued)

The Group also administers entrusted loans on behalf of third-party lenders. In this regard, the Group grants loans to borrowers, as an intermediary, at the direction of third-party lenders, who fund these loans. The Group has been contracted by these third-party lenders to manage the administration and collection of these loans on their behalf. The third-party lenders determine both the underwriting criteria for and all terms of the entrusted loans, including their purposes, amounts, interest rates, and repayment schedule. The Group charges a commission related to its activities in connection with the entrusted loans, but the risk of loss is borne by the third-party lenders. Entrusted loans are not recognised in the statement of financial position of the Group.

19 Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except derivatives, are recognised within "Interest income" and "Interest expense" in the income statement using the effective interest method. Interest income and expense for derivatives is recognised in "Net trading gains" in the income statement.

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 Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

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

20 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income are accrued over that period. For other services, fee and commission income are recognised when the transactions are completed.

21 Income taxes

Income taxes comprise current income tax and deferred income tax. Tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In these cases, tax is also recognised in other comprehensive income or directly in equity, respectively.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

21 Income taxes (Continued)

21.1 Current income tax

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the financial reporting date, and any adjustment to tax payable in respect of previous years.

21.2 Deferred income tax

Deferred income tax is provided in full, and recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the financial reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from asset impairment allowances, revaluation of certain financial assets and financial liabilities including derivative contracts, revaluation of investment properties, depreciation of property and equipment, provisions for pension, retirement benefits and salary payable.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilised except the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

For deductible temporary differences associated with investment in subsidiaries, associates and joint ventures, a deferred tax asset is recognised to the extent that, and only to the extent that, it is probable that the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilised.

Deferred tax liabilities shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

Deferred income tax liabilities on taxable temporary differences arising from investment in subsidiaries, associates and joint ventures are recognised, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

The tax effects of income tax losses available for carrying forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

22 Segment reporting

The Group reviews the internal reporting in order to assess performance and allocate resources. Segment information is presented on the same basis as the Group's management and internal reporting.

23 Comparatives

In 2011, the Group and the Bank reclassified structured deposits, special purpose fundings and certain other deposits from "Financial liabilities at fair value through profit or loss", "Other borrowings" and "Other liabilities" respectively, to "Due to customers"; and combined the short position in debt securities into "Other liabilities", to be consistent with industry practice. After the reclassifications, "Due to customers" carried at amortised cost and at fair value have been presented separately on the statements of financial position. For details please refer to Note V.28. Items in the consolidated and the Bank's statements of financial position affected by the reclassification are as follows:

	As at 31 December 2010			
	Group		Bank	
	Before restatement	Restated	Before restatement	Restated
Financial liabilities at fair value through profit or loss	215,874	–	191,720	–
Due to customers	7,483,254	7,733,537	6,546,663	6,793,418
Other borrowings	42,620	19,499	23,121	–
Other liabilities	218,694	207,406	154,686	122,772

	As at 1 January 2010			
	Group		Bank	
	Before restatement	Restated	Before restatement	Restated
Financial liabilities at fair value through profit or loss	44,234	–	27,258	–
Due to customers	6,620,552	6,716,822	5,824,279	5,915,104
Other borrowings	37,186	11,257	25,929	–
Other liabilities	187,924	161,817	132,005	94,367

The items in the consolidated statement of cash flows have also been reclassified accordingly.

The reclassifications have no impact on the consolidated income statement, the consolidated statement of comprehensive income or the consolidated statement of changes in equity.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and judgements that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group has taken into consideration the impact of the economic environment on the industries and territories in which the Group operates when determining critical accounting estimates and judgements in applying accounting policies.

Areas susceptible to changes in critical estimates and judgements, which affect the carrying value of assets and liabilities, are set out below. It is possible that actual results may be materially different from the estimates and judgements referred below.

1 Impairment allowances on loans and advances

The Group reviews its loans and advances 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 Group makes judgements and assumptions when calculating loan impairment allowances related to loans and advances. These allowances, which reflect the difference between the carrying amount of a loan, or a portfolio of similar loans, and the present value of estimated future cash flows, are assessed individually, for significant loans, and collectively, for smaller portfolios of similar loans.

The estimate of future cash flows is most significantly related to impaired loans for which the impairment loss is assessed individually. Factors affecting this estimate include, among other things, the granularity of financial information related to specific borrowers, the availability of meaningful information related to industry competitors and the relevance of sector trends to the future performance of individual borrowers. China continues to experience rapid economic growth and these facts are not as well established as those in more developed markets. The effect of these factors requires significant judgement to be applied in the estimation of future cash flows. This is especially true in emerging sectors.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

1 Impairment allowances on loans and advances (Continued)

Significant judgement is also applied to the calculation of collectively assessed impairment allowances. The Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and advances before the decrease can be identified with an individual loan in that portfolio. 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 similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The Group has considered the impact of the changes and uncertainty in the macro-economic environments in which the Group operates when assessing the methodology and assumptions used for loss estimates and made adjustments where appropriate.

2 Fair value of derivatives and other financial instruments

The Group establishes fair value of financial instruments with reference to a quoted market price in an active market or, if there is no active market, using valuation techniques. These valuation techniques include the use of recent arm's length transactions, observable prices for similar instruments, discounted cash flow analysis using risk-adjusted interest rates, and commonly used market pricing models. Whenever possible these models use observable market inputs and data including, for example, interest rate yield curves, foreign currency rates and option volatilities. The results of using valuation techniques are calibrated against industry practice and observable current market transactions in the same or similar instruments.

The Group assesses assumptions and estimates used in valuation techniques including review of valuation model assumptions and characteristics, changes to model assumptions, the quality of market data, whether markets are active or inactive, other fair value adjustments not specifically captured by models and consistency of application of techniques between reporting periods as part of its normal review and approval processes. Valuation techniques are validated and periodically reviewed and, where appropriate, have been updated to reflect market conditions at the financial reporting date.

With respect to PRC government obligations related to large-scale policy directed financing transactions, fair value is determined using the stated terms of the related instrument and with reference to terms determined by the PRC government in similar transactions engaged in or directed by the PRC government. In this regard, there are no other relevant market prices or yields reflecting arm's length transactions of a comparable size and tenor.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

3 Impairment of available for sale investment securities and held to maturity investment securities

The Group follows the guidance of IAS 39 to determine when an available for sale or held to maturity investment security is impaired and when impairment on a debt security is reversed. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, the extent to which changes in fair value relate to credit events, and the financial health of and near-term business outlook for the investee/underlying portfolio, including factors such as industry and sector performance, technological innovations, credit ratings, delinquency rates, loss coverage ratios and counterparty risk.

4 Held to maturity securities

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity date as held to maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

5 Provisions

The Group uses judgement to assess whether the Group has a present legal or constructive obligation as a result of past events at each financial reporting date, and judgement is used to determine if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and to determine a reliable estimate of the amount of the obligation and relevant disclosure in the consolidated financial statements.

6 Employee retirement benefit obligations

As described in Note II.12.2 and Note V.32, the Bank has established liabilities in connection with benefits payable to certain retired and early retired employees. The amounts of employee benefit expense and these liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, pension benefit inflation rates, medical benefit inflation rates, and other factors. Actual results that differ from the assumptions are recognised immediately and, therefore, affect recognised expense in the year in which such differences arise. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect the Bank's expense related to its employee retirement benefit obligations.

7 Taxes

The Group is subject to income and business taxes in numerous jurisdictions, principally in Chinese mainland and Hong Kong. There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. The Group has made estimates for items of uncertainty and application of new tax legislation taking into account existing tax legislation and past practice, in particular, the treatment of supplementary PRC tax applied to results of overseas operations.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

7 Taxes (Continued)

Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax, deferred income tax, and business tax in the period during which such a determination is made.

8 Impairment of non-financial assets

Non-financial assets are periodically reviewed for impairment and where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

When estimating the value in use of aircraft held by subsidiaries, the Group estimates expected future cash flows from the aircraft and uses a suitable discount rate to calculate present value. The Group obtains valuations of aircraft from independent appraisers for which the principal assumptions underlying aircraft value are based on current market transactions for similar aircraft in the same location and condition. The Group also uses the fair value of aircraft obtained from independent appraisers in its assessment of the recoverable amount of intangible assets and the goodwill arising from the purchase of the Group's aircraft leasing subsidiary.

IV TAXATION

The principal income and other taxes to which the Group is subject are listed below:

		Statutory rates	
		Year ended 31 December	
Taxes	**Tax basis**	**2011**	2010
Chinese mainland			
Corporate income tax	Taxable income	**25%**	25%
Business tax	Business income	**5%**	5%
City construction and maintenance tax	Turnover tax paid	**1%-7%**	1%-7%
Education surcharges	Turnover tax paid	**3%-3.5%**	3%-3.5%
Hong Kong			
Hong Kong profits tax	Assessable profits	**16.5%**	16.5%

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Net interest income

	Year ended 31 December	
	2011	2010
Interest income		
Loans and advances to customers	**296,913**	227,529
Investment securities and financial assets at fair value through profit or loss (1)	**56,728**	53,987
Due from central banks	**25,177**	18,604
Due from and placements with and loans to banks and other financial institutions	**34,284**	13,413
Subtotal	**413,102**	313,533
Interest expense		
Due to customers	**(139,905)**	(92,525)
Due to and placements from banks and other financial institutions	**(38,227)**	(22,086)
Bonds issued and other	**(6,906)**	(4,960)
Subtotal	**(185,038)**	(119,571)
Net interest income (2)	**228,064**	193,962
Interest income accrued on impaired financial assets (included within interest income)	**666**	965

(1) Interest income on "Investment securities" and "Financial assets at fair value through profit or loss" is principally derived from debt securities listed on China Domestic Interbank Bond Market and unlisted debt securities in Hong Kong, Macau, Taiwan and other countries and regions.

(2) Included within "Interest income" and "Interest expense" are RMB410,913 million (2010: RMB311,425 million) and RMB169,535 million (2010: RMB117,925 million) for financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 Net fee and commission income

	Year ended 31 December	
	2011	2010
Credit commitment fees	**13,268**	10,178
Settlement and clearing fees	**12,389**	9,144
Agency commissions	**12,139**	11,021
Bank card fees	**10,747**	9,574
Spread income from foreign exchange business	**8,545**	8,114
Consultancy and advisory fees	**6,507**	4,385
Custodian and other fiduciary service fees	**1,809**	1,491
Other	**4,614**	5,307
Fee and commission income	**70,018**	59,214
Fee and commission expense	**(5,356)**	(4,731)
Net fee and commission income	**64,662**	54,483

3 Net trading gains

	Year ended 31 December	
	2011	2010
Net gains from foreign exchange and foreign exchange products (1)	**9,618**	3,072
Net losses from interest rate products	**(1,983)**	(332)
Net (losses)/gains from equity products	**(235)**	394
Net gains from commodity products	**458**	357
Total (2)	**7,858**	3,491

(1) The net gains from foreign exchange and foreign exchange products for the year ended 31 December 2011 include losses in connection with the retranslation of foreign currency denominated monetary assets and liabilities of RMB9,051 million (2010: losses of RMB661 million), and net realised and unrealised gains on foreign exchange derivatives (including the foreign exchange derivatives entered into in conjunction with the Group's asset and liability management and funding arrangements) of RMB18,782 million (2010: gains of RMB3,733 million).

(2) Included in "Net trading gains" above for the year ended 31 December 2011 are gains of RMB88 million in relation to financial assets and financial liabilities designated at fair value through profit or loss (2010: gains of RMB903 million).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4 Other operating income

	Year ended 31 December	
	2011	2010
Insurance premiums [1]	**7,678**	8,526
Revenue from sale of precious metals products	**6,955**	4,033
Aircraft leasing income	**3,804**	3,509
Gains on disposal of property and equipment, intangible assets and other assets	**436**	417
Dividend income	**248**	207
Changes in fair value of investment properties	**1,864**	1,649
Gains on disposal of subsidiaries, associates and joint ventures	**7**	128
Other	**3,280**	2,733
Total	**24,272**	21,202

(1) Details of insurance premium income are as follows:

	Year ended 31 December	
	2011	2010
Life insurance contracts		
Gross earned premiums	**10,702**	7,532
Less: gross written premiums ceded to reinsurers	**(5,997)**	(1,886)
Net insurance premium income	**4,705**	5,646
Non-life insurance contracts		
Gross earned premiums	**3,521**	3,329
Less: gross written premiums ceded to reinsurers	**(548)**	(449)
Net insurance premium income	**2,973**	2,880
Total	**7,678**	8,526

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5 Operating expenses

	Year ended 31 December	
	2011	2010
Staff costs (Note V.6)	**60,793**	53,420
General operating and administrative expenses [(1)]	**35,461**	30,816
Business and other taxes	**18,581**	14,414
Depreciation and amortisation	**12,257**	10,319
Insurance benefits and claims		
— Life insurance contracts	**5,673**	6,955
— Non-life insurance contracts	**1,905**	1,982
Cost of sale of precious metals products	**6,310**	3,664
Allowance for litigation losses	**21**	127
Losses on disposal of property and equipment	**64**	76
Lehman Brothers related products [(2)]	**(2,316)**	78
Other	**2,066**	558
Total	**140,815**	122,409

(1) Included in the general operating and administrative expenses are principal auditors' remuneration of RMB215 million for the year ended 31 December 2011 (2010: RMB213 million), of which RMB48 million was for Hong Kong, Macau, Taiwan and other countries and regions of the Group (2010: RMB46 million).

Included in the general operating and administrative expenses are operating lease expenses of RMB4,517 million and other premises and equipment related expenses (mainly comprised of property management and building maintenance expenses) of RMB9,479 million (2010: RMB3,724 million and RMB8,384 million, respectively).

(2) The final resolution of certain series of Lehman Brothers minibonds was announced on 15 June 2011. The net amount of RMB2,394 million recovered by BOC Hong Kong Group from the underlying collateral of the Lehman Brothers minibonds, after deducting the ex gratia payments and provision for trustee expenses, was credited to operating expenses in 2011.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6 Staff costs

	Year ended 31 December	
	2011	2010
Salary, bonus and subsidy	**44,429**	37,848
Staff welfare	**1,591**	2,967
Retirement benefits (Note V.32)	**626**	571
Social insurance, including:		
Medical	**1,984**	1,583
Pension	**4,130**	3,553
Annuity	**920**	802
Unemployment	**325**	213
Injury at work	**102**	75
Maternity insurance	**120**	92
Housing funds	**3,331**	2,769
Labour union fee and staff education fee	**1,558**	1,343
Reimbursement for cancellation of labour contract	**23**	17
Other	**1,654**	1,587
Total	**60,793**	53,420

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Directors', supervisors' and senior management's emoluments

Details of the directors' and supervisors' emoluments are as follows:

For the year ended 31 December 2011

	Fees	Remuneration paid	Contributions to pension schemes	Benefits in kind	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
XIAO Gang [3]	–[2]	775	60	227	1,062
LI Lihui [3]	–[2]	698	63	210	971
LI Zaohang [3]	–[2]	670	62	204	936
ZHOU Zaiqun [3][4]	–[2]	279	28	82	389
Non-executive directors					
HONG Zhihua [1][4]	–	–	–	–	–
HUANG Haibo [1][4]	–	–	–	–	–
CAI Haoyi [1]	–	–	–	–	–
SUN Zhijun [1]	–	–	–	–	–
LIU Lina [1]	–	–	–	–	–
JIANG Yansong [1]	–	–	–	–	–
ZHANG Xiangdong [1][5]	–	–	–	–	–
ZHANG Qi [1][5]	–	–	–	–	–
Independent non-executive directors					
Anthony Francis NEOH	550	–	–	–	550
Alberto TOGNI	955	–	–	–	955
HUANG Shizhong [1]	–	–	–	–	–
HUANG Danhan	350	–	–	–	350
CHOW Man Yiu, Paul	350	–	–	–	350
Jackson P. TAI [5]	273	–	–	–	273
Supervisors					
LI Jun [3]	–	679	43	206	928
WANG Xueqiang [3]	–	564	53	173	790
LIU Wanming [3]	–	564	52	170	786
DENG Zhiying [3]	–	599	48	165	812
LI Chunyu [3]	–	323	45	112	480
JIANG Kuiwei [3]	–	503	41	70	614
MEI Xingbao [5]	93	–	–	–	93
BAO Guoming [5]	134	–	–	–	134
QIN Rongsheng [4]	104	–	–	–	104
BAI Jingming [4]	88	–	–	–	88
	2,897	5,654	495	1,619	10,665

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Directors', supervisors' and senior management's emoluments (Continued)

For the year ended 31 December 2010

	Fees	Basic salaries	Contributions to pension schemes	Benefits in kind	Discretionary bonuses [3] Paid	Discretionary bonuses [3] Deferred	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors							
XIAO Gang [3]	–[2]	428	52	212	506	508	1,706
LI Lihui [3]	–[2]	385	54	202	456	457	1,554
LI Zaohang [3]	–[2]	370	53	197	437	439	1,496
ZHOU Zaiqun [3]	–[2]	370	56	195	435	437	1,493
Non-executive directors							
HONG Zhihua [1]	–	–	–	–	–	–	–
HUANG Haibo [1]	–	–	–	–	–	–	–
CAI Haoyi [1]	–	–	–	–	–	–	–
SUN Zhijun [1]	–	–	–	–	–	–	–
LIU Lina [1]	–	–	–	–	–	–	–
JIANG Yansong [1]	–	–	–	–	–	–	–
ZHANG Jinghua [1]	–	–	–	–	–	–	–
WANG Gang [1]	–	–	–	–	–	–	–
LIN Yongze [1]	–	–	–	–	–	–	–
SEAH Lim Huat Peter	300	–	–	–	–	–	300
Independent non-executive directors							
Anthony Francis NEOH	550	–	–	–	–	–	550
Alberto TOGNI	1,085	–	–	–	–	–	1,085
HUANG Shizhong	550	–	–	–	–	–	550
HUANG Danhan	350	–	–	–	–	–	350
CHOW Man Yiu, Paul	68	–	–	–	–	–	68
Supervisors							
LI Jun [3]	–	312	36	157	369	371	1,245
LIU Ziqiang [3]	–	94	19	48	111	111	383
WANG Xueqiang [3]	–	386	46	158	573	–	1,163
LIU Wanming [3]	–	386	45	156	539	–	1,126
DENG Zhiying [3]	–	142	14	51	474	–	681
LI Chunyu [3]	–	268	39	100	208	–	615
JIANG Kuiwei [3]	–	325	34	40	593	–	992
QIN Rongsheng	112	–	–	–	–	–	112
BAI Jingming	95	–	–	–	–	–	95
	3,110	3,466	448	1,516	4,701	2,323	15,564

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Directors', supervisors' and senior management's emoluments (Continued)

(1) For the years ended 31 December 2011 and 2010, these non-executive directors of the Bank signed agreements to waive the emoluments for their services to the Bank. For the year ended 31 December 2011, the independent non-executive director of the Bank HUANG Shizhong signed an agreement to waive the emoluments for his service to the Bank.

(2) For the years ended 31 December 2011 and 2010, these executive directors of the Bank did not receive any fees.

(3) The total compensation packages for executive directors and supervisors for the year ended 31 December 2011 including discretionary bonus have not yet been finalised in accordance with relevant regulations of the PRC authorities. The amount of the compensation not provided for is not expected to have any significant impact on the Group's and the Bank's 2011 financial statements. The final compensation for the year ended 31 December 2011 will be disclosed in a separate announcement when determined.

The compensation amounts for these directors and supervisors for the year ended 31 December 2010 were restated based on the finalised amounts determined during 2011 as disclosed in the Bank's announcement dated 27 May 2011.

A portion of the discretionary bonus payments for executive directors and the chairman of the Board of Supervisors are deferred for a minimum of 3 years contingent upon the future performance in accordance with relevant regulations of the PRC authorities.

(4) ZHOU Zaiqun ceased to be executive director effective from 28 May 2011. HONG Zhihua and HUANG Haibo ceased to be non-executive directors effective from 28 May 2011. QIN Rongsheng and BAI Jingming ceased to be external supervisors effective from 28 May 2011.

(5) ZHANG Xiangdong and ZHANG Qi were elected to be non-executive directors effective from 8 July 2011. Jackson P. TAI was elected to be an independent non-executive director effective from 11 March 2011. MEI Xingbao and BAO Guoming were elected to be external supervisors effective from 27 May 2011.

In July 2002, options to purchase shares of BOCHK Holdings were granted to several directors of the Bank under the Pre-Listing Share Option Scheme. During the years ended 31 December 2011 and 2010, no such options were exercised by any director.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Directors', supervisors' and senior management's emoluments (Continued)

Five highest paid individuals

Of the five individuals with the highest emoluments, none of them are directors or supervisors whose emoluments are disclosed above.

The emoluments payable to the five individuals whose emoluments were the highest in the Group for the years ended 31 December 2011 and 2010 respectively are as follows:

	Year ended 31 December	
	2011	2010
Basic salaries and allowances	**16**	26
Discretionary bonuses	**42**	22
Contributions to pension schemes and others	**5**	2
	63	50

Emoluments of the individuals were within the following bands:

	Year ended 31 December	
Amounts in RMB	**2011**	2010
7,500,001–8,000,000	**–**	1
8,500,001–9,000,000	**–**	1
9,500,001–10,000,000	**1**	1
10,000,001–10,500,000	**1**	–
10,500,001–11,000,000	**–**	1
12,000,001–12,500,000	**1**	–
12,500,001–13,000,000	**–**	1
14,500,001–15,000,000	**1**	–
16,000,001–16,500,000	**1**	–

The above five highest paid individuals' emoluments are based on best estimates of discretionary bonuses. Discretionary bonuses include portions of payments that are deferred to future periods.

During the years ended 31 December 2011 and 2010, the Group has not paid any emoluments to the directors, supervisors, or senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 Impairment losses on assets

	Year ended 31 December	
	2011	2010
Loans and advances [1]		
— Individually assessed	**191**	(1,790)
— Collectively assessed	**19,081**	17,354
Subtotal	**19,272**	15,564
Investment securities [1] [2]		
Available for sale		
— Debt securities	**(711)**	(2,884)
— Equity securities and fund investments	**647**	468
	(64)	(2,416)
Held to maturity	**58**	(69)
Loans and receivables	**10**	(1)
Subtotal	**4**	(2,486)
Other	**79**	(85)
Total	**19,355**	12,993

(1) Details of new allowances and reversal of impairment losses on loans and advances and investment securities are disclosed in Notes V.16 and V.23, respectively.

(2) Impairment charges/(reversal) on investment securities:

	Year ended 31 December	
	2011	2010
US Subprime mortgage related debt securities	**(434)**	(1,526)
US Alt-A mortgage-backed securities	**(108)**	(411)
US Non-Agency mortgage-backed securities	**(221)**	(647)
Other securities	**767**	98
Net charges/(reversal)	**4**	(2,486)

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9 Income tax expense

	Year ended 31 December	
	2011	2010
Current income tax		
— Chinese mainland income tax	**28,795**	28,082
— Hong Kong profits tax	**3,289**	2,701
— Macau, Taiwan and other countries and regions taxation	**1,458**	1,207
Subtotal	**33,542**	31,990
Deferred income tax (Note V.34)	**4,783**	464
Total	**38,325**	32,454

The principal tax rates applicable to the Group are set out in Note IV.

The provision for Chinese mainland income tax includes income tax based on the statutory tax rate of 25% of the taxable income of the Bank and each of the subsidiaries established in the Chinese mainland, and supplementary PRC tax on overseas operations as determined in accordance with the relevant PRC income tax rules and regulations (Note III.7).

Taxation on profits of Hong Kong, Macau, Taiwan and other countries and regions has been calculated on the estimated assessable profits in accordance with local tax regulations at the rates of taxation prevailing in the countries or regions in which the Group operates.

The tax rate on the Group's profit before tax differs from the theoretical amount that would arise using the basic Chinese mainland tax rate of the Bank as follows:

	Year ended 31 December	
	2011	2010
Profit before income tax	**168,644**	142,145
Tax calculated at applicable statutory tax rate	**42,161**	35,536
Effect of different tax rates on Hong Kong, Macau, Taiwan and other countries and regions	**(2,208)**	(2,149)
Supplementary PRC tax on overseas income	**1,527**	1,080
Income not subject to tax (1)	**(4,707)**	(3,439)
Items not deductible for tax purposes (2)	**1,749**	2,074
Other	**(197)**	(648)
Income tax expense	**38,325**	32,454

(1) Income not subject to tax mainly comprises interest income from PRC Treasury bonds.

(2) Non-deductible items primarily include losses resulting from write-off of certain non-performing loans, and marketing and entertainment expenses in excess of the relevant deductible threshold under the relevant PRC tax regulations.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10 Earnings per share (basic and diluted)

Basic earnings per share

Basic earnings per share was computed by dividing the profit attributable to the equity holders of the Bank by the weighted average number of ordinary shares in issue during the period.

	Year ended 31 December	
	2011	2010
Profit attributable to equity holders of the Bank	**124,182**	104,418
Weighted average number of ordinary shares in issue (in million shares)	**279,123**	264,393
Basic earnings per share (in RMB per share)	**0.44**	0.39

Weighted average number of ordinary shares in issue (in million shares)

	Year ended 31 December	
	2011	2010
Issued ordinary shares as at 1 January	**279,147**	253,839
Weighted average number of shares from rights issue	**–**	10,575
Conversion of the bond into shares (Note V.29)	**–**	–
Weighted average number of treasury shares	**(24)**	(21)
Weighted average number of ordinary shares in issue	**279,123**	264,393

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10 Earnings per share (basic and diluted) (Continued)

Diluted earnings per share

Diluted earnings per share was computed by dividing the adjusted profit attributable to the equity holders of the Bank based on assuming conversion of all dilutive potential shares for the year by the adjusted weighted average number of ordinary shares in issue. The Bank has convertible bonds as dilutive potential ordinary shares.

	Year ended 31 December	
	2011	2010
Profit attributable to equity holders of the Bank	**124,182**	104,418
Add: interest expense on convertible bonds, net of tax, outstanding as at 31 December	**949**	521
Profit used to determine diluted earnings per share	**125,131**	104,939
Adjusted weighted average number of ordinary shares in issue (in million shares)	**279,123**	264,393
Add: weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	**10,946**	6,241
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	**290,069**	270,634
Diluted earnings per share (in RMB per share)	**0.43**	0.39

11 Cash and due from banks and other financial institutions

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Cash	**61,833**	49,222	**55,830**	44,811
Due from banks in Chinese mainland	**416,233**	563,578	**385,164**	552,281
Due from other financial institutions in Chinese mainland	**3,541**	1,459	**3,378**	1,448
Due from banks in Hong Kong, Macau, Taiwan and other countries and regions	**109,306**	21,867	**131,735**	22,439
Due from other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions	**51**	–	**48**	–
Total (1)	**590,964**	636,126	**576,155**	620,979

(1) Included in the Bank's due from banks and other financial institutions are balances with the Bank's subsidiaries (Note V.42.7).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12 Balances with central banks

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Mandatory reserves (1)	**1,467,139**	1,109,878	**1,457,962**	1,104,652
Surplus reserves (2)	**181,020**	111,501	**179,390**	110,378
Other deposits (3)	**271,492**	352,543	**147,800**	67,502
Total	**1,919,651**	1,573,922	**1,785,152**	1,282,532

(1) The Group places mandatory reserve funds with the People's Bank of China (the "PBOC") and the central banks of Hong Kong, Macau, Taiwan and other countries and regions where it has operations. As at 31 December 2011, mandatory reserve funds placed with the PBOC were calculated at 21.0% (31 December 2010: 18.5%) and 5.0% (31 December 2010: 5.0%) of qualified RMB deposits and foreign currency deposits from customers of branches in Chinese mainland of the Bank respectively. The mandatory reserve funds placed with the central bank of domestic subsidiaries of the Group is determined by the PBOC. The amount of mandatory reserve funds placed with the central banks of other jurisdiction is determined by local regulations.

(2) This mainly represented the surplus reserve funds placed with the PBOC by branches in Chinese mainland of the Group.

(3) This mainly represented balances, other than mandatory reserves and surplus reserves, placed with central banks by operations in Hong Kong, Macau, Taiwan and other countries and regions.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13 Placements with and loans to banks and other financial institutions

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Placements with and loans to:				
Banks in Chinese mainland	**410,655**	91,752	**359,284**	76,584
Other financial institutions in Chinese mainland	**112,629**	83,188	**112,629**	83,188
Banks in Hong Kong, Macau, Taiwan and other countries and regions [(1)]	**95,320**	39,019	**83,086**	56,146
Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions [(1)]	**–**	–	**22,472**	29,658
Subtotal [(2)]	**618,604**	213,959	**577,471**	245,576
Allowance for impairment losses	**(238)**	(243)	**(238)**	(243)
Total	**618,366**	213,716	**577,233**	245,333
Impaired placements	**238**	243	**238**	243
Percentage of impaired placements to total placements with and loans to banks and other financial institutions	**0.04%**	0.11%	**0.04%**	0.10%

(1) Included in the Bank's placements with and loans to "Banks in Hong Kong, Macau, Taiwan and other countries and regions" and "Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions" are loans to the Bank's subsidiaries (Note V.42.7).

(2) "Placements with and loans to banks and other financial institutions" include balances arising from reverse repo agreements and collateralised financing agreements. These are presented by collateral type as follows:

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Debt securities				
— Governments	**90,925**	43,692	**88,596**	42,297
— Policy banks	**72,773**	29,778	**72,297**	29,778
— Financial institutions	**–**	3,262	**–**	2,547
Total	**163,698**	76,732	**160,893**	74,622

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 Financial assets at fair value through profit or loss

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Trading financial assets				
Trading debt securities				
Issuers in Chinese mainland				
— Government	**6,355**	5,477	**5,931**	5,420
— Policy banks	**2,135**	1,936	**1,803**	1,032
— Financial institutions	**204**	333	**40**	30
— Corporate	**2,054**	1,012	**1,436**	348
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Governments	**15,127**	29,472	**–**	–
— Public sector and quasi-governments	**153**	203	**–**	–
— Financial institutions	**417**	1,353	**–**	61
— Corporate	**4,723**	4,585	**–**	–
	31,168	44,371	**9,210**	6,891
Other trading financial assets				
Fund investments	**409**	429	**–**	–
Equity securities	**729**	3,863	**–**	–
Subtotal	**32,306**	48,663	**9,210**	6,891

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 Financial assets at fair value through profit or loss (Continued)

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Financial assets designated at fair value through profit or loss				
Debt securities designated at fair value through profit or loss				
Issuers in Chinese mainland				
— Government	**69**	174	**69**	23
— Policy banks	**1,822**	1,666	**1,822**	1,666
— Financial institutions	**–**	347	**–**	–
— Corporate	**327**	347	**–**	–
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Governments	**–**	242	**–**	–
— Public sector and quasi-governments	**463**	462	**393**	416
— Financial institutions	**26,690**	20,206	**14,276**	6,276
— Corporate	**3,936**	3,745	**1,705**	1,370
	33,307	27,189	**18,265**	9,751
Other financial assets designated at fair value through profit or loss				
Fund investments	**3,115**	2,577	**–**	–
Loans (1)	**4,412**	1,172	**4,412**	1,172
Equity securities	**667**	1,636	**–**	–
Subtotal	**41,501**	32,574	**22,677**	10,923
Total (2) (3)	**73,807**	81,237	**31,887**	17,814
Analysed as:				
Listed in Hong Kong	**9,463**	7,735	**4,475**	2,346
Listed outside Hong Kong (4)	**29,693**	22,640	**22,688**	13,971
Unlisted	**34,651**	50,862	**4,724**	1,497
Total	**73,807**	81,237	**31,887**	17,814

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 Financial assets at fair value through profit or loss (Continued)

(1) There was no significant change during the years ended 31 December 2011 and 2010 and cumulatively, in the fair value of the loans that was attributable to changes in the credit risk of the loans.

