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OFFERING CIRCULAR **STRICTLY CONFIDENTIAL**

ICBC 中国工商银行

Industrial and Commercial Bank of China Limited

(a joint stock company incorporated in the People's Republic of China with limited liability)
(HKSE Stock Code: 1398)

CNY1,300,000,000 3.35% Bonds due 2016
CNY700,000,000 3.75% Bonds due 2018

Issue Price: 2016 Bonds 100%
Issue Price: 2018 Bonds 100%

The 3.35 per cent. Bonds due 2016 (the "**2016 Bonds**") will be issued in the aggregate principal amount of CNY1,300,000,000 and the 3.75 per cent. Bonds due 2018 (the "**2018 Bonds**" and, together with the 2016 Bonds, the "**Bonds**") will be issued in the aggregate principal amount of CNY700,000,000 by Industrial and Commercial Bank of China Limited (the "**Bank**"). The Bonds will constitute direct, unconditional, unsubordinated, general and unsecured obligations of the Bank ranking pari passu among themselves in all respects and rateably without preference or priority.

The 2016 Bonds will bear interest from and including 19 November 2013 at the rate of 3.35 per cent. per annum. The 2018 Bonds will bear interest from and including 19 November 2013 at the rate of 3.75 per cent. per annum. Interest on the Bonds is payable semi-annually in arrear on the Interest Payment Dates (as defined in the Terms and Conditions of the 2016 Bonds and the Terms and Conditions of the 2018 Bonds, respectively) falling on, or nearest to, 19 May and 19 November in each year commencing on 19 May 2014. Payments of principal and interest in respect of the Bonds will be made without deduction or withholding for any present or future taxes imposed by taxing authorities in the PRC (as defined herein) unless such deduction or withholding is required by law, in which event, the Bank will pay such additional amounts as will result in the payment to the holders of the Bonds (the "**Bondholders**") of the amounts with would otherwise have been received, had no such deduction or withholding been required. The 2016 Bonds and the 2018 Bonds will mature on the Interest Payment Date falling on, or nearest to, 19 November 2016 and 19 November 2018, respectively, at their respective principal amount. The Bonds are subject to redemption at the Bank's option in whole, but not in part, at their principal amount at any time in the event of certain changes affecting taxes in the PRC.

Payments on the Bonds will be made without deduction for or on account of taxes of the PRC to the extent described under "Terms and Conditions of the 2016 Bonds – Taxation and Withholding" and "Terms and Conditions of the 2018 Bonds – Taxation and Witholding".

Investing in the Bonds involves certain risks. See "Risk Factors" beginning on page 10.

The Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States unless pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Bonds are being offered outside the United States in reliance on Regulation S under the Securities Act ("Regulation S").

For a description of these and certain further restrictions on offers and sales of the Bonds and the distribution of this offering circular, see "**Subscription and Sale**".

The Bonds will not be listed on any stock exchange. The Bonds will be issued in bearer form and represented by a global bond (the "**Global Bond**") deposited with a common depositary for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream**").

The Bonds are not, and are not expected to be, rated by any rating agency.

Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners

ICBC London **ICBC (Asia)** **ICBC International**

The Royal Bank of Scotland **J.P. Morgan** **Standard Chartered Bank (Hong Kong) Limited**

Co-Managers

ICBC Singapore Branch **SinoPac Securities**

Offering Circular dated 12 November 2013

We confirm that (i) this offering circular contains all information with respect to the Bonds, us and our subsidiaries, which is material in the context of the issue and offering of the Bonds, (ii) the statements contained in this offering circular relating to us are true and accurate and not misleading, (iii) the opinions and intentions expressed in this offering circular with regard to us are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, (iv) there are no other facts in relation to us or the Bonds the omission of which would, in the context of the issue and offering of the Bonds, make any statement in this offering circular misleading and (v) all reasonable enquiries have been made by us to ascertain such facts and to verify the accuracy of all such information and statements. In addition, we accept full responsibility for the accuracy of the information contained in this offering circular.

This offering circular has been prepared by us solely for use in connection with the proposed offering of the Bonds described in this offering circular. The distribution of this offering circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this offering circular comes are required by ICBC (London) plc ("**ICBC London**"), Industrial and Commercial Bank of China (Asia) Limited ("**ICBC (Asia)**"), ICBC International Capital Limited ("**ICBCI Capital**"), The Royal Bank of Scotland plc ("**RBS**"), J.P. Morgan Securities (Asia Pacific) Limited ("**J.P. Morgan**") and Standard Chartered Bank (Hong Kong) Limited ("**SC**") (together, the "**Joint Global Coordinators**") and ICBC International Securities Limited ("**ICBCI Securities**") (together with ICBC London, RBS, J.P. Morgan, SC and ICBC (Asia), the "**Joint Lead Managers**"), Industrial and Commercial Bank of China Limited, Singapore Branch and Sinopac Securities Asia Ltd. (the "**Co-Managers**") to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Bonds or the distribution of this offering circular in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds or redemption of the Bonds, and the circulation of documents relating thereto, in certain jurisdictions and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Bonds and distribution of this offering circular, see "Subscription and Sale".

No person has been or is authorised to give any information or to make any representation concerning us or the Bonds other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by us, the Joint Global Coordinators, the Joint Lead Managers, the Co-Managers or Industrial and Commercial Bank of China (Asia) Limited as the paying agent and fiscal agent for the Bonds (the "**Paying Agent**" and "**Fiscal Agent**", respectively) and other agents appointed in connection with this issue (together with the Paying Agent and Fiscal Agent, the "**Agents**"). Neither the delivery of this offering circular nor any offering, sale or delivery made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date hereof or create any implication that the information contained herein is correct as at any date subsequent to the date hereof. This offering circular does not constitute an offer of, or an invitation by or on behalf of, us, the Joint Global Coordinators, the Joint Lead Manager, the Co-Managers or the Agents to subscribe for or purchase any of the Bonds and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

No representation or warranty, express or implied, is made or given by the Joint Global Coordinators, the Joint Lead Managers, the Co-Managers or the Agents as to the accuracy, completeness or sufficiency of the information contained in this offering circular, and nothing contained in this offering circular is, or shall be relied upon as, a promise, representation or warranty by the Joint Global Coordinators, the Joint Lead Managers, the Co-Managers or the Agents. The Joint Global Coordinators, the Joint Lead Managers and the Co-Managers have not independently verified any of the information contained in this offering circular and can give no assurance that this information is accurate, true or complete. This offering circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by either us, the Joint Global Coordinators, the Joint Lead Managers, the Co-Managers or the Agents that any recipient of this offering circular should purchase the Bonds. Each potential purchaser of the Bonds should determine for itself the relevance of the information contained in this offering circular and its purchase of the Bonds should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

Market data and certain industry forecasts used throughout this offering circular have been obtained based on internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information that they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of that information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while the Issuer believes this information to be reliable, have not been independently verified, and neither we nor any Joint Global Coordinator nor any Joint Lead Manager nor any Co-Manager makes any representation as to the accuracy and completeness of that information.

In making an investment decision, investors must rely on their own examination of us 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 Bonds.

Each person receiving this offering circular acknowledges that such person has not relied on the Joint Global Coordinators or the Joint Lead Managers or the Co-Managers, or any person affiliated with the Joint Global Coordinators or the Joint Lead Managers or the Co-Managers in connection with its investigation of the accuracy of such information or its investment decision.

IN CONNECTION WITH THIS OFFERING, THE JOINT GLOBAL COORDINATORS ACTING IN A CAPACITY AS A STABILISING MANAGER, OR ANY PERSON ACTING FOR THEM, MAY PURCHASE AND SELL THE BONDS IN THE OPEN MARKET. THESE TRANSACTIONS MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND REGULATIONS, INCLUDE SHORT SALES, STABILIZING TRANSACTIONS AND PURCHASES TO COVER POSITIONS CREATED BY SHORT SALES. THESE ACTIVITIES MAY STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE MARKET PRICE OF THE BONDS. HOWEVER, THE JOINT GLOBAL COORDINATORS ACTING IN A CAPACITY AS A STABILISING MANAGER, OR ANYONE ACTING FOR THEM, ARE NOT OBLIGATED TO DO THIS. IF THESE ACTIONS ARE COMMENCED, THEY SHALL BE UNDERTAKEN IN ACCORDANCE WITH APPLICABLE LAWS AND REGULATIONS, AND AS A RESULT THEREOF THE PRICE OF THE BONDS MAY BE HIGHER THAN THE PRICE THAT OTHERWISE MIGHT EXIST IN THE OPEN MARKET. IF THESE ACTIVITIES ARE COMMENCED, THEY MAY BE DISCONTINUED AT ANY TIME AND MUST IN ANY EVENT BE BROUGHT TO AN END AFTER A LIMITED TIME.

To the fullest extent permitted by law, the Joint Global Coordinators, the Joint Lead Managers, the Co-Managers and the Agents do not accept any responsibility for the contents of this offering circular or for any statement made or purported to be made by the Joint Global Coordinators, the Joint Lead Managers, the Co-Managers or the Agents or on their behalf in connection with the Bank or the issue and offering of the Bonds. Each of the Joint Global Coordinators, the Joint Lead Managers, the Co-Managers and the Agents accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this offering circular or any such statement. None of the Joint Global Coordinators, the Joint Lead Managers, the Co-Managers or any Agent undertakes to review our financial condition or affairs as after the date of this offering circular nor to advise any investor or potential investor in the Bonds of any information coming to the attention of the Joint Global Coordinators, the Joint Lead Managers, the Co-Managers or any Agent.

The audited consolidated financial statements as at and for the years ended 31 December 2011 and 2012 included in this offering circular have been extracted from our annual reports. They were prepared and presented in accordance with the International Financial Reporting Standards ("**IFRS**"), and have been audited by Ernst & Young, our previous auditor.

The unaudited consolidated financial statements as at and for the six months ended 30 June 2013 (which include the comparative financial information for the six months ended 30 June 2012) included in this offering circular have been extracted from our interim report of 2013 as announced by us on 29 August 2013 (the "**Interim Report**"). They were prepared and presented in accordance with IFRS and have been reviewed by KPMG, our current auditor.

The unaudited consolidated financial statements as at and for the nine months ended 30 September 2013 (which include the comparative financial information for the nine months ended 30 September 2012) included in this offering circular have been extracted from our third quarterly report of 2013 as announced by us on 30 October 2013 (the "**Third Quarterly Report**"). They were prepared and presented in accordance with IFRS, and have not been audited or reviewed by any external auditor.

The unaudited consolidated financial statements as at and for the six months ended 30 June 2013 and the nine months ended 30 September 2013 included in this offering circular should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit. Investors must exercise caution when using such data to evaluate our financial condition, results of operations and results. Such unaudited consolidated financial statements as at and for the six months ended 30 June 2013 and the nine months ended 30 September 2013 should not be taken as an indication of the expected financial condition, results of operations and results of us for the full financial year ending 31 December 2013.

Unless otherwise specified or the context requires, references herein to "we", "us", "our", "the Bank", "our Group" and words of similar import are to Industrial and Commercial Bank of China Limited itself or Industrial and Commercial Bank of China Limited and its subsidiaries, as the context requires; references herein to "Hong Kong dollars" and "HK$" are to the lawful currency of Hong Kong, references herein to "CNY", "RMB" and "Renminbi" are to the lawful currency of the PRC and references to "US$" are to the lawful currency of the United States.

Unless otherwise indicated, references herein to "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 "Hong Kong" are to the Hong Kong Special Administrative Region of the PRC; references to "Macau" are to the Macau Special Administrative Region of the PRC; and references to "U.S." and the "United States" mean the United States of America.

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. References to information in billions of units are to the equivalent of a thousand million units.

FORWARD-LOOKING STATEMENTS

We have made certain forward-looking statements in this offering circular. All statements other than statements of historical facts included in this offering circular, including, but without limitation, those regarding our financial position, future expansion plans, prospects, business strategy and the plans and objectives of our management for its future operations (including development plans and objectives relating to our Group's operations), are forward-looking statements. These forward-looking statements are based on our current expectations about future events. Although we believe that these expectations and projections are reasonable, such forward-looking statements are inherently subject to risks, uncertainties and assumptions, including, among other things: risks associated with international global business activities; general economic and political conditions; possible disruptions to commercial activities due to nature and human induced disasters, including terrorist activities and armed conflicts; fluctuations in foreign currency exchange rates; and those other risks identified in the "Risk Factors" section of this offering circular.

The words "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "forecast", "seek," "will," "would" and similar expressions are intended to identify a number of these forward-looking statements. We undertake no obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this offering circular might not occur and our actual results could differ materially from those anticipated in these forward-looking statements.

These forward-looking statements speak only as at the date of the offering circular. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in our expectations with regard thereto or any change of events, conditions or circumstances, on which any such statement was based.

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OVERVIEW OF THE ISSUER

Through our continuous efforts and solid growth, we ranked first in the PRC banking industry in terms of total assets, market share of loans and market share of deposits, respectively. Among the Global 2000 selected by Forbes in 2013 in terms of sales, profit, assets and market value, we ranked as the largest enterprise in the world. Within the Global 500 selected by *Fortune* in terms of total operating revenue, we ranked first among all commercial banks. In the Top 1000 World Banks selected by *The Banker* in terms of tier-one capital, we ranked first with tier-one capital of USD160.6 billion, which was the first time for a Chinese bank to rank the first place over the past nearly 50 years since the rankings were published. As at the end of the first half of 2013, we ranked atop the global financial industry in terms of indicators such as deposits, loans, total assets, tier-one capital, market capitalization and profit.

We provide clients with a wide range of financial products and services and have formed a cross-market, internationalised and integrated business model with a focus on commercial banking. We have maintained a leading position in the PRC market in most of the core and emerging businesses of commercial banks.

We believe that "Industrial and Commercial Bank of China" is one of the most recognised financial service brand names in the PRC with great international influence. We have won numerous awards over the years, including:

- the "Best Corporate Bank in China" and "Best Investment Management Services (Asia)" in 2012 by *Global Finance*;
- the "Best Domestic Bank (China)" and "Platinum Award for All-Round Excellence" in 2012 by *The Asset*;
- the "Best Bank in China" in 2012 by *Euromoney*;
- "Asia's Top Blue Chip Company" in 2012 by *FinanceAsia*;
- the "Best Large-Scale Retail Bank in China", "Best Cash Management Bank in China", "Best Internet Banking in Asia Pacific", "Best Private Bank in China" in 2012 by *The Asian Banker*; and
- the "Best Commercial Bank" in 2012 by *The Chinese Banker*.

In addition, in 2012 we were ranked in 13th place among the Top 100 Most Valuable Global Brands and first among the financial institution brands in terms of brand value by *Millward Brown*, and in 4th place among the Top 500 Enterprises of the PRC in terms of revenue by *China Enterprise Confederation*.

SUMMARY FINANCIAL INFORMATION

The following tables set forth the summary consolidated financial information of our Group as at and for the periods indicated.

The summary consolidated financial statements presented below as at and for the three years ended 31 December 2010, 2011 and 2012 are extracted from our audited consolidated financial statements for the years ended 31 December 2011 and 2012 in our annual reports, which were audited by Ernst & Young, Certified Public Accountants and should be read in conjunction with such audited consolidated financial statements and the notes thereto included elsewhere in this offering circular.

The summary unaudited consolidated financial statements presented below as at and for the six months ended 30 June 2013 (which include the comparative financial information for the six months ended 30 June 2012) are extracted from our unaudited consolidated financial statements for the six months ended 30 June 2013 in the Interim Report, which were reviewed by KPMG, Certified Public Accountants. They should be read in conjunction with such unaudited consolidated financial statements and the notes thereto included elsewhere in this offering circular.

The summary unaudited consolidated financial statements presented below as at and for the nine months ended 30 September 2013 (which include the comparative financial information for the nine months ended 30 September 2012) are extracted from our unaudited consolidated financial statements for the nine months ended 30 September 2013 in the Third Quarterly Report, which have not been audited or reviewed by any external auditor.

The summary unaudited consolidated financial statements presented below as at and for the six months ended 30 June 2013 and the nine months ended 30 September 2013 should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit. Neither the Joint Global Coordinators nor the Joint Lead Managers nor the Co-Managers make any representation or warranty, express or implied, regarding the sufficiency of such summary unaudited consolidated interim financial statements for an assessment of, and investors must exercise caution when using such data to evaluate, our financial condition, results of operations and results. Such summary unaudited consolidated financial statements should not be taken as an indication of the expected financial condition, results of operations and results of the Group for the full financial year ending 31 December 2013.

The audited consolidated financial statements as at and for the years ended 31 December 2010, 2011 and 2012 and unaudited consolidated financial statements for the six months ended 30 June 2013 (which include the comparative financial information for the six months ended 30 June 2012) and the nine months ended 30 September 2013 (which include the comparative financial information for the nine months ended 30 September 2012) are prepared and presented in accordance with IFRS.

SELECTED FINANCIAL INFORMATION

Consolidated Income Statement

	Year ended 31 December			Six months ended 30 June		Nine months ended 30 September	
	2010	2011	2012	2012	2013	2012	2013
	(audited)			(unaudited)		(unaudited)	
	(in RMB millions)						
Interest income	462,762	589,580	721,439	354,522	372,507	537,317	566,769
Interest expense	(159,013)	(226,816)	(303,611)	(150,464)	(156,618)	(225,948)	(239,133)
NET INTEREST INCOME	303,749	362,764	417,828	204,058	215,889	311,369	327,636
Fee and commission income	78,008	109,077	115,881	58,836	72,512	86,184	103,698
Fee and commission expense	(5,168)	(7,527)	(9,817)	(4,032)	(5,130)	(6,497)	(8,195)
NET FEE AND COMMISSION INCOME	72,840	101,550	106,064	54,804	67,382	79,687	95,503
Net trading income/(expense)	(476)	444	510	(248)	(338)	368	731
Net (loss)/gain on financial assets and liabilities designated at fair value through profit or loss	(217)	(271)	(5,114)	(1,463)	90	(4,674)	(2,002)
Net gain on financial investments	1,009	219	608	454	608	616	919
Other operating income, net	3,843	5,895	9,824	5,223	7,845	6,374	9,687
OPERATING INCOME	380,748	470,601	529,720	262,828	291,476	393,740	432,474
Operating expenses	(139,480)	(169,613)	(189,940)	(84,531)	(91,749)	(130,228)	(140,728)
Impairment losses on:							
– Loans and advances to customers	(27,888)	(31,832)	(32,572)	(19,029)	(21,927)	(24,736)	(28,264)
– Others	(100)	711	(1,173)	(208)	(14)	(723)	(356)
OPERATING PROFIT	213,280	269,867	306,035	159,060	177,786	238,053	263,126
Share of profits of associates and joint ventures	2,146	2,444	2,652	1,152	1,055	1,787	1,523
PROFIT BEFORE TAX	215,426	272,311	308,687	160,212	178,841	239,840	264,649
Income tax expense	(49,401)	(63,866)	(69,996)	(36,971)	(40,364)	(54,129)	(58,878)
PROFIT FOR THE YEAR/ PERIOD	166,025	208,445	238,691	123,241	138,477	185,711	205,771
Attributable to:							
Equity holders of the parent company	165,156	208,265	238,532	123,160	138,347	185,602	205,533
Non-controlling interests	869	180	159	81	130	109	238
	166,025	208,445	238,691	123,241	138,477	185,711	205,771
EARNINGS PER SHARE							
– Basic (RMB yuan)	0.48	0.60	0.68	0.35	0.40	0.53	0.59
– Diluted (RMB yuan)	0.48	0.59	0.67	0.35	0.39	0.52	0.58

Consolidated Statement of Comprehensive Income

	Year ended 31 December			Six months ended 30 June		Nine months ended 30 September	
	2010	2011	2012	2012	2013	2012	2013
	(audited)			(unaudited)		(unaudited)	
	(in RMB millions)						
Profit for the period	166,025	208,445	238,691	123,241	138,477	185,711	205,771
Other comprehensive income (after-tax, net):							
Net gain/(loss) on available-for-sale financial assets	(5,510)	2,293	234	9,413	(1,456)	1,600	(10,420)
Net gain/(loss) on cash flow hedges	(211)	355	139	109	(210)	125	(177)
Share of other comprehensive income of associates and joint ventures	(882)	774	255	(77)	824	77	985
Foreign currency translation differences	2,374	(11,416)	(1,913)	(687)	(7,927)	(757)	(9,042)
Others	157	43	107	16	25	9	21
Tax effect of the items that may be reclassified subsequently to profit or loss[1]	–	–	–	(2,306)	266	–	–
Subtotal of other comprehensive income for the period	(4,072)	(7,951)	(1,178)	6,468	(8,478)	1,054	(18,633)
Total comprehensive income for the period	161,953	200,494	237,513	129,709	129,999	186,765	187,138
Total comprehensive income attributable to:							
Equity holders of the parent company	161,316	200,368	237,245	129,619	129,968	186,651	187,064
Non-controlling interests	637	126	268	90	31	114	74

(1) The other comprehensive items are presented in gross amount before taking into account the tax effect for the six months ended 30 June 2012 and 2013.

Consolidated Statement of Financial Position

	As at 31 December			As at 30 June 2013	As at 30 September 2013
	2010	2011	2012		
	(audited)			(unaudited)	(unaudited)
			(in RMB millions)		
ASSETS					
Cash and balances with central banks	2,282,999	2,762,156	3,174,943	3,300,991	3,360,532
Due from banks and other financial institutions	248,860	478,002	636,450	641,073	636,745
Financial assets held for trading	10,188	30,822	20,463	43,935	43,888
Financial assets designated at fair value through profit or loss	2,798	121,386	201,208	268,216	327,935
Derivative financial assets	13,332	17,460	14,756	26,949	19,600
Reverse repurchase agreements	262,227	349,437	544,579	462,000	406,661
Loans and advances to customers	6,623,372	7,594,019	8,583,289	9,202,023	9,409,635
Financial investments	3,719,282	3,763,694	3,862,216	4,070,113	4,007,765
Investments in associates and joint ventures	40,325	32,750	33,284	28,983	28,534
Property and equipment	103,412	119,028	135,889	142,869	148,343
Deferred income tax assets	21,712	21,938	22,789	21,877	24,401
Other assets	130,115	186,176	312,351	514,324	328,509
TOTAL ASSETS	13,458,622	15,476,868	17,542,217	18,723,353	18,742,548
LIABILITIES					
Due to central banks	51	100	1,133	717	792
Financial liabilities designated at fair value through profit or loss	6,670	171,973	319,742	389,503	451,565
Derivative financial liabilities	10,564	12,617	13,261	23,851	15,932
Due to banks and other financial institutions	1,048,002	1,341,290	1,486,805	1,271,443	1,219,635
Repurchase agreements	84,888	206,254	237,764	337,871	335,071
Certificates of deposit	9,314	41,426	38,009	56,020	88,648
Due to customers	11,145,557	12,261,219	13,642,910	14,508,402	14,692,718
Income tax payable	33,759	51,535	56,922	32,211	44,640
Deferred income tax liabilities	318	103	552	395	437
Debt securities issued	102,264	204,161	232,186	250,203	246,881
Other liabilities	195,578	228,367	384,474	677,644	410,840
TOTAL LIABILITIES	12,636,965	14,519,045	16,413,758	17,548,260	17,507,159
EQUITY					
Equity attributable to equity holders of the parent company					
Share capital	349,019	349,084	349,620	349,650	350,572
Equity component of convertible bonds	2,985	2,954	2,708	2,694	2,306
Reserves	267,269	291,370	400,128	392,197	384,767
Retained profits	201,157	313,334	372,541	426,966	494,094
	820,430	956,742	1,124,997	1,171,507	1,231,739
Non-controlling interests	1,227	1,081	3,462	3,586	3,650
TOTAL EQUITY	821,657	957,823	1,128,459	1,175,093	1,235,389
TOTAL EQUITY AND LIABILITIES	13,458,622	15,476,868	17,542,217	18,723,353	18,742,548

Consolidated Statement of Cash Flows

	Year ended 31 December			Six months ended 30 June		Nine months ended 30 September	
	2010	**2011**	**2012**	**2012**	**2013**	**2012**	**2013**
	(audited)			(unaudited)		(unaudited)	
	(in RMB millions)						
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit before tax	215,426	272,311	308,687	160,212	178,841	239,840	264,649
Adjustments for:							
Share of profits of associates and joint ventures	(2,146)	(2,444)	(2,652)	(1,152)	(1,055)	(1,787)	(1,523)
Depreciation	10,844	12,027	13,215	6,471	7,196	9,465	10,691
Amortisation	1,314	1,426	1,781	807	1,002	1,282	1,477
Amortisation of financial investments	(9,861)	(7,562)	(2,857)	(2,388)	91	(2,850)	(215)
Impairment losses on loans and advances to customers	27,888	31,832	32,572	19,029	21,927	24,736	28,264
Impairment losses on assets other than loans and advances to customers	100	(711)	1,173	208	14	723	356
Unrealised foreign exchange loss	490	7,497	6,853	3,100	4,767	3,142	4,729
Interest expense on debt securities issued	2,948	5,103	9,876	4,788	5,487	7,204	8,138
Accreted interest on impaired loans	(754)	(602)	(944)	(419)	(937)	(646)	(1,479)
Gain on disposal of available-for-sale financial assets, net	(925)	(178)	(559)	(431)	(578)	(583)	(820)
Excess over the costs of equity investments	(180)	–	–	–	–	–	–
Net trading (gain)/loss on equity investments	(21)	(3)	(42)	(14)	(8)	(24)	83
Net (gain)/loss on financial assets and liabilities designated at fair value through profit or loss	217	271	5,114	1,463	(90)	4,674	2,002
Net (gain)/loss on disposal of property and equipment and other assets (other than repossessed assets)	64	(881)	(961)	(318)	(423)	(426)	(493)
Dividend income	(84)	(41)	(49)	(23)	(30)	(33)	(99)
	245,320	318,045	371,207	191,333	216,204	284,717	315,760
Net decrease/(increase) in operating assets:							
Due from central banks	(594,655)	(437,857)	(179,741)	(63,988)	(239,541)	(112,314)	(342,618)
Due from banks and other financial institutions	(1,269)	(37,009)	(191,882)	(16,014)	111,677	(55,007)	82,152
Financial assets held for trading	8,905	(20,475)	10,636	3,340	(23,694)	3,354	(23,564)
Financial assets designated at fair value through profit or loss	(1,606)	(118,555)	(80,025)	17,810	(66,393)	(17,166)	(126,788)
Reverse repurchase agreements	258,192	(1,344)	(35,653)	(17,716)	9,817	(6,277)	13,473
Loans and advances to customers	(1,071,538)	(1,036,506)	(1,010,592)	(634,563)	(649,962)	(854,641)	(867,484)
Other assets	(19,479)	(27,188)	(31,126)	(20,361)	(39,640)	(79,765)	(16,955)
	(1,421,450)	(1,678,934)	(1,518,383)	(731,492)	(897,736)	(1,121,816)	(1,281,784)
Net increase/(decrease) in operating liabilities:							
Financial liabilities designated at fair value through profit or loss	(9,163)	160,203	147,651	232,333	69,995	75,097	131,603
Due to central banks	51	49	1,025	337	(416)	137	(341)
Due to banks and other financial institutions	49,343	279,170	148,697	261,850	(210,788)	237,898	(261,286)
Repurchase agreements	48,828	121,366	31,325	(29,279)	100,107	16,395	97,307
Certificates of deposit	9,874	33,038	(3,880)	12,724	18,407	3,770	51,138
Due to customers	1,374,387	1,135,086	1,365,818	917,409	871,542	1,373,053	1,060,148
Other liabilities	19,760	27,912	55,401	26,046	39,463	78,910	26,912
	1,493,080	1,756,824	1,746,037	1,421,420	888,310	1,785,260	1,105,481
Net cash flows from operating activities before tax	316,950	395,935	598,861	881,261	206,778	948,161	139,457
Income tax paid	(38,774)	(47,812)	(65,353)	(60,236)	(64,054)	(64,457)	(69,626)
Net cash flows from operating activities	278,176	348,123	533,508	821,025	142,724	883,704	69,831

	Year ended 31 December			Six months ended 30 June		Nine months ended 30 September	
	2010	2011	2012	2012	2013	2012	2013
	(audited)			(unaudited)		(unaudited)	
	(in RMB millions)						
CASH FLOWS FROM INVESTING ACTIVITIES							
Purchases of property and equipment and other assets	(20,017)	(22,896)	(31,852)	(10,779)	(12,274)	(17,720)	(26,814)
Proceeds from disposal of property and equipment and other assets (other than repossessed assets)	666	1,278	1,271	592	423	826	493
Purchases of financial investments	(1,977,718)	(1,385,697)	(1,058,490)	(508,695)	(648,030)	(817,072)	(1,176,389)
Proceeds from sale and redemption of financial investments	1,840,399	1,349,324	965,229	428,403	435,913	669,238	1,012,866
Acquisition of subsidiaries	(2,929)	–	(3,723)	–	–	(1,830)	–
Investments in associates and joint ventures	(808)	(10)	(19)	(13)	–	(13)	–
Proceeds from disposal of associates and joint ventures	278	–	–	–	487	–	487
Proceeds from disposal of a subsidiary	(528)	–	–	–	–	–	–
Dividends received	1,071	1,268	914	783	152	815	645
Net cash flows from investing activities	(159,586)	(56,733)	(126,670)	(89,709)	(223,329)	(165,756)	(188,712)
CASH FLOWS FROM FINANCING ACTIVITIES							
Proceeds from rights issue	44,848	–	–	–	–	–	–
Capital injection by non-controlling shareholders	230	31	600	–	125	–	155
Proceeds from issuance of convertible bonds	25,000	–	–	–	–	–	–
Proceeds from issuance of subordinated bonds	25,286	89,500	20,000	20,000	–	20,000	–
Proceeds from insurance of other debt securities	–	14,303	9,640	8,028	21,889	11,668	31,114
Interest paid on debt securities	(2,597)	(3,212)	(8,566)	(273)	(1,532)	(5,426)	(6,878)
Repayment of debts issued	(22,000)	–	–	–	(3,289)	–	(12,893)
Acquisition of non-controlling interests	(9,273)	(328)	–	–	–	–	–
Dividends paid on ordinary shares	(56,783)	(64,220)	(70,912)	–	–	(70,912)	(83,565)
Dividends paid to non-controlling shareholders	(308)	(69)	(41)	(20)	(23)	(41)	(40)
Cash paid for other financing activities	(357)	–	–	–	–	–	–
Net cash flows from financing activities	4,046	36,005	(49,279)	27,735	17,170	(44,711)	(72,107)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	122,636	327,395	357,559	759,051	(63,435)	673,237	(190,988)
Cash and cash equivalents at beginning of the year/period	409,394	528,971	848,308	848,308	1,201,647	848,308	1,201,647
Effect of exchange rate changes on cash and cash equivalents	(3,059)	(8,058)	(4,220)	(18)	(6,520)	(1,282)	(8,002)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD	528,971	848,308	1,201,647	1,607,341	1,131,692	1,520,263	1,002,657
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:							
Interest received	449,667	565,899	704,500	327,669	351,432	518,055	555,843
Interest paid	(147,301)	(204,648)	(243,400)	(120,986)	(125,971)	(186,003)	(192,559)

OVERVIEW OF THE OFFERING

*The following overview contains some basic information about the Bonds and is qualified in its entirety by the remainder of this offering circular. Some of the terms described below are subject to important limitations and exceptions. Terms and phrases used in this overview and not otherwise defined shall have the meanings given to them in "Terms and Conditions of the 2016 Bonds" and "Terms and Conditions of the 2018 Bonds". This is a summary of the terms and conditions of the Bonds (the "**Conditions**" or the "**Terms and Conditions**"). Please refer to the sections "Terms and Conditions of the 2016 Bonds" and "Terms and Conditions of the 2018 Bonds" in this offering circular for a detailed description of the terms and conditions.*

Issuer	Industrial and Commercial Bank of China Limited.
Issue	CNY1,300,000,000 3.35% Bonds due 2016. CNY700,000,000 3.75% Bonds due 2018.
Interest	The 2016 Bonds will bear interest from 19 November 2013 at the rate of 3.35% per annum, payable semi-annually in arrear on the Interest Payment Date falling on, or nearest to, 19 May and 19 November in each year, starting on the Interest Payment Date falling on, or nearest to 19 May 2014. The 2018 Bonds will bear interest from 19 November 2013 at the rate of 3.75% per annum, payable semi-annually in arrear on the Interest Payment Date falling on, or nearest to, 19 May and 19 November in each year, starting on the Interest Payment Date falling on, or nearest to 19 May 2014.
Issue Price	2016 Bonds: 100 per cent. 2018 Bonds: 100 per cent.
Issue Date	19 November 2013.
Maturity Date	2016 Bonds: The Interest Payment Date falling on, or nearest to, 19 November 2016. 2018 Bonds: The Interest Payment Date falling on, or nearest to, 19 November 2018.
Form	Each series of the Bonds will initially be represented by a permanent global bond in bearer form, deposited on the issue date of the Bonds with a common depositary on behalf of Euroclear and Clearstream, and will be exchangeable for Bonds in definitive form only in the circumstances set out therein.
Denomination	CNY1,000,000 each and integral multiples of CNY10,000 in excess thereof.
Status	The Bonds and Coupons will constitute our direct, general, unconditional, unsubordinated and unsecured obligations ranking *pari passu* without any preference among themselves and at least equally with all other outstanding unsecured and unsubordinated Public External Indebtedness (as defined in "Terms and Conditions of the 2016 Bonds – Status of Bonds" and "Terms and Conditions of the 2018 Bonds – Status of Bonds") of us, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Listing	None.
Events of Default	The Bonds will contain certain events of default provisions, including a cross default provision as further described in "Terms and Conditions of the 2016 Bonds – Events of Default" and "Terms and Conditions of the 2018 Bonds – Events of Default".
Taxation	All payments of principal and interest in respect of the Bonds and the Coupons by or on behalf of us will be made free and clear of, and without withholding or deduction for or on account of any present or future tax, duty, assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of the PRC or any political subdivision or any authority thereof or therein having power to levy tax in the PRC, unless such withholding or deduction is required by the law of the PRC. In that event, we shall, subject to the limited exceptions specified in the Terms and Conditions of the 2016 Bonds and the Terms and Conditions of the 2018 Bonds, pay such additional amounts as will result in the receipt by the Bondholders or Couponholders of such amounts as would have been received by them if no such withholding or deduction had been required.
Tax Redemption	The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at their principal amount together with interest accrued to the date fixed for redemption, in the event of certain changes affecting taxes in the PRC as further described in the "Terms and Conditions of the 2016 Bonds – Redemption and Purchase – Redemption for tax reasons" and "Terms and Conditions of the 2018 Bonds – Redemption and Purchase – Redemption for tax reasons".
Use of Proceeds	We intend to use the net proceeds from the sale of the Bonds for extending Renminbi-denominated loans as permitted by our articles of association and for working capital and general corporate purposes.
Further Issues	We may from time to time, without the consent of the Bondholders or Couponholders, create and issue further bonds having the same terms and conditions as the Bonds in all respects, except for the issue date, issue price, interest commencement date and the date of first payment of interest thereon. Additional bonds issued in this manner will be consolidated with and will form a single series with the Bonds. See "Terms and Conditions of the 2016 Bonds – Further Issues" and "Terms and Conditions of the 2018 Bonds – Further Issues".
Fiscal Agent and Paying Agent	Industrial and Commercial Bank of China (Asia) Limited.
Clearing System	The Bonds will be represented by a Global Bond that will be deposited with a common depositary for Euroclear and Clearstream.
Clearance and Settlement	The Common Code and ISIN for the 2016 Bonds are 099174234 and XS0991742346, respectively. The Common Code and ISIN for the 2018 Bonds are 099497670 and XS0994976701, respectively.
Governing Law	Hong Kong law.

RISK FACTORS

Prior to making any investment decision, prospective investors should consider carefully all of the information contained in this offering circular, including the risks and uncertainties described below. Our business, financial condition or results of operations could be materially and adversely affected by any of these risks. We believe that the following factors may affect our ability to fulfil our obligations under the Bonds. Additional risks and uncertainties not presently known to us or which we currently deem immaterial may also have an adverse effect on an investment in the Bonds. All of these factors are contingencies which may or may not occur and we are not in a position to express a view on the likelihood of any such contingency occurring.

Factors which we believe may be material for the purpose of assessing the market risks associated with the Bonds are described below. We believe that the factors described below represent the principal risks inherent in investing in the Bonds, but the inability of us to repay principal, pay interest or other amounts or fulfil other obligations on or in connection with the Bonds may occur for other reasons and we do not represent that the statements below regarding the risks of holding the Bonds are exhaustive.

RISKS RELATING TO OUR LOAN PORTFOLIO

We may face risks arising from deterioration in the quality of our loans.

During the three years ended 31 December 2012 and the nine months ended 30 September 2013, we experienced continued growth in our loan balances. Our gross loans to customers increased from RMB6,790.5 billion as at 31 December 2010 to RMB7,788.9 billion as at 31 December 2011, which further increased to RMB8,803.7 billion as at 31 December 2012 and RMB9,644.5 billion as at 30 September 2013. As at 31 December 2010, 2011 and 2012 and 30 September 2013, our non-performing loans amounted to RMB73,241 million, RMB73,011 million, RMB74,575 million and RMB87,361 million, respectively, representing non-performing loan ratios of 1.08%, 0.94%, 0.85% and 0.91%, respectively.

We cannot assure you that the quality of our existing or future loans to customers will not deteriorate. Deterioration in the overall quality of our loan portfolio may occur due to a variety of reasons, including factors beyond our control such as a slowdown in the growth of the PRC or global economies due to the recent financial crisis, a relapse of the global credit crisis, other adverse macroeconomic trends in China and other parts of the world and the occurrence of natural disasters, which may adversely affect the businesses, operations or liquidity of our borrowers or their ability to repay their debt. Any significant deterioration in our asset quality may lead to significant increases in our non-performing loans and allowance made for non-performing loans, which may have a material adverse effect on our business, financial condition and results of operations.

Actual losses on our loans may exceed our allowance for impairment losses.

As at 31 December 2010, 2011 and 2012 and 30 September 2013, the coverage ratio of our provisions for non-performing loans was 228.20%, 266.92%, 295.55% and 268.87%, respectively. The amount of our allowance for impairment losses on loans is determined based on our assessment on factors which may affect the quality of our loans. These factors include the borrower's financial condition, the repayment capability and repayment willingness, the current realisable value of any collateral and ability to obtain future support from guarantors by the borrower, as well as the PRC's economy, the government's macroeconomic policies, interest rates, exchange rates, and the legal and regulatory environment. Most of these factors are beyond our control.

Should our assessment or forecast of the impact of these factors on the quality of our loans be different from actual development or actual loan quality deteriorates more than what has been expected, then the allowance for impairment losses on loans provided by us may not be sufficient to cover actual losses, and we may need to make additional provision in the future which could lead to a decrease in profit and could adversely affect our business, financial condition and results of operations.

We have a concentration of exposures to certain industries and customers, and a concentration of loans to SMEs. If the conditions of these industries or customers significantly deteriorate, our financial condition and results of operations may be materially and adversely affected.

As at 31 December 2010, 2011 and 2012 and 30 June 2013, our domestic corporate loans represented 69.2%, 66.9%, 66.4% and 64.6% of our total loans, respectively. As at 30 June 2013, our domestic corporate loans to the (i) manufacturing, (ii) transportation, storage and postal, (iii) wholesale and retail, (iv) production and supply of electricity, heat, gas and water and (v) real estate industries represented approximately 23.7%, 19.4%, 12.5%, 9.4% and 7.9%, respectively, of our total domestic corporate loans. As at the same date, approximately 38.8%, 12.1%, 31.3%, 3.8% and 7.0%, respectively of our impaired domestic corporate loans were concentrated in these sectors.

We are further exposed to the real estate sector through our personal property mortgage loans. As at 30 June 2013, our personal property mortgage loans represented 60.9% of our total retail loans, which together with our corporate property loans accounted for 21.9% of our total outstanding loans. The PRC government has in recent years imposed macroeconomic control measures that are aimed at preventing the real estate market from over-heating, such as setting minimum down payment requirements and minimum mortgage rates on residential housing purchases, imposing business taxes on the transfer of certain residential houses and levying mandatory personal income tax for second-hand residential housing transactions. Such measures may adversely affect the growth of our loans related to real estate.