(2) As at 31 December 2011, the Group and the Bank held bonds issued by the Ministry of Finance of PRC ("MOF") and bills issued by the PBOC included in "Financial assets at fair value through profit or loss" with the carrying value and the related interest rate range on such bonds and bills as follows:

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Carrying value	**6,424**	5,651	**6,000**	5,443
Interest rate range	**0.72%–4.33%**	1.60%–9.00%	**2.71%–4.33%**	3.07%–4.48%

(3) Included in the Group's "Financial assets at fair value through profit or loss" were certificates of deposit held of RMB1,377 million (31 December 2010: RMB2,062 million).

(4) Debt securities traded on the China Domestic Interbank Bond Market are included in "Listed outside Hong Kong".

15 Derivative financial instruments and hedge accounting

The Group enters into foreign currency exchange rate, interest rate, equity, credit or precious metals and other commodity related derivative financial instruments for trading, hedging, asset and liability management and on behalf of customers.

The contractual/notional amounts and fair values of derivative instruments held by the Group and the Bank are set out in the following tables. The contractual/notional amounts of financial instruments provide a basis for comparison with fair value instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's or the Bank's exposure to credit or market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or credit or equity/commodity prices relative to their terms. The aggregate fair values of Derivative financial assets and liabilities can fluctuate significantly from time to time.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 Derivative financial instruments and hedge accounting (Continued)

15.1 Derivative financial instruments

Group

	As at 31 December 2011			As at 31 December 2010		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps [1]	**1,930,235**	**31,615**	**(21,687)**	1,979,959	30,763	(23,829)
Currency options	**17,404**	**203**	**(50)**	4,585	24	(25)
Subtotal	**1,947,639**	**31,818**	**(21,737)**	1,984,544	30,787	(23,854)
Interest rate derivatives						
Interest rate swaps	**618,375**	**9,027**	**(11,390)**	532,670	7,308	(10,081)
Interest rate options	**2,201**	**1**	**(18)**	85	–	–
Interest rate futures	**3,424**	**1**	**(1)**	7,388	8	(3)
Subtotal	**624,000**	**9,029**	**(11,409)**	540,143	7,316	(10,084)
Equity derivatives	**3,991**	**102**	**(98)**	8,684	123	(183)
Commodity derivatives	**77,347**	**1,808**	**(2,229)**	33,415	1,744	(1,590)
Credit derivatives	**315**	**–**	**–**	331	4	–
Total	**2,653,292**	**42,757**	**(35,473)**	2,567,117	39,974	(35,711)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 Derivative financial instruments and hedge accounting (Continued)

15.1 Derivative financial instruments (Continued)

Bank

	As at 31 December 2011			As at 31 December 2010		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps (1)	1,506,582	15,637	(9,501)	1,471,850	13,164	(10,162)
Currency options	8,730	102	(25)	1,090	15	(15)
Subtotal	1,515,312	15,739	(9,526)	1,472,940	13,179	(10,177)
Interest rate derivatives						
Interest rate swaps	262,617	4,337	(6,360)	253,521	5,113	(6,229)
Interest rate options	945	–	(14)	–	–	–
Interest rate futures	–	–	–	290	–	–
Subtotal	263,562	4,337	(6,374)	253,811	5,113	(6,229)
Equity derivatives	107	–	–	583	2	(1)
Commodity derivatives	40,143	893	(1,487)	21,679	859	(825)
Credit derivatives	315	–	–	331	4	–
Total	1,819,439	20,969	(17,387)	1,749,344	19,157	(17,232)

(1) These exchange rate derivatives primarily include foreign exchange transactions with customers; foreign exchange transactions to manage foreign currency exchange risks arising from customers; and foreign currency exchange transactions entered into as part of asset and liability management and funding requirements.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 Derivative financial instruments and hedge accounting (Continued)

15.2 Hedge accounting

Included in the derivative financial instruments above are those designated as hedging instruments by the Group as follows (the Bank: Nil):

Group

	As at 31 December 2011			As at 31 December 2010		
	Contractual/ notional amount	Fair value Assets	Fair value Liabilities	Contractual/ notional amount	Fair value Assets	Fair value Liabilities
Derivatives designated as hedging instruments in fair value hedges						
Cross-currency interest rate swaps	1,121	26	–	1,012	183	(1)
Interest rate swaps	28,040	2,389	(900)	39,435	740	(1,568)
Subtotal (1)	29,161	2,415	(900)	40,447	923	(1,569)
Derivatives designated as hedging instruments in cash flow hedges						
Cross-currency interest rate swaps	3,432	48	(81)	3,776	48	(63)
Interest rate swaps	576	–	(16)	8,354	92	(106)
Subtotal (2)	4,008	48	(97)	12,130	140	(169)
Total	33,169	2,463	(997)	52,577	1,063	(1,738)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 Derivative financial instruments and hedge accounting (Continued)

15.2 Hedge accounting (Continued)

(1) Fair value hedges

The Group uses cross-currency interest rate swaps and interest rate swaps to hedge against changes in fair value of bonds issued and debt securities available for sale arising from changes in foreign exchange rates and interest rates.

Gains or losses on fair value hedges are as follows:

	Year ended 31 December	
	2011	2010
Net gains/(losses) on		
— hedging instruments	**1,158**	(177)
— hedged items	**(1,275)**	113
Ineffectiveness recognised in Net trading gains	**(117)**	(64)

(2) Cash flow hedges

The Group uses cross-currency interest rate swaps and interest rate swaps to hedge against exposure to cash flow variability primarily from foreign exchange rates and interest rate risks of debt securities held and variable rate borrowings.

For the year ended 31 December 2011, a net gain from cash flow hedges of RMB9 million was recognised in "Capital reserve" through other comprehensive income (2010: net gain of RMB25 million), and there was no ineffectiveness for the year ended 31 December 2011 (2010: loss of RMB62 million).

There were no transactions for which cash flow hedge accounting had to be ceased in the year ended 31 December 2011 or 2010 as a result of the highly probable cash flows no longer being expected to occur.

(3) Net investment hedges

The Group's consolidated statement of financial position is affected by exchange differences between the functional currencies of respective holding companies and functional currencies of their branches and subsidiaries. The Group hedges such exchange exposures only in limited circumstances. Hedging is undertaken using deposits taken in the same currencies as the functional currencies of related branches and subsidiaries which are accounted for as hedges of certain net investment in foreign operations.

For the year ended 31 December 2011, a net gain from the hedging instrument of RMB826 million was recognised in "Currency translation differences" through other comprehensive income on net investment hedges (2010: net gain of RMB681 million), and there was no ineffectiveness for the years ended 31 December 2011 and 2010.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Loans and advances to customers, net

16.1 Analysis of loans and advances to customers

	As at 31 December					
	Group		Bank		Chinese mainland	
	2011	2010	**2011**	2010	**2011**	2010
Corporate loans and advances						
Loans and advances	**4,628,846**	4,143,775	**4,168,833**	3,733,290	**3,733,643**	3,445,891
Discounted bills	**96,459**	100,608	**93,551**	98,487	**84,812**	94,794
Subtotal	**4,725,305**	4,244,383	**4,262,384**	3,831,777	**3,818,455**	3,540,685
Personal loans						
Mortgages	**1,213,322**	1,089,006	**1,050,046**	940,226	**1,025,988**	921,373
Credit cards	**97,659**	60,833	**89,828**	53,827	**89,453**	53,487
Other	**306,528**	266,399	**281,199**	245,733	**275,798**	243,040
Subtotal	**1,617,509**	1,416,238	**1,421,073**	1,239,786	**1,391,239**	1,217,900
Total loans and advances	**6,342,814**	5,660,621	**5,683,457**	5,071,563	**5,209,694**	4,758,585
Allowance for impairment losses						
Individually assessed	**(36,265)**	(36,834)	**(35,749)**	(36,427)	**(35,228)**	(35,985)
Collectively assessed	**(103,411)**	(86,022)	**(100,903)**	(83,965)	**(98,282)**	(80,814)
Total allowance for impairment losses	**(139,676)**	(122,856)	**(136,652)**	(120,392)	**(133,510)**	(116,799)
Loans and advances to customers, net	**6,203,138**	5,537,765	**5,546,805**	4,951,171	**5,076,184**	4,641,786

16.2 Analysis of loans and advances to customers by geographical area, industry, collateral type and analysis of overdue loans and advances to customers by collateral type is presented in Note VI. 3.5.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Loans and advances to customers, net (Continued)

16.3 Analysis of loans and advances to customers by collective and individual allowance assessments

Group

	Loans and advances for which allowance is collectively assessed (1)	Identified impaired loans and advances (2) for which allowance is collectively assessed	for which allowance is individually assessed	Subtotal	Total	Identified impaired loans and advances as % of total loans and advances
As at 31 December 2011						
Total loans and advances	**6,279,508**	**12,842**	**50,464**	**63,306**	**6,342,814**	**1.00%**
Allowance for impairment losses	**(95,052)**	**(8,359)**	**(36,265)**	**(44,624)**	**(139,676)**	
Loans and advances to customers, net	**6,184,456**	**4,483**	**14,199**	**18,682**	**6,203,138**	
As at 31 December 2010						
Total loans and advances	5,596,745	13,152	50,724	63,876	5,660,621	1.13%
Allowance for impairment losses	(77,447)	(8,575)	(36,834)	(45,409)	(122,856)	
Loans and advances to customers, net	5,519,298	4,577	13,890	18,467	5,537,765	

Bank

	Loans and advances for which allowance is collectively assessed (1)	Identified impaired loans and advances (2) for which allowance is collectively assessed	for which allowance is individually assessed	Subtotal	Total	Identified impaired loans and advances as % of total loans and advances
As at 31 December 2011						
Total loans and advances	**5,621,032**	**12,790**	**49,635**	**62,425**	**5,683,457**	**1.10%**
Allowance for impairment losses	**(92,573)**	**(8,330)**	**(35,749)**	**(44,079)**	**(136,652)**	
Loans and advances to customers, net	**5,528,459**	**4,460**	**13,886**	**18,346**	**5,546,805**	
As at 31 December 2010						
Total loans and advances	5,008,245	13,095	50,223	63,318	5,071,563	1.25%
Allowance for impairment losses	(75,415)	(8,550)	(36,427)	(44,977)	(120,392)	
Loans and advances to customers, net	4,932,830	4,545	13,796	18,341	4,951,171	

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Loans and advances to customers, net (Continued)

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

Chinese mainland

	Loans and advances for which allowance is collectively assessed [1]	Identified impaired loans and advances [2]				Identified impaired loans and advances as % of total loans and advances
		for which allowance is collectively assessed	for which allowance is individually assessed	Subtotal	Total	
As at 31 December 2011						
Total loans and advances	**5,148,535**	**12,620**	**48,539**	**61,159**	**5,209,694**	**1.17%**
Allowance for impairment losses	**(90,012)**	**(8,270)**	**(35,228)**	**(43,498)**	**(133,510)**	
Loans and advances to customers, net	**5,058,523**	**4,350**	**13,311**	**17,661**	**5,076,184**	
As at 31 December 2010						
Total loans and advances	4,696,374	13,053	49,158	62,211	4,758,585	1.31%
Allowance for impairment losses	(72,284)	(8,530)	(35,985)	(44,515)	(116,799)	
Loans and advances to customers, net	4,624,090	4,523	13,173	17,696	4,641,786	

(1) Loans and advances for which allowance is collectively assessed consist of loans and advances which have not been specifically identified as impaired.

(2) Identified impaired loans and advances are loans for which objective evidence of impairment exists and which have been identified as bearing an impairment loss and assessed either:

- individually (including mainly significant corporate loans and advances over a certain amount which are impaired); or
- collectively (portfolios of individually insignificant homogenous loans which share similar credit risk characteristics, including insignificant corporate loans and advances and personal loans which are impaired).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Loans and advances to customers, net (Continued)

16.4 Reconciliation of allowance for impairment losses on loans and advances to customers by individual and collective assessments

	Year ended 31 December					
	2011			2010		
	Individually assessed allowance	**Collectively assessed allowance**	**Total**	Individually assessed allowance	Collectively assessed allowance	Total
Group						
As at 1 January	**36,834**	**86,022**	**122,856**	42,415	70,535	112,950
Impairment losses for the year	**12,066**	**41,425**	**53,491**	10,136	35,444	45,580
Reversal	**(11,875)**	**(22,344)**	**(34,219)**	(11,926)	(18,090)	(30,016)
Written off and transfer out	**(949)**	**(860)**	**(1,809)**	(4,079)	(1,438)	(5,517)
Recovery of loans and advances written off in previous years	**589**	**21**	**610**	631	135	766
Unwind of discount on allowance	**(98)**	**(216)**	**(314)**	(162)	(233)	(395)
Exchange differences	**(302)**	**(637)**	**(939)**	(181)	(331)	(512)
As at 31 December	**36,265**	**103,411**	**139,676**	36,834	86,022	122,856
Bank						
As at 1 January	**36,427**	**83,965**	**120,392**	41,611	68,755	110,366
Impairment losses for the year	**11,760**	**40,655**	**52,415**	10,075	34,924	44,999
Reversal	**(11,490)**	**(22,280)**	**(33,770)**	(11,290)	(18,043)	(29,333)
Written off and transfer out	**(876)**	**(744)**	**(1,620)**	(3,915)	(1,312)	(5,227)
Recovery of loans and advances written off in previous years	**314**	**1**	**315**	269	100	369
Unwind of discount on allowance	**(97)**	**(214)**	**(311)**	(155)	(233)	(388)
Exchange differences	**(289)**	**(480)**	**(769)**	(168)	(226)	(394)
As at 31 December	**35,749**	**100,903**	**136,652**	36,427	83,965	120,392
Chinese mainland						
As at 1 January	**35,985**	**80,814**	**116,799**	41,311	66,335	107,646
Impairment losses for the year	**11,657**	**39,902**	**51,559**	9,809	34,201	44,010
Reversal	**(11,444)**	**(21,188)**	**(32,632)**	(11,253)	(18,043)	(29,296)
Written off and transfer out	**(876)**	**(727)**	**(1,603)**	(3,850)	(1,289)	(5,139)
Recovery of loans and advances written off in previous years	**275**	**–**	**275**	269	–	269
Unwind of discount on allowance	**(97)**	**(214)**	**(311)**	(143)	(233)	(376)
Exchange differences	**(272)**	**(305)**	**(577)**	(158)	(157)	(315)
As at 31 December	**35,228**	**98,282**	**133,510**	35,985	80,814	116,799

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Loans and advances to customers, net (Continued)

16.5 Reconciliation of allowance account for impairment losses on loans and advances to customers by customer type

	Year ended 31 December					
	2011			2010		
	Corporate	Personal	Total	Corporate	Personal	Total
Group						
As at 1 January	**101,376**	**21,480**	**122,856**	92,028	20,922	112,950
Impairment losses for the year	**50,248**	**3,243**	**53,491**	44,165	1,415	45,580
Reversal	**(34,135)**	**(84)**	**(34,219)**	(29,965)	(51)	(30,016)
Written off and transfer out	**(1,197)**	**(612)**	**(1,809)**	(4,880)	(637)	(5,517)
Recovery of loans and advances written off in previous years	**577**	**33**	**610**	721	45	766
Unwind of discount on allowance	**(140)**	**(174)**	**(314)**	(210)	(185)	(395)
Exchange differences	**(874)**	**(65)**	**(939)**	(483)	(29)	(512)
As at 31 December	**115,855**	**23,821**	**139,676**	101,376	21,480	122,856
Bank						
As at 1 January	**99,252**	**21,140**	**120,392**	89,744	20,622	110,366
Impairment losses for the year	**49,414**	**3,001**	**52,415**	43,791	1,208	44,999
Reversal	**(33,722)**	**(48)**	**(33,770)**	(29,333)	–	(29,333)
Written off and transfer out	**(1,129)**	**(491)**	**(1,620)**	(4,727)	(500)	(5,227)
Recovery of loans and advances written off in previous years	**315**	**–**	**315**	369	–	369
Unwind of discount on allowance	**(137)**	**(174)**	**(311)**	(203)	(185)	(388)
Exchange differences	**(761)**	**(8)**	**(769)**	(389)	(5)	(394)
As at 31 December	**113,232**	**23,420**	**136,652**	99,252	21,140	120,392
Chinese mainland						
As at 1 January	**95,928**	**20,871**	**116,799**	87,229	20,417	107,646
Impairment losses for the year	**48,706**	**2,853**	**51,559**	42,887	1,123	44,010
Reversal	**(32,632)**	**–**	**(32,632)**	(29,296)	–	(29,296)
Written off and transfer out	**(1,128)**	**(475)**	**(1,603)**	(4,655)	(484)	(5,139)
Recovery of loans and advances written off in previous years	**275**	**–**	**275**	269	–	269
Unwind of discount on allowance	**(137)**	**(174)**	**(311)**	(191)	(185)	(376)
Exchange differences	**(577)**	**–**	**(577)**	(315)	–	(315)
As at 31 December	**110,435**	**23,075**	**133,510**	95,928	20,871	116,799

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Investment securities

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Investment securities available for sale				
Debt securities available for sale				
Issuers in Chinese mainland				
— Government	**56,338**	122,199	**49,384**	111,334
— Public sector and quasi-governments	**1,872**	2,790	**1,368**	2,771
— Policy banks	**48,667**	95,121	**39,270**	90,818
— Financial institutions	**13,294**	20,617	**3,136**	8,268
— Corporate	**67,116**	57,483	**59,303**	56,374
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Governments	**133,912**	90,437	**55,691**	38,469
— Public sector and quasi-governments	**34,175**	45,429	**5,385**	17,615
— Financial institutions	**148,506**	174,496	**50,058**	53,173
— Corporate	**20,212**	23,988	**6,133**	12,298
	524,092	632,560	**269,728**	391,120
Equity securities	**23,281**	19,142	**1,636**	1,360
Fund investments and other	**5,945**	5,036	**–**	–
Total investment securities available for sale (1)	**553,318**	656,738	**271,364**	392,480
Debt securities held to maturity				
Issuers in Chinese mainland				
— Government	**575,744**	689,539	**562,103**	684,474
— Public sector and quasi-governments	**16,220**	13,672	**16,220**	13,672
— Policy banks	**270,346**	146,428	**270,000**	145,714
— Financial institutions	**23,182**	19,584	**21,368**	16,128
— Corporate	**123,828**	90,480	**123,120**	90,124
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Governments	**33,762**	32,744	**29,475**	28,066
— Public sector and quasi-governments	**5,443**	7,785	**195**	1,233
— Financial institutions	**22,590**	34,257	**2,543**	4,224
— Corporate	**3,355**	5,335	**930**	888
	1,074,470	1,039,824	**1,025,954**	984,523
Allowance for impairment losses	**(354)**	(438)	**(334)**	(396)
Total debt securities held to maturity (2)	**1,074,116**	1,039,386	**1,025,620**	984,127

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Investment securities (Continued)

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Debt securities classified as loans and receivables				
Issuers in Chinese mainland				
— China Orient Bond [3]	**160,000**	160,000	**160,000**	160,000
— PBOC Special Bills [4]	**–**	82	**–**	82
— PBOC Target Bills [5]	**22,291**	–	**22,291**	–
— Special Purpose Treasury Bond [6]	**42,500**	42,500	**42,500**	42,500
— Financial institutions	**14,480**	16,541	**14,480**	15,660
— Certificate and Saving-type Treasury Bonds and other [7]	**41,483**	43,639	**41,483**	43,639
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Public sector and quasi-governments	**12,845**	3,094	**9,124**	1,374
— Financial institutions	**5,410**	12,184	**–**	–
— Corporate	**584**	–	**584**	–
	299,593	278,040	**290,462**	263,255
Allowance for impairment losses	**(75)**	(77)	**(75)**	(77)
Total debt securities classified as loans and receivables	**299,518**	277,963	**290,387**	263,178
Total investment securities [8] [9]	**1,926,952**	1,974,087	**1,587,371**	1,639,785

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Investment securities (Continued)

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Analysed as follows:				
Investment securities available for sale				
Debt securities				
— Listed in Hong Kong	**14,294**	11,800	**5,560**	5,228
— Listed outside Hong Kong	**262,669**	405,093	**179,857**	308,776
— Unlisted	**247,129**	215,667	**84,311**	77,116
Equity, fund and other				
— Listed in Hong Kong	**5,138**	5,748	**–**	–
— Listed outside Hong Kong	**340**	274	**–**	–
— Unlisted	**23,748**	18,156	**1,636**	1,360
Debt securities held to maturity				
— Listed in Hong Kong	**2,206**	2,269	**1,204**	1,468
— Listed outside Hong Kong	**1,010,958**	971,645	**998,511**	954,533
— Unlisted	**60,952**	65,472	**25,905**	28,126
Debt securities classified as loans and receivables				
— Unlisted	**299,518**	277,963	**290,387**	263,178
Total	**1,926,952**	1,974,087	**1,587,371**	1,639,785
Listed in Hong Kong	**21,638**	19,817	**6,764**	6,696
Listed outside Hong Kong	**1,273,967**	1,377,012	**1,178,368**	1,263,309
Unlisted	**631,347**	577,258	**402,239**	369,780
Total	**1,926,952**	1,974,087	**1,587,371**	1,639,785

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Investment securities (Continued)

Group

	As at 31 December			
	2011		2010	
	Carrying value	**Market value**	Carrying value	Market value
Debt securities held to maturity				
Listed in Hong Kong	**2,206**	**2,288**	2,269	2,375
Listed outside Hong Kong	**1,010,958**	**1,012,649**	971,645	958,476

Bank

	As at 31 December			
	2011		2010	
	Carrying value	**Market value**	Carrying value	Market value
Debt securities held to maturity				
Listed in Hong Kong	**1,204**	**1,254**	1,468	1,528
Listed outside Hong Kong	**998,511**	**1,000,082**	954,533	941,193

(1) The Group's accumulated impairment charge on debt and equity securities available for sale held as at 31 December 2011 amounted to RMB9,135 million and RMB3,788 million, respectively (31 December 2010: RMB15,931 million and RMB3,480 million, respectively).

(2) In March 2011, the Group reclassified certain debt securities with a total carrying value of RMB136,503 million from "Investment securities available for sale" to "Investment securities held to maturity" in response to a change in intention of management.

(3) The Bank transferred certain non-performing assets to China Orient Asset Management Corporation ("China Orient") in 1999 and 2000. On 1 July 2000, China Orient issued a ten-year bond ("Orient Bond") with a par value of RMB160,000 million and interest rate of 2.25% to the Bank as consideration. During the year ended 31 December 2010, the maturity of this bond was extended to 30 June 2020 with the other terms unchanged. The MOF shall continue to provide funding support for the principal and interest of the Orient Bond held by the Bank pursuant to Caijin [2004] No. 87 "Notice of the MOF Regarding Relevant Issues Relating to the Principal and Interest of Debt Securities of Financial Asset Management Companies Held by Bank of China and China Construction Bank". There was no exchange of cash on the date of extension of the Orient Bond.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Investment securities (Continued)

(4) The Special Bills issued by the PBOC on 22 June 2006 amounted to RMB82 million matured in 2011 and the Bank received the principal and interest amount in full.

(5) The PBOC Target Bills held by the Bank with face value of RMB23,000 million were issued at a discount with original term of one year. Without the approval of the PBOC, these PBOC bills are non-transferable and may not be used as collateral for borrowings.

(6) On 18 August 1998, a Special Purpose Treasury Bond was issued by the MOF with a par value of RMB42,500 million maturing on 18 August 2028. This bond was originally issued with an annual coupon rate of 7.20% and its coupon rate was restructured to 2.25% per annum from 1 December 2004.

(7) The Group underwrites certain Treasury bonds issued by the MOF and undertakes the role of a distributor of these Treasury bonds through its branch network earning commission income on bonds sold. The investors of these 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 balance of these bonds held by the Group and the Bank as at 31 December 2011 amounted to RMB33,217 million (31 December 2010: RMB43,562 million). During the year, the total distribution of these Treasury bonds amounted to RMB16,800 million (2010: RMB39,600 million) and commission income amounted to RMB231 million (2010: RMB295 million).

(8) As at 31 December 2011, the Group and the Bank held bonds issued by the MOF and bills issued by the PBOC included in investment securities with the carrying value and the related interest rate range on such bonds and bills as follows:

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Carrying value	**639,751**	832,924	**619,156**	816,995
Interest rate range	**1.12% – 4.92%**	1.38% – 6.80%	**1.12% – 4.92%**	1.38% – 6.80%

(9) Included in the Group's investment securities were certificates of deposit held amounting to RMB40,402 million as at 31 December 2011 (31 December 2010: RMB29,086 million).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Investment in subsidiaries

The carrying amount by principal subsidiary was as follows, and further details are disclosed in Note V.42.7. These principal subsidiaries are unlisted companies. All holdings are in the ordinary share capital of the undertaking concerned, and the ability of the subsidiary to transfer funds to the Group and the Bank is not restricted.

	As at 31 December	
	2011	2010
BOC Hong Kong (Group) Limited	**36,915**	36,915
BOC Group Investment Limited	**29,633**	28,281
BOC Group Insurance Company Limited	**4,509**	4,509
BOC International Holdings Limited	**3,753**	3,753
BOC (UK) Limited	**2,126**	2,126
BOC Insurance Company Limited [1]	**1,998**	–
Tai Fung Bank Limited	**82**	82
Other	**4,773**	4,267
Total	**83,789**	79,933

(1) BOC Insurance Company Limited was an indirect wholly-owned subsidiary of the Group held through BOC Group Insurance Company Limited up until 5 December 2011, when the shareholdings in this company were transferred to the Bank upon the completion of a restructuring.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 Investment in associates and joint ventures

	Year ended 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
As at 1 January	**12,631**	10,668	**45**	18
Additions	**1,335**	1,834	**–**	–
Disposals	**(464)**	(343)	**–**	–
Share of results, net of tax	**516**	1,029	**6**	28
Share of reserve movement	**254**	97	**–**	–
Dividends received	**(192)**	(302)	**–**	–
Exchange differences and other	**(787)**	(352)	**(3)**	(1)
As at 31 December	**13,293**	12,631	**48**	45

Investment in associates and joint ventures of the Group and the Bank comprise of ordinary shares of unlisted companies, and the ability of associates and joint ventures to transfer funds to the Group and the Bank is not restricted. The carrying amount by principal investees was as follows:

	As at 31 December	
	2011	2010
Huaneng International Power Development Corporation	**4,665**	4,524
BOC International (China) Limited	**2,273**	2,037
AVIC International Holding Corporation	**1,540**	1,466
Ningxia Electric Power Group Company Limited	**981**	981
Hong Kong Bora Holdings Limited	**785**	727
CGN Phase I Private Equity Fund Company Limited	**731**	20
Guangdong Small and Medium Enterprises Equity Investment Fund Company Limited	**637**	240
Farun Glass Industry Company Limited	**475**	543
Zheshang Investment Fund	**169**	–
JCC Financial Company Limited	**133**	91
Other	**904**	2,002
Total	**13,293**	12,631

Further details are disclosed in Note V.42.4.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment

Group

	Year ended 31 December				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
Cost					
As at 1 January 2011	74,058	40,752	12,806	43,707	171,323
Additions	1,331	8,337	14,069	6,791	30,528
Transfer from/(to) investment properties, net (Note V.21)	706	–	(10)	–	696
Reclassification	4,561	542	(6,860)	1,757	–
Disposals	(765)	(1,977)	(16)	(3,604)	(6,362)
Exchange differences	(902)	(239)	(149)	(2,067)	(3,357)
As at 31 December 2011	78,989	47,415	19,840	46,584	192,828
Accumulated depreciation					
As at 1 January 2011	(19,378)	(23,942)	–	(3,371)	(46,691)
Depreciation charge	(2,275)	(6,420)	–	(1,606)	(10,301)
Disposals	666	1,875	–	406	2,947
Exchange differences	168	170	–	160	498
As at 31 December 2011	(20,819)	(28,317)	–	(4,411)	(53,547)
Allowance for impairment losses					
As at 1 January 2011	(798)	–	(257)	(9)	(1,064)
Impairment losses	–	–	–	(11)	(11)
Disposals	23	–	5	–	28
Exchange differences	–	–	–	–	–
As at 31 December 2011	(775)	–	(252)	(20)	(1,047)
Net book value					
As at 1 January 2011	53,882	16,810	12,549	40,327	123,568
As at 31 December 2011	57,395	19,098	19,588	42,153	138,234

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment (Continued)

Group

	Year ended 31 December				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
Cost					
As at 1 January 2010	68,622	33,403	11,680	38,260	151,965
Additions	492	8,021	7,766	6,699	22,978
Transfer from/(to) investment properties, net (Note V.21)	3,349	–	(4)	–	3,345
Reclassification	2,905	1,127	(6,452)	2,420	–
Disposals	(894)	(1,609)	(88)	(2,540)	(5,131)
Exchange differences	(416)	(190)	(96)	(1,132)	(1,834)
As at 31 December 2010	74,058	40,752	12,806	43,707	171,323
Accumulated depreciation					
As at 1 January 2010	(18,000)	(20,625)	–	(2,288)	(40,913)
Depreciation charge	(2,190)	(5,008)	–	(1,486)	(8,684)
Disposals	730	1,556	–	337	2,623
Exchange differences	82	135	–	66	283
As at 31 December 2010	(19,378)	(23,942)	–	(3,371)	(46,691)
Allowance for impairment losses					
As at 1 January 2010	(819)	–	(279)	–	(1,098)
Impairment losses	–	–	–	(9)	(9)
Disposals	21	–	22	–	43
Exchange differences	–	–	–	–	–
As at 31 December 2010	(798)	–	(257)	(9)	(1,064)
Net book value					
As at 1 January 2010	49,803	12,778	11,401	35,972	109,954
As at 31 December 2010	53,882	16,810	12,549	40,327	123,568

As at 31 December 2011, the net book amount of aircraft owned by the Group acquired under finance lease arrangements was RMB477 million (31 December 2010:RMB2,258 million).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment (Continued)

As at 31 December 2011, the net book amount of aircraft leased out by the Group under operating leases was RMB41,287 million (31 December 2010: RMB39,394 million).

As at 31 December 2011, the net book amount of aircraft owned by the Group that has been pledged for loan facilities was RMB31,998 million (31 December 2010: RMB34,813 million) (Note V.30).

Bank

	Year ended 31 December			
	Buildings	Equipment and motor vehicles	Construction in progress	Total
Cost				
As at 1 January 2011	57,727	36,051	9,743	103,521
Additions	335	7,985	8,784	17,104
Transfer from investment properties, net (Note V.21)	16	–	–	16
Reclassification	4,253	124	(4,377)	–
Disposals	(667)	(1,741)	(15)	(2,423)
Exchange differences	(180)	(33)	–	(213)
As at 31 December 2011	61,484	42,386	14,135	118,005
Accumulated depreciation				
As at 1 January 2011	(16,307)	(20,665)	–	(36,972)
Depreciation charge	(1,919)	(5,855)	–	(7,774)
Disposals	567	1,658	–	2,225
Exchange differences	47	25	–	72
As at 31 December 2011	(17,612)	(24,837)	–	(42,449)
Allowance for impairment losses				
As at 1 January 2011	(798)	–	(257)	(1,055)
Impairment losses	–	–	–	–
Disposals	23	–	5	28
Exchange differences	–	–	–	–
As at 31 December 2011	(775)	–	(252)	(1,027)
Net book value				
As at 1 January 2011	40,622	15,386	9,486	65,494
As at 31 December 2011	43,097	17,549	13,883	74,529

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment (Continued)

Bank

	Year ended 31 December			
	Buildings	Equipment and motor vehicles	Construction in progress	Total
Cost				
As at 1 January 2010	55,111	28,813	8,595	92,519
Additions	378	7,651	5,064	13,093
Transfer from investment properties, net (Note V.21)	217	–	–	217
Reclassification	2,814	1,011	(3,825)	–
Disposals	(809)	(1,414)	(91)	(2,314)
Exchange differences	16	(10)	–	6
As at 31 December 2010	57,727	36,051	9,743	103,521
Accumulated depreciation				
As at 1 January 2010	(15,094)	(17,588)	–	(32,682)
Depreciation charge	(1,865)	(4,454)	–	(6,319)
Disposals	649	1,371	–	2,020
Exchange differences	3	6	–	9
As at 31 December 2010	(16,307)	(20,665)	–	(36,972)
Allowance for impairment losses				
As at 1 January 2010	(819)	–	(279)	(1,098)
Impairment losses	–	–	–	–
Disposals	21	–	22	43
Exchange differences	–	–	–	–
As at 31 December 2010	(798)	–	(257)	(1,055)
Net book value				
As at 1 January 2010	39,198	11,225	8,316	58,739
As at 31 December 2010	40,622	15,386	9,486	65,494

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment (Continued)

According to relevant PRC laws and regulations, after conversion into a joint stock limited liability company, the Bank is required to re-register its property and equipment under the name of Bank of China Limited. As at 31 December 2011, the process of re-registration has not been completed. However, this registration process does not affect the rights of Bank of China Limited to these assets.