Moreover, our loans to small (micro) and medium-sized enterprises ("**SMEs**") was RMB4,253,454 million, which account for 45.1% of our total loans as at 30 June 2013. The business operation of the SMEs may be less stable than large enterprises and more vulnerable to adverse changes in the economic environment. SMEs may also be more likely to suffer from inadequate or ineffective internal control or risk management systems. These factors may increase the credit risk of SME loans.

As at 31 December 2010, 2011 and 2012 and 30 June 2013, the total amount of loans granted to our single largest customer accounted for 3.5%, 3.6%, 4.0% and 3.8%, respectively, of our net capital, while the total amount of loans granted to our top ten single customers accounted for 22.8%, 19.3%, 17.9% and 17.2%, respectively, of our net capital.

Any deterioration in any of the industries in which our loans are concentrated due to adverse macroeconomic environment, government policies or otherwise, or any deterioration in the financial condition or results of operation of our major borrowers could materially and adversely affect the quality of our existing loans and our ability to generate new loans, which in turn could have a material adverse impact on our business, financial condition and results of operations.

Deterioration in the debt repayment abilities of local government financing vehicles to which we extend loans may adversely affect our asset quality, financial condition and results of operations.

Loans extended to government financing vehicles are a part of the loan portfolio for China's commercial banks. According to the CBRC, government financing vehicles consist primarily of government-led vehicles and vehicles the shares of which are substantially owned by the government. These vehicles primarily engage in financing activities wholly or partially supported by the direct or indirect repayment commitments or direct or indirect guarantees from local governments and provide support to various infrastructure development and quasi-public interest government investment projects.

Our loans to local government financing platforms are mainly made to the investment and financing platforms of various development zones, state-owned asset management companies, land reserve companies and urban construction investment companies. Most of these loans were made to financing platforms of provincial and municipal level or above with terms of less than five years. In recent years, with the aim of reinforcing the risk management of loans to local government financing platforms, the State Council, the CBRC and the PBOC, along with several other PRC regulatory authorities, promulgated a series of notices, guidelines and other regulatory documents to direct PRC banks and other financial institutions to optimise and strengthen their risk management measures regarding their loans to local government financing platforms.

Certain factors, such as unfavourable developments in macroeconomic conditions, adverse changes to state policies, and adverse changes to the financial condition of particular local governments, may adversely affect the debt repayments of these financing platforms, which may in turn materially and adversely affect our asset quality, financial condition and results of operations.

We may not be able to maintain the continuing growth of our loan portfolio.

Our loans to customers have grown significantly in the past few years, increasing from RMB6,790.5 billion at 31 December 2010 to RMB8,803.7 billion at 31 December 2012, representing a CAGR of 13.9%. The growth of our loan portfolio may be affected by various factors, such as China's macroeconomic policies and capital constraints. In the future, the growth rate of our loan portfolio may slow down, or our loan portfolio may even decline. In addition, in response to the constraints from the amount of our regulatory capital, we may adopt strategies to reduce our reliance on our loan portfolio and expand our activities in other businesses that require relatively lower capital. Any of the foregoing factors could impact the growth of our loan portfolio and thereby materially and adversely affect our business prospects, financial condition and results of operations.

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

We classify our loans using a five-tier classification system in accordance with the guidelines set forth by the PRC regulators. The five tiers are pass, special mention, substandard, doubtful and loss. We assess our impairment losses on loans and determine a level of allowance for impairment losses using the five-tier classification system. We perform such assessment, determination and recognition using the concept of impairment under International Accounting Standards (the "**IAS**") 39. Our loan classification and provisioning policies may be different in certain respects from those of banks incorporated in certain other countries or regions. As a result, our loan classification as well as our allowance for impairment losses, as determined under our loan classification and provisioning policies, may differ from those that would be reported by banks incorporated in other countries or regions.

Proposal to replace IAS 39 may require us to change our provisioning practice.

We currently assess our loans and investment assets for impairment under IAS 39. The International Accounting Standards Board (the "**IASB**"), which is responsible for developing and revising accounting standards under IFRS, has been carrying out a comprehensive project to replace IAS 39 in its entirety, and has taken the following steps:

- In November 2009, IASB issued IFRS 9, which applies to classification and measurement of financial assets as defined in IAS 39 and reflects the first phase of the IASB's work on the replacement of IAS 39;

- In October 2010, additions to IFRS 9 were issued to address financial liabilities and incorporate the current derecognition principles of financial instruments under IAS 39. The standard is effective for the periods beginning on or after 1 January 2013. The adoption of the first phase of IFRS 9 will have an effect on the classification and measure of our financial assets and liabilities. In subsequent phases, the IASB will address impairment of financial assets and hedge accounting.

- In December 2010, the IASB published ED/2010/13 Hedge Accounting, which comments on the accounting for hedging activities and is the third phase of the IASB's project to replace IAS 39.

- In January 2011, the IASB and FASB issued a jointly developed supplementary document: Financial Instrument: Impairment to the November 2009 IASB ED.

- In August 2011, the IASB published ED/2011/3 Amendments to IFRS 9 Financial instruments (November 2009) and IFRS 9 Financial instruments (October 2010): Mandatory Effective Date, which proposes to adjust the mandatory effective date of IFRS 9 Financial instrument from 1 January 2013 to 1 January 2015.

- In December 2011, the IASB published amendments that defer the mandatory effective date of both the 2009 and 2010 versions of IFRS 9 'Financial Instruments' to annual periods beginning on or after 1 January 2015.

- In November 2012, the IASB released ED/2012/4 Amendments to IFRS 9: Classification and Measurement, which proposed changes would introduce a 'fair value through other comprehensive income' (FVOCI) measurement category for particular financial assets.

- In March 2013, the IASB published Draft ED/2013/3 Financial Instruments: Expected Credit Losses, which proposes a model according to which credit losses are no longer recognised if incurred; rather, entities would recognise expected credit losses on financial assets and on commitments to extend credit based upon current estimates of expected shortfalls in contractual cash flows as at the reporting date.

If adopted, IFRS 9 will result in the replacement of the incurred loss model under IAS 39 with an expected loss model. The above change in accounting policies may require us to change our current provisioning practice and may, as a result, adversely affect our business, financial condition and results of operations.

The collateral or guarantees securing our loans may not be sufficient, and we may be unable to realize the full value of the collateral or guarantees in a timely manner or at all.

A significant portion of our loans is secured by collateral or guarantees. At 30 June 2013, 44.1% and 12.9% of our total loans were secured by mortgages and pledges, respectively, and 14.0% of our total loans were secured by guarantees.

The pledged collateral securing our loans include, among other things, bond or equity securities. The mortgages securing our loans primarily comprised real properties and other assets located in China. The value of the collateral securing our loans may significantly fluctuate or decline due to factors beyond our control, including macroeconomic factors affecting the economy of China. For example, a downturn in China's real estate market may result in a decline in the value of the real properties securing our loans to levels significantly below the outstanding principal and interest balances of such loans. Any decline in the value of such collateral may reduce the amounts we can recover from such collateral and increase our impairment losses. Our policies require regular internal re-valuations of collateral. However, such policies may not be implemented in a timely manner and, as a result, we may not have updated valuation of such collateral, which may adversely affect the accuracy of the assessment of our loans secured by such collateral.

Some of the guarantees securing our loans were provided by the borrowers' affiliates. Such loans and advances are generally not backed by collateral or security interests other than guarantees. A significant deterioration in the financial condition of a guarantor could significantly decrease the amounts we may recover under such guarantees. Moreover, we are subject to the risk that a court or other judicial or government authorities may declare a guarantee to be invalid or otherwise decline or fail to enforce such guarantees. We are therefore exposed to the risk that we may not be able to recover all or any part of the amounts guaranteed in respect of our loans.

In China, the procedures for liquidating or otherwise realizing the value of collateral in the form of non-monetary assets may be protracted and it may be difficult to enforce claims in respect of such collateral. As a result, it may be difficult and time-consuming for us to take control of or liquidate the collateral securing non-performing loans. Our inability to realize the full value of the collateral and guarantees securing our loans on a timely basis may materially and adversely affect our asset quality, financial condition or results of operations.

RISKS RELATING TO OUR BUSINESS

We are subject to interest rate risk.

Our net interest income is affected by changes in interest rates. Our net interest income represented 79.8%, 77.1%, 78.9% and 75.8% of our total operating income in the years ended 31 December 2010, 2011 and 2012 and nine months ended 30 September 2013, respectively. Increasing competition in the banking industry and further liberalisation of the interest rate regime may result in more volatility in interest rates. Changes in the PBOC benchmark interest rates or volatility in market interest rates may adversely affect our net interest income, which may affect our business, financial condition and results of operations.

The PBOC increased the benchmark interest rates on Renminbi loans and deposits for financial institutions in 2010 and 2011, and lowered such rates on 8 June 2012 and 6 July 2012. As an example, the one-year benchmark deposit rate increased from 2.75% before 9 February 2011 to 3.50% after 7 July 2011 and then decreased to 3.00% since 6 July 2012, and the one-year benchmark lending rate increased from 5.81% before 9 February 2011 to 6.56% after 7 July 2011 and then decreased to 6.00% since 6 July 2012, and the benchmark interest rates on loans and deposits with other terms of maturity were adjusted accordingly. Effective on 8 June 2012, the PBOC allows financial institutions to set deposit interest rates at up to 110% of the PBOC benchmark deposit interest rates. On 20 July 2013, the PBOC lifted restrictions on interest rates that financial institutions can charge on RMB-denominated loans (excluding residential mortgage loans), and abolished the minimum rates for RMB-denominated loans and restrictions on interest rates of discounted bills. Based on new rules by the PBOC, financial institutions can charge interest rates based on commercial terms (excluding interest rates for residential mortgage loans). In addition, the Chinese government established goals of gradually promoting market-oriented interest rate reform and strengthening the creation of a market-based interest rate system in its "Twelfth Five-Year Plan."

The yield arising from our investment in debt securities is affected by changes in interest rates. As at 30 June 2013, our investment amount in bonds not related to restructuring was RMB3,926,315 million, which represented 21.0% of our total assets. Changes in market interest rates may affect the yield from our investments in debt securities and thus may further adversely affect our business, financial condition and results of operations.

It should also be noted that changes in interest rates, changes in relationship between short-term and long-term interest rates, or changes in relationship between different types of interest rates can affect the interest rate charged on interest-earning assets to different degrees from the interest rate paid on interest-bearing liabilities. This impact may be increased by our inability to adjust to rate changes with respect to the fixed rate portions of our portfolio.

In an increasing interest rate environment, our ability to earn higher returns on our fixed rate interest-earning assets consistent with the change in the market rates is limited by the maturity periods of such assets. The maturity periods of our interest-earning assets tend to be longer than such periods for our interest-bearing liabilities. In addition, we may also experience decreases in net interest income in a declining interest rate environment. Further, during a rising interest rate environment, our ability to adjust upwards our interest rates that we receive on our interest-bearing assets, mainly loans, may be limited, whether due to competition or other factors as our customers may repay existing loans with us prior to their maturity through other refinancings that may bear lower rates of interest. How we manage interest rate volatility generally will determine, to a certain extent, the impact of such volatility on our net interest and dividend income, and we cannot assure you that we will be able to manage such volatility in a manner that does not adversely affect our business, financial condition and results of operations.

We are subject to currency risk.

The value of the Renminbi against the U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in the PRC and international political and economic conditions. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the PBOC. On 21 July 2005, the PRC government adopted a more flexible managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band that is based on market supply and demand and reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2% against the U.S. dollar. In August 2008, the PRC announced a further change in its exchange regime to a managed floating exchange rate regime based on market supply and demand. Effective from 16 April 2012, the floating band of Renminbi's trading prices against the U.S. dollar in the inter-bank spot foreign exchange market was enlarged from 0.5% to 1%. Any appreciation of the Renminbi against the U.S. dollar or any other foreign currencies may result in a decrease in the value of our foreign currency-denominated assets.

We are subject to currency risk arising from losses incurred by unfavourable exchange rate fluctuations on our foreign exchange exposures resulting from the unmatched currency structure between foreign currency-denominated assets and foreign currency-denominated liabilities. As at 30 June 2013, our net foreign exchange exposure was RMB118,426 million. Changes of exchange rates in the future may adversely affect our business, financial condition and results of operations.

We are subject to liquidity risk.

Customer deposits have been our main source of funding. As at 30 June 2013, 89.7% of our total customer deposits were demand deposits or time deposits with remaining maturity of one year or less. If a substantial portion of our depositors withdraw their demand deposits or do not roll over their time deposits upon maturity, we may need to pay higher cost to seek alternative sources of funding to meet our funding requirements. In response to this, we have closely monitored changes in monetary policy, market environment and maintained reasonable liquidity reserve to handle position movements caused by various factors.

Our ability to obtain additional sources of funding may be affected by factors such as deterioration of market conditions and disruptions to financial markets. If we fail to secure required funding on a timely basis or at terms or levels which are acceptable, we may face liquidity risk which may adversely affect our business, financial condition and results of operations.

In addition, we rely on the inter-bank money market to obtain a portion of our funding, including the portion of funds that are used to manage our liquidity. Any fluctuation in liquidity or funding costs on the inter-bank money market, including those fluctuations as a result of financial or other crisis or changes in the central bank's policies or practices affecting the liquidity of other banking institutions, may materially and adversely affect our ability to fund our business and manage our liquidity through the inter-bank money market at a reasonable cost, or at all.

We may not be able to maintain the growth rate of our banking business.

As a leading commercial bank in the PRC, we may not be able to maintain our competitive positions or sustain this growth rate due to increasing market saturation and competition, changes in government regulations in the banking industries and other factors, any of which may adversely affect our business, financial condition and results of operations.

For example, on February 26, 2013, the State Council promulgated the Notice of the General Office of the State Council on Continuing Regulation and Control of Real Estate Market (國務院辦公廳關於繼續做好房地產市場調控工作的通知), which requires banking institutions to carry on strict implementation of the differentiated housing credit policies, further implement the policy of down payment ratio and lending rate for loan of the first-set housing, rigidly tighten the credit policies for the second set (or more sets) of housing, and strictly impose a 20% personal income tax on the profit generated from sale of residential property. Such measures may slow down the development of residential real estate market, hinder the increase of housing mortgages, and reduce the average amount of housing mortgages, and thus have an adverse impact on the increase of our retail banking business.

The rapid expansion of our retail banking businesses also increases our exposure to changes in economic conditions affecting Chinese consumers. For example, a slowdown in the PRC's economic development could adversely affect the ability of retail borrowers and credit card holders to make payments, thereby increasing the probability of defaults and reducing the demand for retail loans and credit cards. Such a slowdown may also reduce the demand for our non-interest-based products and services, which could result in a reduction, among other things, of our credit card transaction volume and sales of investment products. Accordingly, economic difficulties in the PRC that have a material adverse effect on Chinese consumers could adversely affect our business, financial condition and results of operations.

We have expanded our business into jurisdictions other than the PRC, which has increased the complexity of the risks that we face.

In recent years, we have taken actions to expand our international operations. As at 30 June 2013, we operated 388 overseas institutions across 39 countries and regions, and established correspondent banking relationship with 1,661 overseas banks in 141 countries and regions.

Our expansion into jurisdictions outside of the PRC subjects us to new regulatory and operational challenges and risks, and has also increased the complexity of our risks in a number of areas, including currency risk, interest rate risk, regulatory and compliance risk, reputational risk and operational risk. The loan portfolio of our international branches includes foreign currency-denominated loans to Chinese companies engaged in international trade. This exposes us to additional risks including default risk resulting from the failure in the performance of the import or export agreements by any party, trade protectionist measures or other factors, and our inexperience in various aspects of the economic and legal framework in overseas markets. Adverse market conditions in these international jurisdictions may result in mark-to-market and realised losses on the investment assets held by our overseas branches and increase their cost of funding.

Furthermore, despite our best efforts to comply with all applicable regulations in all the jurisdictions in which we operate, there may be incidences of our failure to comply with the regulations in certain jurisdictions. Regulators have the power to bring administrative or judicial proceedings against us or our employees, representatives, agents and third party service providers, which could result in, among other things, suspension or revocation of one or more of our licenses, cease and desist orders, fines, civil penalties, criminal penalties, or other disciplinary actions.

In addition, the recent volatility in the global economic and financial systems may lead to significant regulatory changes in various jurisdictions, including those in which we have operations. These changes may include those with respect to capital and liquidity ratios, cross-border capital flows and consumer protection. The extent and impact of such changes is difficult to anticipate and estimate and such changes could have an adverse impact on our growth, capital adequacy, and profitability. If we are unable to manage the risks resulting from our international expansion, our business, financial condition and results of operations may be adversely affected.

We cannot assure you that our risk management and internal control policies and procedures can effectively control or protect us against all credit and other risks.

We have been proactively implementing our risk management system and improving our risk management and internal control capabilities. Nonetheless, our risk management and internal control capabilities are limited by the information and risk management tools or technologies available to us. Our ability to implement and maintain strict internal control may be affected by our expansion in business scale and business scope. We cannot assure you that all of our employees will always comply with our internal control policy and procedures. If there are any deficiencies in our risk management and internal control policies and procedures, we may be subject to credit risk, liquidity risk, market risk, operational risk or reputational risk, which may adversely affect our business, financial condition and results of operations.

We are subject to new risks related to the continuous expansion of our products, services and business scope.

In recent years, we have actively developed a number of new products and expanded our service scope, including investment banking, asset management, fund management and financial leasing. We are exposed to a number of risks in connection with our new expansion. For example, our limited experience may not enable us to successfully develop our new businesses; the anticipated market demand for our new products or services may not materialise; we may not successfully hire or retain personnel who have the relevant skills and experience; and regulators may revoke or withhold their approval for any products and services that we have offered or have planned to offer.

As a result, the return on our new products, services or businesses may be less, or realised later than expected, which may adversely affect our business, financial condition and results of operations.

We are subject to risk related to our credit commitments and guarantees.

Our credit commitments and financial guarantees primarily consist of loan commitments, undrawn credit card limits, bank acceptance, guarantees and letters of credit. As at 30 June 2013, our credit risk weighted amount of credit commitments were RMB815,256 million. We are exposed to credit risk related to bank acceptance, guarantees and letters of credit. If our customers cannot perform their obligations, we will need to fulfil the related commitments and guarantees. In addition, if we cannot obtain compensation from relevant customers, our business, financial condition and results of operations may be adversely affected.

We are subject to operational risks and risks relating to our information technology systems.

We are subject to operational risks such as internal fraud, external fraud, customers, products and business activities, execution, closing and process management, employment system and workplace safety, damage to physical assets and information technology systems events.

We have established a series of policies and procedures to identify, assess, monitor, manage and report operational risks according to the "Guidance to the Operational Risk Management of Commercial Banks" (商業銀行操作風險管理指引) issued by the CBRC. Operational risks may cause losses to us if these measures are not put in place thoroughly or cannot cover all aspects of our operations.

We depend on our information technology systems to accurately process a large number of transactions on a timely basis, to store and process most of our data regarding our business and operations. We have adopted a large number of technical measures and management initiatives to ensure the secure and reliable operation of our information systems. We have also proactively developed information security protection initiatives. If part or all of our information system malfunctions due to any defect in software and hardware of our information system or any deficiency in our information security protection, and we fail to effectively improve or upgrade our information technology systems on a timely basis, our business, financial condition and results of operations could be adversely affected.

We may not be able to fully prevent or timely detect any money laundering and other illegal or improper activities.

We have complied with applicable anti-money laundering laws and other relevant regulations. We are not currently aware of any money laundering or other major illegal or improper activities engaged by or involving any employee of our domestic or overseas branches.

However, we cannot assure you such activities will not take place in the future or that we can completely eradicate money laundering activities or other improper activities carried out by organisations or individuals through us. If we fail to timely detect and prevent money laundering activities or other illegal or improper activities, relevant regulatory agencies will have the power and authority to impose sanctions on us, which may adversely affect our business, financial condition and results of operations.

We may not be able to detect and prevent all fraud or other misconduct committed by our employees or third parties.

We have continued to strengthen the detection and prevention of fraud or other misconduct committed by our employees or third parties. However, we cannot assure you that our internal control policies and procedures could completely and effectively prevent all fraud or other misconduct committed by our employees or third parties. These fraud or misconduct targeted at us may adversely affect our business, financial condition and results of operations.

We are subject to risks related to property title certificates or other licenses and certificates.

We own and lease properties in the PRC. For some of the properties we own, we have not obtained building ownership certificates, state-owned land use right certificates or both. For some of the properties we lease, the lessors have not provided us with the relevant title certificates of the property and/or consent letter from the relevant property owners to sublease. Even though we have been provided with written undertakings for some leased properties indicating that the lessors will compensate our potential loss due to defects in relevant property title certificates or the relevant lease agreements contain such undertakings, if we have to relocate our branches or sub-braches due to the title defects with regard to properties owned or leased by us, we will incur additional costs relating to such relocation.

In addition, a small number of our branches are currently in the process of applying for new financial licenses, business licenses and/or other licenses, due to license renewal requirements, upgrades of branch offices, change of name, relocation or change of business nature. Any failures or delays to receiving such licences may have an adverse effect on our business and operations.

We are exposed to certain risks in relation to the bonds issued by China Huarong Asset Management Corporation ("Huarong")

During the period from 1999 to 2001, we disposed non-performing assets with a book value of RMB407.7 billion to Huarong, and received 10-year non-transferrable bonds issued by Huarong with a nominal value of RMB313.0 billion as well as RMB94.7 billion in cash as consideration. The above bonds (the "**Huarong Bonds**") have a fixed interest rate of 2.25% per annum. Huarong has paid interest on the bonds to us in a timely manner in the past pursuant to the terms of the Huarong Bonds. In addition, the Ministry of Finance (the "**MOF**") issued a notice on 14 June 2005 to the effect that: (1) with effect from 1 July 2005, in the event of any failure of Huarong to pay for the interest on the bonds in full to us, MOF will provide financial support; and (2) if necessary, MOF will provide support for the payment of the principal of the bonds issued by Huarong.

During the period from 2010 to 2011, the 10-year bonds issued by Huarong with a nominal value of RMB313.0 billion as mentioned above and held by us matured. In accordance with the "Letter from MOF in Respect of the Bonds Issued by China Huarong Asset Management Corporation held by Industrial and Commercial Bank of China" (Cai Jin Han [2010] No. 105), MOF agreed that the term of the Huarong Bonds held by us would be extended for 10 years after the expiry, and the terms of the bonds such as the interest rate will remain unchanged, and that MOF will continue its support for the principal and interest payment in relation to the Huarong Bonds held by us. Pursuant to our internal guidelines, we have executed strict internal approval and relevant information disclosure procedures in connection with the extension of the bonds issued by Huarong. In 2012, we received early repayment of RMB137.9 billion under the Huarong Bonds. As at 30 June 2013, we holds a series of long term bonds issued by Huarong with an aggregate amount of RMB175,096 million.

Huarong is a wholly state-owned non-bank financial institution which has been approved by the State Council, and was duly established in October 1999 with a registered capital of RMB10.0 billion. In the past 14 years, Huarong has actively and prudently carried out a commercial transformation, and has developed a comprehensive financial service system with asset management as its main business and securities, leasing, trust and investment as its supplementary businesses. In addition, pursuant to the above notice from MOF, MOF will provide financial support for the repayment of principal and interest of the Huarong Bonds held by us if necessary. Given MOF's sovereign credit rating, the recoverability of the bonds issued by Huarong can be reasonably guaranteed.

In consideration of the various investment channels and market returns currently available in the market, there is a certain level of opportunity costs borne by holding the Huarong Bonds. However, given the large investment size and long investment term of the bonds, if the principal of the Huarong Bonds is returned upon maturity and if the above capital were to be reallocated, it will still be difficult to allocate all the capital to long term loans, but will only be able to allocate to non-credit assets, with the investment returns limited by the size of Renminbi bond market. Therefore, the above opportunity cost will have a relatively small impact on our operations.

The transaction for us to purchase the bonds issued by Huarong is part of the financial arrangements set by State policies. We have enhanced our asset quality through relevant transactions to purchase the Huarong Bonds, which will be conducive to consistent improvement of our profitability and shareholders' equity.

The Huarong Bonds are financial bonds which are placed to us with the approval of the PBOC and are specifically issued for the acquisition of our non-performing assets. There are no similar bonds in the open bond market and no active market for such bonds. In accordance with the accounting standards, we classify the Huarong Bonds, without available valuation on active market and with fixed repayment amounts, as receivables relating to bonds investment and are subsequently measured at amortised cost using the effective interest method. Given that the interest on each payment term of the Huarong Bonds have been paid in full and in timely manner, and that MOF has provided its support for the principal and interest payment in relation to the Huarong Bonds, there is no event of impairment of financial assets under the accounting standards. As such, we are of the view that the determination of the fair value of the renewed Huarong Bonds at initial recognition met the relevant requirements under the accounting standards. The replacement of the original Huarong Bonds by the renewed Huarong Bonds did not result in a loss on derecognition or an impairment.

Our previous auditor, Ernst & Young, are of the view that the determination of the fair value of the renewed Huarong Bonds at initial recognition met the relevant requirements under the accounting standards. The replacement of the original Huarong Bonds by the renewed Huarong Bonds did not result in a loss on derecognition or an impairment.

Our legal counsel, Deheng Law Firm, Beijing Office, after conducting a review, is of the view that the holding of the Huarong Bonds by us has minor effects on our business operations. The recoverability of the Huarong Bonds we held can be reasonably guaranteed, we have carried out related internal decision-making procedures regarding the extension of the term of the Huarong Bonds, and such matters will not have any material adverse effect on the interests of our shareholders.

We expect that MOF will perform its obligations as set out in the notices when necessary. However, due to the absence of any precedent for requesting for the fulfilment of, or otherwise resorting to other legal procedures to seek the enforcement of, similar undertakings of MOF or other government authorities, we cannot guarantee any enforcement of such notices by operation of law. In the event of any failure of Huarong to discharge any of its payment obligations relating to such bonds and that the enforcement of such notices by operation of law cannot be guaranteed, our business, financial condition and results of operations may be adversely affected.

We hold bonds issued by Central Huijin Investment Ltd. ("Huijin").

As at 30 September 2013, Huijin holds approximately 35.4% of our shares. In August and September 2010, Huijin issued the Central Huijin Investment Ltd. bonds (the "**Huijin Bonds**") in the national inter-bank bond market.

MOF has issued the "Letter on the Issues of the Issuance of Renminbi Bonds in an Amount of RMB187.5 billion by Central Huijin Investment Ltd." (Cai Ban Jin [2010] No. 60) to Huijin, pursuant to which MOF confirmed that the issuance of the RMB187.5 billion Renminbi bonds by Huijin was made based on the decision of the State Council for the purpose of making capital contribution to The Export-Import Bank of China and China Export & Credit Insurance Corporation and participating in the fund raising activities of us, Bank of China Limited and China Construction Bank Corporation on behalf of the State.

The CBRC has issued the "Letter of Approval from the CBRC on Matters in respect of the Issuance of Renminbi Bonds by Central Huijin Investment Ltd." (Yin Jian Han [2010] No. 285), pursuant to which the CBRC confirmed its treatment of Huijin Bonds as policy financial bonds, and the risk weight associated with the investment in such bonds by commercial banks is zero. Huijin, on behalf of the State, will use the proceeds raised from such issuance for the purpose of making capital contribution to The Export-Import Bank of China and China Export & Credit Insurance Corporation and supplementing the capital of us, Bank of China Limited and China Construction Bank Corporation.

We have subscribed for the Huijin Bonds by way of tender in the open market. As at 30 June 2013, we held an amount of RMB21,630 million face value of Huijin Bonds, for a term from 5 years to 30 years with an interest rate between 3.14% and 4.20% per annum. In the event of any failure of Huijin to discharge any of its payment obligations relating to such bonds and that the enforcement of such notices by operation of law cannot be guaranteed, our business, financial condition and results of operations may be materially and adversely affected.

We are subject to reputational risks related to our business operations.

We have taken active efforts in reputational risk management and through a number of actions such as actively communicating our operational and management information, enhancing quality of our financial services, strengthening investor relations management and actively performing social responsibility, strived to gain understanding and recognition from customers, investors and the media to maintain a good reputation.

With the rapid development of the financial industry and changes in media communication, the public are paying increasing attention to the banking industry, resulting in easier and more frequent access to rumours related to banks' services quality, their operations and management and compliance issues.

Such coverage may create negative feedback from depositors, investors and other stakeholders, which may adversely affect our normal operation and management, and may cause liquidity crisis in an extreme case.

Within the banking industry, the banks have close interbank relationships with one another and interbank deposits and lending are relatively common. If a certain bank does not operate properly or become insolvent, a chain reaction may occur, which may trigger a confidence crisis towards the whole banking industry, and adversely affect our financial condition and results of operations.

We are subject to counterparty risks in our derivative transactions.

We act primarily as an intermediary in domestic and international foreign exchange and derivative markets, and we currently have exchange rate contracts with a number of domestic and international banks, financial institutions and other entities. We also have interest rate contracts and commodity derivatives, but are subject to credit risk from our various counterparties. As at 30 June 2013, the notional amount of our outstanding derivative financial instruments amounted to RMB1,952,285 million, and the fair values of our outstanding derivative assets and liabilities amounted to RMB26,949 million and RMB23,851 million, respectively. Although we believe that the overall credit quality of our counterparties is adequate, we cannot assure that parties with significant risk exposure will not have difficulty in fulfilling derivative contracts that may create losses to us.

Due to restrictions in certain PRC regulations, our investments are concentrated in certain types of investment products, and a decrease in the value of a particular type of investment may have an adverse effect on our business, financial condition and results of operations.

As a result of current PRC regulatory restrictions, substantially all of our RMB-denominated investment assets are concentrated in a limited number of investments permitted for PRC commercial banks, such as PRC government bonds, bonds issued by PRC policy banks, bonds and subordinated notes issued by PRC commercial banks, the PBOC bills and commercial paper issued by qualified domestic corporations. These restrictions on our ability to diversify our investment portfolio limit our ability to seek higher returns by making investments comparable with those of the banks in other countries as well as our ability to manage our liquidity in the same manner as banks in other countries. In addition, we are exposed to a certain level of risk as a result of the concentration of our RMB-denominated investment assets. For example, any deterioration of the financial condition of commercial banks in the PRC would increase the risks associated with holding their bonds and subordinated bonds. A decrease in the value of any of these types of investments could have a material adverse effect on our business, financial condition and results of operations.

We may be subject to Office of Foreign Assets Control (the "OFAC") penalties if we were determined to have violated any OFAC regulations.

The United States imposes a range of economic sanctions against foreign countries, terrorists, international narcotics traffickers, and those engaged in activities related to the proliferation of weapons of mass destruction. The U.S. sanctions are intended to advance certain U.S. foreign policy and national interests, such as discouraging certain countries from acquiring weapons of mass destruction or engaging in human rights abuses. The U.S. Department of the Treasury's OFAC is the principal government agency charged with administering and enforcing U.S. economic sanctions programs. Generally speaking, these economic sanctions, as administered by the OFAC, apply to U.S. entities and, in certain cases, to foreign affiliates of U.S. entities, or to transactions that involve, in some manner, U.S. products or otherwise come within U.S. jurisdiction. We do not believe that these sanctions are applicable to most of our business. However, if our New York branch or any of our overseas branches engage in any prohibited transactions by any means, or if it was otherwise determined that any of our transactions violated the OFAC regulations, we could be subject to penalties, and our reputation and ability to conduct future business in the United States or with U.S. entities could be affected, which may adversely affect our business, financial condition and results of operations.

RISKS RELATING TO THE PRC BANKING INDUSTRY

Our business is inherently subject to market fluctuations and general economic conditions, particularly in the PRC.

Our business is inherently subject to global capital market fluctuations and general economic conditions. Global market factors, including economic growth rates, inflation, deflation, interest rates, credit spreads, equity prices, real estate markets, energy prices, foreign currency exchange rates, consumer spending, business investment, government spending and the volatility and strength of the capital markets all affect the business and economic environment and, ultimately, the amount and profitability of our business. In particular, uncertain economic conditions, volatility and disruptions in global capital markets, such as those that occurred in late 2008 and 2009 during the global financial crisis, can have an adverse effect on us.

The economic recovery since the global financial crisis has been slow, with economic growth rates in major economies such as Europe, the United States, Japan and the PRC generally remaining persistently lower than pre-crisis levels. Moreover, there are on-going concerns about European sovereign debt levels and the consequences for economic growth and investor confidence in the Eurozone, political gridlock in the United States over government spending and debt levels and the consequences for economic growth and investor confidence in the United States, and the possible "tapering" of the US Federal Reserve's quantitative easing programme. Uncertainties in the global and the PRC's economies may adversely affect our business, financial condition and results of operations in many ways, including, among other things:

- during a period of economic slowdown, there is a greater likelihood that more of our customers or counterparties could become delinquent in respect of their loan repayments or other obligations to us, which, in turn, could result in a higher level of non-performing loans, allowance for impairment losses and write-offs;

- the increased regulation and supervision by the financial services industry in response to the financial crisis in certain jurisdictions where we operate may restrict our business flexibility and increase our compliance costs;

- the value of our investments in the equity and debt securities issued by overseas governments and financial institutions may significantly decline;

- our ability to raise additional capital on favourable terms, or at all, could be adversely affected; and

- trade and capital flows may further contract as a result of protectionist measures being introduced in certain markets, which could cause a further slowdown in economies and adversely affect our business prospects.

Any potential market and economic downturns, economic slowdown or geopolitical uncertainties in the PRC, its neighbouring countries or regions or the rest of the world may exacerbate the risks relating to the PRC capital markets. In addition, global economic uncertainty and the slowdown in the PRC economic growth have precipitated, and may continue to raise the possibility of, fiscal, monetary, regulatory and other governmental actions. We cannot predict whether or when such actions may occur, nor can we predict what ultimate impact, if any, such actions or any other governmental actions could have on our business, results of operations and financial condition. There can be no assurance that the PRC's economy or the global economy will continue to improve or maintain sustainable growth. If further economic downturn occurs or continues, our business, financial condition and results of operations could be adversely affected.

We face increasingly intense competition in China's Banking industry and competition from other investment and financing channels

The banking industry in China is becoming increasingly competitive. We face competition in all of our principal areas of business from commercial banks where we have operations. On 1 July 2013, the General Office of the State Council of the PRC issued Guidance Letter regarding Financial Support for Promoting Economic Restructuring and Transformation（國務院辦公廳關於金融支援經濟結構調整和轉型升級

的指導意見）(the "**Guidance Letter**"). The Guidance Letter, among other things, encourages investment by private-sector capital in financial institutions and the establishment of privately-owned banks. The Guidance Letter provides a policy direction to the increasing involvement of private-sector capital in the financial industry in China. We may face increasing competition from privately-owned banks in the future.

We compete with our competitors for substantially the same loan, deposit and fee- and commission-based products and services customers. Such competition may materially and adversely affect our business and future prospects by, for example, reducing our market share in our principal products and services, reducing our fee and commission income, affecting the growth of our loan or deposit portfolios and their related products and services, and increasing competition for soliciting senior management talent and qualified professional personnel.

In addition, we may face competition from direct corporate financing, such as the issuance of securities in the domestic and international capital markets. The domestic securities markets have experienced, and are expected to continue to experience, expansion and growth. If a substantial number of our customers choose alternative ways of financing to fund their capital needs, this may adversely affect our interest income, which could in turn materially and adversely affect our business, financial condition and results of operations.

In addition to competition from other banks and financial institutions, we also face competition from other forms of investment alternatives in China. In recent years, financial disintermediation, which involves the movement of funds by investors from intermediary financial institutions such as savings and deposit-taking banks to direct investments, has increased in China. Our deposit customers may elect to convert their funds into stocks, bonds and wealth management products, which may result in a decrease in our customer deposits, therefore further affecting the level of funds available to us for our lending business to generate net interest income. Meanwhile, financial disintermediation may result in a decrease in the enterprise demand for loans, which could materially and adversely affect our business, financial condition and results of operations.

We are subject to risks related to uncertain changes in the regulatory environment of the PRC's banking industry.

Our businesses are directly affected by changes in the PRC's banking regulatory policies, laws and regulations. The regulatory system and the laws and regulations governing the banking sector are subject to future changes, and we cannot assure you that such changes will not adversely affect our business, financial condition and results of operations.

In addition, our overseas branches, subsidiaries and representative offices have to comply with local laws and regulations of the relevant jurisdiction, and are subject to the regulation and approval by the local regulatory authorities in the relevant jurisdiction. We cannot assure you that our overseas branches, subsidiaries and representative offices could always satisfy applicable laws and regulatory requirements. If we could not meet such requirements, our business in the relevant jurisdiction may be affected, which may adversely affect our business, financial condition and results of operations.

We are subject to risks related to changes in monetary policy.

PRC monetary policy is set by the PBOC in accordance with the macroeconomic environment. In addition, the PBOC controls monetary supply through open market operations, and adjustments to the deposit reserve ratio and rediscount rate in order to achieve targeted control over the economy. As commercial banks are a major means to implement monetary policy, changes in monetary policy will affect their operations and profitability. If we cannot timely adjust our operating strategy in response to the changes in monetary policy, our business, financial condition and results of operations may be adversely affected.

We are subject to risks related to potential capital adequacy ratio fluctuation.

Following the issuance of Basel III in December 2010, on 27 April 2011, the CBRC issued new guidelines setting more stringent capital adequacy, leverage, liquidity and loan loss provisioning requirements for PRC banks in accordance with the reform of China's banking industry and the related regulatory framework. On 7 June 2012, the CBRC further issued the Regulation Governing Capital of

Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) (the "**Capital Regulation**"), which in view of the new international capital regulatory framework and the spirit of Basel II and Basel III, establish a unified and comprehensive regulatory system for capital adequacy, re-define the term "capital," expand the scope of capital risk coverage and set forth different regulatory requirements for commercial banks with different capital adequacy levels. Also, the rules set forth a new method for calculate the capital adequacy ratio and provide a transition period for PRC commercial banks to meet their capital adequacy requirements progressively. The Capital Regulation was effective since 1 January 2013. Pursuant to the Notice of Interim Arrangement for Implementation of the Capital Regulation (中國銀監會關於實施《商業銀行資本管理辦法(試行)》過渡期安排相關事項的通知), the CBRC encourages the commercial banks who had satisfied the capital adequacy requirements in the Capital Regulation before the end of 2012 to continue to meet such requirements during the transition period, and the commercial banks who had failed to meet such requirements by the end of 2012 to gradually improve their capital adequacy during the transition period by satisfying the year-by-year capital adequacy requirements.

As at the end of June 2013, we calculated capital adequacy ratios at various levels in accordance with the Capital Regulation. Specifically, the core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio stood at 10.48%, 10.48% and 13.11% respectively, all fulfilled regulatory requirements. As at the end of September 2013, our core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio further increased to 10.59%, 10.59% and 13.17%, respectively.

We proactively sought exogenous channels for capital replenishment, and further optimized the capital structure. The Board of Directors held a meeting on 15 January 2013, reviewing and approving the proposal on the issuance of up to an equivalent of RMB60.0 billion eligible tier-two capital instruments with the write-down clause other than the clause of converting to share capital and with a term of no less than five years in accordance with the Capital Regulation by the end of 2014. The proposal was reviewed and approved by the First Extraordinary General Meeting of 2013 convened on 20 March 2013. The meeting of the Board of Directors convened on 27 June 2013 reviewed and approved the authorization to the Senior Management for handling the matters relating to the issuance.

We aim to maintain a stable and reasonable capital adequacy level in order to support the implementation of our business development and strategic planning. However, certain adverse changes may lead to fluctuations of our capital adequacy ratio. Such adverse changes include, but are not limited to, the increase of risk weighted assets due to rapid business expansion, the increase of capital-deducting equity acquisitions and investments, potential deterioration in our asset quality, the decline in the value of our investments, increase of minimum capital adequacy ratio requirement by the CBRC as well as changes in computational method for capital adequacy ratio by the CBRC.