The carrying value of buildings is analysed based on the remaining terms of the leases as follows:

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Held in Hong Kong				
on long-term lease (over 50 years)	**4,003**	4,177	**–**	–
on medium-term lease (10–50 years)	**7,777**	7,960	**–**	–
on short-term lease (less than 10 years)	**8**	–	**8**	–
Subtotal	**11,788**	12,137	**8**	–
Held outside Hong Kong				
on long-term lease (over 50 years)	**4,538**	4,601	**3,901**	4,387
on medium-term lease (10–50 years)	**40,568**	36,471	**38,687**	35,839
on short-term lease (less than 10 years)	**501**	673	**501**	396
Subtotal	**45,607**	41,745	**43,089**	40,622
Total	**57,395**	53,882	**43,097**	40,622

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 Investment properties

	Year ended 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
As at 1 January	**13,839**	15,952	**1,285**	1,384
Additions	**502**	–	**–**	–
Transfer to property and equipment, net (Note V.20)	**(696)**	(3,345)	**(16)**	(217)
Disposals	**(273)**	(94)	**–**	–
Fair value changes (Note V.4)	**1,864**	1,649	**100**	88
Exchange differences	**(620)**	(323)	**(89)**	30
As at 31 December	**14,616**	13,839	**1,280**	1,285

The Group's investment properties are located in active real estate markets, and external appraisers make reasonable estimation of fair value using market prices of the same or similar properties from the real estate market.

Investment properties are mainly held by BOCHK Holdings and BOCGI, subsidiaries of the Group. The carrying value of investment properties held by BOCHK Holdings and BOCGI as at 31 December 2011 amounted to RMB7,529 million and RMB5,791 million, respectively (31 December 2010: RMB6,794 million and RMB5,745 million). The valuation of these investment properties as at 31 December 2011 were principally performed by either Savills Valuation and Professional Services Limited or Knight Frank Petty Limited based on open market price.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 Investment properties (Continued)

The carrying value of investment properties is analysed based on the remaining terms of the leases as follows:

	As at 31 December			
	Group		Bank	
	2011	2010	2011	2010
Held in Hong Kong				
on long-term lease (over 50 years)	2,086	2,150	–	–
on medium-term lease (10-50 years)	6,004	5,498	–	–
on short-term lease (less than 10 years)	–	–	–	–
Subtotal	8,090	7,648	–	–
Held outside Hong Kong				
on long-term lease (over 50 years)	1,829	2,611	714	1,084
on medium-term lease (10-50 years)	4,502	3,379	371	–
on short-term lease (less than 10 years)	195	201	195	201
Subtotal	6,526	6,191	1,280	1,285
Total	14,616	13,839	1,280	1,285

22 Other assets

	As at 31 December			
	Group		Bank	
	2011	2010	2011	2010
Interest receivable (1)	54,817	42,025	50,174	38,254
Accounts receivable and prepayments (2)	38,245	35,377	13,235	20,943
Intangible assets (3)	2,602	2,342	2,406	2,161
Land use rights (4)	9,353	9,023	8,561	8,889
Repossessed assets (5)	1,057	1,531	712	988
Goodwill (6)	1,752	1,851	–	–
Other	8,931	8,123	4,550	3,831
Total	116,757	100,272	79,638	75,066

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(1) Interest receivable

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Debt securities	**22,494**	22,668	**19,957**	19,916
Loans and advances to customers	**22,164**	14,811	**20,982**	13,939
Due from and placements with and loans to banks, other financial institutions and central banks	**10,159**	4,546	**9,235**	4,399
Total	**54,817**	42,025	**50,174**	38,254

The movements of interest receivable are as follows:

	Year ended 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
As at 1 January	**42,025**	34,390	**38,254**	31,258
Accrued during the year	**411,650**	311,239	**384,370**	289,761
Received during the year	**(398,858)**	(303,604)	**(372,450)**	(282,765)
As at 31 December	**54,817**	42,025	**50,174**	38,254

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(2) Accounts receivable and prepayments

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Accounts receivable and prepayments	**40,209**	37,496	**15,122**	22,988
Impairment allowance	**(1,964)**	(2,119)	**(1,887)**	(2,045)
Net value	**38,245**	35,377	**13,235**	20,943

Accounts receivable and prepayments mainly include items in the process of clearing and settlement. The analysis of the aging of accounts receivable and prepayments is as follows:

Group

	As at 31 December			
	2011		2010	
	Balance	**Impairment allowance**	Balance	Impairment allowance
Within 1 year	**35,299**	**(92)**	33,632	(229)
Between 1 to 3 years	**1,705**	**(270)**	1,138	(901)
Over 3 years	**3,205**	**(1,602)**	2,726	(989)
Total	**40,209**	**(1,964)**	37,496	(2,119)

Bank

	As at 31 December			
	2011		2010	
	Balance	**Impairment allowance**	Balance	Impairment allowance
Within 1 year	**11,803**	**(80)**	19,489	(216)
Between 1 to 3 years	**322**	**(257)**	982	(877)
Over 3 years	**2,997**	**(1,550)**	2,517	(952)
Total	**15,122**	**(1,887)**	22,988	(2,045)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(3) Intangible assets

	Year ended 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Cost				
As at 1 January	**4,172**	3,935	**3,741**	3,076
Additions	**907**	819	**728**	678
Disposals	**(95)**	(540)	**(3)**	(7)
Exchange differences	**(40)**	(42)	**(9)**	(6)
As at 31 December	**4,944**	4,172	**4,457**	3,741
Accumulated amortisation				
As at 1 January	**(1,830)**	(1,524)	**(1,580)**	(1,318)
Amortisation charge	**(538)**	(324)	**(481)**	(270)
Disposals	**6**	7	**3**	4
Exchange differences	**20**	11	**7**	4
As at 31 December	**(2,342)**	(1,830)	**(2,051)**	(1,580)
Allowance for impairment losses				
As at 1 January	**–**	–	**–**	–
Impairment losses	**–**	–	**–**	–
Disposals	**–**	–	**–**	–
Exchange differences	**–**	–	**–**	–
As at 31 December	**–**	–	**–**	–
Net book value				
As at 1 January	**2,342**	2,411	**2,161**	1,758
As at 31 December	**2,602**	2,342	**2,406**	2,161

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(4) Land use rights

The carrying value of land use rights is analysed based on the remaining terms of the leases as follows:

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Held outside Hong Kong				
on long-term lease (over 50 years)	**189**	202	**189**	202
on medium-term lease (10-50 years)	**8,969**	8,767	**8,177**	8,633
on short-term lease (less than 10 years)	**195**	54	**195**	54
	9,353	9,023	**8,561**	8,889

(5) Repossessed assets

The Group and the Bank obtained repossessed assets by taking possession of collateral held as security. Such repossessed assets are as follows:

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Commercial properties	**1,246**	1,876	**821**	1,126
Residential properties	**136**	260	**80**	146
Other	**730**	1,115	**559**	943
	2,112	3,251	**1,460**	2,215
Allowance for impairment	**(1,055)**	(1,720)	**(748)**	(1,227)
Repossessed assets, net	**1,057**	1,531	**712**	988

The total book value of repossessed assets disposed of during the year ended 31 December 2011 amounted to RMB1,346 million (2010: RMB1,339 million). The Group plans to dispose of the repossessed assets held at 31 December 2011 by auction, bidding or transfer.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(6) Goodwill

Group

	Year ended 31 December	
	2011	2010
As at 1 January	**1,851**	1,929
Addition through acquisition of subsidiaries	**–**	39
Decrease resulting from disposal of subsidiaries	**–**	(63)
Exchange differences	**(99)**	(54)
As at 31 December	**1,752**	1,851

The goodwill mainly arose from the acquisition of BOC Aviation Pte. Ltd. on 15 December 2006 amounting to USD241 million (equivalent to RMB1,519 million).

23 Impairment allowance

Group

	As at 1 January 2011	Additions	Decrease Reversal	Decrease Write-off and transfer out	Exchange differences	As at 31 December 2011
Impairment allowance						
— Placements with and loans to banks and other financial institutions	243	–	–	(5)	–	238
— Loans and advances to customers (1)	122,856	53,491	(34,219)	(1,513)	(939)	139,676
— Investment securities						
— available for sale (Note V.17)	19,411	1,027	(1,091)	(5,679)	(745)	12,923
— held to maturity	438	121	(63)	(123)	(19)	354
— loans and receivables	77	10	–	(11)	(1)	75
— Property and equipment	1,064	11	–	(28)	–	1,047
— Repossessed assets	1,720	32	(86)	(598)	(13)	1,055
— Land use rights	23	–	–	(1)	–	22
— Accounts receivable and prepayments	2,119	506	(529)	(90)	(42)	1,964
— Other	267	145	–	(32)	(13)	367
Total	148,218	55,343	(35,988)	(8,080)	(1,772)	157,721

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 Impairment allowance (Continued)

Group

	As at 1 January 2010	Additions	Decrease: Reversal	Decrease: Write-off and transfer out	Exchange differences	As at 31 December 2010
Impairment allowance						
— Placements with and loans to banks and other financial institutions	366	–	(85)	(38)	–	243
— Loans and advances to customers [1]	112,950	45,580	(30,016)	(5,146)	(512)	122,856
— Investment securities						
— available for sale (Note V.17)	27,461	724	(3,140)	(4,975)	(659)	19,411
— held to maturity	534	61	(130)	(15)	(12)	438
— loans and receivables	108	–	(1)	(30)	–	77
— Property and equipment	1,098	9	–	(43)	–	1,064
— Repossessed assets	2,168	29	(91)	(375)	(11)	1,720
— Land use rights	46	–	–	(23)	–	23
— Accounts receivable and prepayments	2,318	749	(900)	(40)	(8)	2,119
— Other	281	204	–	(204)	(14)	267
Total	147,330	47,356	(34,363)	(10,889)	(1,216)	148,218

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 Impairment allowance (Continued)

Bank

	As at 1 January 2011	Additions	Decrease: Reversal	Decrease: Write-off and transfer out	Exchange differences	As at 31 December 2011
Impairment allowance						
— Placements with and loans to banks and other financial institutions	243	–	–	(5)	–	238
— Loans and advances to customers [(1)]	120,392	52,415	(33,770)	(1,616)	(769)	136,652
— Investment securities						
— available for sale	15,794	351	(1,039)	(5,401)	(605)	9,100
— held to maturity	396	9	(53)	–	(18)	334
— loans and receivables	77	10	–	(11)	(1)	75
— Property and equipment	1,055	–	–	(28)	–	1,027
— Repossessed assets	1,227	32	(84)	(414)	(13)	748
— Land use rights	23	–	–	(1)	–	22
— Accounts receivable and prepayments	2,045	490	(526)	(82)	(40)	1,887
— Other	19	3	–	(22)	–	–
Total	141,271	53,310	(35,472)	(7,580)	(1,446)	150,083

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 Impairment allowance (Continued)

Bank

	As at 1 January 2010	Additions	Decrease: Reversal	Decrease: Write-off and transfer out	Exchange differences	As at 31 December 2010
Impairment allowance						
— Placements with and loans to banks and other financial institutions	365	–	(85)	(37)	–	243
— Loans and advances to customers [(1)]	110,366	44,999	(29,333)	(5,246)	(394)	120,392
— Investment securities						
— available for sale	23,683	149	(2,852)	(4,620)	(566)	15,794
— held to maturity	436	50	(79)	–	(11)	396
— loans and receivables	108	–	(1)	(30)	–	77
— Property and equipment	1,098	–	–	(43)	–	1,055
— Repossessed assets	1,522	3	(88)	(199)	(11)	1,227
— Land use rights	46	–	–	(23)	–	23
— Accounts receivable and prepayments	2,246	733	(877)	(32)	(25)	2,045
— Other	25	–	–	(6)	–	19
Total	139,895	45,934	(33,315)	(10,236)	(1,007)	141,271

(1) Included within "Write-off and transfer out" on loans and advances to customers are amounts relating to loans and advances written-off, transferred out, recovery of loans and advances written-off in previous years and unwind of discount on allowance.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24 Due to banks and other financial institutions

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Due to:				
Banks in Chinese mainland	**717,084**	578,990	**666,886**	545,442
Other financial institutions in Chinese mainland	**538,677**	496,755	**539,188**	497,015
Banks in Hong Kong, Macau, Taiwan and other countries and regions	**110,376**	197,297	**54,859**	47,149
Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions	**4,806**	2,772	**12,628**	8,731
Total (1)	**1,370,943**	1,275,814	**1,273,561**	1,098,337

(1) Included in the Bank's due to banks and other financial institutions are balances with the Bank's subsidiaries (Note V.42.7).

25 Due to central banks

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Foreign exchange deposits	**73,825**	62,513	**73,825**	62,513
Other	**7,631**	10,902	**22**	2,607
Total	**81,456**	73,415	**73,847**	65,120

26 Government certificates of indebtedness for bank notes issued and bank notes in circulation

Bank of China (Hong Kong) Limited and Bank of China Macau Branch are note issuing banks for Hong Kong Dollar and Macau Pataca notes in Hong Kong and Macau, respectively. Under local regulations, these two entities are required to place deposits with the Hong Kong and Macau governments, respectively to secure the currency notes in circulation.

Bank notes in circulation represent the liabilities in respect of Hong Kong Dollar notes and Macau Pataca notes in circulation, issued respectively by Bank of China (Hong Kong) Limited and Bank of China Macau Branch.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27 Placements from banks and other financial institutions

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Placements from:				
Banks in Chinese mainland	**101,453**	96,103	**95,800**	91,954
Other financial institutions in Chinese mainland	**50,229**	38,280	**49,862**	38,280
Banks in Hong Kong, Macau, Taiwan and other countries and regions	**110,378**	95,968	**150,452**	119,600
Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions	**3,778**	450	**8,195**	5,942
Total (1) (2)	**265,838**	230,801	**304,309**	255,776

(1) Included in the Bank's "Placements from banks and other financial institutions" are balances with the Bank's subsidiaries (Note V.42.7).

(2) Included in "Placements from banks and other financial institutions" are amounts received from counterparties under repurchase agreements and collateral agreements as follows:

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Repurchase debt securities (i)	**34,640**	75,244	**33,993**	63,240

(i) Debt securities used as collateral under repurchase agreements were principally government bonds and were included in the amount disclosed under Note V.40.2.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

28 Due to customers

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
At amortised cost				
Demand deposits				
Corporate deposits	**2,451,185**	2,244,807	**2,259,344**	2,053,060
Personal deposits	**1,423,524**	1,343,434	**1,118,250**	999,477
Subtotal	**3,874,709**	3,588,241	**3,377,594**	3,052,537
Time deposits				
Corporate deposits	**2,021,651**	1,739,924	**1,717,473**	1,516,181
Personal deposits	**2,171,950**	2,109,872	**1,965,971**	1,929,170
Subtotal	**4,193,601**	3,849,796	**3,683,444**	3,445,351
Certificates of deposit	**138,880**	45,217	**139,986**	48,775
Other deposits (1)	**49,684**	55,901	**48,837**	55,035
Total due to customers at amortised cost	**8,256,874**	7,539,155	**7,249,861**	6,601,698
At fair value				
Structured deposits (1)				
Corporate deposits	**221,479**	78,775	**217,848**	76,113
Personal deposits	**339,608**	115,607	**339,191**	115,607
Total due to customers at fair value (2)	**561,087**	194,382	**557,039**	191,720
Total due to customers (3)	**8,817,961**	7,733,537	**7,806,900**	6,793,418

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

28 Due to customers (Continued)

(1) The Group reclassified certain balances to "Due to customers" in 2011 as described in Note II.23. Details are as follows:

(i) Special purpose fundings have been reclassified from "Other borrowings" to "Due to customers".

Special purpose fundings are long-term fundings provided in multiple currencies from foreign governments and/or entities in the form of export credit, foreign government and other subsidised credit. These special purpose fundings are normally used to finance projects with a special commercial purpose in the PRC as determined by the foreign governments or entities and the Bank is obliged to repay these fundings when they fall due.

As at 31 December 2011, the remaining maturity of special purpose fundings ranges from 15 days to 36 years. The interest bearing special purpose fundings bear floating and fixed interest rates ranging from 0.15% to 7.59% (31 December 2010: 0.15% to 7.59%). These terms are consistent with those related development loans granted to customers.

(ii) Other deposits in the process of settlement have been reclassified from "Other liabilities" to "Due to customers".

(iii) Structured deposits have been reclassified from the former account caption "Financial liabilities at fair value through profit or loss" to "Due to customers".

(2) "Due to customers" measured at fair value are structured deposits designated at fair value through profit or loss at inception.

There were no significant changes in the Group's or the Bank's credit risk and therefore there were no significant gains or losses attributable to changes in the Group's or the Bank's credit risk for these financial liabilities designated at fair value through profit or loss during the years ended 31 December 2011 and 2010.

(3) "Due to customers" include margin deposits for security received by the Group and the Bank as at 31 December 2011 of RMB445,289 million and RMB428,650 million, respectively (31 December 2010: RMB394,231 million and RMB379,518 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29 Bonds issued

				As at 31 December			
				Group		Bank	
	Issue date	Maturity date	Annual interest rate	**2011**	2010	**2011**	2010
Subordinated bonds issued							
2005 RMB Debt Securities (1)							
Second Tranche (fixed rate)	18 February 2005	4 March 2020	5.18%	**9,000**	9,000	**9,000**	9,000
2009 RMB Debt Securities (2)							
First Tranche (fixed rate)	6 July 2009	8 July 2019	3.28%	**14,000**	14,000	**14,000**	14,000
	6 July 2009	8 July 2024	4.00%	**24,000**	24,000	**24,000**	24,000
First Tranche (floating rate)	6 July 2009	8 July 2019	Floating interest rate	**2,000**	2,000	**2,000**	2,000
2010 RMB Debt Securities (3)	9 March 2010	11 March 2025	4.68%	**24,930**	24,930	**24,930**	24,930
2010 US Dollar Subordinated notes issued by BOCHK	11 February 2010	11 February 2020	5.55%	**17,521**	16,677	**–**	–
2011 RMB Debt Securities (4)	17 May 2011	19 May 2026	5.30%	**32,000**	–	**32,000**	–
Subtotal (5)				**123,451**	90,607	**105,930**	73,930
Convertible bonds issued							
2011 RMB Convertible Bond (6)	2 June 2010	2 June 2016	Step-up interest rate	**37,201**	36,206	**37,201**	36,206

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29 Bonds issued (Continued)

				As at 31 December			
				Group		Bank	
	Issue date	Maturity date	Annual interest rate	**2011**	2010	**2011**	2010
Other bonds issued							
1994 US Dollar Debt Securities	10 March 1994	15 March 2014	8.25%	**140**	147	**140**	147
2008 RMB Debt Securities issued in Hong Kong Tranche B	22 September 2008	22 September 2011	3.40%	**–**	725	**–**	1,000
2010 RMB Debt Securities issued in Hong Kong Tranche A	30 September 2010	30 September 2012	2.65%	**1,806**	1,717	**2,200**	2,200
Tranche B	30 September 2010	30 September 2013	2.90%	**2,479**	2,485	**2,800**	2,800
2011 US Dollar Debt Securities issued by BOCHK	8 November 2011	8 November 2016	3.75%	**4,721**	–	**–**	–
Other				**104**		**–**	–
Subtotal				**9,250**	5,074	**5,140**	6,147
Total bonds issued (7)				**169,902**	131,887	**148,271**	116,283

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29 Bonds issued (Continued)

(1) The fixed rate portion of the second tranche of the subordinated bonds issued on 18 February 2005 has a maturity of 15 years, with a fixed coupon rate of 5.18%, paid annually. The Bank has the option to redeem all or part of the bonds at face value on 4 March 2015. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall be the original coupon rate plus 3%, and shall remain fixed until the maturity date.

(2) The subordinated bonds issued on 6 July 2009 comprise two fixed rate portions and one floating rate portion.

The first portion of fixed rate bonds has a maturity of 10 years, with a fixed coupon rate of 3.28%, paid annually. The Bank has the option to early redeem all of the bonds at face value on 8 July 2014. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall be the original coupon rate plus 3%, and shall remain fixed until the maturity date.

The second portion of fixed rate bonds has a maturity of 15 years, with a fixed coupon rate of 4.00%, paid annually. The Bank has the option to early redeem all of the bonds at face value on 8 July 2019. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall be the original coupon rate plus 3%, and shall remain fixed until the maturity date.

The floating rate bonds has a maturity of 10 years, with a floating rate based on the specified 1-year deposit interest rate published by the PBOC, paid annually. The Bank has the option to redeem all of the bonds at face value on 8 July 2014. If the Bank does not exercise this option, the floating rate for the remaining 5-year period shall be the original floating rate plus 3%.

(3) The subordinated bonds issued on 9 March 2010 have a maturity of 15 years, with a fixed coupon rate of 4.68%, paid annually. The Bank has the option to redeem all of the bonds at face value on 11 March 2020. If the Bank does not exercise this option, the coupon rate of the bonds for the third 5-year period shall be the original coupon rate plus 3%, and shall remain fixed until the maturity date.

(4) Pursuant to the approval of relevant authorities, on 17 May 2011, the Bank issued subordinated bonds at par with the notional amount of RMB32 billion in the domestic interbank bond markets. The subordinated bonds have a maturity of 15 years, with a fixed coupon rate of 5.30%, paid annually. The Bank is entitled to redeem all the subordinated bonds on the tenth anniversary. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall remain fixed at 5.30%.

(5) Subordinated bonds are subordinated to all other claims on the assets of the Group, except those of the equity holders. In the calculation of the Group's capital adequacy ratio, these bonds are qualified for inclusion as supplementary capital in accordance with the relevant guidelines issued by the CBRC.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29 Bonds issued (Continued)

(6) Pursuant to the approval by relevant PRC authorities, on 2 June 2010, the Bank issued A-share convertible bonds with a total principal amount of RMB40 billion. The convertible bonds have a maturity term of six years from 2 June 2010 and bear a fixed interest rate of 0.5% for the first year, with an annual increase of 0.3% through the remaining term. The convertible bond holders may exercise their rights to convert the convertible bonds into the Bank's A shares at the stipulated conversion price during the period ("Conversion Period") beginning six months after the date of issuance until the maturity date. Within 5 trading days after maturity, the Bank shall redeem the outstanding convertible bonds at 106% of par value, including interest for the sixth year.

During the Conversion Period, if the closing price of the Bank's A Shares is not lower than or equal to 130% of the prevailing conversion price in at least 15 trading days out of any 30 consecutive trading days, the Bank has the right to redeem all or part of the outstanding convertible bonds at par value plus accrued interest on the first day on which the redemption criteria is met. This right may be exercised only once in any year. Subject to the Board approval, the Bank also has the right to redeem all the convertible bonds at par value plus accrued interest should the total outstanding amount be less than RMB30 million.

The conversion price of the convertible bonds will be adjusted, subject to terms and formulae provided for in the bond contracts, to adjust for the dilutive effects of distributions of cash dividends and specified increases in share capital. During the term of the convertible bonds, if the closing price of the A Shares in 15 trading days out of any 30 consecutive trading days is lower than 80% of the prevailing conversion price of the convertible bonds, the Board may also propose downward adjustments to the conversion price for the Shareholders' approval. During the period from the date of issuance to 31 December 2011, the conversion price was adjusted from RMB4.02 per share to RMB3.59 per share, as a result of paid cash dividends distribution and rights issue of A Share and H Share.

Interest paid by the Bank related to the convertible bonds was RMB200 million for the year ended 31 December 2011 (2010: Nil).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29 Bonds issued (Continued)

The details of convertible bonds are as follows:

Group and Bank

Initial recognition:	
Face value of convertible bonds issued on 2 June 2010	40,000
Less: issuance cost	(224)
equity component	(4,148)
Liability component	35,628

	Year ended 31 December	
	2011	2010
Liability component as at 1 January/upon initial recognition	**36,206**	35,628
Accretion	**995**	578
Amounts converted to shares [(i)]	**–**	–
Liability component as at 31 December	**37,201**	36,206

(i) Convertible bonds in the principal amount of RMB411,000 were converted into 110,384 ordinary A shares during the year ended 31 December 2011 as verified by PricewaterhouseCoopers Zhong Tian CPAs Limited Company (Verification Report PwC ZT YZ [2012] No.018, see Note V.36.1).

(7) During the years ended 31 December 2011 and 2010, the Group did not default on any principal, interest or redemption amounts with respect to its bonds issued.

30 Other borrowings

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Term loans and other borrowings [(1)]	**26,724**	19,499	**–**	–

(1) These term loans and other borrowings relate to the financing of the aircraft leasing business of BOC Aviation Pte. Ltd., a wholly owned subsidiary of the Bank.

As at 31 December 2011, these term loans and other borrowings have a maturity ranging from 3 days to 12 years and bear floating and fixed interest rates ranging from 0.60% to 2.70% (31 December 2010: 0.63% to 2.09%). The term loans and other borrowings of RMB24,940 million (31 December 2010: RMB18,553 million) are secured by aircraft of the Group (Note V.20).

During the years ended 31 December 2011 and 2010, the Group did not default on any principal, interest or redemption amounts with respect to its other borrowings.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 Current tax liabilities

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Corporate Income Tax	**23,405**	18,068	**20,757**	15,648
Business Tax	**5,041**	3,759	**4,925**	3,656
City Construction and Maintenance Tax	**336**	254	**334**	252
Education Surcharges	**235**	143	**234**	142
Other	**336**	551	**277**	483
Total	**29,353**	22,775	**26,527**	20,181

32 Retirement benefit obligations

As at 31 December 2011, the actuarial liabilities existing in relation to the retirement benefit obligations for employees who retired prior to 31 December 2003 and the early retirement obligations for employees who early retired were RMB2,597 million (31 December 2010: RMB2,495 million) and RMB3,489 million (31 December 2010: RMB3,945 million) respectively, which were assessed by Hewitt Associates LLC, using the projected unit credit method.

The movements of the net liabilities recognised in the statements of financial position are as follows:

Group and Bank

	Year ended 31 December	
	2011	2010
As at 1 January	**6,440**	6,867
Amounts recognised in the income statement:		
Interest cost	**223**	214
Net actuarial loss recognised in the year	**403**	357
Benefits paid	**(980)**	(998)
As at 31 December	**6,086**	6,440

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32 Retirement benefit obligations (Continued)

Primary assumptions used:

Group and Bank

	As at 31 December	
	2011	2010
Discount rate		
— Normal retiree	**3.64%**	4.09%
— Early retiree	**3.01%**	3.50%
Pension benefit inflation rate		
— Normal retiree	**6.0%~4.0%**	6.0%~4.0%
— Early retiree	**8.0%~4.0%**	8.0%~4.0%
Medical benefit inflation rate	**8.0%**	6.0%
Retiring age		
— Male	**60**	60
— Female	**50/55**	50/55

Assumptions regarding future mortality experience are based on the China Life Insurance Mortality Table (published historical statistics in China).

33 Share option schemes

33.1 Share Appreciation Rights Plan

In November 2005, the Bank's Board of Directors and equity holders approved and adopted a Share Appreciation Rights Plan under which eligible participants including directors, supervisors, management and other personnel designated by the Board, will be granted share appreciation rights, up to 25% of which will be exercisable each year beginning on the third anniversary date from the date of grant. The share appreciation rights will be valid for seven years from the date of grant. Eligible participants will be entitled to receive an amount equal to the difference, if any, between the average closing market price of the Bank's H shares in the ten days prior to the date of grant and the average closing market price of the Bank's H shares in the 12 months prior to the date of exercise as adjusted for any change in the Bank's equity. The plan provides cash-settled share-based payment only and accordingly, no shares will be issued under the share appreciation rights plan.

No share appreciation rights were granted since the inception of the plan.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 Share option schemes (Continued)

33.2 Share Option Scheme and Sharesave Plan

On 10 July 2002, the equity holders of BOCHK Holdings approved adoption of two share option schemes, namely, the Share Option Scheme and the Sharesave Plan.

Since the establishment of the Share Option Scheme and the Sharesave Plan, no options were granted.

33.3 BOCHK Holdings Pre-listing Share Option Scheme

On 5 July 2002, certain of the Bank's directors, senior management personnel and employees of the Group were granted options by BOC Hong Kong (BVI) Limited ("BOCHK (BVI)"), the immediate holding company of BOCHK Holdings, pursuant to a Pre-listing Share Option Scheme to purchase from BOCHK (BVI) an aggregate of 31,132,600 previously issued and outstanding shares of BOCHK Holdings for HKD8.50 per share. These options, with a ten-year term, vest ratably over four years from 25 July 2002. No further offers to grant any options under the Pre-listing Share Option Scheme will be made. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The Group has taken advantage of the transitional provision of IFRS 2 under which the required recognition and measurements have not been applied to the options granted to employees of the Group on or before 7 November 2002.

Details of the movement of share options outstanding are as follows:

Unit: Share

	Key management personnel	Other employees	Other [1]	Total number of share options
As at 1 January 2011	**3,976,500**	**247,300**	**–**	**4,223,800**
Transferred	**(2,530,500)**	**1,084,500**	**1,446,000**	**–**
As at 31 December 2011	**1,446,000**	**1,331,800**	**1,446,000**	**4,223,800**
As at 1 January 2010	3,976,500	1,074,300	–	5,050,800
Less: share options exercised during the year [2]	–	(827,000)	–	(827,000)
As at 31 December 2010	3,976,500	247,300	–	4,223,800

(1) These represent share options held by former directors or former employees of BOCHK Holdings.

(2) Regarding the share options exercised during the year ended 31 December 2010 the weighted average share price of BOCHK Holdings' shares at the time of exercise was HKD22.73 (equivalent to RMB19.79).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34 Deferred income taxes

34.1 Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes are related to the same fiscal authority. The table below includes the deferred income tax assets and liabilities of the Group and the Bank after offsetting qualifying amounts and related temporary differences.