We may be required to raise additional core or supplementary capital in the future in order to meet the minimum CBRC capital adequacy requirements. To raise additional capital in order to meet the minimum CBRC capital adequacy requirement, we may need to issue additional equity securities that qualify as core capital or additional instruments that qualify as supplementary capital. However, our ability to obtain additional capital may be restricted by a number of factors, including our future business, financial condition, results of operations and cash flows; necessary government regulatory approvals; our credit rating; general market conditions for capital-raising activities by commercial banks and other financial institutions; and economic, political and other conditions both within and outside the PRC.

We cannot assure you that we will be able to obtain additional capital on commercially acceptable terms or in a timely manner, or at all. As such, there can be no assurance that we will continue to be able to comply with our capital adequacy requirements.

Furthermore, the CBRC may increase the minimum capital adequacy requirements or change the methodology for calculating regulatory capital or capital adequacy ratios or we may otherwise be subject to new capital adequacy requirements. If our capital adequacy ratio does not meet the regulatory requirements, the regulatory authorities may adopt certain correction measures including, but not limited to, restricting the growth of our risk-bearing assets, suspending all of our operation activities other than low-risk business, as well as restricting our dividend payment, which may adversely affect our business, financial condition and results of operations.

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

We expect the banking industry in the PRC to expand as a result of anticipated growth in the PRC's economy, increases in household income, further social welfare reforms, demographic changes and the opening of the PRC's banking industry to foreign participants. However, it is not clear how certain trends and events, such as the pace of the PRC's economic growth, the PRC's implementation of its commitments to World Trade Organisation accession, the development of the domestic capital and insurance markets and the ongoing reform of the social welfare system will affect the PRC's banking industry. In addition, there can be no assurance that the banking industry in the PRC is free from systemic risks. Consequently, there can be no assurance that the growth and development of the PRC's banking industry will be sustainable.

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

National credit information databases developed by the PBOC have been operational only since 2006. In addition, limitations on the availability of information and the developing information infrastructure in the PRC means that national credit information databases are generally under-developed and are not able to provide complete credit information on many of our credit applicants. Therefore, our assessment of the credit risk associated with a particular customer may not be based on complete, accurate or reliable information. As a result, our ability to effectively manage our credit risk may be affected, which may adversely affect our business, financial condition and results of operations.

Certain facts and statistics and information relating to us are derived from publications not independently verified by us, the Joint Global Coordinators, the Joint Lead Managers, the Co-Managers or any of their respective directors, employees, representatives, affiliates or advisers.

Certain facts and statistics in this offering circular relating to the PRC, its economy and its banking industry are derived from various official and publicly available sources generally believed to be reliable. While we have taken reasonable care to ensure that the facts and statistics or information relating to us presented are accurately extracted from such sources. Such facts, statistics and information have not been independently verified by us, the Joint Global Coordinators, the Joint Lead Managers, the Co-Managers or any of their respective directors, employees, representatives, affiliates or advisers and, therefore, none of them makes any representation as to the accuracy of such facts and statistics or information, which may not be consistent with other information compiled within or outside the PRC and may not be complete or up-to-date.

Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice or other reasons, the statistics herein may be inaccurate or may not be comparable from period to period or to statistics produced for other economies and should not be unduly relied upon.

RISKS RELATING TO THE PRC

The PRC's economic, political and social conditions, as well as government policies, could affect our businesses.

A substantial majority of our businesses, assets and operations are located in the PRC. Accordingly, our business prospects, financial condition, and results of operations are, to a significant degree, subject to the economic, political and legal developments in the PRC. The PRC's economy differs from the economies of most developed countries in many respects, including, among other things, government involvement, level of development, growth rate, control of foreign exchange and allocation of resources.

The PRC economy has been undergoing a transition from a planned economy to a market-oriented economy. A substantial portion of productive assets in the PRC is still owned by the PRC government. The government also exercises significant control over the PRC's economic growth by allocating resources, setting monetary policy and providing preferential treatment to particular industries or companies. In recent years, the Chinese government has pushed forward a large number of economic reform measures to introduce market forces and promote the establishment of sound corporate governance structure. Such economic reform measures may be adjusted, modified or applied according to different industries and different regions of the country. As a result, we may not benefit from certain of such measures.

The PRC government has the power to implement macroeconomic controls affecting the PRC's economy. The government has implemented various measures in an effort to control the growth rate of certain industries and restrain inflation. As measured by GDP, the PRC has been one of the world's fastest growing economies in recent years. China's real GDP growth was 10.4%, 9.3% and 7.8% in 2010, 2011 and 2012, respectively. However, the PRC may not be able to sustain such a growth rate. During the recent global financial crisis and economic slowdown, the growth of the PRC's GDP slowed down. If the PRC's economy experiences a decrease in growth rate or a significant downturn, the unfavourable business environment and economic condition for our customers could negatively impact their ability or willingness to repay our loans and reduce their demand for our banking services. Our business, financial condition and results of operations may be adversely affected.

The PRC legal system could limit the legal protections available to you.

We are organised under the laws of the PRC. The PRC legal system is based on written statutes. The PRC government has promulgated laws and regulations dealing with such economic matters as the issuance and trading of securities, shareholder rights, foreign investment, corporate organisation and governance, commerce, taxation and trade. However, many of these laws and regulations continue to evolve, may be subject to different interpretations and may be inconsistently enforced. In addition, there is only a limited volume of published court decisions which may be cited for reference, but such cases have limited precedent value as they are not binding on subsequent cases. These uncertainties relating to the interpretation of PRC laws and regulations can affect the legal remedies and protections that are available to you and can adversely affect the value of your investment.

You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.

We are a company incorporated under the laws of the PRC and a substantial majority of our businesses, assets and operations are located in the PRC. In addition, a substantial majority of our directors, supervisors and executive officers reside in the PRC and substantially all of their assets are located in the PRC. As a result, it may not be possible to serve legal written process within the United States or elsewhere outside the PRC upon us or such directors, supervisors or executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws.

Moreover, the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgements of courts with the United States, the United Kingdom, Japan and many other countries. According to the Civil Procedure Law of the PRC (as amended in 2007), the PRC courts can recognise and enforce foreign judgments in accordance with the principal of reciprocity in the absent of international treaties. In addition, pursuant to the Arrangement of the Supreme People's Court between the Mainland and the HKSAR on Reciprocal Recognition and Enforcement of the Decisions of Civil and Commercial Cases under Consensual Jurisdiction(關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排), if the parties have expressly agreed in writing that the Hong Kong Special Administrative Region (the "**Hong Kong SAR**") Court has sole jurisdiction over civil and commercial cases, the Chinese courts can recognise and enforce final judgments in relation to payments made by specific courts in Hong Kong (including the Court of Final Appeal, Court of Appeal, Court of First Instance and District Court). Other than that, judgments made by courts in the U.S. and other courts in Hong Kong may be hard to be recognised or enforced in the PRC.

As a result, recognition and enforcement in the PRC or Hong Kong of judgements of a court in the United States and any of the other jurisdictions mentioned above in relation to any matter may be difficult or impossible.

Any future occurrence of natural disasters or outbreaks of contagious diseases in the PRC may have a material adverse effect on our business, financial condition and results of operations.

Any future occurrence of natural disasters or outbreaks of health epidemics and contagious diseases, including avian influenza, Severe Acute Respiratory Syndrome ("**SARS**"), H5N1 influenza, H1N1 influenza or H7N9 influenza, may adversely affect our 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 our business, financial condition and results of operations. Moreover, the PRC has experienced natural disasters like earthquakes, floods and drought in the past few years. Any future occurrence of severe natural disasters in the PRC may adversely affect its economy and in turn our business, financial condition and results of operations. There is no guarantee that any future occurrence of natural disasters or outbreak of avian influenza, SARS, H5N1 flu, H1N1 flu, H7N9 flu or other epidemics, or the measures taken by the PRC government or other countries in response to a future outbreak of these epidemics, will not seriously interrupt our operations or those of our customers, which may have a material adverse effect on our results of operations.

RISKS RELATING TO THE BONDS

The Bonds are our unsecured obligations and claims by the Bondholders are structurally or effectively subordinated to other debt.

The Bonds are our unsecured obligations and will be effectively subordinated to all our existing and future secured indebtedness.

Payments under the Bonds are structurally or effectively subordinated to all of our secured debt to the extent of the value of the assets securing such debt, and to the debt and other liabilities of our subsidiary companies. The effect of this subordination is that, in the event of a bankruptcy, liquidation, dissolution, reorganisation or similar proceeding involving us, the assets of the affected entity could not be used to pay you until after:

- all secured claims against the affected entity have been fully paid; and
- if the affected entity is our subsidiary, all other claims against such subsidiary, including trade payables, have been fully paid.

We may not be able to redeem the Bonds upon the due date for redemption thereof.

We may (and at maturity, will) be required to redeem all of the Bonds upon the occurrence of certain events as set forth in the Terms and Conditions of the Bonds. If such an event were to occur, we may not have sufficient cash on hand and may not be able to arrange financing to redeem the Bonds in time, or on acceptable terms, or at all. The ability to redeem the Bonds in such event may also be limited by the terms of other debt instruments. Failure to repay, repurchase or redeem tendered Bonds by us may constitute an event of default under the Bonds, which may also constitute a default under the terms of our other indebtedness, any of which could cause related debt to be accelerated after any applicable notice of grace periods. If our other debt were to be accelerated, we may not have sufficient funds to purchase the Bonds and repay the debt.

Renminbi is not freely convertible; there are significant restrictions on remittance of Renminbi into and outside 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 the significant reduction over the years by the PRC government of control over routine foreign exchange transactions under current accounts. Participating banks in Hong Kong SAR have been permitted to engage in the settlement of RMB trade transactions under a pilot scheme introduced in July 2009. This represents a current account activity. The pilot scheme was extended in August 2011 to cover the whole nation and to make RMB trade and other current account item settlement available in all countries worldwide. Currently, participating banks in Singapore, Hong Kong SAR and Taiwan have been permitted to engage in the settlement of Renminbi trade transactions.

On 7 April 2011, State Administration of Foreign Exchange of the PRC (the "**SAFE**") promulgated the Circular on Issues Concerning the Capital Account Items in connection with Cross-Border Renminbi (國家外匯管理局綜合司關於規範跨境人民幣資本項目業務操作有關問題的通知) (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 capital accounts of non-PRC residents) to make contribution to an onshore enterprise or make payment for the transfer of an equity interest of an onshore enterprise by a PRC resident, such onshore enterprise shall be required to submit the prior written consent of MOFCOM 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 Circular on Issues in relation to Cross-border RMB Foreign Direct Investment（商務部關於跨境人民幣直接投資有關問題的通知）(the "**MOFCOM RMB FDI Circular**"). Pursuant to the MOFCOM RMB FDI Circular, MOFCOM and its local counterparts are authorised to approve RMB Foreign Direct Investment ("**RMB FDI**") in accordance with existing PRC laws and regulations regarding foreign investment, with certain exceptions which require the preliminary approval by the provincial counterpart of MOFCOM and the consent of MOFCOM. The MOFCOM RMB FDI Circular also states that 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 placements or share transfers by agreement under the PRC strategic investment regime.

On 13 October 2011, the PBOC issued the Measures on Administration of the RMB Settlement in relation to Foreign Direct Investment（外商直接投資人民幣結算業務管理辦法）(the "**PBOC RMB FDI Measures**"), to roll out the PBOC's detailed RMB FDI administration system, which covers almost all aspects of RMB FDI, including capital injection, payment of purchase price in the acquisition of PRC domestic enterprises, repatriation of dividends and distribution, as well as RMB denominated cross-border loans. Under the PBOC RMB FDI Measures, special approval for RMB FDI and shareholder loans from the PBOC which was previously required is no longer necessary. In some cases however, post-event filing with the PBOC is still necessary. The MOFCOM RMB FDI Circular and the PBOC RMB FDI Measures, which are new regulations, will be subject to interpretation and application by the relevant PRC authorities.

On 5 July 2013, the PBOC promulgated the Notice on Simplifying the Procedures of Cross-border Renminbi Business and Improving Relevant Policies（關於簡化跨境人民幣業務流程和完善有關政策的通知）(the "**Notice**"), which simplifies the operating procedures on current account cross-border Renminbi settlement and further publishes policies with respect to issuance of offshore Renminbi bonds by onshore non-financial institutions. The Notice intends to improve the effieiency of cross-border Renminbi settlement and facilitate the use of cross-border Renminbi settlement by banks and enterprises.

There is no assurance that the PRC government will continue to gradually liberalise the control over cross-border RMB remittances in the future, that the pilot scheme introduced in July 2009 will not be discontinued or that new PRC regulations will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC.

Holders of beneficial interests in the Bonds may be required to provide certifications and other information (including Renminbi account information) in order to allow such holder to receive payments in Renminbi in accordance with the Renminbi clearing and settlement system for participating banks in Singapore, Hong Kong SAR and Taiwan.

There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of the Bonds and our ability to source Renminbi outside of the PRC to service the Bonds.

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. Since February 2004, in accordance with arrangements between the PRC central government and the Hong Kong SAR government, licensed banks in Hong Kong SAR may offer limited Renminbi-denominated banking services to Hong Kong SAR residents and specified business customers. The PBOC, the central bank of the PRC, has also established a Renminbi clearing and settlement system for participating banks in Hong Kong SAR. On 19 July 2010, further amendments were made to the Settlement Agreement on the Clearing of Renminbi Business between the PBOC and Bank of China (Hong Kong) Limited to further expand the scope of Renminbi business for participating banks in Hong Kong SAR. Pursuant to the revised arrangements, all corporations are allowed to open Renminbi accounts in Hong Kong SAR; there is no longer any limit on the ability of corporations to convert Renminbi; and there will no longer be any restriction on the transfer of Renminbi funds between different accounts in Hong Kong SAR.

Currently, licenced banks in Singapore and Hong Kong SAR may offer limited Renminbi-denominated banking services to Singapore residents, Hong Kong SAR residents and specified business customers. The PBOC has now established a Renminbi clearing and settlement system for participating banks in Singapore, Hong Kong SAR and Taiwan. Each of Industrial and Commercial Bank of China, Singapore Branch, Bank of China (Hong Kong) Limited and Bank of China, Taipei Branch (each an "***RMB Clearing Bank***") has entered into settlement agreements with the PBOC to act as the Renminbi clearing bank in Singapore, Hong Kong SAR and Taiwan respectively.

However, the current size of Renminbi-denominated financial assets outside the PRC is limited. Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC. They are only allowed to square their open positions with the RMB Clearing Bank after consolidating the RMB trade position of banks outside Singapore, Hong Kong and Taiwan that are in the same bank group of the participating banks concerned with their own trade position and the relevant RMB Clearing Bank only has access to onshore liquidity support from the PBOC to square open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations relating to cross-border trade settlement and for individual customers of up to RMB20,000 per person per day and for the designated business customers relating to the Renminbi received in providing their services. The relevant RMB Clearing Bank is not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services and the participating banks will need to source Renminbi from the offshore market to square such open positions.

On 15 January 2013, the HKMA further enhanced the facility by reducing the notice period required for authorised institutions participating in Renminbi business ("***Participating AIs***") to request for Renminbi from two business days to one business day. Additional enhancements were announced on 25 July 2013 by the provision of one-day funds, available on the next day, which will continue to make use of the currency swap arrangement between the PBOC and the HKMA; and overnight funds, available on the same day, which will make use of the HKMA's own source of Renminbi funds in the offshore market.

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 offshore. The limited availability of Renminbi outside the PRC may affect the liquidity of the Bonds. To the extent we are required to source Renminbi in the offshore market to service the Bonds, there is no assurance that we will be able to source such Renminbi on satisfactory terms, if at all.

A trading market for the Bonds may not develop and there are restrictions on the resale of the Bonds.

The Bonds will not be listed and cannot be traded on any stock exchange. There can be no assurance as to the liquidity of the Bonds or that an active trading market will develop. If such a market were to develop, the Bonds could trade at prices that may be higher or lower than the initial issue price depending on many factors, including prevailing interest rates, our operations and the market for similar securities. The Joint Lead Managers are not obliged to make a market in the Bonds and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Joint Lead Managers. In addition, there are various selling restrictions relating to the Bonds which may be applicable in various jurisdictions. The Bonds have not been or will not be registered under the Securities Act of 1933, any state securities laws or the securities laws of the United States or any other jurisdiction. The Bonds may not be offered, sold or resold in any jurisdiction unless they are in compliance with relevant laws in such jurisdiction.

The liquidity and price of the Bonds following the offering may be volatile.

The price and trading volume of the Bonds may be highly volatile. Factors such as variations in our revenues, earnings and cash flows and proposals of new investments, strategic alliances and/or acquisitions, interest rates and fluctuations in prices of bonds issued by comparable companies could cause the price of the Bonds to change. Any such developments may result in large and sudden changes in the volume and price at which the Bonds will trade. There is no assurance that these developments will not occur in the future.

Developments in the international financial markets may adversely affect the market price of the Bonds.

The market price of the Bonds may be adversely affected by declines in the international financial markets and world economic conditions. The market for securities of entities with PRC operations is, to varying degrees, influenced by economic and market conditions in other markets, especially those in Asia. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issuers in other countries, including the PRC. Since the global financial crisis starting from 2007, the international financial markets have experienced significant volatility. If similar developments occur in the international financial markets in the future, the market price of the Bonds could be adversely affected.

Investment in the Bonds is subject to exchange rate risks.

The value of the Renminbi against the Hong Kong dollar and other foreign currencies fluctuates and is affected by changes in the PRC, by international political and economic conditions and by many other factors. All payments of interest and principal will be made with respect to the Bonds in Renminbi. As a result, the value of these Renminbi payments in Hong Kong dollar and other foreign currency terms may vary with the prevailing exchange rates in the marketplace. For example, when an investor buys the Bonds, he may need to convert Hong Kong dollars to Renminbi at the exchange rate available at that time. If the value of Renminbi depreciates against the Hong Kong dollar between then and when we pay back the principal of the Bonds in Renminbi at maturity, the value of the investment in Hong Kong dollar terms will have declined.

Investment in the Bonds is subject to interest rate risks.

The PRC Government has gradually liberalised the regulation of interest rates in recent years. Further liberation may increase interest rate volatility. The Bonds will carry a fixed interest rate. Consequently, the trading price of the Bonds will vary with the fluctuations in the Renminbi interest rates. If a Bondholder tries to sell such Bonds before their maturity, he may receive an offer that is less than the Bondholder's investment.

Payments for the Bonds will only be made to investors in the manner specified in the Bonds.

Except in limited circumstances, all payments to investors in respect of the Bonds will be made solely:

(i) when the Bonds are represented by a global bond, by transfer to a Renminbi bank account maintained in London in accordance with prevailing rules and procedures; or

(ii) when the Bonds are in definitive form, by transfer to a Renminbi bank account maintained in London in accordance with prevailing rules and regulations. We cannot make payment by any other means, including in any other currency or by transfer to a bank account in the PRC.

Gains on the transfer of the bonds may become subject to income taxes under PRC tax laws.

Under the PRC Enterprise Income Tax Law and its implementation rules which took effect on 1 January 2008, any gains realised on the transfer of Bonds by non-resident enterprise investors may be subject to enterprise income tax if such gains are regarded as income derived from sources within the PRC. While the PRC Enterprise Income Tax Law establishes such capital gain tax rate for non-resident enterprises at 20% of the gross proceeds, its implementation rules have reduced the rate to 10%. There remains uncertainty as to whether the gains realised from the transfer of the Bonds would be treated as income derived from sources within the PRC and be subject to the PRC tax. This will depend on how the PRC tax authorities interpret, apply or enforce the PRC Enterprise Income Tax Law and its implementation rules. According to the arrangement between the PRC and Hong Kong SAR, residents of Hong Kong SAR, including enterprise investors and individual investors, will not be subject to PRC tax on any capital gains derived from a sale or exchange of the Bonds.

Therefore, if an investor, as a non-resident enterprise, is required to pay PRC income tax on capital gains on the transfer of the Bonds, its capital gains from the Bonds will be levied at the current rate of 10% of their gross proceeds from the transfer, unless there is an applicable tax treaty between the PRC and the jurisdiction in which an investor, as a non-resident enterprise investor in the Bonds, reside that reduces or exempts the relevant tax. If such capital gain tax is levied, the value of its investment in the Bonds may be materially and adversely affected.

The PRC government does not guarantee the Bonds.

Although the MOF and Huijin are our existing largest shareholders, our borrowings and other obligations, including the Bonds, are not guaranteed by the PRC government. You, therefore, may not enforce the obligations under the Bonds against the PRC government. If you purchase our Bonds, you are relying solely on our creditworthiness.

We may issue additional Bonds in the future.

We may, from time to time, and without prior consultation of the holders of the Bonds create and issue further Bonds or otherwise raise additional capital through such means and in such manner as we may consider necessary. There can be no assurance that such future issuance or capital raising activity will not adversely affect the market price of the Bonds.

The bankruptcy laws of the PRC may differ from those of other jurisdictions with which the holders of the Bonds are familiar.

We are incorporated under the laws of the PRC. Any bankruptcy proceeding relating to us would likely involve PRC bankruptcy laws, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the holders of the Bonds are familiar.

TERMS AND CONDITIONS OF THE 2016 BONDS

The following are the terms and conditions of the 2016 Bonds substantially in the form in which they will be endorsed on the definitive bonds and referred to in the global bond.

The issue of the CNY1,300,000,000 3.35% bonds due 2016 (the "**Bonds**") was authorised by the president of the Issuer on 11 June 2012. A fiscal agency agreement dated on or about 19 November 2013 (the "**Fiscal Agency Agreement**") has been entered into in relation to the Bonds between the Issuer and Industrial and Commercial Bank of China (Asia) Limited as fiscal agent and the paying agents named in it. The fiscal agent and any paying agents as may be appointed from time to time in respect of the Bonds under the Fiscal Agency Agreement are referred to below respectively as the "Fiscal Agent" and the "Paying Agents" (which expression shall also include the Fiscal Agent). The Fiscal Agency Agreement includes the form of the Bonds and the coupons relating to them (the "**Coupons**").

Copies of the Fiscal Agency Agreement are available for inspection during normal business hours at the specified offices of the Issuer and the Fiscal Agent. The holders of the Bonds (the "**Bondholders**") and the holders of the Coupons (whether or not attached to the relevant Bonds) (the "**Couponholders**") are deemed to have notice of all the provisions of the Fiscal Agency Agreement applicable to them.

Words and expressions defined in the Fiscal Agency Agreement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated.

1 Form, Denomination and Title

(a) Form and Denomination

The Bonds will be serially numbered and in bearer form in the specified denomination of CNY1,000,000 and higher integral multiples of CNY10,000 in excess thereof, each with Coupons attached on issue. No definitive Bonds will be issued with a denomination above CNY1,990,000.

(b) Title

Title to the Bonds and Coupons appertaining thereto will pass by delivery. The holder of any Bond or Coupon will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) and no person will be liable for so treating the holder.

2 Status of Bonds

The Bonds and Coupons are direct, general, unconditional, unsubordinated and unsecured obligations of the Issuer ranking pari passu without any preference among themselves and at least equally with all other outstanding unsecured and unsubordinated Public External Indebtedness of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

In these Conditions:

"Public External Indebtedness" means any indebtedness of the Issuer (or, for the purposes of Condition 7(c), 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 issued outside the People's Republic of China (for the purposes hereof not including the Hong Kong and Macau Special Administration Regions or Taiwan) ("PRC") and 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; and

"Subsidiary" means any entity whose financial statements at any time are required by law or in accordance with generally accepted accounting principles to be fully consolidated with those of the Issuer.

3 Interest

(a) Interest Payment Dates

The Bonds bear interest from 19 November 2013 (the "**Issue Date**") at the rate of 3.35% per annum, payable semi-annually in arrear on 19 May and 19 November in each year (each an "Interest Payment Date"); provided that if any Interest Payment Date would otherwise fall on a day which is not a business day (as defined in Condition 5(b)(iv) below), it shall be postponed to the next day which is a business day unless it would thereby fall into the next calendar month in which event it shall be brought forward to the immediately preceding business day. Each Bond will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder, and (ii) the day seven days after the Fiscal Agent has notified the Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is a failure in the subsequent payment to the relevant Bondholders under these Conditions).

The period beginning on (and including) the Issue Date and ending on (and excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (and excluding) the next succeeding Interest Payment Date is called an "Interest Period".

(b) Calculation of Interest

Interest in respect of any Bond shall be calculated per CNY10,000 in principal amount of the Bonds (the "**Calculation Amount**"). The amount of interest payable per Calculation Amount for any Interest Period shall be the product of (i) the rate of interest specified in Condition 3(a); (ii) the Calculation Amount; and (iii) the actual number of days in the Interest Period concerned divided by 365, and rounding the resulting figure to the nearest CNY0.01 (CNY0.005 being rounded upwards).

4 Redemption and Purchase

(a) Final Redemption

Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on the Interest Payment Date falling on or nearest to 19 November 2016.

(b) Redemption for tax reasons

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption, if: (A) the Issuer has or will become obliged to pay Additional Amounts as provided or referred to in Condition 6 (Taxation and Withholding) as a result of any change in, or amendment to, the laws or regulations of the PRC 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 12 November 2013; and (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; provided, however, that no such notice of redemption shall be given earlier than 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 Bonds were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver or procure that there is delivered to the Fiscal Agent:

(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.

Upon the expiry of any such notice as is referred to in this Condition 4(b), the Issuer shall be bound to redeem the Bonds in accordance with this Condition 4(b).

In this Condition 4(b), "Additional Amounts" means the additional amounts provided or referred to in Condition 6 (Taxation and Withholding) which are in respect of any withholding or deduction (i) at a rate greater than the applicable withholding tax rate as a result of the Issuer, being deemed by the tax authorities of the PRC to be a PRC tax resident in accordance with any applicable tax laws, treaties or regulations or (ii) by or within any other jurisdiction through which payments on the Bonds are made or any authority thereof or therein having power to tax, other than the PRC.

(c) Purchases

The Issuer may at any time purchase Bonds (provided that such Bonds are purchased together with the right to receive payments of interest thereon and all unmatured Coupons appertaining thereto are surrendered therewith) in the open market or by private treaty at any price. If purchases are made by tender, tenders must be available to all holders of the Bonds alike. Any Bonds purchased pursuant to this Condition 4(c) may be held, reissued, resold or surrendered to the Fiscal Agent for cancellation. The Bonds so purchased, while held by or on behalf of the Issuer, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings or for the purposes of Condition 8(a).

5 Payments

(a) Method of Payment and Presentation of Bonds and Coupons

(i) Payment: Payments of principal in respect of the Bonds will (subject as provided below) be made in Renminbi against presentation and surrender of the Bonds and payments of interest in respect of the Bonds will (subject as provided below) be made in Renminbi against presentation and surrender of Coupons, in each case at the specified office of any Paying Agent by transfer to a Renminbi account maintained by the payee with a bank in Hong Kong.

(ii) Coupons: The Bonds should be presented for payment together with all unmatured Coupons appertaining thereto. Upon the date on which any such Bond in definitive form becomes due and payable, unmatured Coupons relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

(iii) Payments on business days: A Bond or Coupon may only be presented for payment and payment will only be made on a day which is a business day. No further interest or other payment will be made as a consequence of the day on which the relevant Bond or Coupon may be presented for payment under this paragraph falling after the due date. In this Condition "business day" means any day (other than Saturdays and Sundays) on which commercial banks are open for business in the relevant place of presentation and any day (other than Saturdays and Sundays) on which commercial banks in Hong Kong are open for business and settle Renminbi payments and banks in Beijing, PRC are not authorised or obligated by law or executive order to be closed.

(iv) Interest payable other than on an Interest Payment Date: If the due date for redemption of any Definitive Bond is not an Interest Payment Date, interest (if any) accrued with respect to such Bond from and including the preceding Interest Payment Date or, as the case may be, the Issue Date shall be payable only against presentation or surrender of the relevant Definitive Bond.

(v) Payments subject to Fiscal Laws: All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment but without prejudice to the provisions of Condition 6 (Taxation and Withholding). No commission or expenses shall be charged to the Bondholders in respect of such payments.

(b) Paying Agents

The initial Paying Agent and its initial specified office are listed below. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that it will maintain a Fiscal Agent and a Paying Agent having a specified office in Hong Kong. Notice of any change in the Paying Agents or the specified office of any Paying Agent will promptly be given to the Bondholders.

6 Taxation and Withholding

All payments of principal and/or interest in respect of the Bonds and the Coupons will 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 whatsoever nature imposed or levied by or on behalf of the PRC or any political subdivision or any authority thereof or therein having power to levy tax in the PRC, unless such withholding or deduction is required by law of the PRC.

In that event, the Issuer shall pay such additional amounts as will result in the receipt by the Bondholders or Couponholders of such amounts as would have been received by them if no such withholding or deduction had been required, provided, however, that no such additional amounts shall be payable in respect of any Bond or Coupon presented for payment:

(i) by a Bondholder or Couponholder which is liable to such taxes, duties, assessments or governmental charges in respect of such Bond or Coupon by reason of its having some connection with the PRC other than the mere holding of such Bond or Coupon; or

(ii) by a Bondholder or Couponholder who would not be liable for or subject to such withholding or deduction by making a declaration of identity, nonresidence or other similar claim for exemption to the relevant tax authority if, after having been requested to make such a declaration or claim, such holder fails to do so within any applicable period prescribed by such relevant tax authority; or

(iii) more than 30 days after the Relevant Date except to the extent that the relevant Bondholder or Couponholder would have been entitled to such additional amounts if it had presented such Bond or Coupon on the last day of such period of 30 days.

"Relevant Date" means 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 by the Fiscal Agent in accordance with the provisions of the Fiscal Agency Agreement on or prior to such due date, the date on which the full amount has been received and notice to that effect has been given to the Bondholders.

For the avoidance of doubt, the Issuer's obligation to pay additional amounts in respect of taxes, duties, assessments and other governmental charges will not apply to (a) any estate, inheritance, gift, sales, transfer, personal property or any similar tax, duty, assessment or other governmental charge or (b) any tax, duty, assessment or other governmental charge which is payable otherwise than by deduction or withholding from payments of principal of, or interest on the Bonds; provided that the Issuer shall pay all stamp or other taxes, duties, assessments or other governmental charges, if any, which may be imposed by the PRC or any political subdivision thereof or any taxing authority thereof or therein, with respect to the Fiscal Agency Agreement or as a consequence of the issuance of the Bonds.

Any reference to principal or interest with respect to the Bonds will be deemed to include any additional amounts payable by the Issuer in respect of such principal or interest under this Condition 6.

7 Events of Default

If any of the following events (each an "Event of Default") occurs and is continuing, any Bondholder may give notice to the Issuer at the specified office of the Fiscal Agent that the Bonds are, and they shall immediately become, due and payable at their principal amount together with accrued interest without further formality:

(a) Non-Payment

The Issuer fails to pay the principal of or any interest on any of the Bonds when due and such failure continues for a period of 30 days; or

(b) Breach of Other Obligations

The Issuer does not perform or comply with any one or more of its other obligations in the Bonds or the Fiscal Agency Agreement which default remains unremedied for a period of 45 days after written notice of such default shall have been delivered to the Issuer (with a copy to the Fiscal Agent) by holders of an aggregate principal amount of not less than 10% of the outstanding Bonds; or

(c) Cross-Default

(i) 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

(ii) 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 paragraph (c) have occurred equals or exceeds US$30,000,000 or its equivalent; or

(d) 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; or

(e) 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 (i) on terms approved by an Extraordinary Resolution of the Bondholders, or (ii) 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

(f) 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 Bonds, Coupons or the Fiscal Agency Agreement, and the Issuer fails to obtain the necessary waiver or approval or complete such other necessary remedial action within 60 days such that the Issuer may lawfully perform such obligations; or

(g) Analogous Events

Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of Conditions 7(d) to 7(f) (both inclusive).

"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 these audited financial statements relate, account for 5% 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.

8 Meetings and Modification of Conditions, Waiver and Substitution

(a) Meetings

The Fiscal Agency Agreement contains provisions for convening meetings of the holders of Bonds for the time being outstanding (as defined in the Fiscal Agency Agreement) to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of, or an arrangement in respect of, the Conditions and the provisions of the Fiscal Agency Agreement. Such a meeting may be convened by the Issuer or by the Bondholders holding not less than 10% in principal amount of the Bonds for the time being outstanding. A resolution duly passed at any such meeting shall be binding on the holders of Bonds whether present or not and on all holders of Coupons. The quorum at any such meeting for passing an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or, at any adjourned meeting, two or more persons being or representing holders of Bonds whatever the principal amount of the Bonds so held or represented, except that, at any meeting the business of which includes the modification of certain of these Conditions or of certain provisions of the Fiscal Agency Agreement (as set out therein), the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing not less than 67%, or at any such adjourned meeting, not less than 25%, of the principal amount of the Bonds for the time being outstanding.

In addition, a resolution in writing signed by or on behalf of 90% of the Bondholders who for the time being are entitled to receive notice of a meeting of Bondholders under the Fiscal Agency Agreement will take effect as 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 Bondholders.

(b) Modification

Notwithstanding Condition 8(a) above, the Bonds and these Conditions may be amended without the consent of the Bondholders to correct a manifest error. In addition, the parties to the Fiscal Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Bondholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Bondholders.

9 Prescription

The right of a Bondholder or Couponholder to receive any payment under the Bonds shall become void 10 years (in the case of principal) or six years (in the case of interest) after the due date for such payment.

10 Notices

Any notice to the holder of any Definitive Bond shall be validly given if published in a leading newspaper having general circulation in London (which is expected to be the Financial Times) or if such publication shall not be practicable, in an English language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made. Couponholders (if any) will be deemed for all purposes to have notice of the contents of any notice given to the holders of Definitive Bonds in accordance with this Condition 10.

11 Further Issues

The Issuer may from time to time without the consent of the Bondholders or Couponholders create and issue further Bonds which are (a) expressed to be consolidated and form a series with the Bonds; and (b) identical to the Bonds in all respects except for their respective issue prices, issue dates and interest commencement dates and the dates of first payment of interest on them, and so that the same shall be consolidated and form a single series with the Bonds, and references in these Conditions to Bonds include (unless the context requires otherwise) any other bonds issued pursuant to this Condition and forming a single series with the Bonds.

12 Replacement of Bonds

Any Bond (including for the purposes of this Condition any Coupon) which is lost, stolen, mutilated, defaced or destroyed may be replaced (if it is in definitive form) at the specified office of the Paying Agents upon payment by the claimant of the expense incurred in connection therewith and on such terms as to evidence, indemnity, security or otherwise as the Issuer may require. Mutilated or defaced Bonds must be surrendered before replacements will be issued.

13 Governing Law and Jurisdiction

(a) Governing Law

The Bonds and the Coupons are governed by, and shall be construed in accordance with, the laws of Hong Kong.

(b) Jurisdiction

The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Bonds and that accordingly any suit, action or proceedings (together in this Condition 13 referred to as "Proceedings") arising out of or in connection with the Bonds or the Coupons may be brought in such courts and the Issuer waives any objection to Proceedings in any such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

(c) Service of Process

The Issuer agrees that the process by which any legal proceedings in Hong Kong are begun may be served on it by being delivered to it at its place of business in Hong Kong at 28/F, ICBC Tower, 3 Garden Road, Central, Hong Kong.

(d) Waiver of Immunity

The Issuer further irrevocably agrees that no immunity (to the extent that it may now or hereafter exist, whether on the grounds of sovereignty or otherwise) from any Proceedings or from execution of judgment shall be claimed by or on behalf of it or with respect to its assets, any such immunity being irrevocably waived by the Issuer, and the Issuer irrevocably consents generally in respect of any such Proceedings to the giving of any relief or the issue of any process in connection with any such Proceedings including, without limitation, the making, enforcement or execution against any property whatsoever of any order or judgment which may be made or given in such Proceedings.

TERMS AND CONDITIONS OF THE 2018 BONDS

The terms and conditions of the 2018 Notes will be identical to those under "Terms and Conditions of the 2016 Bonds" except as set out below. References to "Bonds" shall be construed as references to the 2018 Bonds.

1. The principal amount of the 2018 Bonds shall be CNY700,000,000.

2. The rate of interest of the 2018 Bonds shall be 3.75 per cent. per annum.

3. The Maturity Date of the 2018 Bonds shall be 19 November 2018.

SUMMARY OF PROVISIONS RELATING TO THE 2016 BONDS IN GLOBAL FORM

The 2016 Bonds will be represented by a global bond (the "**Global Bond**") which will be delivered to and held by a common depositary for Euroclear and Clearstream.

Exchange

The Global Bond will become exchangeable in whole, but not in part (save as otherwise provided), for definitive bonds (the "**Definitive Bonds**") in the denomination of CNY1,000,000 and integral multiples of CNY10,000 in excess thereof and with interest coupons attached if any of the following events occurs:

- if the Global Bond is held on behalf of either Euroclear or Clearstream or any other alternative clearing system (an "**Alternative Clearing System**") and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or

- if principal in respect of any 2016 Bonds is not paid when due and payable.

Thereupon the holder may give notice to the Fiscal Agent of its intention to exchange the Global Bond for Definitive Bonds on or after the Exchange Date specified in the notice.

On or after the Exchange Date (as defined below) the holder of the Global Bond may surrender the Global Bond to or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent. In exchange for the Global Bond, or on endorsement in respect of the part to be exchanged, the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated definitive 2016 Bonds (having attached to them all Coupons in respect of interest which has not already been paid on the Global Bond), security printed in accordance with any applicable legal and regulatory requirements and substantially in the form set out in Fiscal Agency Agreement. On exchange of the Global Bond, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with any relevant definitive 2016 Bonds.

"Exchange Date" means a day falling not less than 60 days, or in the case of exchange following principal in respect of any 2016 Bonds not being paid when due and payable 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and in the cities in which Euroclear and Clearstream, Luxembourg or, if relevant, the Alternative Clearing System, (each as defined under "Notices" below) are located.

Payments

Principal and interest in respect of the Global Bond shall be paid to its holder against presentation and (if no further payment falls to be made on it) surrender of it to or to the order of the Fiscal Agent (or to the order of such other Paying Agent as shall have been notified to the Bondholders for this purpose) which shall endorse such payment or cause such payment to be endorsed in the appropriate schedule to the Global Bond (such endorsement being prima facie evidence that the payment in question has been made).

Notices

For so long as all of the 2016 Bonds are represented by the Global Bond and the Global Bond is held on behalf of Euroclear or Clearstream or (with the consent of the Issuer) the Alternative Clearing System, notices to Bondholders may be given by their being delivered to Euroclear and Clearstream or, as the case may be, the Alternative Clearing System, rather than by publication as required by the Conditions.

SUMMARY OF PROVISIONS RELATING TO THE 2018 BONDS IN GLOBAL FORM

The 2018 Bonds will be represented by a global bond (the "**Global Bond**") which will be delivered to and held by a common depositary for Euroclear and Clearstream.

Exchange

The Global Bond will become exchangeable in whole, but not in part (save as otherwise provided), for definitive bonds (the "**Definitive Bonds**") in the denomination of CNY1,000,000 and integral multiples of CNY10,000 in excess thereof and with interest coupons attached if any of the following events occurs:

- if the Global Bond is held on behalf of either Euroclear or Clearstream or any other alternative clearing system (an "**Alternative Clearing System**") and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or

- if principal in respect of any 2018 Bonds is not paid when due and payable.

Thereupon the holder may give notice to the Fiscal Agent of its intention to exchange the Global Bond for Definitive Bonds on or after the Exchange Date specified in the notice.

On or after the Exchange Date (as defined below) the holder of the Global Bond may surrender the Global Bond to or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent. In exchange for the Global Bond, or on endorsement in respect of the part to be exchanged, the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated definitive 2018 Bonds (having attached to them all Coupons in respect of interest which has not already been paid on the Global Bond), security printed in accordance with any applicable legal and regulatory requirements and substantially in the form set out in Fiscal Agency Agreement. On exchange of the Global Bond, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with any relevant definitive 2018 Bonds.

"Exchange Date" means a day falling not less than 60 days, or in the case of exchange following principal in respect of any 2018 Bonds not being paid when due and payable 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and in the cities in which Euroclear and Clearstream, Luxembourg or, if relevant, the Alternative Clearing System, (each as defined under "Notices" below) are located.