Group

	As at 31 December			
	2011		2010	
	Temporary difference	**Deferred tax assets/ (liabilities)**	Temporary difference	Deferred tax assets/ (liabilities)
Deferred income tax assets	**74,364**	**19,516**	92,416	24,041
Deferred income tax liabilities	**(24,887)**	**(4,486)**	(23,203)	(3,919)
	49,477	**15,030**	69,213	20,122

Bank

	As at 31 December			
	2011		2010	
	Temporary difference	**Deferred tax assets/ (liabilities)**	Temporary difference	Deferred tax assets/ (liabilities)
Deferred income tax assets	**77,625**	**19,648**	96,520	24,359
Deferred income tax liabilities	**(640)**	**(124)**	(769)	(177)
	76,985	**19,524**	95,751	24,182

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34 Deferred income taxes (Continued)

34.2 Deferred income tax assets/(liabilities) and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

Group

	As at 31 December			
	2011		2010	
	Temporary difference	Deferred tax assets/ (liabilities)	Temporary difference	Deferred tax assets/ (liabilities)
Deferred income tax assets				
Asset impairment allowances	84,060	21,018	83,360	20,885
Pension, retirement benefits and salary payable	19,363	4,841	17,329	4,332
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	15,181	3,796	14,524	3,631
Fair value changes of available for sale investment securities credited to equity	379	92	832	209
Other temporary differences	3,797	961	2,395	628
Subtotal	122,780	30,708	118,440	29,685
Deferred income tax liabilities				
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	(20,132)	(5,035)	(16,796)	(4,209)
Fair value changes of available for sale investment securities charged to equity	(2,407)	(587)	(3,126)	(713)
Depreciation of property and equipment	(8,025)	(1,378)	(7,179)	(1,218)
Revaluation of property and investment properties	(16,514)	(3,045)	(15,054)	(2,591)
Other temporary differences	(26,225)	(5,633)	(7,072)	(832)
Subtotal	(73,303)	(15,678)	(49,227)	(9,563)
Net	49,477	15,030	69,213	20,122

As at 31 December 2011, deferred tax liabilities relating to temporary differences of RMB30,895 million associated with the Group's investments in subsidiaries have not been recognised (31 December 2010: RMB25,729 million). See Note II.21.2.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34 Deferred income taxes (Continued)

34.2 Deferred income tax assets/(liabilities) and related temporary differences, before offsetting qualifying amounts, are attributable to the following items (Continued):

Bank

	As at 31 December			
	2011		2010	
	Temporary difference	Deferred tax assets/ (liabilities)	Temporary difference	Deferred tax assets/ (liabilities)
Deferred income tax assets				
Asset impairment allowances	81,467	20,525	81,289	20,494
Pension, retirement benefits and salary payable	19,363	4,841	17,329	4,332
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	15,181	3,796	14,523	3,631
Fair value changes of available for sale investment securities credited to equity	246	64	813	203
Other temporary differences	1,552	389	640	161
Subtotal	117,809	29,615	114,594	28,821
Deferred income tax liabilities				
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	(20,132)	(5,035)	(16,790)	(4,208)
Fair value changes of available for sale investment securities charged to equity	(1,065)	(257)	(794)	(203)
Other temporary differences	(19,627)	(4,799)	(1,259)	(228)
Subtotal	(40,824)	(10,091)	(18,843)	(4,639)
Net	76,985	19,524	95,751	24,182

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34 Deferred income taxes (Continued)

34.3 The movements of the deferred income tax account are as follows:

	Year ended 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
As at 1 January	**20,122**	20,132	**24,182**	23,988
Charged to income statement (Note V.9)	**(4,783)**	(464)	**(4,452)**	(386)
Credited/(charged) to equity	**9**	362	**(193)**	549
Other	**(318)**	92	**(13)**	31
As at 31 December	**15,030**	20,122	**19,524**	24,182

34.4 The deferred income tax charge in the income statement comprises the following temporary differences:

	Year ended 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Asset impairment allowances	**133**	(506)	**31**	(640)
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	**(661)**	(163)	**(662)**	(145)
Pension, retirement benefits and salary payable	**509**	576	**509**	576
Other temporary differences	**(4,764)**	(371)	**(4,330)**	(177)
Total	**(4,783)**	(464)	**(4,452)**	(386)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Other liabilities

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Items in the process of clearance and settlement	**27,848**	33,461	**22,030**	32,831
Interest payable (1)	**75,352**	58,665	**73,809**	57,758
Insurance liabilities				
— Life insurance contracts	**38,281**	33,872	**–**	–
— Non-life insurance contracts	**5,054**	4,376	**–**	–
Salary and welfare payable (2)	**19,938**	17,761	**18,481**	15,768
Provision (3)	**2,396**	1,372	**2,087**	1,109
Short position in debt securities (4)	**2,106**	21,492	**–**	–
Other (5)	**38,716**	36,407	**17,362**	15,306
Total	**209,691**	207,406	**133,769**	122,772

(1) Interest payable

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Due to customers	**64,531**	52,143	**63,045**	51,394
Due to and placements from banks and other financial institutions	**7,110**	3,938	**7,419**	4,137
Bonds issued and other	**3,711**	2,584	**3,345**	2,227
Total	**75,352**	58,665	**73,809**	57,758

The movements of interest payable are as follows:

	Year ended 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
As at 1 January	**58,665**	49,555	**57,758**	49,282
Accrued during the year	**185,038**	119,571	**177,384**	115,533
Paid during the year	**(168,351)**	(110,461)	**(161,333)**	(107,057)
As at 31 December	**75,352**	58,665	**73,809**	57,758

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Other liabilities (Continued)

(2) Salary and welfare payable

Group

	As at 1 January 2011	Accrual	Payment	As at 31 December 2011
Salary, bonus and subsidy	15,771	44,429	(42,378)	17,822
Staff welfare	–	1,591	(1,591)	–
Social insurance, including:				
Medical	370	1,984	(1,891)	463
Pension	84	4,130	(4,155)	59
Annuity	3	920	(923)	–
Unemployment	8	325	(326)	7
Injury at work	1	102	(102)	1
Maternity insurance	1	120	(120)	1
Housing funds	26	3,331	(3,337)	20
Labour union fee and staff education fee	1,389	1,558	(1,500)	1,447
Reimbursement for cancellation of labour contract	15	23	(19)	19
Other	93	1,654	(1,648)	99
Total (i)	17,761	60,167	(57,990)	19,938

	As at 1 January 2010	Accrual	Payment	As at 31 December 2010
Salary, bonus and subsidy	12,513	37,848	(34,590)	15,771
Staff welfare	–	2,967	(2,967)	–
Social insurance, including:				
Medical	248	1,583	(1,461)	370
Pension	76	3,553	(3,545)	84
Annuity	–	802	(799)	3
Unemployment	7	213	(212)	8
Injury at work	1	75	(75)	1
Maternity insurance	1	92	(92)	1
Housing funds	26	2,769	(2,769)	26
Labour union fee and staff education fee	1,088	1,343	(1,042)	1,389
Reimbursement for cancellation of labour contract	17	17	(19)	15
Other	162	1,587	(1,656)	93
Total (i)	14,139	52,849	(49,227)	17,761

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Other liabilities (Continued)

(2) Salary and welfare payable (Continued)

Bank

	As at 1 January 2011	Accrual	Payment	As at 31 December 2011
Salary, bonus and subsidy	**13,790**	**37,845**	**(35,250)**	**16,385**
Staff welfare	**–**	**1,399**	**(1,399)**	**–**
Social insurance, including:				
Medical	**370**	**1,981**	**(1,890)**	**461**
Pension	**83**	**4,122**	**(4,149)**	**56**
Annuity	**3**	**920**	**(923)**	**–**
Unemployment	**8**	**325**	**(326)**	**7**
Injury at work	**1**	**102**	**(102)**	**1**
Maternity insurance	**1**	**120**	**(120)**	**1**
Housing funds	**26**	**3,328**	**(3,336)**	**18**
Labour union fee and staff education fee	**1,389**	**1,549**	**(1,494)**	**1,444**
Reimbursement for cancellation of labour contract	**15**	**13**	**(9)**	**19**
Other	**82**	**670**	**(663)**	**89**
Total (i)	**15,768**	**52,374**	**(49,661)**	**18,481**

	As at 1 January 2010	Accrual	Payment	As at 31 December 2010
Salary, bonus and subsidy	10,897	30,839	(27,946)	13,790
Staff welfare	–	2,785	(2,785)	–
Social insurance, including:				
Medical	248	1,582	(1,460)	370
Pension	76	3,549	(3,542)	83
Annuity	–	802	(799)	3
Unemployment	7	213	(212)	8
Injury at work	1	75	(75)	1
Maternity insurance	1	92	(92)	1
Housing funds	26	2,767	(2,767)	26
Labour union fee and staff education fee	1,088	1,343	(1,042)	1,389
Reimbursement for cancellation of labour contract	16	16	(17)	15
Other	153	667	(738)	82
Total (i)	12,513	44,730	(41,475)	15,768

(i) There was no overdue payment for staff salary and welfare payables as at 31 December 2011 and 2010.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Other liabilities (Continued)

(3) Provision

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Allowance for litigation losses (Note V.40.1)	**700**	750	**689**	656
Other	**1,696**	622	**1,398**	453
Total	**2,396**	1,372	**2,087**	1,109

Provision movements:

	Year ended 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
As at 1 January	**1,372**	1,510	**1,109**	1,227
Provision/(reversal) for the year, net [(i)]	**1,094**	96	**985**	(69)
Utilised during the year	**(70)**	(234)	**(7)**	(49)
As at 31 December	**2,396**	1,372	**2,087**	1,109

(i) Provision during the year ended 31 December 2011 principally related to off-balance sheet credit exposures.

(4) Short position in debt securities has been reclassified from the former account caption "Financial liabilities at fair value through profit or loss" to "Other liabilities" (Note II.23). Short position in debt securities is measured at fair value through profit or loss.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Other liabilities (Continued)

(5) Other

Other includes finance lease payments which are principally related to aircraft held by BOC Aviation Pte. Ltd. under finance lease.

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Within 1 year (inclusive)	**50**	188	**1**	1
1 year to 2 years (inclusive)	**50**	187	**–**	1
2 years to 3 years (inclusive)	**51**	186	**–**	–
Over 3 years	**355**	1,291	**–**	–
Total minimum rental payments	**506**	1,852	**1**	2
Unrecognised finance charge	**(50)**	(302)	**–**	–
Finance lease payments, net	**456**	1,550	**1**	2

36 Share capital, capital reserve and treasury shares

36.1 Share capital and capital reserve

For the year ended 31 December 2011, the movement of the Bank's share capital was as follows:

Unit: Share

	Domestic listed A shares, par value RMB1.00 per share	Overseas listed H shares, par value RMB1.00 per share	Total
As at 1 January 2011	**195,524,946,800**	**83,622,276,395**	**279,147,223,195**
Increase as a result of conversion of convertible bonds (Note V.29)	**110,384**	**–**	**110,384**
As at 31 December 2011	**195,525,057,184**	**83,622,276,395**	**279,147,333,579**

All A shares and H shares rank pari passu with the same rights and benefits.

As at 31 December 2011, capital reserve included capital surplus on issuance of ordinary shares of RMB110,525 million (31 December 2010: RMB110,524 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Share capital, capital reserve and treasury shares (Continued)

36.2 Treasury shares

A wholly owned subsidiary of the Group holds certain listed shares of the Bank in relation to its derivative and arbitrage business. These shares are treated as treasury shares, a deduction from equity holders' equity. Gains and losses on sale or redemption of the treasury shares are credited or charged to equity. The total number of treasury shares as at 31 December 2011 was approximately 10.98 million (31 December 2010: approximately 39.57 million).

37 Statutory reserves, general and regulatory reserves and undistributed profits

37.1 Statutory reserves

Under relevant PRC laws, the Bank is required to transfer 10% of its net profit to a non-distributable statutory surplus reserves. Appropriation to the statutory surplus reserves may cease when the balance of such reserves has reached 50% of the share capital. Subject to the approval of the equity holders, the statutory surplus reserves can be used for replenishing the accumulated losses or increasing the Bank's share capital. The statutory surplus reserves amount used to increase the share capital is limited to a level where the balance of the statutory surplus reserves after such capitalisation is not less than 25% of the share capital.

In accordance with a resolution of the Board of Directors dated 29 March 2012, the Bank appropriated 10% of the net profit for the year ended 31 December 2011 to the statutory surplus reserves, amounting to RMB11,695 million (2010: RMB9,650 million).

In addition, some operations in Hong Kong, Macau, Taiwan and other countries and regions are required to transfer certain percentages of their net profits to the statutory surplus reserves as stipulated by local banking authorities.

37.2 General and regulatory reserves

Pursuant to Caijin [2005] No. 49 "Measures on General Provision for Bad and Doubtful Debts for Financial Institutions" and Caijin [2007] No. 23 "Application Guidance of Financing Measures for Financial Institutions" issued by MOF in addition to the specific allowance for impairment losses, the Bank is required to establish and maintain a general reserve within equity holders' 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.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37 Statutory reserves, general and regulatory reserves and undistributed profits (Continued)

37.2 General and regulatory reserves (Continued)

In accordance with a resolution dated 29 March 2012 and on the basis of the Bank's profit for the year ended 31 December 2011, the Board of Directors of the Bank approved the appropriation of RMB8,912 million (2010: RMB10,207 million) to the general reserve for the year ended 31 December 2011.

The regulatory reserve mainly refers to the reserve amount set aside by BOC Hong Kong (Group) Limited, a subsidiary of the Group, for general banking risks, including future losses or other unforeseeable risks. As at 31 December 2011 and 2010, the reserve amount set aside by BOC Hong Kong (Group) Limited was RMB4,554 million and RMB3,464 million, respectively.

37.3 Dividends

A dividend of RMB40,756 million in respect of profit for the year ended 31 December 2010 was approved by the equity holders of the Bank at the Annual General Meeting held on 27 May 2011 and was distributed during the year.

A dividend of RMB0.155 per share in respect of profit for the year ended 31 December 2011 (2010: RMB0.146 per share), amounting to a total dividend of RMB43,268 million based on the number of shares issued as at 31 December 2011 will be proposed for approval at the Annual General Meeting to be held on 30 May 2012. The actual amount of dividend payable will factor in ordinary shares issued in respect of conversion of convertible bonds after 31 December 2011 to the ex-dividend date. These financial statements do not reflect this dividend payable in liabilities.

37.4 Profit attributable to the equity holders of the Bank

The profit attributable to equity holders of the Bank for the year ended 31 December 2011 was recognised in the financial statements of the Bank to the extent of RMB116,946 million (2010: RMB96,504 million).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

38 Reserve for fair value changes of available for sale securities

	Year ended 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
As at 1 January	**4,015**	4,750	**(2)**	1,069
Net changes in fair value	**2,778**	4,125	**2,039**	1,508
Share of associates' reserve for fair value changes of available for sale securities	**(35)**	62	**–**	–
Net impairment reversal transferred to income statement	**(70)**	(2,355)	**(688)**	(2,703)
Net fair value changes transferred to income statement on de-recognition	**(3,507)**	(3,551)	**(1,038)**	(1,003)
Deferred income taxes	**(25)**	406	**(193)**	549
Other	**486**	578	**486**	578
As at 31 December	**3,642**	4,015	**604**	(2)

39 Non-controlling interests

Non-controlling interests of the subsidiaries of the Group are as follows:

	As at 31 December	
	2011	2010
BOC Hong Kong (Group) Limited	**30,379**	29,745
Tai Fung Bank Limited	**1,661**	1,681
Other	**692**	559
Total	**32,732**	31,985

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 Contingent liabilities and commitments

40.1 Legal proceedings and arbitrations

As at 31 December 2011, the Group was involved in certain legal proceedings and arbitrations arising from its normal business operations. In addition, in terms of the range and scale of its international operations, the Group may face a wide variety of legal proceedings within different jurisdictions, including sensitive issues related to anti-money laundering. As at 31 December 2011, provisions of RMB700 million (31 December 2010: RMB750 million) were made based on court judgements or the advice of counsel (Note V.35). After consulting legal professionals, senior management of the Group believes that at the current stage these legal proceedings and arbitrations will not have a material impact on the financial position or operations of the Group.

40.2 Assets pledged

Assets pledged by the Group as collateral for placement, repurchase, short positions, derivatives transactions with other banks and financial institutions and for local statutory requirements are set forth in the table below. These transactions are conducted under standard and normal business terms.

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Debt securities	**55,269**	114,180	**49,909**	81,295
Bills	**22**	–	**22**	–
Total	**55,291**	114,180	**49,931**	81,295

40.3 Collateral accepted

The Group and the Bank accept securities collateral and precious metals collateral that are permitted to sell or re-pledge in connection with their placements and reverse repurchase agreements with banks and other financial institutions. As at 31 December 2011, the fair value of collateral received from banks and other financial institutions accepted by the Group and the Bank both amounted to RMB11,297 million (31 December 2010: RMB13,647 million and RMB12,941 million for the Group and the Bank, respectively). As at 31 December 2011, both the Group and the Bank had not sold or re-pledged such collateral accepted (31 December 2010: Nil for both the Group and the Bank). These transactions are conducted under standard terms in the normal course of business.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 Contingent liabilities and commitments (Continued)

40.4 Capital commitments

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Property and equipment				
Contracted but not provided for	**55,437**	52,265	**5,426**	3,248
Authorised but not contracted for	**6,997**	5,167	**6,956**	5,112
Intangible assets				
Contracted but not provided for	**351**	443	**258**	351
Authorised but not contracted for	**52**	5	**46**	5
Total	**62,837**	57,880	**12,686**	8,716

40.5 Operating leases

(1) *Operating lease commitments — As lessee*

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

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Within 1 year	**4,420**	3,560	**3,725**	2,990
Between 1 to 2 years	**3,615**	2,847	**3,112**	2,474
Between 2 to 3 years	**2,887**	2,262	**2,611**	2,074
Over 3 years	**6,985**	5,570	**6,441**	5,447
Total	**17,907**	14,239	**15,889**	12,985

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 Contingent liabilities and commitments (Continued)

40.5 Operating leases (Continued)

(2) Operating lease commitments — As lessor

The Group acts as lessor in operating leases principally through aircraft leasing undertaken by its subsidiary BOC Aviation Pte. Ltd. Under irrevocable operating lease contracts, as at 31 December 2011, the minimum lease payments which will be received by the Group under the operating leases for existing aircraft and aircraft yet to be delivered amounted to RMB4,174 million not later than one year (31 December 2010: RMB3,905 million), RMB18,859 million later than one year and not later than five years (31 December 2010: RMB17,609 million) and RMB20,530 million later than five years (31 December 2010: RMB24,720 million).

40.6 Treasury bonds 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 MOF will not provide funding for the early redemption of these Treasury bonds on a back-to-back basis but will pay interest and repay the principal at maturity. 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 RMB45,113 million (31 December 2010: RMB57,153 million). The original maturities of these Treasury bonds vary from 1 to 5 years and management expects the amount of redemption before the maturity dates of these bonds through the Bank will not be material.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 Contingent liabilities and commitments (Continued)

40.7 Credit commitments

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Loan commitments [(1)]				
— with an original maturity of under 1 year	**63,670**	75,740	**51,595**	59,882
— with an original maturity of 1 year or over	**686,745**	660,970	**639,632**	607,939
Letters of guarantee issued [(2)]	**727,891**	646,098	**742,462**	665,743
Bank bill acceptance	**402,524**	352,252	**398,668**	350,443
Letters of credit issued	**191,250**	184,061	**161,100**	154,611
Accepted bill of exchange under letter of credit	**172,229**	100,511	**162,248**	94,038
Other	**67,563**	7,803	**68,825**	9,332
Total [(3)]	**2,311,872**	2,027,435	**2,224,530**	1,941,988

(1) Loan commitments mainly represent undrawn loan facilities agreed and granted to customers.

(2) Letters of guarantee issued include financial guarantees and performance guarantees. These obligations on the Group to make payment are dependent on the outcome of a future event.

(3) Credit risk weighted amounts of credit commitments

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Credit commitments	**734,041**	684,723	**720,430**	674,914

The credit risk weighted amounts are the amounts calculated in accordance with the guidelines issued by the CBRC and are dependent on, among other factors, the creditworthiness of the counterparties and the maturity characteristics. The risk weights used range from 0% to 100% for commitments.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 Contingent liabilities and commitments (Continued)

40.8 Underwriting obligations

The unexpired underwriting obligations of securities of the Group and the Bank are as follows:

	As at 31 December	
	2011	2010
Underwriting obligations	**85,149**	81,298

41 Note to the consolidated statement of cash flows

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with an original maturity of less than three months:

Group

	As at 31 December	
	2011	2010
Cash and due from banks and other financial institutions	**234,385**	127,308
Balances with central banks	**439,962**	450,426
Placements with and loans to banks and other financial institutions	**276,384**	112,597
Short term bills and notes	**66,637**	79,040
Total	**1,017,368**	769,371

42 Related party transactions

42.1 CIC was established on 29 September 2007 with a registered capital of RMB1,550 billion. CIC is a wholly State-owned company engaging in foreign currency investment management. The Group is subject to the control of the State Council of the PRC Government through CIC and its wholly owned subsidiary Huijin.

The Group enters into banking transactions with CIC in the normal course of its business at commercial terms.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Related party transactions (Continued)

42.2 Transactions with the Huijin and companies under Huijin

(1) General information of Huijin

Central Huijin Investment Ltd.

Legal representative	LOU Jiwei
Registered Capital	RMB828,209 million
Location of registration	Beijing
Capital shares in the Bank	67.60%
Voting rights in the Bank	67.60%
Nature	Wholly State-owned company
Principal activities	Investment in major State-owned financial institutions on behalf of the State
National organisation code	71093296-1

(2) Transactions with Huijin

The Group enters into banking transactions with Huijin in the normal course of its business at commercial terms.

Due to Huijin

	Year ended 31 December	
	2011	2010
As at 1 January	**21,026**	10,107
Received during the year	**57,859**	57,298
Repaid during the year	**(62,952)**	(46,379)
As at 31 December	**15,933**	21,026

Bonds issued by Huijin

As at 31 December 2011, the Bank held government backed bonds held to maturity issued by Huijin in the carrying value of RMB5,708 million (Note V.17) (31 December 2010: government backed bonds available for sale and held to maturity are RMB2,329 million and RMB3,400 million, respectively). These bonds have maturity of not more than 30 years and bear fixed interest rates, payable annually. Purchasing of these bonds was in the ordinary course of business of the Group, complying with requirements of related regulations and corporate governance.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Related party transactions (Continued)

42.2 Transactions with Huijin and companies under Huijin (Continued)

(3) Transactions with companies under Huijin

Companies under Huijin include its equity interests in subsidiaries, joint ventures and associates in certain other bank and non-bank entities in the PRC. The Group enters into banking transactions with these companies in the normal course of business at commercial terms which include mainly purchase and sale of debt securities, money market transactions and derivative transactions.

The Group's outstanding balances and related interest rate ranges with these companies as at 31 December 2011 and 2010 were as follows:

	As at 31 December	
	2011	2010
Due from banks and other financial institutions	**38,868**	61,371
Placements with and loans to banks and other financial institutions	**73,282**	26,891
Financial assets at fair value through profit or loss and Investment securities	**193,767**	201,102
Derivative financial assets	**443**	669
Loans and advances to customer	**2,577**	–
Due to banks and other financial institutions	**(156,135)**	(146,291)
Placements from banks and other financial institutions	**(33,247)**	(24,435)
Derivative financial liabilities	**(956)**	(1,080)
Credit commitments	**3,702**	996
Interest rate ranges at the end of the year		
Due from banks and other financial institutions	**0.00%–6.73%**	0.01%–5.70%
Placements with and loans to banks and other financial institutions	**0.19%–10.50%**	0.04%–5.50%
Financial assets at fair value through profit or loss and Investment securities	**0.58%–6.38%**	0.43%–5.42%
Loans and advances to customer	**5.76%–11.00%**	–
Due to banks and other financial institutions	**0.00%–6.20%**	0.00%–5.00%
Placements from banks and other financial institutions	**0.10%–5.50%**	0.22%–6.32%

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Related party transactions (Continued)

42.3 Transactions with government authorities, agencies, affiliates and other State controlled entities

The State Council of the PRC Government directly and indirectly controls a significant number of entities through its government authorities, agencies, affiliates and other State controlled entities. The Group enters into extensive banking transactions with these entities in the normal course of business at commercial terms.

Transactions conducted with government authorities, agencies, affiliates and other State controlled entities include purchase and redemption of investment securities issued by government agencies, underwriting and distribution of Treasury bonds issued by government agencies through the Group's branch network, foreign exchange transactions and derivative transactions, lending, provision of credit and guarantees and deposit placing and taking.

42.4 Transactions with associates and joint ventures

The Group enters into banking transactions with associates and joint ventures in the normal course of business at commercial terms. These include loans and advances, deposit taking and other normal banking businesses. The outstanding balances with associates and joint ventures as of the respective year end dates are stated below:

	As at 31 December	
	2011	2010
Loans and advances to customers	**1,594**	527
Due to customers, banks and other financial institutions	**(4,475)**	(6,944)
Credit commitments	**2,803**	1,510

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Related party transactions (Continued)

42.4 Transactions with associates and joint ventures (Continued)

The general information of principal associates and joint ventures is as follows:

Name	Place of incorporation/ establishment	National organisation code	Effective equity held (%)	Voting right (%)	Paid-in capital (in millions)	Principal business
Huaneng International Power Development Corporation	PRC	60000324-8	20.00	20.00	USD450	Power plant operations
BOC International (China) Limited	PRC	73665036-4	49.00	49.00	RMB1,500	Securities underwriting, investment advisory, and brokerage services
AVIC International Holding Corporation	PRC	10000099-9	14.31	Note (1)	RMB8,459	International aviation, trade and logistics, real estate, industrial investment
Ningxia Electric Power Group Company Limited	PRC	75080505-1	23.42	23.42	RMB3,573	Thermal power, wind power, solar power, coal mining, fan equipment manufacturing, polysilicon production
Hong Kong Bora Holdings Limited	Hong Kong	NA	19.50	Note (1)	HKD0.01	Investment holding
CGN Phase I Private Equity Fund Company limited	PRC	71782747-8	20.00	20.00	RMB100	Investment
Guangdong Small and Medium Enterprises Equity Investment Fund Company Limited	PRC	56456896-1	40.00	40.00	RMB1,600	Investment
Farun Glass Industry Company Limited	PRC	74942101-8	11.30	Note (1)	RMB458	Special glass production, sales and agency business
Zheshang Investment Fund	PRC	55967948-0	25.25	25.25	Note (2)	Investment
JCC Financial Company Limited	PRC	79478975-1	20.00	20.00	RMB300	Provide financial services for all subsidiaries of JCC Corporation

(1) In accordance with the respective articles of association, the Group has significant influence over these companies.

(2) Zheshang Investment Fund was established in the form of a partnership.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Related party transactions (Continued)

42.5 Transactions with the Annuity Plan

Apart from the obligations for defined contributions to Annuity Fund and normal banking transactions, no other transactions were conducted between the Group and the Annuity Fund for the years ended 31 December 2011 and 2010.

42.6 Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and Executive officers.

The Group enters into banking transactions with key management personnel in the normal course of business. During the years ended 31 December 2011 and 2010, there were no material transactions and balances with key management personnel on an individual basis.

The key management compensation for the years ended 31 December 2011 and 2010 comprises:

	Year ended 31 December	
	2011	2010
Compensation for short-term employment benefits (1)	**17**	31
Compensation for post-employment benefits	**1**	1
Total	**18**	32

(1) The total compensation package for these key management personnel for the year ended 31 December 2011 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact to the Group's and the Bank's 2011 financial statements. The final compensation will be disclosed in a separate announcement when determined.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Related party transactions (Continued)

42.7 Balances with subsidiaries

Included in the following captions of the Bank's statement of financial position are balances with subsidiaries:

	As at 31 December	
	2011	2010
Due from banks and other financial institutions	**26,610**	4,492
Placements with and loans to banks and other financial institutions (1)	**38,684**	63,311
Due to banks and other financial institutions	**(33,261)**	(31,034)
Placements from banks and other financial institutions	**(54,105)**	(44,967)

(1) Includes subordinated loans to Bank of China (Hong Kong) Limited of RMB5,387 million as at 31 December 2011 (31 December 2010: RMB5,812 million) which were provided in the normal course of business at commercial terms. The claim to such subordinated loans by the Bank is subordinated to other liabilities, and prior to equity of the subsidiary.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Related party transactions (Continued)

42.7 Balances with subsidiaries (Continued)

The general information of principal subsidiaries is as follows:

Name	Place of incorporation and operation	Date of incorporation/ establishment	Paid-in capital (in millions)	Effective equity held (%)	Voting right (%)	Principal Business
Directly held						
BOC Hong Kong (Group) Limited	Hong Kong	12 September 2001	HKD34,806	100.00	100.00	Holding company
BOC International Holdings Limited (4)	Hong Kong	10 July 1998	HKD3,539	100.00	100.00	Investment banking
Bank of China Group Insurance Company Limited	Hong Kong	23 July 1992	HKD3,749	100.00	100.00	Insurance services
Bank of China Group Investment Limited	Hong Kong	18 May 1993	HKD34,052	100.00	100.00	Investment holding
Tai Fung Bank Limited	Macau	1942	MOP1,000	50.31	50.31	Commercial banking
Bank of China (UK) Limited	United Kingdom	24 September 2007	GBP140	100.00	100.00	Commercial banking
BOC Insurance Company Limited	Beijing	5 January 2005	RMB3,035	100.00	100.00	Insurance services
Indirectly held						
BOC Hong Kong (Holdings) Limited (2)	Hong Kong	12 September 2001	HKD52,864	66.06	66.06	Holding company
Bank of China (Hong Kong) Limited (3) (4)	Hong Kong	16 October 1964	HKD43,043	66.06	100.00	Commercial banking
Nanyang Commercial Bank, Limited (4)	Hong Kong	2 February 1948	HKD700	66.06	100.00	Commercial banking
Chiyu Banking Corporation Limited (3) (4)	Hong Kong	24 April 1947	HKD300	46.57	70.49	Commercial banking
BOC Credit Card (International) Limited	Hong Kong	9 September 1980	HKD480	66.06	100.00	Credit card services
BOC Group Trustee Company Limited (4)	Hong Kong	1 December 1997	HKD200	76.43	100.00	Provision of trustee services
BOC Aviation Pte. Ltd.	Singapore	25 November 1993	USD608	100.00	100.00	Aircraft leasing

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Related party transactions (Continued)

42.7 Balances with subsidiaries (Continued)

(2) BOC Hong Kong (Holdings) Limited is listed on the Stock Exchanges of Hong Kong Limited.

(3) Bank of China (Hong Kong) Limited, in which the Group holds a 66.06% equity interest, holds 70.49% of the equity interest of Chiyu Banking Corporation Limited.

(4) Bank of China (Hong Kong) Limited, Nanyang Commercial Bank, Limited, Chiyu Banking Corporation Limited and BOC International Holdings Limited, in which the Group holds 66.06%, 66.06%, 46.57% and 100% of their equity interests, respectively, hold 54%, 6%, 6% and 34% equity interest of BOC Group Trustee Company Limited, respectively.

For the year ended 31 December 2011, the financial statements of the principal subsidiaries stated above were audited by the firms within the worldwide network of PricewaterhouseCoopers firms.

For some subsidiaries listed above, the voting rights ratio is not equal to the effective equity held ratio, mainly due to the impact of the indirect holdings.

43 Segment reporting

The Group manages the business from both a geographic and business perspective. From the geographic perspective, the Group operates in three principal regions: Chinese mainland, Hong Kong, Macau and Taiwan, and other countries and regions. From the business perspective, the Group provides services through six main business segments: corporate banking, personal banking, treasury operations, investment banking, insurance and other operations.

Measurement of segment assets, liabilities, income, expenses, results and capital expenditure is based on the Group's accounting policies. The segment information presented includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Funding is provided to and from individual business segments through treasury operations as part of the asset and liability management process. The pricing of these transactions is based on market rates. The transfer price takes into account the specific features and maturities of the product. Internal transactions are eliminated on consolidation.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Segment reporting (Continued)

Geographical segments

Chinese mainland — Corporate banking, personal banking, treasury operations and insurance services are performed in the Chinese mainland.

Hong Kong, Macau and Taiwan — Corporate banking, personal banking, treasury operations, investment banking and insurance services are performed in Hong Kong, Macau and Taiwan. The business of this segment is centralised in BOC Hong Kong (Group) Limited.

Other countries and regions — Corporate and personal banking services are provided in other countries and regions. Significant locations include New York, London, Singapore and Tokyo.

Business segments

Corporate banking — Services to corporate customers, government authorities and financial institutions including current accounts, deposits, overdrafts, loans, trade related products and other credit facilities, foreign currency, derivative products and wealth management products.

Personal banking — Services to retail customers including current accounts, savings, deposits, investment savings products, credit and debit cards, consumer loans and mortgages.

Treasury operations — Consisting of foreign exchange transactions, customer-based interest rate and foreign exchange derivative transactions, money market transactions, proprietary trading and asset and liability management. The results of this segment include the inter-segment funding income and expenses, results from interest bearing assets and liabilities; and foreign currency translation gains and losses.

Investment banking — Consisting of debt and equity underwriting and financial advisory, sales and trading of securities, stock brokerage, investment research and asset management services, and private equity investment services.

Insurance — Underwriting of general and life insurance business and insurance agency services.