Payments

Principal and interest in respect of the Global Bond shall be paid to its holder against presentation and (if no further payment falls to be made on it) surrender of it to or to the order of the Fiscal Agent (or to the order of such other Paying Agent as shall have been notified to the Bondholders for this purpose) which shall endorse such payment or cause such payment to be endorsed in the appropriate schedule to the Global Bond (such endorsement being prima facie evidence that the payment in question has been made).

Notices

For so long as all of the 2018 Bonds are represented by the Global Bond and the Global Bond is held on behalf of Euroclear or Clearstream or (with the consent of the Issuer) the Alternative Clearing System, notices to Bondholders may be given by their being delivered to Euroclear and Clearstream or, as the case may be, the Alternative Clearing System, rather than by publication as required by the Conditions.

USE OF PROCEEDS

We intend to use the net proceeds from the sale of the Bonds for extending Renminbi-denominated loans as permitted by our articles of association and for working capital and general corporate purposes.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth our actual consolidated indebtedness and capitalisation as at 30 June 2013 and as adjusted for the issue of the notes by ICBC (Asia), a subsidiary, in October 2013, and the issue of the Bonds. Potential purchasers should read this table in conjunction with the unaudited consolidated financial statements and the accompanying notes as at and for the six months ended 30 June 2013 included elsewhere in this offering circular.

	As at 30 June 2013		
	Actual	**As adjusted**	**As further adjusted**
	(Unaudited, in RMB millions)		
Debt[1]			
Debt securities issued			
– Subordinated bonds	187,652	187,652	187,652
– A share convertible corporate bonds[2]	21,556	21,556	21,556
– Other debt securities issued	40,995	40,995	40,995
– Notes issued by a subsidiary in October 2013[3]	–	3,089	3,089
– 2016 Bonds to be issued[4]	–	–	1,300
– 2018 Bonds to be issued[4]	–	–	700
Total debt	250,203	253,292	255,292
Equity			
Share capital	349,650	349,650	349,650
Equity component of convertible bonds[2]	2,694	2,694	2,694
Capital reserve[5]	125,373	125,373	125,373
Surplus reserves	98,195	98,195	98,195
General reserves	189,296	189,296	189,296
Currency translation differences	(20,667)	(20,667)	(20,667)
Retained profits	426,966	426,966	426,966
	1,171,507	1,171,507	1,171,507
Non-controlling interest	3,586	3,586	3,586
Total equity	1,175,093	1,175,093	1,175,093
Total capitalisation[6]	1,425,296	1,428,385	1,430,385

Notes:

(1) As at 30 June 2013, we had deposits from customers, amounts due to banks and other financial institutions, certificates of deposits issued, balances under repurchase agreements, credit commitments, acceptance, issued letters of guarantee and letters of credit, other commitments and contingencies, including outstanding litigation, that arise from its ordinary course of business.

(2) We issued A share convertible bonds on 31 August 2010 with a par value of RMB25,000 million. When convertible bonds were issued, we recognised separately the liability component and the equity component in *bonds payable* and *capital reserve*, respectively, on initial recognition. Any attributable transaction costs related to the issuance are allocated to liability and equity components in proportion to their respective fair values. As at 30 June 2013, the liability component and the equity component of the convertible bonds were RMB21,556 million and RMB2,694 million, respectively.

(3) This takes into account the issue of US$500 million 4.50% Tier 2 subordinated notes due 2023 by ICBC (Asia) in October 2013. The aggregate principal amount of such notes issued has not taken into account the effect of transaction costs and expenses. We calculated the RMB equivalent at an exchange rate of US$1.00 to RMB6.178, as published by the PBOC on 28 June 2013.

(4) This takes into account our issue of the 2016 Bonds in the aggregate principal amount of RMB1,300,000,000 and our issue of the 2018 Bonds in the aggregate principal amount of RMB700,000,000. The aggregate principal amount of the Bonds to be issued has not taken into account the effect of transaction costs and expenses.

(5) This includes capital reserve, investment revaluation reserve, cash flow hedge reserve and other reserves.

(6) Total capitalisation equals total debt plus total equity.

Unless otherwise disclosed above, there has not been any material change in our indebtedness and capitalisation since 30 June 2013.

OVERVIEW

Through our continuous efforts and solid growth, we ranked first in the PRC banking industry in terms of total assets, market share of loans and market share of deposits, respectively. Among the Global 2000 selected by Forbes in 2013 in terms of sales, profit, assets and market value, we ranked as the largest enterprise in the world. Within the Global 500 selected by *Fortune* in terms of total operating revenue, we ranked first among all commercial banks. In the Top 1000 World Banks selected by *The Banker* in terms of tier-one capital, we ranked first with tier-one capital of USD160.6 billion, which was the first time for a Chinese bank to rank the first place over the past nearly 50 years since the rankings were published. As at the end of the first half of 2013, we ranked atop the global financial industry in terms of indicators such as deposits, loans, total assets, tier-one capital, market capitalization and profit.

We provide clients with a wide range of financial products and services and have formed a cross-market, internationalised and integrated business model with a focus on commercial banking. We have maintained a leading position in the PRC market in most of the core and emerging businesses of commercial banks.

We believe that "Industrial and Commercial Bank of China" is one of the most recognised financial service brand names in the PRC with great international influence. We have won numerous awards over the years, including:

- the "Best Corporate Bank in China" and "Best Investment Management Services (Asia)" in 2012 by *Global Finance*;
- the "Best Domestic Bank (China)" and "Platinum Award for All-Round Excellence" in 2012 by *The Asset*;
- the "Best Bank in China" in 2012 by *Euromoney*;
- "Asia's Top Blue Chip Company" in 2012 by *FinanceAsia*;
- the "Best Large-Scale Retail Bank in China", "Best Cash Management Bank in China", "Best Internet Banking in Asia Pacific", "Best Private Bank in China" in 2012 by *The Asian Banker*; and
- the "Best Commercial Bank" in 2012 by *The Chinese Banker*.

In addition, in 2012 we were ranked in 13th place among the Top 100 Most Valuable Global Brands and first among the financial institution brands in terms of brand value by Millward Brown and in 4th place among the Top 500 Enterprises of the PRC in terms of revenue by China Enterprise Confederation.

OUR COMPETITIVE STRENGTHS

We possess leading market position in the PRC with growing international influence.

We have set our vision to become "a global leading bank with the best profitability, performance and prestige". Through our outstanding management and active innovation, we have become the world's most profitable commercial bank with the largest market capitalisation and customer deposits. "Industrial and Commercial Bank of China" has become one of the PRC's best known brand names in financial service industry, and its international influence is also expanding rapidly.

We are the largest commercial bank with the greatest overall strength in the PRC and have prevailing scale advantages. Our total assets and our market shares in relation to loans and deposits have always ranked first in the industry in the PRC. According to statistics from the PBOC, at the end of June 2013, we ranked first in the banking industry in terms of corporate loans and corporate deposits, with a market share of 11.5% and 12.0%, respectively, and also ranked first in the industry in terms of both the size of savings deposits and personal loans, with a market share of 15.9% and 13.6%, respectively.

We are one of the highest-rated domestic Chinese commercial banks in terms of credit ratings by Moody's and S&P. With respect to the traditional banking business, we have further strengthened our competitive advantages and leading position, and our corporate loans and deposits and individual loans and deposits businesses have been growing steadily. With respect to the emerging businesses and the intermediary businesses, we have maintained high growth development in these areas and further expanded our leading advantages. We maintain our position as an industry leader in the corporate RMB settlement business. The total number of credit cards issued by us, the consumption value through our credit cards and the amount of outstanding overdraft balances all rank first in the industry in the PRC. In addition, the growth rate and volume increase of our intermediary business continue to lead the industry. In particular, under the difficult and unfavourable business environment since the global financial crisis in 2008 and the slowdown of economic growth in the PRC, and in contrast with the widespread losses in the global banking industry, we withstood the impact of the global financial crisis and maintained a sound and steady profit growth.

Leveraging on the growth of the PRC's economy, we have enhanced our global influence. In recent years, with our outstanding corporate culture, management capacity and operation performance, we have frequently received various awards from various well-known international media and institutes. The international influence of the ICBC brand keeps increasing. In 2012 we were ranked the 13th place among the Top 100 Most Valuable Global Brands and first among the financial institution brands in terms of brand value by Millward Brown.

We have transformed our business operation successfully and have created a leading business model in the industry.

We have transformed our business and optimised our business structure to create a business model that balances risks and benefits and has strong sustainability.

We have continuously optimised our asset and liability structure. With respect to assets, we have continuously improved return on loans, while maintaining a low proportion of risky assets. As at 30 September 2013, our loan-to-deposit ratio was 65.2%. Meanwhile, in view of practical needs when the PRC's economy gradually returns to its normal course and guidance from state macro-control policy, we have maintained reasonable and balanced growth on the total amount of credit and on this basis, we have shifted the focus of our work to the adjustment and optimisation of credit structure and the cultivation of new growth areas. We have continuously optimised our product mix, industry allocation, client allocation and geographical allocation in relation to our corporate loans. The proportion of high quality business with good growth potential, such as individual loans, loans to small and medium enterprises and trade finance, has been increasing, which has promoted the orderly development of large, medium and small customers and successive development of traditional and emerging markets. With regard to liabilities, through the sale of wealth management products, we diverted from high-cost term deposits and generated income from transaction fees. Meanwhile, the proportion of low-cost demand deposit and interbank deposit continues to increase, resulting in significant transformation of liabilities structure and significant reduction in cost of capital.

We have continued to optimise our income structure. We significantly enhanced our efforts to develop low capital consumption intermediary businesses and emerging businesses. In addition, we have pushed forward the diversification of our business and promoted a more diversified, stable and balanced income structure. Both the volume and pace of the growth of our intermediary business continue to take the lead over our peers, and we believe our leading position in the market has been further established. Leveraging our key and potential product lines, we pushed forward the innovative development of fee-based business under a regulated framework, which has become an important driving factor in our overall profit growth. Our net fee and commission income increased by 23.0% during the six months ended 30 June 2013 compared to the same period of 2012, with its proportion in operating income going up to 23.1%. For the nine months ended 30 September 2013, our fee and commission income was RMB103,698 million, representing an increase of 20.3% over the same period of 2012, with its proportion in operating income further going up to 24.0%.

We have established an extensive customer base and effective distribution channels, and obtained a leading position in electronic banking services.

We have an extensive customer base. As at 30 June 2013, we had approximately 4.6 million corporate customers and 411 million individual customers. We have an industry-leading corporate customer base and the number of high quality corporate customers has been increasing. Our optimised customer structure has not only provided us with steady sources of funds, promoted sound growth of our corporate credit business, but also laid a solid foundation for the fast growth of our corporate intermediary business. Meanwhile, the proportion of our medium and high-end individual customers has increased rapidly. The high quality individual customer base provides strong support to the further development in our personal financial products and services.

We have established a well-structured, extensive and efficient distribution network. As at the end of June 2013, we had 17,225 domestic institutions, 388 overseas institutions in 39 countries and regions, and established correspondent relationship with 1,661 overseas banks in 141 countries and regions, with a service network covering Asia, Africa, Latin America, Europe, America and Australia as well as major international financial centers. We have strengthened our network by adjusting geographical allocation of our branch network and upgrading outlets. More channels have been added to our distribution network, which has enhanced our ability to provide individualised services.

We have actively promoted our electronic banking as a substitute for traditional physical outlets. As at the end of June 2013, we had 18,491 self-service banking centres and 80,170 ATMs, and nearly 80% of our business was handled by the electronic channel with lower cost and higher efficiency. We have continued to upgrade our operation network, strengthen the build-up of our customer management team, and improve the multi-level customer service system and our customer service capability. As at the end of June 2013, we had 23,672 Associate Financial Planner ("**AFP**") and 3,745 Certified Financial Planner ("**CFP**") holders, maintaining the leading position in the banking industry.

We have further enhanced our risk control capability by establishing advanced, quantitative and comprehensive risk management system.

We have continuously improved our risk management capabilities, implemented the "Full Process" and "Full Coverage" risk management model, and adopted "New Standards" and "New Technology".

- "*Full Process*" – Our risk management covers the complete process of risk identification and quantification, control, monitoring, assessment and reporting, constituting a developed comprehensive risk management organisational structure and system.

- "*Full Coverage*" – Our risk management comprehensively covers all of our domestic and overseas branches and businesses, and has been able to identify, measure, monitor and assess our overall risks. We have established the management system for our consolidated entities and have enhanced our internal transaction management as well as the risk management evaluation for our overseas branches. The Internal Rating Based ("**IRB**") approach has been applied to the whole risk management process from marketing, rating, pricing, approval, authorisation to quality categorisation. We have further expanded the coverage of our industry credit policy and risk limit management and enhanced our credit policy management system.

- "*New Standards*" – Pursuant to the overall planning of CBRC for the implementation of the new capital regulatory standards, we constantly strengthened enterprise risk management, kept improving credit risk management, and accelerated market risk management. We maintained a leading level in operational risk management among peers and implemented prudent liquidity risk management. In 2012, CBRC inspected and accepted the implementation of the advanced capital management methods in us and the meeting of the Board of Directors of us reviewed and approved the Compliance & Implementation Planning for Three Pillars of the Regulation Governing Capital of Commercial Banks (Provisional) promulgated by CBRC in June 2012. By the end of 2012 we had met the requirements under the Regulation Governing Capital of Commercial Banks (Provisional) in information disclosure under Pillar 3 and has equipped with the ability of the information disclosure under Pillar 3.

- "*New Technology*" – We have built a leading risk management information system in the PRC, which is centralised, refined, streamlined, quantitative and with rigidity control. The system conforms to the needs of our international extension of business and credit management process and reflects the latest measurement technology. We have also established the two-dimensional rating system consisting of customer rating and loan rating. We can calculate the rate of return based on risk adjustment through the customer rating and risk-adjusted return on capital ("**RAROC**") system, which provides an important basis for our decision making on lending. We accelerated the extension of the global market risk management system (GMRM) abroad and optimise the function of our risk management system

Through our industry-leading risk management capability, we have maintained a low non-performing loan ratio in terms of newly issued loans and have successfully lowered our non-performing loan ratio for 13 consecutive years by the end of 2012.

Our advanced information technology provides strong support for our business innovation and development.

We believe that we have in place one of the most advanced information technology systems among all commercial banks in the PRC. Since our initial public offering, we have focused on implementing our "technology driven" development strategy. Our advanced information technology system has strongly supported us to maintain the leading position in various fields such as customer service, product innovation, risk management, operation process re-engineering, and electronic banking network expansion.

We maintain a safe and stable information system platform despite significant increase of our business volume. We are the first among the PRC commercial banks to achieve data centralisation, and we are the first large-scale commercial bank in the PRC to adopt a centralised full-function banking system, which enables real-time processing of bank-wide data. We have continued to strengthen our information security and protection, improved our disaster recovery system and established the largest 1,000-kilometer-level disaster back-up system in the PRC banking industry. We have further improved the automation of our operation and the level of our monitoring management, which allows our business to operate in a stable, safe and efficient manner.

We have strong capacity for the independent research and development of banking system. We have, for example, independently developed three generations of core banking system. We provide more technology support to overseas institutions and completed the establishment of systems relating to RMB clearing of Singapore Branch. We have extended FOVA to cover 37 overseas institutions. Achievement was made in promoting internet banking and mobile banking in ICBC (Asia), and the internet banking covered 26 overseas institutions.

We have established a centralised technology organisation system, formed the information technology management committee and the information technology approval committee and formulated the most complete and sound information technology management system, technical standards and norms in the PRC's banking industry. We have one of the largest and strongest technology teams in the PRC banking industry with a staff of over 10,000. As of 30 June 2013, our patents obtained from the State Intellectual Property Office had increased to 261.

We have steadily implemented our internationalisation and integration strategy for development and enhanced our capability as a comprehensive financial services provider.

Since our initial public offering, we have seized development opportunities domestically and overseas and steadily implemented our internationalisation and integration strategies, whereby enhancing our capability in cross-region, cross-market and cross-product service. We have accelerated the establishment of our global operation network and enhanced our international service capability by carrying out the following:

- with an emphasis on Asian and emerging markets, we have focused on both emerging and developed markets, expanded our overseas operation network through both independent application and strategic merger and acquisition, and setting up both physical outlets and electronic channels;

- leveraging our overseas integrated business license as well as the strong product support from our comprehensive business processing system "FOVA" for overseas institutions, we have built up our important global product lines, including retail, funds clearing, trade finance, global cash management, specialty financing, investment banking, bank card, internet banking and asset management, while managing our core businesses including loans, deposits and foreign exchange services; and

- following closely the "Going Global" steps of Chinese enterprises, we have promoted the RMB settlement business for cross-border trades and strengthened our integrated ability to serve global customers.

In addition, leveraging our advantages with respect to customer, capital and information, we have proactively set up and accelerated the development of licensed non-banking financial businesses such as investment banking, fund management, financial leasing and insurance with a view to satisfying our customers' increasingly diversified needs for integrated financial service. ICBC Credit Suisse Asset Management gave a full play to its edge of asset management platform, accelerated innovation, expanded investment management system and realized steady growth in business performance, continuously taking a lead in the banking fund companies. ICBC Leasing continued to make greater efforts to expand business, quickened its pace in operating transformation, and proactively innovated leasing product and service means, becoming the most creative financial leasing company with the strongest comprehensive power in China. Depending on the Group's dominant position, ICBC-AXA adhered to localized and independent operation and development, deepened bank-insurance cooperation mode, and intensified product innovation. ICBC International made use of the Group's resources, actively expanded financing for large multinationals and domestic enterprises.

We have virtually established a global network pattern, with nearly 400 overseas institutions expanding to 39 countries and regions. On that basis, we gradually shifted the focus of our internationalization strategy to localized, mainstream and differentiated development of overseas institutions. Through strengthening the extension of key product lines abroad and interactions between domestic and overseas operations, we improved the competitiveness, operation and development of overseas institutions. RMB clearing bank in Singapore commenced operation officially, forming a coordinated development pattern of cross-border RMB businesses. In the first half of 2013, the volume of cross-border RMB business exceeded RMB1 trillion, with clearing network covering nearly 70 countries and regions around the world. On 2 April 2013, we entered into an agreement with SinoPac Holdings Co., Ltd. ("SinoPac Holdings") and Bank SinoPac, pursuant to which we will subscribe for a 20% equity interest in either SinoPac Holdings or Bank SinoPac. The transaction will be carried out after the financial regulators of Taiwan elevate the limit of the shareholding percentage of commercial banks from Chinese Mainland in commercial banks in Taiwan to 20%.

Our senior management team with extensive experience and vision lead us in maintaining our leading position.

Our senior management team has extensive experience and possesses leadership qualities in the PRC commercial banking industry. Our chairman, Mr. Jiang Jianqing, joined us in 1984. Our president, Mr. Yi Huiman, joined us in 1985. Our senior management team has formulated an operation transformation strategy for us with vision. We have therefore established an industry-leading operation model. We have actively responded to changes in the external environment, continued our product development and business innovations, established a powerful information technology system and become the first to establish a comprehensive risk management system. Our senior management team leads us to pursue sound development and to transform from the PRC's largest bank to a leading international bank.

Although we faced adverse economic conditions caused by the global financial crisis as well as increasing competition in the industry, we have continued our prudent operation, accelerated business transformation and maintained smooth and steady development. We believe that our outstanding management team is able to lead us in maintaining our competitive advantage in the future, laying a solid foundation for our long term growth.

OUR STRATEGIES

We aim to strengthen our market position in the PRC banking industry and focus on transforming ourselves into a world-class financial institution. Our overall goal is to maximise shareholder return and achieve sustainable growth. We lead the market in investing in centralised information technology, introducing new products and services, establishing comprehensive risk management systems and developing electronic banking networks. We intend to continue this innovative approach and differentiate ourselves through the following strategies:

Continuing to optimise asset and liability structure

We aim to optimise our business operation by focusing on new business with high-growth potential including individual loans, trade finance and loans to small and medium enterprises as well as high growth industries such as service sectors and household products sectors, to further develop our customer base and targeted markets. We intend to maintain a prudent lending policy by promoting our businesses to customers in environmentally friendly sectors and reducing our exposure to industries with high energy consumption and over-capacity.