Other operations of the Group comprise investment holding and other miscellaneous activities, none of which constitutes a separately reportable segment.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Segment reporting (Continued)

The Group as at and for the year ended 31 December 2011

		Hong Kong, Macau and Taiwan					
	Chinese mainland	BOC Hong Kong Group	Other	Subtotal	Other countries and regions	Elimination	Total
Interest income	373,107	27,218	6,156	33,374	12,308	(5,687)	413,102
Interest expense	(172,086)	(8,683)	(3,673)	(12,356)	(6,283)	5,687	(185,038)
Net interest income	201,021	18,535	2,483	21,018	6,025	–	228,064
Fee and commission income	55,322	9,015	3,977	12,992	3,296	(1,592)	70,018
Fee and commission expense	(1,690)	(2,504)	(1,321)	(3,825)	(900)	1,059	(5,356)
Net fee and commission income	53,632	6,511	2,656	9,167	2,396	(533)	64,662
Net trading gains	6,346	668	476	1,144	359	9	7,858
Net gains on investment securities	992	372	2,104	2,476	(26)	–	3,442
Other operating income (1)	8,293	6,503	10,318	16,821	210	(1,052)	24,272
Operating income	270,284	32,589	18,037	50,626	8,964	(1,576)	328,298
Operating expenses (1)	(118,751)	(11,815)	(8,288)	(20,103)	(2,807)	846	(140,815)
Impairment (losses)/reversal on assets	(18,112)	(419)	(1,333)	(1,752)	509	–	(19,355)
Operating profit	133,421	20,355	8,416	28,771	6,666	(730)	168,128
Share of results of associates and joint ventures	–	4	512	516	–	–	516
Profit before income tax	133,421	20,359	8,928	29,287	6,666	(730)	168,644
Income tax expense							(38,325)
Profit for the year							130,319
Segment assets	9,612,881	1,387,719	467,970	1,855,689	904,756	(556,553)	11,816,773
Investment in associates and joint ventures	–	49	13,244	13,293	–	–	13,293
Total assets	9,612,881	1,387,768	481,214	1,868,982	904,756	(556,553)	11,830,066
Include: non-current assets (2)	85,936	20,660	62,041	82,701	5,027	(161)	173,503
Segment liabilities	9,025,576	1,299,264	421,505	1,720,769	884,219	(556,392)	11,074,172
Other segment items:							
Intersegment net interest income	(519)	1,025	588	1,613	(1,094)	–	–
Intersegment net fee and commission income	279	111	324	435	(181)	(533)	–
Capital expenditure	19,702	749	11,228	11,977	244	–	31,923
Depreciation and amortisation	9,313	746	1,993	2,739	205	–	12,257
Credit commitments	2,234,227	100,569	55,247	155,816	164,247	(242,418)	2,311,872

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Segment reporting (Continued)

The Group as at and for the year ended 31 December 2010

	Chinese mainland	Hong Kong, Macau and Taiwan: BOC Hong Kong Group	Hong Kong, Macau and Taiwan: Other	Hong Kong, Macau and Taiwan: Subtotal	Other countries and regions	Elimination	Total
Interest income	284,786	21,317	3,684	25,001	7,203	(3,457)	313,533
Interest expense	(113,625)	(4,528)	(1,896)	(6,424)	(2,979)	3,457	(119,571)
Net interest income	171,161	16,789	1,788	18,577	4,224	–	193,962
Fee and commission income	45,360	8,287	4,035	12,322	2,525	(993)	59,214
Fee and commission expense	(1,332)	(2,119)	(1,337)	(3,456)	(524)	581	(4,731)
Net fee and commission income	44,028	6,168	2,698	8,866	2,001	(412)	54,483
Net trading gains	1,063	1,282	815	2,097	331	–	3,491
Net gains on investment securities	751	572	2,022	2,594	35	–	3,380
Other operating income (1)	5,129	7,395	8,664	16,059	236	(222)	21,202
Operating income	222,132	32,206	15,987	48,193	6,827	(634)	276,518
Operating expenses (1)	(96,596)	(15,135)	(8,896)	(24,031)	(2,416)	634	(122,409)
Impairment (losses)/reversal on assets	(11,669)	274	(746)	(472)	(852)	–	(12,993)
Operating profit	113,867	17,345	6,345	23,690	3,559	–	141,116
Share of results of associates and joint ventures	–	2	1,027	1,029	–	–	1,029
Profit before income tax	113,867	17,347	7,372	24,719	3,559	–	142,145
Income tax expense							(32,454)
Profit for the year							109,691
Segment assets	8,520,945	1,397,345	370,358	1,767,703	547,954	(389,368)	10,447,234
Investment in associates and joint ventures	–	48	12,583	12,631	–	–	12,631
Total assets	8,520,945	1,397,393	382,941	1,780,334	547,954	(389,368)	10,459,865
Include: non-current assets (2)	75,680	20,158	53,599	73,757	7,555	(161)	156,831
Segment liabilities	8,004,925	1,310,583	328,263	1,638,846	529,152	(389,208)	9,783,715
Other segment items:							
Intersegment net interest income	193	208	5	213	(406)	–	–
Intersegment net fee and commission income	285	115	287	402	(275)	(412)	–
Capital expenditure	14,229	588	8,656	9,244	518	–	23,991
Depreciation and amortisation	7,591	745	1,835	2,580	148	–	10,319
Credit commitments	1,909,129	100,949	32,325	133,274	121,384	(136,352)	2,027,435

(1) "Other operating income" includes insurance premium income earned, and "Operating expenses" include insurance benefits and claims.

(2) Non-current assets include property and equipment, investment properties and other long-term assets.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Segment reporting (Continued)

The Group as at and for the year ended 31 December 2011

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	246,940	127,627	89,811	1,032	1,620	502	(54,430)	413,102
Interest expense	(105,109)	(58,674)	(73,861)	(295)	–	(1,529)	54,430	(185,038)
Net interest income/(expense)	141,831	68,953	15,950	737	1,620	(1,027)	–	228,064
Fee and commission income	39,980	21,386	6,170	2,527	563	402	(1,010)	70,018
Fee and commission expense	(2,022)	(1,694)	(492)	(618)	(1,305)	(103)	878	(5,356)
Net fee and commission income	37,958	19,692	5,678	1,909	(742)	299	(132)	64,662
Net trading gains	468	513	6,690	(178)	31	326	8	7,858
Net gains on investment securities	(13)	(3)	1,342	–	(6)	2,122	–	3,442
Other operating income	278	7,188	297	70	8,856	9,341	(1,758)	24,272
Operating income	180,522	96,343	29,957	2,538	9,759	11,061	(1,882)	328,298
Operating expenses	(62,582)	(55,764)	(11,551)	(1,152)	(8,598)	(2,320)	1,152	(140,815)
Impairment (losses)/reversal on assets	(16,053)	(3,056)	760	–	(144)	(862)	–	(19,355)
Operating profit	101,887	37,523	19,166	1,386	1,017	7,879	(730)	168,128
Share of results of associates and joint ventures	–	–	–	271	–	250	(5)	516
Profit before income tax	101,887	37,523	19,166	1,657	1,017	8,129	(735)	168,644
Income tax expense								(38,325)
Profit for the year								130,319
Segment assets	5,330,401	1,753,022	4,512,493	43,619	57,117	209,046	(88,925)	11,816,773
Investment in associates and joint ventures	–	–	–	2,403	–	10,938	(48)	13,293
Total assets	5,330,401	1,753,022	4,512,493	46,022	57,117	219,984	(88,973)	11,830,066
Segment liabilities	5,703,156	3,730,827	1,506,248	39,103	50,804	132,796	(88,762)	11,074,172
Other segment items:								
Intersegment net interest income	(9,709)	53,342	(42,950)	26	77	(786)	–	–
Intersegment net fee and commission income	–	91	–	–	(833)	874	(132)	–
Capital expenditure	5,662	6,257	300	75	760	18,869	–	31,923
Depreciation and amortisation	4,281	4,996	832	96	43	2,009	–	12,257

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Segment reporting (Continued)

The Group as at and for the year ended 31 December 2010

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	188,298	104,454	75,349	682	1,405	334	(56,989)	313,533
Interest expense	(64,681)	(45,563)	(65,037)	(149)	–	(1,130)	56,989	(119,571)
Net interest income/(expense)	123,617	58,891	10,312	533	1,405	(796)	–	193,962
Fee and commission income	31,296	19,490	5,363	3,191	194	404	(724)	59,214
Fee and commission expense	(1,598)	(1,595)	(310)	(712)	(1,020)	(68)	572	(4,731)
Net fee and commission income	29,698	17,895	5,053	2,479	(826)	336	(152)	54,483
Net trading gains	431	507	1,382	351	731	90	(1)	3,491
Net gains on investment securities	15	5	1,223	–	110	2,027	–	3,380
Other operating income	290	3,819	645	62	8,962	8,966	(1,542)	21,202
Operating income	154,051	81,117	18,615	3,425	10,382	10,623	(1,695)	276,518
Operating expenses	(50,698)	(46,703)	(10,552)	(2,045)	(9,909)	(4,197)	1,695	(122,409)
Impairment (losses)/reversal on assets	(14,183)	(1,434)	2,942	–	(50)	(268)	–	(12,993)
Operating profit	89,170	32,980	11,005	1,380	423	6,158	–	141,116
Share of results of associates and joint ventures	–	–	–	435	3	595	(4)	1,029
Profit before income tax	89,170	32,980	11,005	1,815	426	6,753	(4)	142,145
Income tax expense								(32,454)
Profit for the year								109,691
Segment assets	4,708,324	1,503,781	4,044,648	40,519	49,756	195,700	(95,494)	10,447,234
Investment in associates and joint ventures	–	–	–	2,169	–	10,507	(45)	12,631
Total assets	4,708,324	1,503,781	4,044,648	42,688	49,756	206,207	(95,539)	10,459,865
Segment liabilities	5,014,927	3,542,866	1,119,033	36,894	44,875	120,454	(95,334)	9,783,715
Other segment items:								
Intersegment net interest income	9,567	46,745	(55,866)	17	32	(495)	–	–
Intersegment net fee and commission income	3	87	–	–	(531)	593	(152)	–
Capital expenditure	4,339	4,786	230	129	32	14,475	–	23,991
Depreciation and amortisation	3,423	4,242	700	91	49	1,814	–	10,319

VI FINANCIAL RISK MANAGEMENT

1 Overview

The Group's primary risk management objectives are to maximise value for equity holders while maintaining risk within acceptable parameters, optimising capital allocation and satisfying the requirements of the regulatory authorities, the Group's depositors and other stakeholders for the Group's prudent and stable development.

The Group 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 Group regularly reviews and revises its risk management policies and systems to reflect changes in markets, products and emerging best practice.

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

2 Financial risk management framework

The Board of Directors is responsible for establishing the overall risk appetite of the Group and reviewing and approving the risk management objectives and strategies.

Within this framework, the Group's senior management has overall responsibility for managing all aspects of risks, including implementing risk management strategies, initiatives and credit policies and approving internal policies, measures and procedures related to risk management. The Risk Management Unit, the Financial Management Department and other relevant functional units are responsible for monitoring financial risks.

The Group manages the risks at the branch level through direct reporting from the branches to the relevant departments responsible for risk management at the Head Office. Business line related risks are monitored through establishing specific risk management teams within the business departments. The Group monitors and controls risk management at subsidiaries by appointing members of their boards of directors and risk management committees as appropriate.

3 Credit risk

The Group takes on exposure to credit risk, which is the risk that a customer or counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is one of the most significant risks for the Group's business.

Credit risk exposures arise principally in lending activities and debt securities investment activities. There is also credit risk in off-balance sheet financial instruments, such as derivatives, loan commitments, letters of guarantee, bill acceptance and letters of credit.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement

(1) Loans and advances and off-balance sheet commitments

Monitoring and measurement of credit risk over loans and advances and off-balance sheet credit related exposures are performed by the Risk Management Unit, and reported to the senior management and the Board of Directors regularly.

In measuring the credit risk of loans and advances to corporate customers, the Group mainly reflects the "probability of default" by the customer on its contractual obligations and considers the current financial position of the customer and the exposures to the customer and its likely future development. For retail customers, the Group uses standard approval procedures to manage credit risk for personal loans, and uses credit score-card models, which are based on historical default data to measure credit risk for credit cards.

For credit risk arising from off-balance sheet commitments, the Group manages the risks according to the characteristics of the products. These mainly include loan commitments, guarantees, bill acceptances and letters of credit. Loan commitments, guarantees, bill acceptances and standby letters of credit carry similar credit risk to loans and the Group takes a similar approach on risk management. Documentary and commercial letters of credit are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions and are collateralised by the underlying shipment documents of goods to which they relate or deposits and are therefore assessed to have less credit risk than a direct loan. Besides, The Group monitors the term to maturity of off-balance sheet commitments and those with longer-terms are assessed to have greater credit risk than shorter-term commitments.

The Group measures and manages the credit quality of loans and advances to corporate and personal 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. Off-balance sheet commitments with credit exposures are also assessed and categorised with reference to the Guideline. For operations in Hong Kong, Macau, Taiwan and other countries and regions, where local regulations and requirements are more prudent than the Guideline, the credit assets are classified according to local regulations and requirements.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement (Continued)

(1) Loans and advances and off-balance sheet commitments (Continued)

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 Group 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 Group 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.

The Group has developed an internal customer credit rating system, using measurements of the probability of default within one year based on regression analysis. These probability of default measurements are then mapped to internal credit ratings. The Group performs back testing to actual default rates and refines the model according to the results.

The customer credit ratings in the internal model are based on four categories of A, B, C and D which are further classified into fifteen grades as AAA, AA, A, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B-, CCC, CC, C, and D. Credit grading D equates to defaulted customers while the others are assigned to performing customers.

Five-category loan classifications and customer credit ratings are determined by Head Office and tier-one branch management under approved delegated authorities. The Bank performs centralised review on customer credit ratings and five-category loan classifications on an annual basis. Further, five-category loan classifications are re-examined on a quarterly basis. Adjustments are made to these classifications and ratings as necessary according to customers' operational and financial position.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement (Continued)

(1) Loans and advances and off-balance sheet commitments (Continued)

The Group identifies credit risk collectively based on industry, geography and customer type. This information is monitored regularly by management.

Management periodically reviews various elements of the Group's credit risk management process, in the context of loan portfolio growth, the changing mix and concentration of assets, and the evolving risk profile of the credit portfolio. From time to time, in this regard, refinements are made to the Group's credit risk management processes to most effectively manage the effects of these changes on the Group's credit risk. These refinements include, among other things, adjustments to portfolio level controls, such as revisions to lists of approved borrowers, industry quotas and underwriting criteria. Where circumstances related to specific loans or a group of loans increase the Bank's credit risk, actions are taken, to the extent possible, to strengthen the Group's security position. The actions may include obtaining additional guarantors or collateral.

(2) Due from, placements with and loans to banks and other financial institutions

The Group manages the credit quality of due from, placements with and loans to banks and other financial institutions considering the size, financial position and the internal and external credit rating of banks and financial institutions. In response to adverse credit market conditions, various initiatives were implemented since 2008 to better manage and report credit risk, including establishing a special committee which meets periodically and on an ad hoc basis to discuss actions in response to market changes impacting the Group's exposure to credit risk, and formulating a watch list process over counterparty names at risk.

(3) Debt securities and derivatives

Credit risk within debt securities arises from exposure to movements in credit spreads, default rates and loss given default, as well as changes in the credit of underlying assets.

The Group manages the credit risk within debt securities by monitoring the external credit rating, such as Standard & Poor's ratings or their equivalents, of the security, the internal credit rating of the issuers of debt securities, and the credit quality of underlying assets of securitisation products, including review of default rates, prepayment rates, industry and sector performance, loss coverage ratios and counterparty risk, to identify exposure to credit risk.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement (Continued)

(3) Debt securities and derivatives (Continued)

The Group has policies to maintain strict control limits on net open derivative positions based on notional amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets for which fair value is positive). The derivative credit risk exposure is managed as part of the overall exposure lending limits set for customers and financial institutions. Collateral or other security is not usually obtained for credit risk exposures on these financial instruments.

3.2 Credit risk limit control and mitigation policies

The Group manages limits and controls concentrations of credit risk in particular, to individual customers and to industries.

(1) Credit risk limits and controls

(i) Loans and advances and off-balance sheet commitments

In order to manage the exposure to credit risk, the Group has adopted credit approval policies and procedures that are reviewed and updated by the Risk Management Unit at Head Office. The credit approval process for both corporate loans and personal loans can be broadly divided into three stages: (1) credit origination and assessment; (2) credit review and approval; and (3) fund disbursement and post-disbursement management.

Credit to corporate customers in the Chinese mainland are originated by the Corporate Banking Unit at Head Office and Corporate Banking Department at branch level and submitted to the Risk Management Unit for due diligence and approval. All credit applications for corporate customers must be approved by authorised credit application approvers at Head Office and tier-one branches level in Chinese mainland, except for credit applications that are identified as low risk, such as loans sufficiently secured by PRC treasury bonds, bills or pledged funds or loans supported by the credit of financial institutions that are within pre-approved credit limits. The exposure to any one borrower, including banks, is restricted by credit limits covering on and off-balance sheet exposures.

Personal loans in the Chinese mainland are originated by the Personal Banking Departments at branch level and must be approved by authorised approvers at tier-one branches level in Chinese mainland, except for individual pledged loans and government-sponsored student loans, which may be approved by authorised approvers at sub-branches below tier-one level. High risk personal loans such as personal loans for business purposes in excess of certain limits must also be reviewed by the Risk Management Department.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.2 Credit risk limit control and mitigation policies (Continued)

(1) Credit risk limits and controls (Continued)

(i) Loans and advances and off-balance sheet commitments (Continued)

The Head Office also oversees the risk management of the branches in Hong Kong, Macau, Taiwan and other countries and regions. In particular, any credit application at these branches exceeding the authorisation limits is required to be submitted to the Head Office for approval.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

(ii) Debt securities and derivatives

The Group is also exposed to credit risk through investment activities and trading activities. Credit limits are established based on type of instruments and the credit quality of counterparties, securities issuers and securities and set limits are actively monitored.

(2) Credit risk mitigation policies

(i) Collateral and guarantees

The Group 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 Group implements guidelines on the acceptability of specific classes of collateral. The amount of acceptable collateral at the time of loan origination is determined by the Risk Management Unit and is subject to loan-to-value ratio limits based on type and is monitored on an ongoing basis by the Risk Management Unit. The principal collateral types for corporate loans and advances are:

Collateral	Maximum loan-to-value ratio
Cash deposits with the Group	90%
PRC Treasury bonds	90%
PRC financial institution bonds	85%
Publicly traded stocks	50%
Property	70%
Land use rights	60%
Automobiles	40%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.2 Credit risk limit control and mitigation policies (Continued)

(2) Credit risk mitigation policies (Continued)

(i) Collateral and guarantees (Continued)

Mortgage loans to retail customers are generally collateralised by mortgages over residential properties. Other loans are collateralised dependant on the nature of the loan.

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

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of certain asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

Collateral is also held as part of reverse repurchase agreements. Under such agreements, the Group is permitted to sell or repledge collateral in the absence of default by the owner of the collateral. Details of collateral accepted and which the Group is obligated to return are disclosed in Note V.40.3.

(ii) Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in the offsetting of assets and liabilities in the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the customer are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

3.3 Impairment and provisioning policies

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.3 Impairment and provisioning policies (Continued)

(1) Loans and advances

Management determines whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group including consideration of:

- significant financial difficulty incurred by the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payment;
- for economic or legal reasons related to the borrower's financial difficulty, whether the Group has granted to the borrower a concession that it would not otherwise consider;
- probability that the borrower will become bankrupt or will undergo other financial re-organisation;
- deterioration in the value of collateral;
- deterioration in credit rating; or
- other observable data indicating that there is a measurable decrease in the estimated future cash flows from such loans and advances.

The Group's policy requires the review of individual financial assets that are above certain thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at financial reporting date on a case-by-case basis using discounted cash flow analysis. The assessment normally encompasses guarantees and collateral held and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been specifically identified, by using the available historical data, experience, professional judgement and statistical techniques.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.3 Impairment and provisioning policies (Continued)

(2) Debt securities

Debt securities are assessed for individual impairment using similar criteria as loans and advances. Management determines whether objective evidence of debt securities impairment exists under IAS 39, based on criteria set out by the Group including consideration of:

- a breach of contract or a trigger event, such as a default or delinquency in interest or principal payment;
- significant financial difficulty of issuers or underlying asset holders;
- probable that the issuer or underlying asset holders will become bankrupt or will undergo other financial re-organisation;
- deterioration in credit rating; or
- other observable data indicating that there is a measurable decrease in the estimated future cash flows from such debt securities.

Impairment allowances on individually assessed securities are determined by an evaluation of the incurred loss at financial reporting date on a case-by-case basis using available data, including default rates, loss given default and assessment of the quality of the underlying assets of securitisation products, industry and sector performance, loss coverage ratios and counterparty risk.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.4 Maximum exposure to credit risk before collateral held or other credit enhancements

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Credit risk exposures relating to on-balance sheet financial assets are as follows:				
Due from banks and other financial institutions	**529,131**	586,904	**520,325**	576,168
Balances with central banks	**1,919,651**	1,573,922	**1,785,152**	1,282,532
Placements with and loans to banks and other financial institutions	**618,366**	213,716	**577,233**	245,333
Government certificates of indebtedness for bank notes issued	**56,108**	42,469	**2,691**	2,486
Financial assets at fair value through profit or loss	**68,887**	72,732	**31,887**	17,814
Derivative financial assets	**42,757**	39,974	**20,969**	19,157
Loans and advances to customers, net	**6,203,138**	5,537,765	**5,546,805**	4,951,171
Investment securities				
— available for sale	**525,382**	634,666	**269,728**	391,120
— held to maturity	**1,074,116**	1,039,386	**1,025,620**	984,127
— loans and receivables	**299,518**	277,963	**290,387**	263,178
Other assets	**84,101**	77,418	**61,190**	59,213
Subtotal	**11,421,155**	10,096,915	**10,131,987**	8,792,299
Credit risk exposures relating to off-balance sheet items are as follows:				
Letters of guarantee issued	**727,891**	646,098	**742,462**	665,743
Loan commitments and other credit commitments	**1,583,981**	1,381,337	**1,482,068**	1,276,245
Subtotal	**2,311,872**	2,027,435	**2,224,530**	1,941,988
Total	**13,733,027**	12,124,350	**12,356,517**	10,734,287

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

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

The table above represents a worst case scenario of credit risk exposure of the Group and the Bank as at 31 December 2011 and 2010, without taking into account of any collateral held, master netting agreements or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the statements of financial position.

As at 31 December 2011, 45.17% of the Group's total maximum credit exposure is derived from loans and advances to customers (31 December 2010: 45.67%) and 14.29% represents investments in debt securities (31 December 2010: 16.67%).

3.5 Loans and advances

(1) Concentrations of risk for loans and advances to customers

The total loans and advances of the Group and the Bank are set out below:

(i) Analysis of loans and advances to customers by geographical area

Group

	As at 31 December			
	2011		2010	
	Amount	**% of total**	Amount	% of total
Chinese mainland	**5,209,694**	**82.14%**	4,758,585	84.06%
Hong Kong, Macau and Taiwan	**743,233**	**11.72%**	646,432	11.42%
Other countries and regions	**389,887**	**6.14%**	255,604	4.52%
Total loans and advances to customers	**6,342,814**	**100.00%**	5,660,621	100.00%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(i) Analysis of loans and advances to customers by geographical area (Continued)

Bank

	As at 31 December			
	2011		2010	
	Amount	**% of total**	Amount	% of total
Chinese mainland	**5,208,405**	**91.64%**	4,758,583	93.83%
Hong Kong, Macau and Taiwan	**101,142**	**1.78%**	69,953	1.38%
Other countries and regions	**373,910**	**6.58%**	243,027	4.79%
Total loans and advances to customers	**5,683,457**	**100.00%**	5,071,563	100.00%

Chinese mainland

	As at 31 December			
	2011		2010	
	Amount	**% of total**	Amount	% of total
Northern China	**841,436**	**16.15%**	784,066	16.48%
Northeastern China	**374,612**	**7.19%**	333,481	7.01%
Eastern China	**2,137,377**	**41.03%**	1,948,756	40.95%
Central and Southern China	**1,251,136**	**24.02%**	1,163,384	24.45%
Western China	**605,133**	**11.61%**	528,898	11.11%
Total loans and advances to customers	**5,209,694**	**100.00%**	4,758,585	100.00%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(ii) Analysis of loans and advances to customers by customer type

Group

	As at 31 December 2011				As at 31 December 2010			
	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total
Corporate loans								
— Trade bills	614,376	112,003	141,294	867,673	571,425	76,361	68,943	716,729
— Other	3,204,079	413,680	239,873	3,857,632	2,969,260	377,556	180,838	3,527,654
Personal loans	1,391,239	217,550	8,720	1,617,509	1,217,900	192,515	5,823	1,416,238
Total loans and advances to customers	5,209,694	743,233	389,887	6,342,814	4,758,585	646,432	255,604	5,660,621

Bank

	As at 31 December 2011				As at 31 December 2010			
	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total
Corporate loans								
— Trade bills	614,376	18,133	139,258	771,767	571,425	5,506	66,895	643,826
— Other	3,203,747	54,610	232,260	3,490,617	2,969,260	43,766	174,925	3,187,951
Personal loans	1,390,282	28,399	2,392	1,421,073	1,217,898	20,681	1,207	1,239,786
Total loans and advances to customers	5,208,405	101,142	373,910	5,683,457	4,758,583	69,953	243,027	5,071,563

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

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

Group

	As at 31 December			
	2011		2010	
	Amount	**% of total**	Amount	% of total
Corporate loans and advances				
Manufacturing	**1,379,197**	**21.75%**	1,176,535	20.78%
Commerce and services	**943,788**	**14.88%**	813,590	14.37%
Transportation and logistics	**618,591**	**9.75%**	579,582	10.24%
Real estate	**500,423**	**7.89%**	438,991	7.76%
Production and supply of electric power, gas and water	**427,311**	**6.74%**	413,004	7.30%
Mining	**280,441**	**4.42%**	211,717	3.74%
Water, environment and public utility management	**261,396**	**4.12%**	257,535	4.55%
Construction	**104,757**	**1.65%**	86,102	1.52%
Public utilities	**77,759**	**1.23%**	91,197	1.61%
Financial services	**76,366**	**1.20%**	94,598	1.67%
Other	**55,276**	**0.87%**	81,532	1.44%
Subtotal	**4,725,305**	**74.50%**	4,244,383	74.98%
Personal loans				
Mortgages	**1,213,322**	**19.13%**	1,089,006	19.24%
Credit cards	**97,659**	**1.54%**	60,833	1.07%
Other	**306,528**	**4.83%**	266,399	4.71%
Subtotal	**1,617,509**	**25.50%**	1,416,238	25.02%
Total loans and advances to customers	**6,342,814**	**100.00%**	5,660,621	100.00%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iii) Analysis of loans and advances to customers by industry (Continued)

Bank

	As at 31 December			
	2011		2010	
	Amount	**% of total**	Amount	% of total
Corporate loans and advances				
Manufacturing	**1,321,227**	**23.26%**	1,130,622	22.29%
Commerce and services	**791,363**	**13.92%**	681,421	13.44%
Transportation and logistics	**567,219**	**9.98%**	537,688	10.60%
Real estate	**376,495**	**6.62%**	330,061	6.51%
Production and supply of electric power, gas and water	**404,103**	**7.11%**	393,824	7.77%
Mining	**262,447**	**4.62%**	204,868	4.04%
Water, environment and public utility management	**261,377**	**4.60%**	257,514	5.08%
Construction	**98,562**	**1.73%**	79,365	1.56%
Public utilities	**76,668**	**1.35%**	89,675	1.77%
Financial services	**57,564**	**1.01%**	83,532	1.65%
Other	**45,359**	**0.80%**	43,207	0.84%
Subtotal	**4,262,384**	**75.00%**	3,831,777	75.55%
Personal loans				
Mortgages	**1,050,046**	**18.48%**	940,226	18.54%
Credit cards	**89,828**	**1.58%**	53,827	1.06%
Other	**281,199**	**4.94%**	245,733	4.85%
Subtotal	**1,421,073**	**25.00%**	1,239,786	24.45%
Total loans and advances to customers	**5,683,457**	**100.00%**	5,071,563	100.00%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iii) Analysis of loans and advances to customers by industry (Continued)

Chinese mainland

	As at 31 December			
	2011		2010	
	Amount	**% of total**	Amount	% of total
Corporate loans and advances				
Manufacturing	**1,237,694**	**23.75%**	1,092,465	22.95%
Commerce and services	**645,276**	**12.39%**	614,713	12.92%
Transportation and logistics	**537,908**	**10.33%**	501,202	10.53%
Real estate	**333,434**	**6.40%**	296,747	6.24%
Production and supply of electric power, gas and water	**404,103**	**7.76%**	393,824	8.28%
Mining	**175,203**	**3.36%**	133,811	2.81%
Water, environment and public utility management	**261,377**	**5.02%**	257,514	5.41%
Construction	**93,317**	**1.79%**	74,954	1.58%
Public utilities	**73,080**	**1.40%**	87,588	1.84%
Financial services	**32,580**	**0.63%**	68,068	1.43%
Other	**24,483**	**0.47%**	19,799	0.42%
Subtotal	**3,818,455**	**73.30%**	3,540,685	74.41%
Personal loans				
Mortgages	**1,025,988**	**19.69%**	921,373	19.36%
Credit cards	**89,453**	**1.72%**	53,487	1.12%
Other	**275,798**	**5.29%**	243,040	5.11%
Subtotal	**1,391,239**	**26.70%**	1,217,900	25.59%
Total loans and advances to customers	**5,209,694**	**100.00%**	4,758,585	100.00%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

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

Group

	As at 31 December			
	2011		2010	
	Amount	**% of total**	Amount	% of total
Unsecured loans	**1,914,569**	**30.18%**	1,695,362	29.95%
Guaranteed loans	**1,133,818**	**17.88%**	1,409,744	24.90%
Collateralised and other secured loans				
— loans secured by property and other immovable assets	**2,471,936**	**38.97%**	1,892,354	33.43%
— other pledged loans	**822,491**	**12.97%**	663,161	11.72%
Total loans and advances to customers	**6,342,814**	**100.00%**	5,660,621	100.00%

Bank

	As at 31 December			
	2011		2010	
	Amount	**% of total**	Amount	% of total
Unsecured loans	**1,639,664**	**28.85%**	1,462,489	28.84%
Guaranteed loans	**1,097,883**	**19.32%**	1,364,418	26.90%
Collateralised and other secured loans				
— loans secured by property and other immovable assets	**2,254,752**	**39.67%**	1,697,468	33.47%
— other pledged loans	**691,158**	**12.16%**	547,188	10.79%
Total loans and advances to customers	**5,683,457**	**100.00%**	5,071,563	100.00%

Chinese mainland

	As at 31 December			
	2011		2010	
	Amount	**% of total**	Amount	% of total
Unsecured loans	**1,461,846**	**28.06%**	1,377,702	28.95%
Guaranteed loans	**973,326**	**18.68%**	1,230,833	25.87%
Collateralised and other secured loans				
— loans secured by property and other immovable assets	**2,156,711**	**41.40%**	1,617,363	33.99%
— other pledged loans	**617,811**	**11.86%**	532,687	11.19%
Total loans and advances to customers	**5,209,694**	**100.00%**	4,758,585	100.00%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status

	As at 31 December					
	Group		Bank		Chinese mainland	
	2011	2010	**2011**	2010	**2011**	2010
Corporate loans and advances						
— Neither past due nor impaired	**4,666,337**	4,184,768	**4,205,204**	3,773,176	**3,763,646**	3,483,927
— Past due but not impaired	**4,780**	4,791	**3,802**	4,263	**2,527**	3,498
— Impaired	**54,188**	54,824	**53,378**	54,338	**52,282**	53,260
Subtotal	**4,725,305**	4,244,383	**4,262,384**	3,831,777	**3,818,455**	3,540,685
Personal loans						
— Neither past due nor impaired	**1,586,417**	1,388,191	**1,392,215**	1,213,656	**1,363,248**	1,192,304
— Past due but not impaired	**21,974**	18,995	**19,811**	17,150	**19,114**	16,645
— Impaired	**9,118**	9,052	**9,047**	8,980	**8,877**	8,951
Subtotal	**1,617,509**	1,416,238	**1,421,073**	1,239,786	**1,391,239**	1,217,900
Total	**6,342,814**	5,660,621	**5,683,457**	5,071,563	**5,209,694**	4,758,585

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(i) Loans and advances neither past due nor impaired

The Group classifies loans and advances based on regulatory guidance including the "Guiding Principles on Classification of Loan Risk Management" issued by the CBRC as set out in Note VI.3.1. The loans and advances neither past due nor impaired are classified under these principles and guidelines as set out in the table below.

Group

	As at 31 December					
	2011			2010		
	Pass	Special-mention	Total	Pass	Special-mention	Total
Corporate loans and advances	**4,498,389**	**167,948**	**4,666,337**	4,057,594	127,174	4,184,768
Personal loans	**1,585,048**	**1,369**	**1,586,417**	1,387,369	822	1,388,191
Total	**6,083,437**	**169,317**	**6,252,754**	5,444,963	127,996	5,572,959

Bank

	As at 31 December					
	2011			2010		
	Pass	Special-mention	Total	Pass	Special-mention	Total
Corporate loans and advances	**4,041,999**	**163,205**	**4,205,204**	3,647,937	125,239	3,773,176
Personal loans	**1,391,119**	**1,096**	**1,392,215**	1,213,059	597	1,213,656
Total	**5,433,118**	**164,301**	**5,597,419**	4,860,996	125,836	4,986,832

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(i) Loans and advances neither past due nor impaired (Continued)

Chinese mainland

	As at 31 December					
	2011			2010		
	Pass	Special-mention	Total	Pass	Special-mention	Total
Corporate loans and advances	3,603,111	160,535	3,763,646	3,362,204	121,723	3,483,927
Personal loans	1,362,548	700	1,363,248	1,192,005	299	1,192,304
Total	4,965,659	161,235	5,126,894	4,554,209	122,022	4,676,231

Collectively assessed impairment allowances are provided on loans and advances neither past due nor impaired to estimate losses that have been incurred but not yet specifically identified. As part of this assessment, the Group considers information collected as part of the process to classify loans and advances under the CBRC regulatory guidelines, as well as additional information on industry and portfolio exposure.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(ii) Loans and advances past due but not impaired

The total amount of loans and advances to customers that were past due but not impaired is as follows:

Group

	As at 31 December 2011			
	Within 1 month	Between 1 to 3 months	Over 3 months	Total
Corporate loans and advances	**4,286**	**438**	**56**	**4,780**
Personal loans	**16,155**	**5,800**	**19**	**21,974**
Total	**20,441**	**6,238**	**75**	**26,754**

	As at 31 December 2010			
	Within 1 month	Between 1 to 3 months	Over 3 months	Total
Corporate loans and advances	4,602	115	74	4,791
Personal loans	13,246	5,710	39	18,995
Total	17,848	5,825	113	23,786

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(ii) Loans and advances past due but not impaired (Continued)

Bank

	As at 31 December 2011			
	Within 1 month	Between 1 to 3 months	Over 3 months	Total
Corporate loans and advances	3,409	355	38	3,802
Personal loans	14,227	5,584	–	19,811
Total	17,636	5,939	38	23,613

	As at 31 December 2010			
	Within 1 month	Between 1 to 3 months	Over 3 months	Total
Corporate loans and advances	4,128	90	45	4,263
Personal loans	11,584	5,566	–	17,150
Total	15,712	5,656	45	21,413

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(ii) Loans and advances past due but not impaired (Continued)

Chinese mainland

	As at 31 December 2011			
	Within 1 month	Between 1 to 3 months	Over 3 months	Total
Corporate loans and advances	2,211	314	2	2,527
Personal loans	13,579	5,535	–	19,114
Total	15,790	5,849	2	21,641

	As at 31 December 2010			
	Within 1 month	Between 1 to 3 months	Over 3 months	Total
Corporate loans and advances	3,416	75	7	3,498
Personal loans	11,161	5,484	–	16,645
Total	14,577	5,559	7	20,143

Collateral held against loans and advances to customers which have been overdue for more than 3 months principally includes properties, equipments and cash deposits.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans and advances

(a) Impaired loans and advances by geographical area

Group

	As at 31 December					
	2011			2010		
	Amount	**% of total**	**Impaired loan ratio**	Amount	% of total	Impaired loan ratio
Chinese mainland	**61,159**	**96.61%**	**1.17%**	62,211	97.39%	1.31%
Hong Kong, Macau and Taiwan	**1,171**	**1.85%**	**0.16%**	792	1.24%	0.12%
Other countries and regions	**976**	**1.54%**	**0.25%**	873	1.37%	0.34%
Total	**63,306**	**100.00%**	**1.00%**	63,876	100.00%	1.13%

Bank

	As at 31 December					
	2011			2010		
	Amount	**% of total**	**Impaired loan ratio**	Amount	% of total	Impaired loan ratio
Chinese mainland	**61,159**	**97.97%**	**1.17%**	62,211	98.25%	1.31%
Hong Kong, Macau and Taiwan	**440**	**0.70%**	**0.44%**	257	0.41%	0.37%
Other countries and regions	**826**	**1.33%**	**0.22%**	850	1.34%	0.35%
Total	**62,425**	**100.00%**	**1.10%**	63,318	100.00%	1.25%

Chinese mainland

	As at 31 December					
	2011			2010		
	Amount	**% of total**	**Impaired loan ratio**	Amount	% of total	Impaired loan ratio
Northern China	**9,796**	**16.02%**	**1.16%**	11,535	18.54%	1.47%
Northeastern China	**7,322**	**11.97%**	**1.95%**	3,941	6.33%	1.18%
Eastern China	**16,558**	**27.07%**	**0.77%**	15,904	25.56%	0.82%
Central and Southern China	**21,959**	**35.90%**	**1.76%**	23,045	37.04%	1.98%
Western China	**5,524**	**9.04%**	**0.91%**	7,786	12.53%	1.47%
Total	**61,159**	**100.00%**	**1.17%**	62,211	100.00%	1.31%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans and advances (Continued)

(b) Impaired loans and advances by customer type

Group

	As at 31 December					
	2011			2010		
	Amount	**% of total**	**Impaired loan ratio**	Amount	% of total	Impaired loan ratio
Corporate loans and advances	**54,188**	**85.60%**	**1.15%**	54,824	85.83%	1.29%
Personal loans	**9,118**	**14.40%**	**0.56%**	9,052	14.17%	0.64%
Total	**63,306**	**100.00%**	**1.00%**	63,876	100.00%	1.13%

Bank

	As at 31 December					
	2011			2010		
	Amount	**% of total**	**Impaired loan ratio**	Amount	% of total	Impaired loan ratio
Corporate loans and advances	**53,378**	**85.51%**	**1.25%**	54,338	85.82%	1.42%
Personal loans	**9,047**	**14.49%**	**0.64%**	8,980	14.18%	0.72%
Total	**62,425**	**100.00%**	**1.10%**	63,318	100.00%	1.25%

Chinese mainland

	As at 31 December					
	2011			2010		
	Amount	**% of total**	**Impaired loan ratio**	Amount	% of total	Impaired loan ratio
Corporate loans and advances	**52,282**	**85.49%**	**1.37%**	53,260	85.61%	1.50%
Personal loans	**8,877**	**14.51%**	**0.64%**	8,951	14.39%	0.73%
Total	**61,159**	**100.00%**	**1.17%**	62,211	100.00%	1.31%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans and advances (Continued)

(c) Impaired loans and advances by geography and industry

	As at 31 December					
	2011			2010		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland						
Corporate loans and advances						
Manufacturing	21,894	34.58%	1.77%	20,889	32.70%	1.91%
Commerce and services	7,752	12.25%	1.20%	8,761	13.72%	1.43%
Transportation and logistics	12,716	20.09%	2.36%	12,638	19.79%	2.52%
Real estate	1,850	2.92%	0.55%	2,989	4.68%	1.01%
Production and supply of electric power, gas and water	6,017	9.50%	1.49%	4,594	7.19%	1.17%
Mining	219	0.35%	0.12%	165	0.26%	0.12%
Water, environment and public utility management	394	0.62%	0.15%	1,081	1.69%	0.42%
Construction	281	0.44%	0.30%	573	0.90%	0.76%
Public utilities	968	1.53%	1.32%	1,419	2.22%	1.62%
Financial services	3	0.00%	0.01%	3	0.00%	0.00%
Other	188	0.31%	0.77%	148	0.23%	0.75%
Subtotal	52,282	82.59%	1.37%	53,260	83.38%	1.50%
Personal loans						
Mortgage loans	3,990	6.30%	0.39%	4,088	6.40%	0.44%
Credit cards	1,475	2.33%	1.65%	1,180	1.85%	2.21%
Other	3,412	5.39%	1.24%	3,683	5.76%	1.52%
Subtotal	8,877	14.02%	0.64%	8,951	14.01%	0.73%
Total for Chinese mainland	61,159	96.61%	1.17%	62,211	97.39%	1.31%
Hong Kong, Macau, Taiwan and Other countries and regions	2,147	3.39%	0.19%	1,665	2.61%	0.18%
Total	63,306	100.00%	1.00%	63,876	100.00%	1.13%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans and advances (Continued)

(d) Impaired loans and advances and related allowance by geographical area

	As at 31 December 2011			
	Impaired loans	**Individually assessed allowance**	**Collectively assessed allowance**	**Net**
Chinese mainland	**61,159**	**(35,228)**	**(8,270)**	**17,661**
Hong Kong, Macau and Taiwan	**1,171**	**(613)**	**(79)**	**479**
Other countries and regions	**976**	**(424)**	**(10)**	**542**
Total	**63,306**	**(36,265)**	**(8,359)**	**18,682**

	As at 31 December 2010			
	Impaired loans	Individually assessed allowance	Collectively assessed allowance	Net
Chinese mainland	62,211	(35,985)	(8,530)	17,696
Hong Kong, Macau and Taiwan	792	(596)	(30)	166
Other countries and regions	873	(253)	(15)	605
Total	63,876	(36,834)	(8,575)	18,467

For description of allowances on identified impaired loans, refer to Note V. 16.3.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(3) Loans and advances rescheduled

Rescheduling (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 Group and a borrower and/or its guarantor, if any, rescheduled credit terms as a result of deterioration in the borrower's financial condition or of the borrower's inability to make payments when due. The Group reschedules a non-performing loan only if the borrower has good prospects. In addition, prior to approving the rescheduling of loans, the Group typically requires additional guarantees, pledges and/or collateral, or the assumption of the loan by a borrower with better repayment ability.

All rescheduled loans are classified as "substandard" or below. All rescheduled loans are subject to a surveillance period of six months. During the surveillance period, rescheduled loans remain as non-performing loans and the Group monitors the borrower's business operations and loan repayment patterns. After the surveillance period, rescheduled loans may be upgraded to "special-mention" upon review if certain criteria are met. If the rescheduled loans fall overdue or if the borrower is unable to demonstrate its repayment ability, these loans will be reclassified to "doubtful" or below. All rescheduled loans are determined to be impaired, therefore, there were no rescheduled loans that were not past due nor impaired as at 31 December 2011 and 2010.

As at 31 December 2011 and 2010, within impaired loans and advances, rescheduled loans and advances that were overdue for 90 days or less were insignificant.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(4) Overdue loans and advances to customers

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

Group

	As at 31 December 2011				
	Past due up to 90 days (inclusive)	Past due 91–360 days (inclusive)	Past due 361 days–3 years (inclusive)	Past due over 3 years	Total
Unsecured loans	4,393	1,612	2,984	858	9,847
Guaranteed loans	2,234	1,524	3,203	4,770	11,731
Collateralised and other secured loans					
— loans secured by property and other immovable assets	21,985	6,970	5,399	7,302	41,656
— other pledged loans	1,113	1,268	807	1,708	4,896
Total	29,725	11,374	12,393	14,638	68,130

	As at 31 December 2010				
	Past due up to 90 days (inclusive)	Past due 91–360 days (inclusive)	Past due 361 days–3 years (inclusive)	Past due over 3 years	Total
Unsecured loans	3,420	1,212	1,057	2,861	8,550
Guaranteed loans	4,271	3,638	6,479	7,060	21,448
Collateralised and other secured loans					
— loans secured by property and other immovable assets	17,323	2,589	5,436	4,501	29,849
— other pledged loans	652	771	325	1,113	2,861
Total	25,666	8,210	13,297	15,535	62,708

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(4) Overdue loans and advances to customers (Continued)

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

Bank

	As at 31 December 2011				
	Past due up to 90 days (inclusive)	Past due 91–360 days (inclusive)	Past due 361 days–3 years (inclusive)	Past due over 3 years	Total
Unsecured loans	4,085	1,547	2,957	674	9,263
Guaranteed loans	2,180	1,503	3,184	4,724	11,591
Collateralised and other secured loans					
— loans secured by property and other immovable assets	19,735	6,942	5,374	7,074	39,125
— other pledged loans	533	1,246	799	1,701	4,279
Total	26,533	11,238	12,314	14,173	64,258

	As at 31 December 2010				
	Past due up to 90 days (inclusive)	Past due 91–360 days (inclusive)	Past due 361 days–3 years (inclusive)	Past due over 3 years	Total
Unsecured loans	3,050	1,178	1,018	2,680	7,926
Guaranteed loans	4,236	3,632	6,449	7,006	21,323
Collateralised and other secured loans					
— loans secured by property and other immovable assets	15,715	2,550	5,418	4,482	28,165
— other pledged loans	335	763	314	1,080	2,492
Total	23,336	8,123	13,199	15,248	59,906

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(4) Overdue loans and advances to customers (Continued)

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

Chinese mainland

	As at 31 December 2011				
	Past due up to 90 days (inclusive)	Past due 91–360 days (inclusive)	Past due 361 days–3 years (inclusive)	Past due over 3 years	Total
Unsecured loans	4,066	1,485	2,909	669	9,129
Guaranteed loans	1,962	1,503	3,120	4,725	11,310
Collateralised and other secured loans					
— loans secured by property and other immovable assets	18,047	6,939	5,328	7,070	37,384
— other pledged loans	521	1,104	799	1,700	4,124
Total	24,596	11,031	12,156	14,164	61,947

	As at 31 December 2010				
	Past due up to 90 days (inclusive)	Past due 91–360 days (inclusive)	Past due 361 days–3 years (inclusive)	Past due over 3 years	Total
Unsecured loans	2,978	1,153	969	2,676	7,776
Guaranteed loans	3,902	3,596	6,369	7,006	20,873
Collateralised and other secured loans					
— loans secured by property and other immovable assets	15,084	2,506	5,406	4,478	27,474
— other pledged loans	82	763	314	1,079	2,238
Total	22,046	8,018	13,058	15,239	58,361

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(4) Overdue loans and advances to customers (Continued)

(ii) Analysis of overdue loans and advances by geographical area

	As at 31 December	
	2011	2010
Chinese mainland	**61,947**	58,361
Hong Kong, Macau and Taiwan	**5,835**	4,105
Other countries and regions	**348**	242
Subtotal	**68,130**	62,708
Less: total loans and advances to customers which have been overdue for less than 3 months	**(29,725)**	(25,666)
Total loans and advances to customers which have been overdue for more than 3 months	**38,405**	37,042
Individually assessed impairment allowance — for loans and advances to customers which have been overdue for more than 3 months	**(24,679)**	(23,579)

3.6 Due from and placements with and loans to banks and other financial institutions

Banks and other financial institutions comprise those institutions in Chinese mainland, Hong Kong, Macau, Taiwan and other countries and regions.

The Group monitors the credit risk of counterparties by collecting and analysing counterparty information and establishing credit limits taking into account the nature, size and credit rating of counterparties.

As at 31 December 2011, majority balances of due from and placements with and loans to banks and other financial institutions were with banks in Chinese mainland, including policy banks, large- and medium-sized commercial banks (Note V.11 and Note V.13). As at 31 December 2011, the majority of the credit ratings of the banks in Hong Kong, Macau, Taiwan and other countries and regions were above A.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities

The tables below represent an analysis of the carrying value of debt securities by credit rating and credit risk characteristic.

Group

	As at 31 December 2011					
	Unrated	AAA	AA	A	Lower than A	Total
Issuers in Chinese mainland						
— Government	727,728	–	7,236	1,551	–	736,515
— Public sector and quasi-governments	20,593	–	–	–	–	20,593
— Policy banks	319,856	–	2,822	5,293	–	327,971
— Financial institutions	45,051	–	311	703	95	46,160
— Corporate	196,018	–	632	502	1,873	199,025
— China Orient	160,000	–	–	–	–	160,000
Subtotal	1,469,246	–	11,001	8,049	1,968	1,490,264
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
— Governments	124,642	13,067	40,592	4,268	232	182,801
— Public sector and quasi-governments	20,739	23,275	8,629	85	309	53,037
— Financial institutions	32,212	50,858	56,723	51,020	12,644	203,457
— Corporate	6,516	2,949	1,783	15,398	5,996	32,642
Subtotal (1)	184,109	90,149	107,727	70,771	19,181	471,937
Total (2)	1,653,355	90,149	118,728	78,820	21,149	1,962,201

(1) Included mortgage backed securities as follows:

	As at 31 December 2011					
	Unrated	AAA	AA	A	Lower than A	Total
US subprime mortgage related debt securities	–	580	740	963	3,182	5,465
US Alt-A mortgage-backed securities	–	26	48	29	1,209	1,312
US Non-Agency mortgage-backed securities	–	212	73	153	2,633	3,071
Total	–	818	861	1,145	7,024	9,848

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities (Continued)

Group

	As at 31 December 2010					
	Unrated	AAA	AA	A	Lower than A	Total
Issuers in Chinese mainland						
— Government	898,122	–	3,298	2,113	–	903,533
— Public sector and quasi-governments	16,462	–	–	–	–	16,462
— Policy banks	249,828	–	3,311	5,012	–	258,151
— Financial institutions	42,096	–	–	1,049	1,277	44,422
— Corporate	147,164	–	533	–	1,625	149,322
— China Orient	160,000	–	–	–	–	160,000
Subtotal	1,513,672	–	7,142	8,174	2,902	1,531,890
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
— Governments	130,254	11,324	6,338	4,772	207	152,895
— Public sector and quasi-governments	16,954	31,018	8,128	607	222	56,929
— Financial institutions	34,069	80,154	66,369	53,138	8,579	242,309
— Corporate	3,433	5,201	4,236	13,230	11,346	37,446
Subtotal (1)	184,710	127,697	85,071	71,747	20,354	489,579
Total (2)	1,698,382	127,697	92,213	79,921	23,256	2,021,469

(1) Included mortgage backed securities as follows:

	As at 31 December 2010					
	Unrated	AAA	AA	A	Lower than A	Total
US subprime mortgage related debt securities	48	1,432	1,871	861	7,000	11,212
US Alt-A mortgage-backed securities	–	202	184	369	2,400	3,155
US Non-Agency mortgage-backed securities	–	594	240	318	4,173	5,325
Total	48	2,228	2,295	1,548	13,573	19,692

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities (Continued)

Bank

	As at 31 December 2011					
	Unrated	AAA	AA	A	Lower than A	Total
Issuers in Chinese mainland						
— Government	713,349	–	596	1,551	–	715,496
— Public sector and quasi-governments	20,088	–	–	–	–	20,088
— Policy banks	312,547	–	96	5,255	–	317,898
— Financial institutions	33,681	–	311	31	–	34,023
— Corporate	189,559	–	–	–	–	189,559
— China Orient	160,000	–	–	–	–	160,000
Subtotal	1,429,224	–	1,003	6,837	–	1,437,064
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
— Governments	72,482	9,229	3,099	123	232	85,165
— Public sector and quasi-governments	9,619	477	4,714	53	191	15,054
— Financial institutions	11,373	16,768	13,486	19,356	5,740	66,723
— Corporate	859	696	522	3,354	3,773	9,204
Subtotal(1)	94,333	27,170	21,821	22,886	9,936	176,146
Total(2)	1,523,557	27,170	22,824	29,723	9,936	1,613,210

(1) Included mortgage backed securities as follows:

	As at 31 December 2011					
	Unrated	AAA	AA	A	Lower than A	Total
US subprime mortgage related debt securities	–	458	713	887	3,182	5,240
US Alt-A mortgage-backed securities	–	7	38	29	1,142	1,216
US Non-Agency mortgage-backed securities	–	160	70	77	2,567	2,874
Total	–	625	821	993	6,891	9,330

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities (Continued)

Bank

	As at 31 December 2010					
	Unrated	AAA	AA	A	Lower than A	Total
Issuers in Chinese mainland						
— Government	885,495	–	–	1,900	–	887,395
— Public sector and quasi-governments	16,444	–	–	–	–	16,444
— Policy banks	247,288	–	–	4,942	–	252,230
— Financial institutions	27,085	–	–	–	–	27,085
— Corporate	146,846	–	–	–	–	146,846
— China Orient	160,000	–	–	–	–	160,000
Subtotal	1,483,158	–	–	6,842	–	1,490,000
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
— Governments	57,409	5,291	3,195	448	192	66,535
— Public sector and quasi-governments	8,473	10,098	1,206	595	222	20,594
— Financial institutions	9,230	23,529	9,394	15,857	5,540	63,550
— Corporate	104	1,392	1,805	2,638	8,449	14,388
Subtotal(1)	75,216	40,310	15,600	19,538	14,403	165,067
Total(2)	1,558,374	40,310	15,600	26,380	14,403	1,655,067

(1) Included mortgage backed securities as follows:

	As at 31 December 2010					
	Unrated	AAA	AA	A	Lower than A	Total
US subprime mortgage related debt securities	48	1,134	1,871	857	7,000	10,910
US Alt-A mortgage-backed securities	–	126	89	335	2,400	2,950
US Non-Agency mortgage-backed securities	–	263	186	244	4,128	4,821
Total	48	1,523	2,146	1,436	13,528	18,681

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities (Continued)

(2) The Group's Available for sale and Held to maturity debt securities are individually assessed for impairment. The Group's accumulated impairment charges on Available for sale and Held to maturity debt securities at 31 December 2011 amounted to RMB9,135 million and RMB354 million, respectively (31 December 2010: RMB15,931 million and RMB438 million). The carrying value of the available for sale and held to maturity debt securities considered impaired as at 31 December 2011 were RMB8,323 million and RMB957 million, respectively (31 December 2010: RMB17,823 million and RMB1,317 million).

3.8 Derivatives

The credit risk weighted amounts represent the counterparty credit risk associated with derivative transactions and are calculated with reference to the guidelines issued by the CBRC or HKMA as appropriate and are dependent on, among other factors, the creditworthiness of the customer and the maturity characteristics of each type of contract. The amounts disclosed below differ from the carrying amount at fair value and the maximum exposure to credit risk disclosed in Note VI.3.4.

Credit risk weighted amounts

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Exchange rate derivatives				
Currency forwards and swaps, and cross-currency interest rate swaps	**13,848**	12,723	**12,174**	10,100
Currency options	**153**	–	**147**	–
Interest rate derivatives				
Interest rate swaps	**5,826**	6,187	**4,302**	5,021
Interest rate options	**10**	–	**9**	–
Interest rate futures	**–**	–	**–**	–
Equity derivatives	**4**	–	**–**	–
Commodity derivatives	**17**	18	**5**	17
Credit derivatives	**–**	5	**–**	5
	19,858	18,933	**16,637**	15,143

The credit risk weighted amounts stated above have not taken into account any effects of netting arrangements.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.9 Repossessed assets

The Group obtained assets by taking possession of collateral held as security. Detailed information of such repossessed assets of the Group is disclosed in Note V.22.

4 Market risk

4.1 Overview

The Group is exposed to market risks that may cause losses to the Group 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. Both the Group's trading book and banking book face market risks. The trading book consists of positions in financial instruments and commodities that are held with trading intent or in order to hedge other elements of the trading book. The banking book consists of financial instruments not included in the trading book (including those financial instruments purchased with surplus funds and managed in the investment book).

The Board of Directors of the Group takes the ultimate responsibility for the oversight of market risk management, including the approval of market risk management policies and procedures and the determination of market risk tolerance. Senior management is responsible for execution of such policies and ensuring that the level of market risk is within the risk appetite determined by the Board, while meeting the Group's business objectives.

The Risk Management Unit is responsible for the identification, measurement, monitoring, control and reporting of market risks on a Group basis. Business units are responsible for monitoring and reporting of market risk within their respective business lines.

4.2 Market risk measurement techniques and limits

(1) Trading book

Market risk in trading books is managed by establishing Value at Risk ("VaR") limits. Total exposures, stress testing and utilisation of VaR are monitored on a daily basis for each trading desk and dealer.

VaR is used to estimate the largest potential loss arising from adverse market movements in a specific holding period and within a certain confidence level.

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

VaR is performed separately by the Bank and its major subsidiaries that are exposed to market risk, BOC Hong Kong (Holdings) Limited ("BOCHK") and BOC International Holdings Limited ("BOCI"). The Bank, BOCHK and BOCI used a 99% level of confidence (therefore 1% statistical probability that actual losses could be greater than the VaR estimate) and a historical simulation model to calculate the VaR estimate. The holding period of the VaR calculations is one day. To enhance the Group's market risk management, in 2010, the Group has also established the market risk data mart, which enabled Group level trading book VaR calculation on a daily basis.

Accuracy and reliability of the VaR model is verified by daily back-testing the VaR result on trading book. The back-testing results are regularly reported to senior management.

Stress testing is performed based on the characteristics of trading transactions to simulate and estimate losses in adverse and exceptional market conditions. The Group sets stress testing limits, adjusts and enhances the scenarios for stress testing taking into account financial market fluctuations in order to capture the potential impact of market price fluctuations and volatility on the trading book, enhancing the Group's market risk management capabilities.

The table below shows the VaR of the trading book by types of risk during the years ended 31 December 2011 and 2010:

Unit: USD million

	Year ended 31 December					
	2011			2010		
	Average	**High**	**Low**	Average	High	Low
Bank trading VaR						
Interest rate risk	**1.37**	**3.04**	**0.47**	3.93	9.88	0.57
Foreign exchange risk	**0.61**	**10.67**	**0.12**	0.90	2.78	0.14
Volatility risk	**0.02**	**0.12**	**0.01**	0.12	0.61	0.01
Total Bank trading VaR	**1.49**	**10.96**	**0.60**	3.80	10.29	0.70

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

The Bank's VaR for the year ended 31 December 2010 was calculated on Head Office and branches in Chinese mainland trading positions, excluding foreign currency against RMB transactions. For the year ended 31 December 2011,the Bank expanded the scope of its VaR calculation based on the Group's trading positions excluding those of BOCHK and BOCI and excluding foreign currency against RMB transactions.

The reporting of risk in relation to bullion is included in foreign exchange risk above. The exposure of the Bank to potential price movement in other commodity financial instruments and the related potential impact to the Bank's income statement are considered to be insignificant.

Unit: USD million

	Year ended 31 December					
	2011			2010		
	Average	**High**	**Low**	Average	High	Low
BOCHK trading VaR						
Interest rate risk	**1.00**	**1.41**	**0.65**	1.01	1.75	0.47
Foreign exchange risk	**1.11**	**2.27**	**0.25**	0.68	1.44	0.17
Equity risk	**0.02**	**0.17**	**0.00**	0.02	0.22	0.00
Commodity risk	**0.01**	**0.09**	**0.00**	0.00	0.03	0.00
Total BOCHK trading VaR	**1.49**	**2.49**	**0.87**	1.23	2.01	0.74
BOCI trading VaR*						
Equity derivatives unit	**1.47**	**3.33**	**0.32**	1.31	2.16	0.79
Fixed income unit	**2.10**	**3.22**	**0.79**	0.91	1.98	0.51

* BOCI monitors its trading VaR for equity derivatives unit and fixed income unit separately, which include equity risk, interest rate risk and foreign exchange risk.

VaR for each risk factor is the independently derived largest potential loss in a specific holding period and within a certain confidence level due to fluctuations solely in that risk factor. The individual VaRs did not add up to the total VaR as there was diversification effect due to correlation amongst the risk factors.

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(2) Banking book

The banking book is exposed to interest rate risk arising from mismatches in maturities, repricing periods and inconsistent adjustments between the benchmark interest rates of assets and liabilities.

The Group takes on exposure to interest rate risk and fluctuations in market interest rates will impact the Group's financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses. Currently, benchmark interest rates for RMB loans and deposits in the Chinese mainland are set by the PBOC and the Group's operations in Chinese 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. This significantly mitigates the exposure of the Group to RMB interest rate risk. However, there is no guarantee that the PBOC will continue this practice in future.

The Group manages interest rate risk in the banking book primarily through interest rate repricing gap analysis. Interest rate repricing gap analysis measures the difference between the amount of interest-earning assets and interest-bearing liabilities that mature or must be repriced within certain periods and is used to generate indicators of interest rate risk sensitivity of earnings to changing interest rates. The interest rate gap analysis is set out in Note VI.4.3 and also covers the trading book.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(2) Banking book (Continued)

Sensitivity analysis on Net interest income

The Group 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. The Group calculates the change in net interest income during the year due to a parallel move in the RMB, USD and HKD, and monitors this as a percentage of the net interest income budget for the year. Limits of the net interest income change are set as a percentage of net interest income budget for the Group's commercial banking operations (excluding BOC Hong Kong and Tai Fung Bank Limited) and are approved by the Board and monitored by the Risk Management Unit on a monthly basis.

The table below illustrates the potential impact of a 25 basis points interest rate move on the net interest income of the Group. The actual situation may be different from the assumptions used and it is possible that actual outcomes could differ from the estimated impact on net interest income of the Group.

	(Decrease)/increase in Net interest income	
	As at 31 December	
	2011	2010
+ 25 basis points parallel move in all yield curves	**(2,332)**	(3,352)
– 25 basis points parallel move in all yield curves	**2,332**	3,352

Given the nature of demand deposits, their interest rate fluctuations are less volatile than those of other products. Had the impact of yield curves movement on interest expenses related to demand deposits been excluded, the net interest income for the next twelve months from the reporting date would increase or decrease by RMB7,028 million (2010: RMB5,302 million) for every 25 basis points upwards or downwards parallel shift, respectively.

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis

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

Group

	As at 31 December 2011						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	207,347	88,251	202,897	30,121	50	62,298	590,964
Balances with central banks	1,869,868	273	–	9	–	49,501	1,919,651
Placements with and loans to banks and other financial institutions	278,478	86,170	250,489	3,229	–	–	618,366
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	56,108	56,108
Precious metals	–	–	–	–	–	95,907	95,907
Financial assets at fair value through profit or loss	5,608	9,059	9,937	28,319	15,768	5,116	73,807
Derivative financial assets	–	–	–	–	–	42,757	42,757
Loans and advances to customers, net	1,585,217	1,628,956	2,810,116	59,659	36,395	82,795	6,203,138
Investment securities							
— available for sale	75,059	84,084	86,657	196,424	81,868	29,226	553,318
— held to maturity	51,151	77,425	238,738	468,338	238,464	–	1,074,116
— loans and receivables	8,730	5,741	49,202	26,864	208,981	–	299,518
Investment in associates and joint ventures	–	–	–	–	–	13,293	13,293
Property and equipment	–	–	–	–	–	138,234	138,234
Investment properties	–	–	–	–	–	14,616	14,616
Deferred income tax assets	–	–	–	–	–	19,516	19,516
Other assets	947	1,177	2,835	–	–	111,798	116,757
Total assets	4,082,405	1,981,136	3,650,871	812,963	581,526	721,165	11,830,066

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Group

	As at 31 December 2011						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities							
Due to banks and other financial institutions	899,641	93,217	183,537	99,484	9,269	85,795	1,370,943
Due to central banks	41,922	7,525	32,006	–	–	3	81,456
Bank notes in circulation	–	–	–	–	–	56,259	56,259
Placements from banks and other financial institutions	177,018	66,946	21,874	–	–	–	265,838
Derivative financial liabilities	–	–	–	–	–	35,473	35,473
Due to customers	5,343,548	1,097,205	1,700,382	572,183	15,707	88,936	8,817,961
Bonds issued	78	16	3,816	67,541	98,451	–	169,902
Other borrowings	8,386	13,046	4,735	–	–	557	26,724
Current tax liabilities	–	–	–	–	–	29,353	29,353
Retirement benefit obligations	–	–	–	–	–	6,086	6,086
Deferred income tax liabilities	–	–	–	–	–	4,486	4,486
Other liabilities	837	316	615	383	18	207,522	209,691
Total liabilities	6,471,430	1,278,271	1,946,965	739,591	123,445	514,470	11,074,172
Total interest repricing gap	(2,389,025)	702,865	1,703,906	73,372	458,081	206,695	755,894

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Group

	As at 31 December 2010						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	67,676	192,995	325,357	126	–	49,972	636,126
Balances with central banks	1,532,969	235	18	–	–	40,700	1,573,922
Placements with and loans to banks and other financial institutions	109,408	32,231	68,671	3,406	–	–	213,716
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	42,469	42,469
Precious metals	–	–	–	–	–	86,218	86,218
Financial assets at fair value through profit or loss	4,536	25,939	7,173	21,800	13,166	8,623	81,237
Derivative financial assets	–	–	–	–	–	39,974	39,974
Loans and advances to customers, net	1,190,442	1,180,334	3,015,587	67,962	41,428	42,012	5,537,765
Investment securities							
— available for sale	68,649	77,421	139,329	245,909	101,252	24,178	656,738
— held to maturity	92,586	147,178	286,746	334,148	178,728	–	1,039,386
— loans and receivables	5,679	6,498	32,328	28,398	205,060	–	277,963
Investment in associates and joint ventures	–	–	–	–	–	12,631	12,631
Property and equipment	–	–	–	–	–	123,568	123,568
Investment properties	–	–	–	–	–	13,839	13,839
Deferred income tax assets	–	–	–	–	–	24,041	24,041
Other assets	2,961	7,175	2,104	–	–	88,032	100,272
Total assets	3,074,906	1,670,006	3,877,313	701,749	539,634	596,257	10,459,865

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Group

	As at 31 December 2010						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities							
Due to banks and other financial institutions	832,443	179,601	138,297	45,861	2,000	77,612	1,275,814
Due to central banks	30,598	8,780	34,037	–	–	–	73,415
Bank notes in circulation	–	–	–	–	–	42,511	42,511
Placements from banks and other financial institutions	158,115	62,632	10,054	–	–	–	230,801
Derivative financial liabilities	–	–	–	–	–	35,711	35,711
Due to customers	4,706,895	791,023	1,755,376	356,231	18,817	105,195	7,733,537
Bonds issued	–	–	2,725	27,349	101,813	–	131,887
Other borrowings	5,593	8,761	4,419	563	–	163	19,499
Current tax liabilities	–	–	–	–	–	22,775	22,775
Retirement benefit obligations	–	–	–	–	–	6,440	6,440
Deferred income tax liabilities	–	–	–	–	–	3,919	3,919
Other liabilities	8,286	14,378	2,809	81	17	181,835	207,406
Total liabilities	5,741,930	1,065,175	1,947,717	430,085	122,647	476,161	9,783,715
Total interest repricing gap	(2,667,024)	604,831	1,929,596	271,664	416,987	120,096	676,150

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Bank

	As at 31 December 2011						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	211,889	83,414	195,010	30,000	–	55,842	576,155
Balances with central banks	1,736,809	273	–	9	–	48,061	1,785,152
Placements with and loans to banks and other financial institutions	249,611	79,694	244,116	3,229	583	–	577,233
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	2,691	2,691
Precious metals	–	–	–	–	–	91,642	91,642
Financial assets at fair value through profit or loss	1,239	879	5,999	17,467	6,108	195	31,887
Derivative financial assets	–	–	–	–	–	20,969	20,969
Loans and advances to customers, net	1,099,389	1,521,498	2,761,705	50,216	35,493	78,504	5,546,805
Investment securities							
— available for sale	25,198	30,690	52,407	117,615	43,818	1,636	271,364
— held to maturity	45,225	62,721	231,627	453,571	232,476	–	1,025,620
— loans and receivables	5,473	3,778	45,291	26,864	208,981	–	290,387
Investment in subsidiaries	–	–	–	–	–	83,789	83,789
Investment in associates and joint ventures	–	–	–	–	–	48	48
Property and equipment	–	–	–	–	–	74,529	74,529
Investment properties	–	–	–	–	–	1,280	1,280
Deferred income tax assets	–	–	–	–	–	19,648	19,648
Other assets	944	1,177	2,835	–	–	74,682	79,638
Total assets	3,375,777	1,784,124	3,538,990	698,971	527,459	553,516	10,478,837

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Bank

	As at 31 December 2011						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities							
Due to banks and other financial institutions	794,830	94,837	195,762	99,977	9,269	78,886	1,273,561
Due to central banks	34,320	7,525	32,002	–	–	–	73,847
Bank notes in circulation	–	–	–	–	–	2,842	2,842
Placements from banks and other financial institutions	182,674	81,445	40,190	–	–	–	304,309
Derivative financial liabilities	–	–	–	–	–	17,387	17,387
Due to customers	4,584,888	971,501	1,628,888	563,894	15,574	42,155	7,806,900
Bonds issued	–	–	4,200	63,141	80,930	–	148,271
Current tax liabilities	–	–	–	–	–	26,527	26,527
Retirement benefit obligations	–	–	–	–	–	6,086	6,086
Deferred income tax liabilities	–	–	–	–	–	124	124
Other liabilities	620	–	–	–	–	133,149	133,769
Total liabilities	5,597,332	1,155,308	1,901,042	727,012	105,773	307,156	9,793,623
Total interest repricing gap	(2,221,555)	628,816	1,637,948	(28,041)	421,686	246,360	685,214

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Bank

	As at 31 December 2010						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	61,448	190,811	323,897	–	–	44,823	620,979
Balances with central banks	1,245,753	235	18	–	–	36,526	1,282,532
Placements with and loans to banks and other financial institutions	128,606	39,401	73,920	3,406	–	–	245,333
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	2,486	2,486
Precious metals	–	–	–	–	–	83,100	83,100
Financial assets at fair value through profit or loss	1,532	456	5,354	8,935	1,419	118	17,814
Derivative financial assets	–	–	–	–	–	19,157	19,157
Loans and advances to customers, net	719,747	1,099,870	2,991,556	60,727	41,295	37,976	4,951,171
Investment securities							
— available for sale	38,314	40,431	98,963	139,845	73,567	1,360	392,480
— held to maturity	84,424	130,001	277,830	320,515	171,357	–	984,127
— loans and receivables	25	2,686	27,009	28,398	205,060	–	263,178
Investment in subsidiaries	–	–	–	–	–	79,933	79,933
Investment in associates and joint ventures	–	–	–	–	–	45	45
Property and equipment	–	–	–	–	–	65,494	65,494
Investment properties	–	–	–	–	–	1,285	1,285
Deferred income tax assets	–	–	–	–	–	24,359	24,359
Other assets	2,912	7,175	2,104	–	–	62,875	75,066
Total assets	2,282,761	1,511,066	3,800,651	561,826	492,698	459,537	9,108,539

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Bank

	As at 31 December 2010						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities							
Due to banks and other financial institutions	644,719	185,889	145,465	45,861	2,000	74,403	1,098,337
Due to central banks	22,702	8,384	34,034	–	–	–	65,120
Bank notes in circulation	–	–	–	–	–	2,527	2,527
Placements from banks and other financial institutions	162,480	74,325	18,971	–	–	–	255,776
Derivative financial liabilities	–	–	–	–	–	17,232	17,232
Due to customers	3,990,677	693,581	1,682,083	350,219	18,815	58,043	6,793,418
Bonds issued	–	–	3,000	28,147	85,136	–	116,283
Current tax liabilities	–	–	–	–	–	20,181	20,181
Retirement benefit obligations	–	–	–	–	–	6,440	6,440
Deferred income tax liabilities	–	–	–	–	–	177	177
Other liabilities	5,319	–	–	–	–	117,453	122,772
Total liabilities	4,825,897	962,179	1,883,553	424,227	105,951	296,456	8,498,263
Total interest repricing gap	(2,543,136)	548,887	1,917,098	137,599	386,747	163,081	610,276

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk

The Group manages its exposure to currency exchange risk through management of its net foreign currency position and monitors its foreign currency risk on trading books using VaR (Note VI. 4.2).

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. The major subsidiary, Bank of China Hong Kong (Group) Limited, conducts the majority of its business in HKD, RMB and USD. The Group conducts the majority of its foreign currency transactions in USD.

In 2005, the PRC Government introduced a managed floating exchange rate system to allow the value of the RMB to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies.

The Group endeavours to manage its sources and uses of foreign currencies to minimise potential mismatches in accordance with management directives. However, the Group's ability to manage its foreign currency positions in relation to the RMB is limited as the RMB is not a freely convertible currency. The PRC government's current foreign currency regulations require the conversion of foreign currency to be approved by relevant PRC government authorities.

The Group entered into certain foreign exchange transactions as part of asset and liability management and funding requirements including foreign currency deposit taking, placements, foreign currency bond issuance and derivatives.

The Group conducts sensitivity analysis on the net foreign currency position, to identify the impact to the income statement of potential movements in foreign currency exchange rates against the RMB and against functional currencies of its foreign operations that are not in RMB (in relation to which the principal exposure is to foreign currency movements against the HKD). The impact of fluctuations (e.g.1 percent fluctuation) in exchange rates is not considered by management to be significant to the income statement. Such analysis does not take into account the correlation effect of changes in different foreign currencies, any further actions that may have been or could be taken by management after the financial reporting date, subject to the approval by the PRC government, to mitigate the effect of exchange differences, nor for any consequential changes in the foreign currency positions.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

The tables below summarise the Group's and the Bank's exposure to foreign currency exchange rate risk as at 31 December 2011 and 2010. The Group's and the Bank's exposure to RMB is provided in the tables below for comparison purposes. Included in the table are the carrying amounts of the assets and liabilities of the Group and the Bank along with off-balance sheet positions and credit commitments in RMB equivalent, categorised by the original currencies. Derivative financial instruments are included in the net off-balance sheet position using notional amounts.

Group

	As at 31 December 2011							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	440,755	113,207	10,914	8,344	3,202	934	13,608	590,964
Balances with central banks	1,727,847	107,088	2,564	52,434	12,904	2	16,812	1,919,651
Placements with and loans to banks and other financial institutions	515,092	50,717	10,451	20,202	1,663	3,584	16,657	618,366
Government certificates of indebtedness for bank notes issued	–	–	53,417	–	–	–	2,691	56,108
Precious metals	–	–	4,265	–	–	–	91,642	95,907
Financial assets at fair value through profit or loss	11,616	30,823	28,992	2,272	–	25	79	73,807
Derivative financial assets	12,636	9,615	16,897	820	642	662	1,485	42,757
Loans and advances to customers, net	4,652,867	951,297	465,590	39,950	23,034	9,587	60,813	6,203,138
Investment securities								
— available for sale	170,222	209,612	79,260	18,793	37,942	202	37,287	553,318
— held to maturity	1,005,878	44,399	10,392	5,348	2,692	1	5,406	1,074,116
— loans and receivables	280,688	1,359	–	1,526	–	3,763	12,182	299,518
Investment in associates and joint ventures	6,986	1,486	4,821	–	–	–	–	13,293
Property and equipment	73,511	46,878	13,237	128	1,293	1,364	1,823	138,234
Investment properties	4,858	–	8,370	–	–	–	1,388	14,616
Deferred income tax assets	18,712	348	304	–	–	–	152	19,516
Other assets	84,246	15,589	11,919	1,401	557	1,124	1,921	116,757
Total assets	9,005,914	1,582,418	721,393	151,218	83,929	21,248	263,946	11,830,066

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Group

	As at 31 December 2011							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Liabilities								
Due to banks and other financial institutions	908,820	348,387	9,945	11,721	8,699	1,571	81,800	1,370,943
Due to central banks	94	73,964	7,398	–	–	–	–	81,456
Bank notes in circulation	–	–	53,417	–	–	–	2,842	56,259
Placements from banks and other financial institutions	94,957	134,341	8,260	20,919	2,271	1,767	3,323	265,838
Derivative financial liabilities	6,150	12,054	13,324	1,419	549	778	1,199	35,473
Due to customers	7,282,091	584,531	608,878	114,031	21,418	33,991	173,021	8,817,961
Bonds issued	147,416	22,391	95	–	–	–	–	169,902
Other borrowings	–	26,724	–	–	–	–	–	26,724
Current tax liabilities	25,851	24	2,047	240	121	632	438	29,353
Retirement benefit obligations	6,086	–	–	–	–	–	–	6,086
Deferred income tax liabilities	986	826	2,568	5	2	–	99	4,486
Other liabilities	140,857	18,171	45,498	1,165	363	1,325	2,312	209,691
Total liabilities	8,613,308	1,221,413	751,430	149,500	33,423	40,064	265,034	11,074,172
Net on-balance sheet position	392,606	361,005	(30,037)	1,718	50,506	(18,816)	(1,088)	755,894
Net off-balance sheet position	238,471	(313,727)	94,009	(1,118)	(47,912)	20,247	17,294	7,264
Credit commitments	1,459,915	637,218	79,428	70,475	12,502	9,028	43,306	2,311,872

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Group

	As at 31 December 2010							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	580,101	30,114	7,476	7,097	2,990	821	7,527	636,126
Balances with central banks	1,483,074	53,923	3,367	20,658	4,030	1	8,869	1,573,922
Placements with and loans to banks and other financial institutions	156,105	21,186	12,424	10,285	415	5,581	7,720	213,716
Government certificates of indebtedness for bank notes issued	–	–	39,983	–	–	–	2,486	42,469
Precious metals	–	–	3,118	–	–	–	83,100	86,218
Financial assets at fair value through profit or loss	8,586	22,641	48,328	1,558	40	34	50	81,237
Derivative financial assets	5,242	10,851	17,467	1,746	583	1,827	2,258	39,974
Loans and advances to customers, net	4,043,771	928,196	428,010	41,667	28,103	4,579	63,439	5,537,765
Investment securities								
— available for sale	270,944	231,121	66,150	32,328	7,337	1,466	47,392	656,738
— held to maturity	954,736	54,230	16,304	3,981	2,697	13	7,425	1,039,386
— loans and receivables	261,803	5,592	8,139	–	–	–	2,429	277,963
Investment in associates and joint ventures	5,584	1,648	5,399	–	–	–	–	12,631
Property and equipment	62,522	42,857	13,596	151	1,296	1,489	1,657	123,568
Investment properties	4,607	–	7,776	–	–	–	1,456	13,839
Deferred income tax assets	23,377	318	169	–	–	–	177	24,041
Other assets	72,836	11,999	11,266	1,215	464	582	1,910	100,272
Total assets	7,933,288	1,414,676	688,972	120,686	47,955	16,393	237,895	10,459,865

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Group

	As at 31 December 2010							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Liabilities								
Due to banks and other financial institutions	920,748	246,452	12,182	10,603	5,460	2,464	77,905	1,275,814
Due to central banks	–	62,081	8,732	2,598	–	–	4	73,415
Bank notes in circulation	–	–	39,984	–	–	–	2,527	42,511
Placements from banks and other financial institutions	86,325	110,736	4,616	26,017	609	511	1,987	230,801
Derivative financial liabilities	2,477	12,914	14,933	2,077	45	1,907	1,358	35,711
Due to customers	6,318,076	494,374	637,715	101,525	16,000	34,365	131,482	7,733,537
Bonds issued	115,063	16,824	–	–	–	–	–	131,887
Other borrowings	–	19,499	–	–	–	–	–	19,499
Current tax liabilities	19,599	166	1,805	133	103	446	523	22,775
Retirement benefit obligations	6,440	–	–	–	–	–	–	6,440
Deferred income tax liabilities	585	716	2,446	8	7	–	157	3,919
Other liabilities	110,528	27,426	64,926	1,286	979	910	1,351	207,406
Total liabilities	7,579,841	991,188	787,339	144,247	23,203	40,603	217,294	9,783,715
Net on-balance sheet position	353,447	423,488	(98,367)	(23,561)	24,752	(24,210)	20,601	676,150
Net off-balance sheet position	186,796	(380,417)	187,684	27,387	(21,889)	24,906	(15,215)	9,252
Credit commitments	1,243,877	591,541	64,012	74,318	15,229	10,131	28,327	2,027,435

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Bank

	As at 31 December 2011							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	415,566	112,853	22,691	8,031	3,001	735	13,278	576,155
Balances with central banks	1,600,157	106,544	1,549	52,399	12,904	2	11,597	1,785,152
Placements with and loans to banks and other financial institutions	471,321	47,950	15,334	24,351	284	3,797	14,196	577,233
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	–	2,691	2,691
Precious metals	–	–	–	–	–	–	91,642	91,642
Financial assets at fair value through profit or loss	9,176	20,439	–	2,272	–	–	–	31,887
Derivative financial assets	12,027	7,049	–	808	172	624	289	20,969
Loans and advances to customers, net	4,606,401	773,196	59,329	36,632	21,545	7,523	42,179	5,546,805
Investment securities								
— available for sale	147,225	89,235	7,513	10,576	1,861	–	14,954	271,364
— held to maturity	991,871	27,886	171	4,464	973	–	255	1,025,620
— loans and receivables	280,688	1,359	–	–	–	–	8,340	290,387
Investment in subsidiaries	2,189	4,221	73,831	584	–	2,126	838	83,789
Investment in associates and joint ventures	–	–	–	–	–	–	48	48
Property and equipment	70,527	145	–	125	1,293	1,356	1,083	74,529
Investment properties	–	–	–	–	–	–	1,280	1,280
Deferred income tax assets	19,166	348	12	–	–	–	122	19,648
Other assets	67,907	8,848	438	870	237	584	754	79,638
Total assets	8,694,221	1,200,073	180,868	141,112	42,270	16,747	203,546	10,478,837

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Bank

	As at 31 December 2011							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Liabilities								
Due to banks and other financial institutions	816,203	346,046	5,682	12,616	8,840	1,618	82,556	1,273,561
Due to central banks	22	67,419	6,406	–	–	–	–	73,847
Bank notes in circulation	–	–	–	–	–	–	2,842	2,842
Placements from banks and other financial institutions	126,868	143,641	4,836	21,781	2,316	2,588	2,279	304,309
Derivative financial liabilities	5,434	9,530	1	1,011	74	768	569	17,387
Due to customers	7,075,444	376,645	101,453	101,221	19,395	19,546	113,196	7,806,900
Bonds issued	148,131	140	–	–	–	–	–	148,271
Current tax liabilities	25,278	8	6	232	121	504	378	26,527
Retirement benefit obligations	6,086	–	–	–	–	–	–	6,086
Deferred income tax liabilities	–	20	–	5	2	–	97	124
Other liabilities	125,525	4,018	1,037	779	126	650	1,634	133,769
Total Liabilities	8,328,991	947,467	119,421	137,645	30,874	25,674	203,551	9,793,623
Net on-balance sheet position	365,230	252,606	61,447	3,467	11,396	(8,927)	(5)	685,214
Net off-balance sheet position	237,260	(219,640)	(26,544)	(2,591)	(8,388)	10,737	12,464	3,298
Credit commitments	1,457,207	604,525	37,393	68,407	11,769	7,869	37,360	2,224,530

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Bank

	As at 31 December 2010							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	569,219	28,158	6,054	6,859	2,893	730	7,066	620,979
Balances with central banks	1,199,141	52,147	1,954	20,646	4,030	1	4,613	1,282,532
Placements with and loans to banks and other financial institutions	155,692	30,974	20,279	14,445	253	4,433	19,257	245,333
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	–	2,486	2,486
Precious metals	–	–	–	–	–	–	83,100	83,100
Financial assets at fair value through profit or loss	6,794	9,671	–	1,349	–	–	–	17,814
Derivative financial assets	5,242	8,329	7	1,724	580	1,826	1,449	19,157
Loans and advances to customers, net	4,022,343	764,761	53,262	36,332	26,989	3,148	44,336	4,951,171
Investment securities								
— available for sale	258,279	98,229	8,133	12,000	3,420	–	12,419	392,480
— held to maturity	949,410	29,723	1,395	2,504	974	–	121	984,127
— loans and receivables	261,803	659	–	–	–	–	716	263,178
Investment in subsidiaries	553	2,296	73,536	584	–	2,126	838	79,933
Investment in associates and joint ventures	–	–	–	–	–	–	45	45
Property and equipment	61,400	158	–	146	1,296	1,482	1,012	65,494
Investment properties	–	–	–	–	–	–	1,285	1,285
Deferred income tax assets	23,892	318	–	–	–	–	149	24,359
Other assets	65,433	6,791	615	723	379	458	667	75,066
Total assets	7,579,201	1,032,214	165,235	97,312	40,814	14,204	179,559	9,108,539

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Bank

	As at 31 December 2010							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Liabilities								
Due to banks and other financial institutions	748,322	244,655	8,577	11,312	5,674	2,618	77,179	1,098,337
Due to central banks	–	54,446	8,066	2,598	–	–	10	65,120
Bank notes in circulation	–	–	–	–	–	–	2,527	2,527
Placements from banks and other financial institutions	87,425	119,444	18,989	26,240	447	1,784	1,447	255,776
Derivative financial liabilities	2,477	9,599	740	1,456	39	1,902	1,019	17,232
Due to customers	6,180,414	319,508	94,148	86,626	14,282	17,902	80,538	6,793,418
Bonds issued	116,136	147	–	–	–	–	–	116,283
Current tax liabilities	19,071	157	1	119	103	287	443	20,181
Retirement benefit obligations	6,440	–	–	–	–	–	–	6,440
Deferred income tax liabilities	–	28	–	2	7	–	140	177
Other liabilities	103,787	14,209	1,090	1,163	876	720	927	122,772
Total Liabilities	7,264,072	762,193	131,611	129,516	21,428	25,213	164,230	8,498,263
Net on-balance sheet position	315,129	270,021	33,624	(32,204)	19,386	(11,009)	15,329	610,276
Net off-balance sheet position	201,745	(238,041)	23,530	35,164	(15,826)	12,148	(13,103)	5,617
Credit commitments	1,240,059	562,185	21,117	73,033	14,640	9,145	21,809	1,941,988

4.5 Price Risk

The Group is exposed to equity risk on its available for sale listed equity securities. As at 31 December 2011, a 5% fluctuation in listed equity prices from the year end price would impact the fair value of available for sale listed equity positions by RMB274 million (31 December 2010: RMB301 million). For those available for sale equities considered impaired, the impact would be taken to the income statement. The Group is also exposed to commodity risk, mainly related to bullion. The Group manages such risk together with foreign exchange risk (Note VI.4.2).

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk

Liquidity risk is the risk that the Group is unable to obtain funds at a reasonable cost when required to meet a repayment obligation and fund its asset portfolio within a certain time. The Group's objective in liquidity risk management is to maintain liquidity at a reasonable level, to ensure the due debt repayment and the demand of business growth pursuant to development strategy, as well as to acquire adequate readily convertible assets and funding in order to respond to emergencies.

5.1 Liquidity risk management policy and process

The Group adopts centralised liquidity risk management through development of a centralised pool of liquid assets.

The Group has policies to maintain a proactive liquidity management strategy. The asset liquidity management strategies encourage careful use of funding, diversified sources of funding, asset and liability matching and an appropriate level of highly liquid assets. The strategies relating to liabilities are intended to increase the proportion of core deposits and to maintain the stability of liabilities and financing ability. The Group manages and monitors RMB and foreign exchange liquidity separately, and develops the RMB and foreign exchange liquidity portfolios to ensure that sources of different currencies and the usage are in accordance with its liquidity management requirements.

Sources of liquidity risk are regularly reviewed by a separate team in the Financial Management Department to maintain a wide diversification by currency, geography, provider, product and term. A liquidity maturity analysis is performed by the Financial Management Department on a monthly basis. The forecast net liquidity position is estimated and managed on a daily basis. The Group also performs stress testing for liquidity risk on a quarterly basis.

Assets available to meet all of the liabilities and to cover outstanding loan commitments include "Cash and due from banks and other financial institutions", "Balances with central banks", "Placements with and loans to banks and other financial institutions" and "Loans and advances to customers, net". In the normal course of business, a proportion of short-term customer loans contractually repayable will be extended and a portion of short-term customer deposits will not be withdrawn upon maturity. The Group would also be able to meet unexpected net cash outflows by entering into repurchase and reverse repurchase transactions, and by selling securities and accessing additional funding sources.

For purposes of the tables set forth, "Loans and advances to customers, net" are considered overdue only if principal payments are overdue. In addition, for Loans and advances to customers that are repayable by installments, only the portion of the loan that is actually overdue is reported as overdue. Any part of the loan that is not due is reported according to residual maturity.

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis

The tables below analyse the Group's and the Bank's assets and liabilities into relevant maturity groupings based on the remaining period at financial reporting date to the contractual maturity date.

Group

	As at 31 December 2011							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	–	178,633	91,012	78,251	182,897	60,121	50	590,964
Balances with central banks	–	351,600	1,567,769	273	–	9	–	1,919,651
Placements with and loans to banks and other financial institutions	–	–	278,478	86,150	250,509	3,229	–	618,366
Government certificates of indebtedness for bank notes issued	–	56,108	–	–	–	–	–	56,108
Precious metals	–	95,907	–	–	–	–	–	95,907
Financial assets at fair value through profit or loss	–	998	4,320	8,480	9,730	29,552	20,727	73,807
Derivative financial assets	–	15,960	2,747	4,291	9,679	4,884	5,196	42,757
Loans and advances to customers, net	11,630	55,764	304,255	657,969	1,692,512	1,458,596	2,022,412	6,203,138
Investment securities								
— available for sale	–	–	48,863	54,803	96,686	251,814	101,152	553,318
— held to maturity	–	–	23,960	36,637	188,346	536,726	288,447	1,074,116
— loans and receivables	–	–	8,445	4,664	44,853	32,575	208,981	299,518
Investment in associates and joint ventures	–	–	–	–	–	6,149	7,144	13,293
Property and equipment	–	–	–	–	–	8	138,226	138,234
Investment properties	–	–	–	–	–	–	14,616	14,616
Deferred income tax assets	–	–	–	–	54	19,462	–	19,516
Other assets	1,147	9,402	22,996	20,110	31,419	12,718	18,965	116,757
Total assets	12,777	764,372	2,352,845	951,628	2,506,685	2,415,843	2,825,916	11,830,066

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Group

	As at 31 December 2011							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Liabilities								
Due to banks and other financial institutions	–	569,170	164,071	106,232	203,469	298,732	29,269	1,370,943
Due to central banks	–	38,175	3,750	7,525	32,006	–	–	81,456
Bank notes in circulation	–	56,259	–	–	–	–	–	56,259
Placements from banks and other financial institutions	–	–	176,976	66,993	21,869	–	–	265,838
Derivative financial liabilities	–	11,788	4,095	3,216	4,700	7,355	4,319	35,473
Due to customers	–	3,911,685	1,351,795	1,144,898	1,798,373	594,017	17,193	8,817,961
Bonds issued	–	–	78	16	1,816	44,541	123,451	169,902
Other borrowings	–	–	935	273	282	8,865	16,369	26,724
Current tax liabilities	–	–	617	11	28,326	399	–	29,353
Retirement benefit obligations	–	–	73	147	661	2,489	2,716	6,086
Deferred income tax liabilities	–	–	–	–	–	4,486	–	4,486
Other liabilities	–	63,936	25,138	29,531	42,450	37,563	11,073	209,691
Total liabilities	–	4,651,013	1,727,528	1,358,842	2,133,952	998,447	204,390	11,074,172
Net Liquidity Gap	12,777	(3,886,641)	625,317	(407,214)	372,733	1,417,396	2,621,526	755,894

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Group

	As at 31 December 2010							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	–	77,800	39,782	182,995	255,423	80,126	–	636,126
Balances with central banks	–	390,439	1,183,332	133	18	–	–	1,573,922
Placements with and loans to banks and other financial institutions	–	–	109,408	31,965	68,472	3,871	–	213,716
Government certificates of indebtedness for bank notes issued	–	42,469	–	–	–	–	–	42,469
Precious metals	–	86,218	–	–	–	–	–	86,218
Financial assets at fair value through profit or loss	–	4,177	3,056	24,006	8,495	23,070	18,433	81,237
Derivative financial assets	–	16,626	3,203	4,290	7,719	4,353	3,783	39,974
Loans and advances to customers, net	10,419	64,831	243,365	543,778	1,321,400	1,571,182	1,782,790	5,537,765
Investment securities								
— available for sale	–	–	21,446	35,683	127,193	326,092	146,324	656,738
— held to maturity	–	–	75,503	117,582	252,113	373,851	220,337	1,039,386
— loans and receivables	–	–	5,679	5,839	27,328	29,057	210,060	277,963
Investment in associates and joint ventures	–	–	–	–	–	6,004	6,627	12,631
Property and equipment	–	–	–	–	–	–	123,568	123,568
Investment properties	–	–	–	–	–	–	13,839	13,839
Deferred income tax assets	–	–	–	–	116	23,925	–	24,041
Other assets	717	6,353	18,880	24,227	24,584	7,150	18,361	100,272
Total assets	11,136	688,913	1,703,654	970,498	2,092,861	2,448,681	2,544,122	10,459,865

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Group

	As at 31 December 2010							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Liabilities								
Due to banks and other financial institutions	–	670,259	122,153	108,775	103,516	220,111	51,000	1,275,814
Due to central banks	–	22,164	8,830	8,384	34,037	–	–	73,415
Bank notes in circulation	–	42,511	–	–	–	–	–	42,511
Placements from banks and other financial institutions	–	–	158,115	62,631	10,055	–	–	230,801
Derivative financial liabilities	–	12,513	3,540	3,931	5,609	6,551	3,567	35,711
Due to customers	–	3,658,614	1,097,995	853,493	1,743,638	353,092	26,705	7,733,537
Bonds issued	–	–	–	–	725	4,349	126,813	131,887
Other borrowings	–	–	–	252	827	5,269	13,151	19,499
Current tax liabilities	–	–	606	30	21,729	410	–	22,775
Retirement benefit obligations	–	–	76	152	686	2,701	2,825	6,440
Deferred income tax liabilities	–	–	–	–	70	3,849	–	3,919
Other liabilities	–	53,815	18,908	39,906	44,241	42,979	7,557	207,406
Total liabilities	–	4,459,876	1,410,223	1,077,554	1,965,133	639,311	231,618	9,783,715
Net Liquidity Gap	11,136	(3,770,963)	293,431	(107,056)	127,728	1,809,370	2,312,504	676,150

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Bank

	As at 31 December 2011							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	–	183,747	83,984	73,414	175,010	60,000	–	576,155
Balances with central banks	–	220,759	1,564,111	273	–	9	–	1,785,152
Placements with and loans to banks and other financial institutions	–	–	249,403	79,320	243,626	3,264	1,620	577,233
Government certificates of indebtedness for bank notes issued	–	2,691	–	–	–	–	–	2,691
Precious metals	–	91,642	–	–	–	–	–	91,642
Financial assets at fair value through profit or loss	–	–	222	690	5,549	18,307	7,119	31,887
Derivative financial assets	–	710	2,512	3,714	8,563	3,265	2,205	20,969
Loans and advances to customers, net	9,744	3,038	276,105	595,254	1,550,863	1,258,200	1,853,601	5,546,805
Investment securities								
— available for sale	–	–	10,902	17,668	53,761	133,883	55,150	271,364
— held to maturity	–	–	22,037	31,969	175,287	515,275	281,052	1,025,620
— loans and receivables	–	–	5,188	2,701	40,942	32,575	208,981	290,387
Investment in subsidiaries	–	–	–	–	–	–	83,789	83,789
Investment in associates and joint ventures	–	–	–	–	–	–	48	48
Property and equipment	–	–	–	–	–	8	74,521	74,529
Investment properties	–	–	–	–	–	–	1,280	1,280
Deferred income tax assets	–	–	–	–	–	19,648	–	19,648
Other assets	1,002	4,319	11,604	18,273	27,925	1,697	14,818	79,638
Total assets	10,746	506,906	2,226,068	823,276	2,281,526	2,046,131	2,584,184	10,478,837

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Bank

	As at 31 December 2011							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Liabilities								
Due to banks and other financial institutions	–	452,468	169,053	107,852	215,694	299,225	29,269	1,273,561
Due to central banks	–	30,569	3,751	7,525	32,002	–	–	73,847
Bank notes in circulation	–	2,842	–	–	–	–	–	2,842
Placements from banks and other financial institutions	–	–	182,612	81,507	40,190	–	–	304,309
Derivative financial liabilities	–	715	3,646	2,583	3,459	4,101	2,883	17,387
Due to customers	–	3,404,420	1,057,246	1,019,058	1,724,493	584,468	17,215	7,806,900
Bonds issued	–	–	–	–	2,200	40,141	105,930	148,271
Current tax liabilities	–	–	61	–	26,466	–	–	26,527
Retirement benefit obligations	–	–	73	147	661	2,489	2,716	6,086
Deferred income tax liabilities	–	–	–	–	–	124	–	124
Other liabilities	–	43,645	15,824	26,502	37,153	10,366	279	133,769
Total liabilities	–	3,934,659	1,432,266	1,245,174	2,082,318	940,914	158,292	9,793,623
Net liquidity gap	10,746	(3,427,753)	793,802	(421,898)	199,208	1,105,217	2,425,892	685,214

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Bank

	As at 31 December 2010							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	–	67,719	38,486	180,811	253,963	80,000	–	620,979
Balances with central banks	–	102,218	1,180,163	133	18	–	–	1,282,532
Placements with and loans to banks and other financial institutions	–	–	128,375	38,016	64,806	6,242	7,894	245,333
Government certificates of indebtedness for bank notes issued	–	2,486	–	–	–	–	–	2,486
Precious metals	–	83,100	–	–	–	–	–	83,100
Financial assets at fair value through profit or loss	–	–	289	244	5,383	9,736	2,162	17,814
Derivative financial assets	–	–	2,702	3,845	6,610	3,184	2,816	19,157
Loans and advances to customers, net	9,409	20,671	219,096	489,972	1,221,073	1,359,186	1,631,764	4,951,171
Investment securities								
— available for sale	–	–	5,641	24,794	77,699	173,930	110,416	392,480
— held to maturity	–	–	73,979	114,365	239,667	345,232	210,884	984,127
— loans and receivables	–	–	25	2,027	22,009	29,057	210,060	263,178
Investment in subsidiaries	–	–	–	–	–	290	79,643	79,933
Investment in associates and joint ventures	–	–	–	–	–	–	45	45
Property and equipment	–	–	–	–	–	–	65,494	65,494
Investment properties	–	–	–	–	–	–	1,285	1,285
Deferred income tax assets	–	–	–	–	–	24,359	–	24,359
Other assets	595	3,927	10,852	22,507	22,372	1,245	13,568	75,066
Total assets	10,004	280,121	1,659,608	876,714	1,913,600	2,032,461	2,336,031	9,108,539

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Bank

	As at 31 December 2010							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Liabilities								
Due to banks and other financial institutions	–	471,386	130,091	114,987	110,762	220,111	51,000	1,098,337
Due to central banks	–	17,179	5,523	8,384	34,034	–	–	65,120
Bank notes in circulation	–	2,527	–	–	–	–	–	2,527
Placements from banks and other financial institutions	–	–	162,397	74,408	18,971	–	–	255,776
Derivative financial liabilities	–	–	2,602	3,525	4,419	3,804	2,882	17,232
Due to customers	–	3,112,492	880,914	750,971	1,677,187	345,819	26,035	6,793,418
Bonds issued	–	–	–	–	1,000	5,147	110,136	116,283
Current tax liabilities	–	–	169	–	20,012	–	–	20,181
Retirement benefit obligations	–	–	76	152	686	2,701	2,825	6,440
Deferred income tax liabilities	–	–	–	–	–	177	–	177
Other liabilities	–	38,982	8,081	23,548	36,066	15,771	324	122,772
Total liabilities	–	3,642,566	1,189,853	975,975	1,903,137	593,530	193,202	8,498,263
Net liquidity gap	10,004	(3,362,445)	469,755	(99,261)	10,463	1,438,931	2,142,829	610,276

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities

The tables below present the cash flows of the Group and 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, except for certain customer driven derivatives which are disclosed at fair value (i.e. discounted cash flows basis). The Group also manages its inherent short-term liquidity risk based on expected undiscounted cash flows.

Group

	As at 31 December 2011							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	–	178,842	92,361	81,387	192,542	66,198	68	611,398
Balances with central banks	–	352,355	1,567,781	273	–	9	–	1,920,418
Placements with and loans to banks and other financial institutions	–	–	279,296	88,982	261,961	4,067	–	634,306
Financial assets at fair value through profit or loss	–	998	4,463	8,674	10,790	32,379	21,067	78,371
Loans and advances to customers, net	13,058	56,409	337,881	717,930	1,876,392	2,020,228	2,780,920	7,802,818
Investment securities								
— available for sale	–	–	49,767	57,115	108,311	280,317	119,749	615,259
— held to maturity	–	–	27,410	41,542	216,364	625,576	335,239	1,246,131
— loans and receivables	–	–	8,447	5,565	50,999	55,528	235,446	355,985
Other assets	13	3,417	9,342	651	4,316	1,457	962	20,158
Total financial assets	13,071	592,021	2,376,748	1,002,119	2,721,675	3,085,759	3,493,451	13,284,844
Due to banks and other financial institutions	–	569,290	165,382	109,608	215,330	340,398	34,611	1,434,619
Due to central banks	–	38,175	3,751	7,529	32,187	–	–	81,642
Placements from banks and other financial institutions	–	–	177,376	67,317	22,256	–	–	266,949
Due to customers	–	3,921,852	1,366,674	1,164,272	1,859,160	660,070	19,299	8,991,327
Bonds issued	–	–	79	2,218	5,919	70,727	163,362	242,305
Other borrowings	–	–	937	278	289	9,736	18,121	29,361
Other liabilities	–	33,812	9,509	1,474	3,048	3,333	152	51,328
Total financial liabilities	–	4,563,129	1,723,708	1,352,696	2,138,189	1,084,264	235,545	11,097,531
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	4,036	(432)	237	288	(1,473)	383	3,039
Derivative financial instruments settled on a gross basis								
Total inflow	–	36,802	576,247	310,922	785,472	92,233	839	1,802,515
Total outflow	–	(36,801)	(581,920)	(309,803)	(777,443)	(91,992)	(841)	(1,798,800)

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities (Continued)

Group

	As at 31 December 2010							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	–	77,816	40,394	186,112	263,894	84,627	–	652,843
Balances with central banks	–	391,072	1,183,341	133	18	–	–	1,574,564
Placements with and loans to banks and other financial institutions	–	–	109,703	32,421	70,199	4,715	–	217,038
Financial assets at fair value through profit or loss	–	4,327	3,024	24,230	9,731	27,086	21,183	89,581
Loans and advances to customers, net	11,826	65,221	266,736	588,956	1,463,095	2,015,101	2,335,268	6,746,203
Investment securities								
— available for sale	–	–	22,780	38,750	139,930	360,233	202,340	764,033
— held to maturity	–	–	76,394	123,470	268,539	418,284	264,617	1,151,304
— loans and receivables	–	–	6,580	5,844	29,595	38,613	253,811	334,443
Other assets	19	859	9,094	1,617	4,245	682	2,208	18,724
Total financial assets	11,845	539,295	1,718,046	1,001,533	2,249,246	2,949,341	3,079,427	11,548,733
Due to banks and other financial institutions	–	670,259	123,021	111,852	110,980	249,887	55,047	1,321,046
Due to central banks	–	22,164	8,830	8,385	34,037	–	–	73,416
Placements from banks and other financial institutions	–	–	158,321	62,869	10,194	–	–	231,384
Due to customers	–	3,660,448	1,106,946	866,173	1,788,734	377,619	28,077	7,827,997
Bonds issued	–	–	–	2,169	2,937	23,157	156,454	184,717
Other borrowings	–	–	20	291	1,001	6,050	13,663	21,025
Other liabilities	–	29,636	9,906	16,734	5,768	13,304	200	75,548
Total financial liabilities	–	4,382,507	1,407,044	1,068,473	1,953,651	670,017	253,441	9,735,133
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	4,112	98	293	(739)	(467)	2,402	5,699
Derivative financial instruments settled on a gross basis								
Total inflow	–	14,440	524,817	281,041	474,398	44,288	970	1,339,954
Total outflow	–	(14,438)	(528,548)	(281,815)	(472,637)	(44,130)	(976)	(1,342,544)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities (Continued)

Bank

	As at 31 December 2011							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	–	183,747	85,247	76,430	184,328	66,046	–	595,798
Balances with central banks	–	221,485	1,564,123	273	–	9	–	1,785,890
Placements with and loans to banks and other financial institutions	–	–	250,116	81,721	254,656	4,102	1,620	592,215
Financial assets at fair value through profit or loss	–	–	335	796	6,337	20,858	7,377	35,703
Loans and advances to customers, net	11,089	3,575	308,672	653,665	1,731,060	1,804,413	2,590,784	7,103,258
Investment securities								
— available for sale	–	–	11,316	18,726	59,972	151,335	66,017	307,366
— held to maturity	–	–	23,856	36,648	202,456	602,652	326,858	1,192,470
— loans and receivables	–	–	5,189	3,602	47,064	55,528	235,446	346,829
Other assets	–	–	61	264	2,966	–	949	4,240
Total financial assets	11,089	408,807	2,248,915	872,125	2,488,839	2,704,943	3,229,051	11,963,769
Due to banks and other financial institutions	–	452,468	170,365	111,228	227,555	340,891	34,611	1,337,118
Due to central banks	–	30,569	3,751	7,529	32,184	–	–	74,033
Placements from banks and other financial institutions	–	–	182,987	81,798	40,549	–	–	305,334
Due to customers	–	3,414,843	1,071,556	1,037,624	1,783,950	649,607	19,289	7,976,869
Bonds issued	–	–	–	1,784	5,708	62,138	144,559	214,189
Other liabilities	–	25,627	1,686	704	2,900	158	112	31,187
Total financial liabilities	–	3,923,507	1,430,345	1,240,667	2,092,846	1,052,794	198,571	9,938,730
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	–	(244)	57	535	(1,016)	(21)	(689)
Derivative financial instruments settled on a gross basis								
Total inflow	–	–	414,911	235,974	673,734	73,869	60	1,398,548
Total outflow	–	–	(417,408)	(234,856)	(666,235)	(73,648)	(60)	(1,392,207)

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities (Continued)

Bank

	As at 31 December 2010							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	–	67,719	39,098	183,922	262,424	84,480	–	637,643
Balances with central banks	–	102,771	1,180,172	133	18	–	–	1,283,094
Placements with and loans to banks and other financial institutions	–	–	128,649	38,525	66,432	7,314	8,136	249,056
Financial assets at fair value through profit or loss	–	–	218	312	5,862	10,807	2,459	19,658
Loans and advances to customers, net	10,708	21,051	241,003	533,827	1,359,124	1,799,975	2,176,369	6,142,057
Investment securities								
— available for sale	–	–	6,465	26,643	86,283	199,470	157,496	476,357
— held to maturity	–	–	74,746	119,937	255,390	387,329	253,260	1,090,662
— loans and receivables	–	–	925	2,030	24,252	38,613	253,811	319,631
Other assets	–	–	2,333	1,163	3,904	8	–	7,408
Total financial assets	10,708	191,541	1,673,609	906,492	2,063,689	2,527,996	2,851,531	10,225,566
Due to banks and other financial institutions	–	471,386	130,959	118,068	118,225	249,887	55,047	1,143,572
Due to central banks	–	17,179	5,523	8,385	34,034	–	–	65,121
Placements from banks and other financial institutions	–	–	162,621	74,677	19,198	–	–	256,496
Due to customers	–	3,114,223	889,442	763,193	1,721,412	369,921	27,350	6,885,541
Bonds issued	–	–	–	1,726	3,969	20,314	135,639	161,648
Other liabilities	–	23,001	355	1,945	2,611	9,826	178	37,916
Total financial liabilities	–	3,625,789	1,188,900	967,994	1,899,449	649,948	218,214	8,550,294
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	–	137	105	(189)	(475)	278	(144)
Derivative financial instruments settled on a gross basis								
Total inflow	–	–	367,323	210,549	430,098	35,733	109	1,043,812
Total outflow	–	–	(368,022)	(210,570)	(428,331)	(35,497)	(110)	(1,042,530)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.4 Off-balance sheet items

The Group's and the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities are summarised in the table below at the remaining period to the contractual maturity date. Financial guarantees are also included below at notional amounts and based on the earliest contractual maturity date. Where the Group and the Bank are the lessee under operating lease commitments, the future minimum lease payments under non-cancellable operating leases, as disclosed in Note V.40.5, are summarised in the table below.

Group

	As at 31 December 2011			
	Less than 1 year	**Between 1 to 5 years**	**Over 5 years**	**Total**
Loan commitments	**496,304**	**181,140**	**72,971**	**750,415**
Guarantees, acceptances and other financial facilities	**1,079,253**	**323,214**	**158,990**	**1,561,457**
Subtotal	**1,575,557**	**504,354**	**231,961**	**2,311,872**
Operating lease commitments	**4,420**	**10,317**	**3,170**	**17,907**
Capital commitments	**29,887**	**32,923**	**27**	**62,837**
Total	**1,609,864**	**547,594**	**235,158**	**2,392,616**

	As at 31 December 2010			
	Less than 1 year	Between 1 to 5 years	Over 5 years	Total
Loan commitments	495,351	185,029	56,330	736,710
Guarantees, acceptances and other financial facilities	913,969	222,836	153,920	1,290,725
Subtotal	1,409,320	407,865	210,250	2,027,435
Operating lease commitments	3,560	8,265	2,414	14,239
Capital commitments	15,556	42,244	80	57,880
Total	1,428,436	458,374	212,744	2,099,554

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.4 Off-balance sheet items (Continued)

Bank

	As at 31 December 2011			
	Less than 1 year	Between 1 to 5 years	Over 5 years	Total
Loan commitments	437,116	181,140	72,971	691,227
Guarantees, acceptances and other financial facilities	1,047,799	324,338	161,166	1,533,303
Subtotal	1,484,915	505,478	234,137	2,224,530
Operating lease commitments	3,725	9,261	2,903	15,889
Capital commitments	6,536	6,123	27	12,686
Total	1,495,176	520,862	237,067	2,253,105

	As at 31 December 2010			
	Less than 1 year	Between 1 to 5 years	Over 5 years	Total
Loan commitments	426,462	185,029	56,330	667,821
Guarantees, acceptances and other financial facilities	892,501	227,383	154,283	1,274,167
Subtotal	1,318,963	412,412	210,613	1,941,988
Operating lease commitments	2,990	7,605	2,390	12,985
Capital commitments	5,019	3,617	80	8,716
Total	1,326,972	423,634	213,083	1,963,689

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value of financial assets and liabilities

6.1 Financial instruments not measured at fair value

Financial assets and liabilities not presented at their fair value on the statement of financial position mainly represent "Balances with central banks", "Due from banks and other financial institutions", "Placements with and loans to banks and other financial institutions", "Loans and advances to customers, net", "Investment securities" classified as held to maturity and loans and receivables, "Due to central banks", "Due to banks and other financial institutions", "Placements from banks and other financial institutions", and "Due to customers" measured at amortised cost, and "Bonds issued".

The tables below summarise the carrying amounts and fair values of "Investment securities" classified as held to maturity and loans and receivables, and "Bonds issued" not presented at fair value on the statement of financial position.

Group

	As at 31 December			
	Carrying value		Fair value	
	2011	2010	**2011**	2010
Financial assets				
Investment securities [(1)]				
— held to maturity	**1,074,116**	1,039,386	**1,076,218**	1,026,519
— loans and receivables	**299,518**	277,963	**299,518**	277,965
Financial liabilities				
Bonds issued [(2)]	**169,902**	131,887	**164,228**	133,168

Bank

	As at 31 December			
	Carrying value		Fair value	
	2011	2010	**2011**	2010
Financial assets				
Investment securities [(1)]				
— held to maturity	**1,025,620**	984,127	**1,027,499**	971,188
— loans and receivables	**290,387**	263,178	**290,387**	263,178
Financial liabilities				
Bonds issued [(2)]	**148,271**	116,283	**143,556**	116,825

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value of financial assets and liabilities (Continued)

6.1 Financial instruments not measured at fair value (Continued)

(1) Investment securities classified as held to maturity and loans and receivables

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.

(2) Bonds issued

The aggregate fair values are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity. The fair value for the convertible bonds (including the conversion option value) is based on the quoted market price on Shanghai Stock Exchange.

Other than above, the difference between the carrying amounts and fair values of those financial assets and liabilities not presented at their fair value on the statement of financial position are insignificant. Fair value is measured using a discounted cash flow model.

6.2 Financial instruments measured at fair value

Financial instruments measured at fair value are classified into following three levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities, including listed 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, debt securities for which quotations are available from pricing services providers, traded loans and issued structured deposits.

- 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.

The Group uses valuation techniques or counterparty quotations to determine the fair value of financial instruments when unable to obtain open market quotation in active markets.

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value of financial assets and liabilities (Continued)

6.2 Financial instruments measured at fair value (Continued)

The main parameters used in valuation techniques for financial instruments held by the Group include bond prices, interest rates, foreign exchange rates, equity and stock prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are all observable and obtainable from open market.

For certain illiquid debt securities (mainly asset-backed securities), unlisted equity (private equity) and over-the-counter structured derivatives transactions held by the Group, management obtains valuation quotations from counterparties. The fair value of these financial instruments may be based on unobservable inputs which may have significant impact on the valuation of these financial instruments, and therefore, these instruments have been classified by the Group as level 3. Management assesses the impact of changes in macro-economic factors, engaged external valuer and other inputs, including loss coverage ratios, to determine the fair value for the Group's level 3 financial instruments. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

	As at 31 December 2011			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
— Debt securities	–	64,367	108	64,475
— Fund investments	3,524	–	–	3,524
— Loans	–	4,412	–	4,412
— Equity securities	1,265	131	–	1,396
Derivative financial assets	15,219	27,538	–	42,757
Investment securities available for sale				
— Debt securities	99,321	420,105	4,666	524,092
— Fund investments and other	328	–	5,617	5,945
— Equity securities	5,274	1,390	16,617	23,281
Financial liabilities				
Due to customers at fair value	–	(560,923)	(164)	(561,087)
Short position in debt securities	–	(2,106)	–	(2,106)
Derivative financial liabilities	(11,103)	(24,370)	–	(35,473)

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value of financial assets and liabilities (Continued)

6.2 Financial instruments measured at fair value (Continued)

	As at 31 December 2010			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
— Debt securities	–	71,252	308	71,560
— Fund investments	3,006	–	–	3,006
— Loans	–	1,172	–	1,172
— Equity securities	5,416	83	–	5,499
Derivative financial assets	16,634	23,336	4	39,974
Investment securities available for sale				
— Debt securities	66,241	559,365	6,954	632,560
— Fund investments and other	66	–	4,970	5,036
— Equity securities	5,767	1,049	12,326	19,142
Financial liabilities				
Due to customers at fair value	–	(194,382)	–	(194,382)
Short position in debt securities	–	(21,492)	–	(21,492)
Derivative financial liabilities	(12,526)	(23,185)	–	(35,711)

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value of financial assets and liabilities (Continued)

6.2 Financial instruments measured at fair value (Continued)

Reconciliation of Level 3 Items

	Financial assets at fair value through profit or loss	Investment securities available for sale			Derivative financial assets less liabilities	Due to customers at fair value
	Debt securities	Debt securities	Fund investments and other	Equity securities		Structured deposit
As at 1 January 2011	**308**	**6,954**	**4,970**	**12,326**	**4**	**–**
Total gains and losses						
— profit or loss	**(9)**	**125**	**(42)**	**1,564**	**(4)**	**–**
— other comprehensive income	**–**	**(132)**	**(106)**	**(1,176)**	**–**	**–**
Sales	**(191)**	**(3,711)**	**(969)**	**(879)**	**–**	**–**
Purchases	**–**	**1,302**	**1,764**	**4,782**	**–**	**–**
Issues	**–**	**–**	**–**	**–**	**–**	**(164)**
Settlements	**–**	**–**	**–**	**–**	**–**	**–**
Transfers in of Level 3, net	**–**	**128**	**–**	**–**	**–**	**–**
As at 31 December 2011	**108**	**4,666**	**5,617**	**16,617**	**–**	**(164)**
Total gains or losses for the year included in the income statement for assets/liabilities held as at 31 December 2011	**(9)**	**79**	**101**	**38**	**(4)**	**–**
As at 1 January 2010	119	8,746	1,655	4,854	(299)	–
Total gains and losses						
— profit or loss	(6)	874	(206)	72	(1)	–
— other comprehensive income	–	(149)	(47)	427	–	–
Sales	(6)	(4,961)	(1,461)	(59)	–	–
Purchases	201	2,878	5,029	7,032	–	–
Settlements	–	–	–	–	304	–
Transfers out of Level 3, net	–	(434)	–	–	–	–
As at 31 December 2010	308	6,954	4,970	12,326	4	–
Total gains or losses for the year included in the income statement for assets/liabilities held as at 31 December 2010	(6)	255	(23)	27	(1)	–

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value of financial assets and liabilities (Continued)

6.2 Financial instruments measured at fair value (Continued)

Total gains or losses for the years ended 31 December 2011 and 2010 included in the income statement as well as total gains or losses included in the income statement relating to financial instruments held at 31 December 2011 and 2010 are presented in "Net trading gains", "Net gains on investment securities" or "Impairment losses on assets" depending on the nature or category of the related financial instruments.

There have been no significant transfers between levels 1 and 2 during 2011.

7 Capital management

The Group follows the principles below with regard to capital management:

- maintain levels of asset quality consistent with the Group's business strategy and adequate capital to support the implementation of the Group's strategic development plan and meet the regulatory requirements;

- effectively identify, quantify, monitor, mitigate and control the major risks to which the Group is exposed, and maintain capital appropriate to the Group's risk exposure and risk management needs; and

- optimise asset structure and allocate economic capital in a reasonable manner to ensure the sustainable development of the Group.

Capital adequacy and regulatory capital are monitored by the Group's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBRC, for supervisory purposes. The required information is filed with the CBRC on a quarterly basis.

The CBRC requires each bank or banking group to maintain a ratio of total regulatory capital to its risk-weighted assets at or above the agreed minimum of 8%, and a core capital ratio of above 4%. The board of directors approved the "Capital Management Plans for Bank of China Limited (for the years from 2010 to 2012)" at the beginning of 2010, and strategically sets the Group's capital adequacy ratio at 11.5% for the years from 2010 to 2012.

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management (Continued)

The Group's regulatory capital as managed by its Financial Management Department is divided into two tiers:

- Core capital: share capital, capital reserve, specified reserves, retained earnings, minority interests; and

- Supplementary: long-term subordinated bonds issued, convertible bonds issued, collective impairment allowances and others.

Goodwill, investments in entities engaged in banking and other financial activities which are not consolidated in the financial statements, investment properties, investments in commercial corporations and other deductible items are deducted from core and supplementary capital to derive at the regulatory capital.

The on-balance sheet risk weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of, and reflecting an estimate of, credit and other risks associated with each asset and customer, and taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure with adjustments to reflect the contingent nature of the potential losses. The market risk capital adjustment is measured by means of a standardised approach.

During 2011, the Group replenished its capital through the issuance of subordinated bonds. The Group also took various measures to manage level of risk weighted assets including adjusting the composition of its on- and off- balance sheet assets.

The tables below summarise the capital adequacy ratios and the composition of regulatory capital of the Group as at 31 December 2011 and 2010. The Group complied with the externally imposed capital requirements to which it is subject.

	As at 31 December	
	2011	2010
Capital adequacy ratio	**12.97%**	12.58%
Core capital adequacy ratio	**10.07%**	10.09%

The capital adequacy ratios above are calculated in accordance with the rules and regulations promulgated by the CBRC and generally accepted accounting principles of PRC.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management (Continued)

Group

	As at 31 December	
	2011	2010
Components of capital base		
Core capital:		
Share capital	**279,122**	279,009
Reserves (1)	**388,633**	315,377
Minority interests	**32,732**	31,985
Total core capital	**700,487**	626,371
Supplementary capital:		
Collective impairment allowances	**63,428**	56,606
Long-term subordinated bonds issued	**123,451**	90,607
Convertible bonds issued (Note V.29)	**39,776**	39,776
Other (1)	**8,108**	4,001
Total supplementary capital	**234,763**	190,990
Total capital base before deductions	**935,250**	817,361
Deductions:		
Goodwill	**(1,752)**	(1,851)
Investments in entities engaged in banking and financial activities which are not consolidated	**(9,383)**	(11,048)
Investment properties	**(14,616)**	(13,839)
Investments in commercial corporations	**(28,587)**	(26,224)
Other deductible items (2)	**(17,680)**	(23,695)
Total capital base after deductions	**863,232**	740,704
Core capital base after deductions (3)	**670,205**	593,787
Risk weighted assets and market risk capital adjustment (4)	**6,656,034**	5,887,170

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management (Continued)

(1) Pursuant to regulations released by CBRC in November 2007, all net unrealised fair value gains after tax consideration are removed from the core capital calculation. The fair value gains on trading activities recognised in profit or loss are included in the supplementary capital. Only a certain percentage of fair value gain recognised in equity can be included in the supplementary capital.

(2) Pursuant to the relevant regulations, other deductible items include investments in asset backed securities, long-term subordinated debts issued by other banks and acquired by the Group after 1 July 2009.

(3) Pursuant to the relevant regulations, 100% of goodwill and 50% of certain other deductions were applied in deriving the core capital base.

(4) Pursuant to the regulation "Notification on Regulating Wealth Management Product ("WMP") Trust Plans" (Yinjianfa [2010] No. 72) released by CBRC in August 2010, WMP Trust Plans have been reclassified from off-balance sheet to on-balance sheet risk weighted assets for the purpose of capital adequacy ratio calculations.

Pursuant to the regulation "Guideline on Strengthening Credit Risk Management for Local Government Financing Vehicle ("LGFV") Loans" (Yinjianfa [2010] No. 110) released by CBRC in December 2010, the risk weighted assets have been adjusted based on the coverage of cash flows for each LGFV loan.

8 Insurance risk

Insurance contracts are mainly sold in Chinese mainland and Hong Kong denominated in RMB and HKD. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. This risk is inherently random and, therefore, unpredictable. The Group manages its portfolio of insurance risks through its underwriting strategy and policies, portfolio management techniques, adequate reinsurance arrangements and proactive claims handling and processing. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk and industry.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of the claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term life insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality. In order to assess the uncertainty due to the mortality assumption and lapse assumption, the Group conducted mortality rate studies and policy lapse studies in order to determine the appropriate assumptions.

Unaudited Supplementary Financial Information

(Amount in millions of Renminbi, unless otherwise stated)

According to Hong Kong Listing Rule and disclosure regulations of banking industry, the Group discloses the following supplementary financial information:

1 LIQUIDITY RATIOS

	As at 31 December	
	2011	2010
RMB current assets to RMB current liabilities	**47.04%**	43.18%
Foreign currency current assets to foreign currency current liabilities	**56.16%**	52.20%

The liquidity ratios are calculated in accordance with the relevant provisions of the PBOC and CBRC. Financial data as at 31 December 2011 and 2010 is based on the Chinese Accounting Standards 2006 ("CAS").

2 CURRENCY CONCENTRATIONS

The following information is computed in accordance with the provisions of the CBRC.

	Equivalent in millions of RMB			
	USD	HKD	Other	Total
As at 31 December 2011				
Spot assets	**935,162**	**29,073**	**245,344**	**1,209,579**
Spot liabilities	**(587,959)**	**(154,965)**	**(234,957)**	**(977,881)**
Forward purchases	**824,281**	**173,723**	**292,260**	**1,290,264**
Forward sales	**(1,129,130)**	**(77,005)**	**(305,352)**	**(1,511,487)**
Net options position*	**(4,913)**	**(323)**	**565**	**(4,671)**
Net long/(short) position	**37,441**	**(29,497)**	**(2,140)**	**5,804**
Net structural position	**15,864**	**92,275**	**22,658**	**130,797**
As at 31 December 2010				
Spot assets	974,958	30,655	167,724	1,173,337
Spot liabilities	(573,792)	(199,852)	(198,682)	(972,326)
Forward purchases	794,301	234,349	257,962	1,286,612
Forward sales	(1,177,847)	(46,082)	(244,001)	(1,467,930)
Net options position*	181	(218)	36	(1)
Net long/(short) position	17,801	18,852	(16,961)	19,692
Net structural position	12,504	90,104	20,199	122,807

* The net option position is calculated using the delta equivalent approach as set out in the requirements of the CBRC.

3 CROSS-BORDER CLAIMS

The Group is principally engaged in business operations within the Chinese mainland, and regards all claims on third parties outside the Chinese mainland as cross-border claims.

Cross-border claims include "Balances with central banks", "Placements with and loans to banks and other financial institutions", "Government certificates of indebtedness for bank notes issued", "Financial assets at fair value through profit or loss", "Loans and advances to customers, net" and "Investment securities".

Cross-border claims have been disclosed by country or geographical area. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	Banks and other financial institutions	Public sector entities	Other*	Total
As at 31 December 2011				
Asia Pacific excluding Chinese mainland				
Hong Kong	**28,936**	**5,936**	**576,206**	**611,078**
Other Asia Pacific locations	**85,885**	**18,145**	**226,974**	**331,004**
Subtotal	**114,821**	**24,081**	**803,180**	**942,082**
North and South America	**99,961**	**23,283**	**243,221**	**366,465**
Europe	**149,058**	**12,821**	**90,653**	**252,532**
Middle East and Africa	**3,579**	**–**	**18,489**	**22,068**
Total	**367,419**	**60,185**	**1,155,543**	**1,583,147**

(Amount in millions of Renminbi, unless otherwise stated)

3 CROSS-BORDER CLAIMS (Continued)

	Banks and other financial institutions	Public sector entities	Other*	Total
As at 31 December 2010				
Asia Pacific excluding Chinese mainland				
Hong Kong	23,386	8,375	528,533	560,294
Other Asia Pacific locations	71,120	16,193	142,881	230,194
Subtotal	94,506	24,568	671,414	790,488
North and South America	48,690	34,464	186,348	269,502
Europe	115,769	12,695	55,411	183,875
Middle East and Africa	3,274	67	12,964	16,305
Total	262,239	71,794	926,137	1,260,170

* Claims on the government entities are included in "Other".

4 OVERDUE ASSETS

For the purposes of the table below, the entire outstanding balance of "Loans and advances to customers" and "Placements with and loans to banks and other financial institutions" are considered overdue if either principal or interest payment is overdue.

(1) Total amount of overdue loans and advances to customers

	As at 31 December	
	2011	2010
Total loans and advances to customers which have been overdue for		
within 3 months	**29,725**	25,666
between 3 to 6 months	**7,718**	3,113
between 6 to 12 months	**3,656**	5,097
over 12 months	**27,031**	28,832
Total	**68,130**	62,708
Percentage		
within 3 months	**0.47%**	0.46%
between 3 to 6 months	**0.12%**	0.05%
between 6 to 12 months	**0.05%**	0.09%
over 12 months	**0.43%**	0.51%
Total	**1.07%**	1.11%

(2) Total amount of overdue Placements with and loans to banks and other financial institutions

The total amount of overdue "Placements with and loans to banks and other financial institutions" as at 31 December 2011 and 2010 is not considered material.

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