With regard to liabilities, we will continue to focus on the sale of wealth management products in order to divert from high-cost term deposits and generate income from transaction fees. We will also focus on low-cost demand deposit and interbank deposit in order to optimise our liability structure and achieve reductions in the cost of capital. In order to optimise our income structure, we aim to continue to focus on low capital consumption intermediary businesses (namely settlement, clearing and cash management, personal wealth management and private banking, investment banking and bank cards, and emerging businesses) in order to diversify our business and achieve a more stable and balanced income structure.

Diversifying revenue and asset mix by expanding into higher growth non-credit businesses

We plan to diversify our revenue sources by continuing to develop our non-credit businesses. We believe that many fee– and commission-based products and services will experience strong growth over the next few years as the PRC economy continues to grow, the PRC financial services sector further liberalises and our customers' banking needs become more sophisticated. We plan to increase our support and investment in asset management and financial leasing businesses and expand into other non-credit businesses such as financial insurance.

- In corporate banking, we will continue to focus our team of customer relationship managers on important customers by size, expanding the range of products and service offerings including insurance brokerage, asset custody, cash management, bank cards and payroll services to insurance companies. We will also continue to improve the synergies between our corporate banking and investment banking businesses.

- In personal banking, we will further develop personal wealth management and other investment products, standardising services and distribution bank-wide to provide tailored products and services focused on high net worth customers and customer groups with high-growth potential.

- In treasury business, we will continue to enhance our investment and trading capabilities, upgrade our trading systems, improve the quality of investment and trading personnel, develop new products and services, strengthen our liquidity management and increase the return on our non-credit assets.

- In addition, in light of the opportunities presented as a result of the increasing globalisation of RMB, we will further develop our cross-border RMB businesses and improve our RMB settlement system.

We believe that by offering a broader range of non-credit products and services coupled with prudent risk management, we will not only improve customer satisfaction and attract new customers, but also create attractive new revenue sources and improve our overall profitability.

Strategically expanding traditional branch network and enhancing sales and marketing capabilities through electronic banking operations

In order to further enhance the marketing of our products and services and achieve greater operational efficiencies, we intend to fully leverage our advanced information technology platform and customer relationship management systems. Building on our extensive distribution network, we are selectively expanding our branch network in three economically developed regions, the Yangtze River Delta, Pearl River Delta and Bohai Rim regions. We also intend to enhance our operation in rural areas at the PRC by increasing investment in selected counties, improving our services and product mix in rural areas and adopting more incentives to local employees. In addition, to take advantage of the rapid growth in foreign trade and better serve our multinational clients, we intend to further expand our network by establishing additional overseas branches and outlets. We intend to actively cross-sell our products and services to our existing customers through our extensive network. We plan to expand our electronic banking operations through the installation of additional ATMs and the upgrading of our technology platforms for telephone and online banking services to deliver more products and services to our customers in a timely, reliable and convenient manner and to further increase revenue derived through our electronic banking platform.

Continuing to invest in information technology infrastructure to support our growing business

We plan to invest further in and aim to maintain and develop an effective information technology system in order to maintain high standards and achieve effective customer service, product innovation, risk management, operation process re-engineering and electronic banking network expansion.

Continuing to strengthen risk management and internal control systems

We believe active risk management is an essential component of our overall business strategy. We plan to continue to align our risk management and internal control capabilities with international best practices. We continue to implement enhanced risk management procedures for all credit exposures, such as improving our risk warning and early identification and prevention capabilities. We are also instituting changes to further strengthen the independence of the internal control functions and improve our bank-wide internal control systems. As a complement to our improved risk management capabilities, we seek to continue to enhance asset and liability management capabilities and further centralise our risk management.

Enhancing employee performance through performance-linked incentive schemes and continuous training and development

We will continue to develop our human resources through various initiatives in order to support our business strategies. We have introduced four career tracks into our human resource system, namely, "managerial," "professional," "sales and marketing" and "operational", in order to facilitate employee career development and enhance performance appraisal and remuneration measures. We intend to continue to provide training and development programmes (including those arranged with our overseas strategic investors) for our employees, to enhance their skills and professional development. We also intend to further improve our management and employee incentive system, including adopting an economic value-added ("**EVA**")-based incentive scheme, such that employee income is tied to his/her personal performance and the contribution made by their respective work units. We believe that through these initiatives we can attract, retain, motivate and develop a high quality workforce.

OUR BUSINESS OPERATIONS

Our principal businesses include corporate banking, personal banking and treasury operations. The following table shows operating income of various business divisions in the period specified.

	Year ended 31 December						Six months ended 30 June 2013 (Unaudited)	
	2010		2011		2012			
Item	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
	(RMB millions, except for percentages)							
Corporate banking	204,761	53.8	249,684	53.1	285,765	54.0	148,224	50.9
Personal banking	111,620	29.3	143,794	30.5	154,056	29.1	95,097	32.6
Treasury operations	61,103	16.0	72,281	15.4	85,993	16.2	44,691	15.3
Others[(1)]	3,264	0.9	4,842	1.0	3,906	0.7	3,464	1.2
Total operating income	**380,748**	**100.0**	**470,601**	**100.0**	**529,720**	**100.0**	**291,476**	**100.0**

Note:

(1) This represents the income and expenses that are not directly attributable or cannot be allocated to a segment on a reasonable basis.

Corporate Banking

Our corporate banking products and services include corporate deposits and loans, small and medium enterprise business, institutional banking business together with the intermediary businesses including settlement and cash management, international settlement and trade finance, investment banking, asset custody service, pension service and precious metal business.

We believe we possess the broadest corporate customer base in the PRC. We provide a series of corporate banking products and services to state-owned enterprises, privately-owned enterprises, foreign-invested enterprises, government authorities and other entities. At the end of June 2013, we had 4.6 million corporate customers, representing an increase of 220,000 customers from the end of the previous year; among them, 142,000 corporate customers had loan balances with us.

Our corporate banking business has been able to maintain our leading position in the PRC banking industry in the following aspects:

- our corporate loans continue to rank first in the PRC in terms of market share, with steady growth of loan size and continuous optimisation of term structure and product structure;
- our corporate deposits continue to rank first in the PRC in terms of market share, with the split between time deposits and demand deposits being generally maintained at a steady level;
- we are dedicated to developing small and medium enterprise business. The loan balance of our small and medium enterprise customers continues to grow; and
- we have focused on developing emerging businesses and intermediary businesses, and actively developed institutional banking, settlement and cash management services, investment banking, international settlement and trade finance, as well as various assets management businesses.

According to statistics from the PBOC, at the end of June 2013, we ranked first in the banking industry in terms of corporate loans and corporate deposits, with a market share of 11.5% and 12.0%, respectively. In 2012, we were awarded the "Best Corporate Bank in China" by Global Finance.

(1) Corporate Deposits and Loans

Corporate loans represent the largest portion in our loan portfolio. As at 30 June 2013, the balance of our corporate loans amounted to RMB6,710,747 million. As at 30 September 2013, the balance of our corporate loans amounted to RMB6,845,973 million.

Our corporate loans include short term loans and medium to long term loans. We provide short term loans due within one year to corporate customers, which mainly include working capital loans (including trade finance loans), bills prepayment and purchase, factoring and forfeiting. As at 30 June 2013, the balance of our short term loans amounted to RMB 2,697,110 million, accounting for approximately 40.2% of our corporate loans. The term of our mid-to-long term loans generally ranges from one year to ten years, mainly including project loans, property loans, and syndicated loans. As at 30 June 2013, the balance of our mid-to-long term loans amounted to RMB4,013,637 million, accounting for approximately 59.8% of the balance of our corporate loans.

Our corporate loans include working capital loans, project loans and property loans distributed by product line. As at 30 June 2013, the balance of the working capital loans, project loans and property loans amounted to RMB3,015,433 million, RMB3,177,875 million and RMB517,439 million, respectively.

We have adopted the following measures to promote the stable growth and structural optimisation of mid-to-long term loans:

- in response to changes in the macroeconomic environment, we optimized the distribution of lending and further adjusted the credit structure for steady and healthy development of the credit business.

- proactively provided support for the real economy, satisfied funding needs of key national investment projects under construction and continuing construction, extended more loans to Central and Western China and Northeastern China and vigorously expanded our businesses in such areas as advanced manufacturing, modern service industry, cultural industries and strategic emerging industries;

- strengthened management of lending to local government financing vehicles (LGFVs) and controlled loans to the real estate industry and industries with high energy consumption, high pollution and overcapacity, and gave financial support to all kinds of major energy-conserving and emission-reduction projects;

- enhanced product innovation and accelerated the development of high-profit and capital-saving loan products; SMEs were provided with active services through the accelerated upgrading of trade finance business to supply chain financing model and the innovative provision of e-supply chain financing packages;

- seized market opportunities and actively advanced our syndicated loans business, actively engaged in syndicated loan business and won the “Best Performance Award” and “Best Deal Award” by China Banking Association. Moreover, we pushed forward the development of resource-backed structured financing business and “project + finance” business, and conducted the overseas merger and acquisition loans in the fields such as energy, minerals and machinery; and

- stepped up our efforts to compete for major group customers and industrial leaders, and look for new customers among core enterprises and upstream and downstream SMEs of supply chains, in a bid to realize balanced growth of large, medium and small customers with high quality.

We provide corporate clients with multiple interest-bearing demand and time deposit services in RMB and major foreign currencies. The corporate deposits constitute our major source of funds. In response to challenges posed by the liberalization of interest rates, we leveraged on our advantages in integrated financial services such as corporate wealth management, cash management, E-banking and assets custody to sharpen our market competitiveness in corporate deposits business. We, based on our advantages in customer resources and service networks, explored new customers in the upstream and downstream of industrial chains to expand our customer base and to absorb and accumulate customers’ funds. At the end of June 2013, the balance of corporate deposits reached RMB7,277,389 million, of which the balance of the demand deposits amounted to RMB3,954,207 million.

(2) Small and Medium Enterprise Business

In conformity with government's support to the development of SMEs, we were dedicated to providing professional, efficient and convenient financial services to SME customers. At the end of 2012, the balance of loans to domestic small (micro) and medium-sized enterprises was RMB4,231,203 million, among which the balance of loans to medium-sized enterprises was RMB2,391,127 million and that to small and micro enterprises was RMB1,840,076 million. At the end of June 2013, the balance of loans to small (micro) and medium enterprises was RMB4,253,454 million, including RMB2,395,192 million and RMB1,858,262 million to medium enterprises and small and micro enterprises, respectively.

- we served SME customers in an all-round manner by building an independent system of small enterprise credit policies, process and products and giving priority to credit resource allocation in this regard. We promoted our specialized operations, bringing the number of small enterprise franchised institutions providing financial services to over 1,400 and the number of employees qualified for SME credit business to 35 thousand;

- we accelerated the application of new products and propelled the promotion of exclusive financing products such as small business revolving loans, online revolving loans and standard plant mortgage loans to meet diverse financing needs of small enterprise customers;

- we offered financing services to supply chains surrounding core enterprises, and provided financial solutions to small and micro enterprises in specialized markets and industrial clusters, so as to expand the customer base;

- we strengthened management over entrusted payment of lending funds, and strictly controlled small enterprise credit risk to ensure the sound development of small enterprise credit business; and

- we have created innovative small enterprise financing guarantee measures and introduced measures such as third-party cooperation and joint guarantee.

In 2011 and 2012, we were awarded the "Excellent Service Organisation for SMEs" by the *China Association of Small and Medium Enterprises*.

(3) Institutional Banking

We carried out the strategy of "all-institutional banking" to enhance the sustainable development capacity of institutional banking:

- we propelled the optimization of five service platform systems concerning social insurance, housing allowance, finance, education and medical care, improved the diversified financial services package and saw a stable increase in the number of entities and business scale for collecting non-tax items under central finance. We won the bid for "2013-2014 banking agency collection for non-tax items under central finance", maintaining our leading position in the number of newly opened accounts for nontax collection. The number of financial social security IC cards increased by 1.6 times over the previous year and the number of business cards to central budget units rose by 37.8%;

- we promoted inter-bank cooperation and propelled development of such businesses as RMB financing, payment and settlement agency, foreign exchange clearing, international settlement, trade finance, domestic foreign-currency payment and underwriting of financial bonds. At the end of June 2013, the number of contracted customers of the bank-to-bank platform businesses and domestic correspondent banks increased by 66 and 15 to 337 and 156, respectively;

- with reference to new policies and regulations governing the capital market, we strengthened our innovative cooperation with securities companies to level up our service quality in such areas as asset management, bond investment, underwriting and issue and facilitated innovative development of bank-securities business, and both the number of customers and the volume of funds involved in third-party depository maintained a leading position among peers;

- we conducted comprehensive marketing to issuance companies, to reinforce all-round cooperation in bancassurance, payroll payment agency service, assets custody, cash management and other fields. We also deepened partnership with commodity exchanges, introducing the service of standard warehouse receipt pledge financing; and

- We have expedited efforts to innovate and improve our services, constantly explored different market segments, brought into full play our unique competitiveness, and maintained and continuously improved our institutional banking competitiveness, realising a rapid and quality development of our institutional banking business.

(4) Settlement and Cash Management

We provide our clients with domestic clearing and settlement services, and at the same time provide large companies and their subsidiaries with comprehensive services such as centralised cash management and transfer. We continued to promote our “E Express for Capital Verification” to expand our customer base. We adopted the strategies of cluster marketing and chain marketing to consolidate the size of customer base and optimize customer structure. At the end of June 2013, we had 5.58 million corporate settlement accounts, representing an increase of 220 thousand over the end of last year. In the first half of 2013, the volume of corporate RMB settlement reached RMB831 trillion, enabling us to maintain its position as a market leader in terms of business scale.

We expanded its cash management services into the comprehensive area of financial asset management and developed a service system underpinned by management of account transactions, liquidity management, supply chain finance, investment and wealth management. The personalized and professional cash management service plans were offered to meet cash management requirements of fast developing industries including chain-store operations, culture, logistics, tourism and equipment manufacturing. We built the brand system with “Caizhi Account” as the core to enhance its influence in the cash management market. With increasingly stronger market influence of cash management business, we won the “Best Cash Management Service Provider (China)” from The Asset and the “Best Cash Management Bank in China” and the “Leading Counterparty Bank in China” from The Asian Banker. At the end of June 2013, we had 863 thousand cash management customers, representing an increase of 6.2% from the end of the previous year. Customers of the global cash management business reached 3,609, representing an increase of 8.3% from the end of the previous year, and the business expanded to 50 countries and regions.

(5) International Settlement and Trade Finance

International settlement and trade finance business is one of our key development priorities. In the first half of 2013, domestic branches disbursed an aggregate of USD95.1 billion in international trade finance. The transaction volume of international settlement reached USD1,118.6 billion, of which USD342.1 billion was processed by overseas institutions.

In the first half of 2013, we have accelerated the innovation of our international settlement and trade finance business, actively promoted our brand and established our competitive edge amongst our peers in emerging international business area through the following initiatives:

- leveraging on our advantages in local and foreign currency resources and close interaction between domestic and overseas branches, we improved our product portfolios integrating financing, settlement, wealth management and trading, to enhance our services to import and export enterprises;

- accelerated the expansion of global supply chain products and integrated products denominated in RMB and foreign currencies and optimized business structure;

- credibility check of trade backgrounds was strengthened to strictly prevent false transactions and arbitrage behaviors of enterprises;

- product functions of "ICBC Express" were optimized to ameliorate the differentiated pricing policy and enhance the cross-border remittance capability; and

- adjustment of international banking customer structure was facilitated by implementation of stratified marketing and classified management.

(6) Investment Banking

Our investment banking business mainly includes regular financial advisory service, enterprise credit service, investment and financing advisory service, syndicated loan arrangement and management service, corporate assets and debt restructuring service, corporate acquisition and merger service, asset securitisation or quasi asset securitisation service, service of credit capital transfer and trading, underwriting of corporate debt financing instruments such as commercial paper, medium-term notes and financial bonds, direct investment advisory service, financial advisory service for corporate issuance of equities and bonds and service for equity investment funds.

In the first half of 2013, the income from our investment banking business recorded fast growth. Given the ever-increasing influence of our investment banking brand, we were awarded the "Best Bank in Investment Banking" by Securities Times for four consecutive years. In 2012, the investment banking income was RMB26,117 million.

In the first half of 2013, we have accelerated the restructuring of our investment banking business and the building of brand awareness. Considerable achievements have been made in our investment banking business including:

- we carried on with promoting the synergy between investment banking and commercial banking, expanded equity financing, restructuring and M&A, structured financing, bond underwriting and other investment banking services;

- seizing opportunities created by additional private placement of listed companies, mezzanine financing of key customers and initial public offering of large central enterprises, we improved our equity financing product line consisting of equity investment funds as lead bank, enterprise listing advisory and private equity advisory, to meet enterprises' equity financing needs, in the first half of 2013, equity financing size amounted to RMB17.6 billion;

- we made use of our advantages in "financing + consulting" comprehensive restructuring and M&A service mode to promote the M&A and integration of domestic coal industry and improve our capacity in cross-border M&A operation, the volume of restructuring and M&A transactions handled by us exceeded RMB115 billion in the first half of 2013;

- we broadened non-credit financing channels for enterprises and innovated and developed such new products as debt restructuring and overseas greenfield investment consulting, to improve the quality of our financial consulting service;

- we enriched the investment banking R&D products system, broadened channels for electronic investment banking and improved the quality of advisory service;

- we expanded the bond underwriting business and underwrote RMB136.5 billion worth of debt financing instruments in the first half of 2013; and

In the first half of 2013, our investment banking income increased by 14.2% compared to the same period of last year to RMB17,077 million.

(7) Asset Custody Services

We provide an array of custody services to securities investment funds, enterprise annuity, National Council for Social Security Fund, insurance companies, commercial banks, qualified foreign institutional investors (QFII), qualified domestic institutional investors (QDII) and other bank clients, including assets custody, capital clearing, accounting, transaction monitoring, performance appraisal and reporting service. At the end of June 2013, the total net value of assets under our custody reached RMB4,265.7 billion.

In the first half of 2013, we have seized opportunities in the capital markets, timely adjusted our business development strategies, accelerated market expansion and technology innovation and achieved fast growth of our assets custody business through the following approaches:

- we actively responded to the prior downturn of the capital markets, intensified our business innovation and consolidated our leading market position;
- we vigorously developed fund custody products with fixed income, and successively launched several new fund custody products, including the first batch of bond ETFs, the first gold ETF, the first batch of products with drifting management fee rate, the first batch of leverage ETFs and the first graded ETF under custody in China and took the lead in engaging in special asset custody services including investments in bills and obligatory rights of fund companies;
- we developed custody services under Anxin Account and promoted our application in the livelihood's areas including charitable & public welfare funds and housing funds;
- we were approved to the custody of the first batch of enterprise annuity & pension products in China and pioneered in introducing the bill asset custody service; and
- we strengthened cooperation with asset management institutions to promote "Custody Wealth Management", bill custody, futures asset custody and other services, so that the structure of custody business can be optimized.

We were recognized as the best custodian bank in China by renowned financial journals twice in a row, including the Global Custodian, Global Finance and The Asset, further improving our brand impact.

(8) Pension Services

In recent years, while we are developing our enterprise annuity business, we actively provide services to personal account of basic pension fund and other pension funds. At the end of June 2013, we provided pension management services for 37,401 enterprises, the pension funds under our trusteeship amounted to RMB53.0 billion; we managed 12.5 million individual pension accounts, and the pension funds under our custody totalled RMB251.5 billion. We led the market in terms of the scale of enterprise annuity funds under our trusteeship, number of individual enterprise annuity accounts and enterprise annuity funds under our custody.

In the first half of 2013, leveraging on full set of business qualifications, full-fledged service network and advanced information system, to promote the rapid and steady development of all of our pension businesses, specifically:

- Leveraging on the universal licensing business qualification and integrated competitive edges, we built the diversified pension service system targeting at enterprise annuities, occupational annuities, basic pensions, social insurance funds, comprehensive pension funds of enterprises and public institutions and personal pension funds;
- we worked out customized enterprise annuity service schemes based on customer needs to improve the service capacity to large corporate customers;
- we promoted integrated enterprise annuity schemes such as the "Ruyi Pension Management" to expand the enterprise annuity market of SMEs; and

- we introduced a series of welfare schemes and pension management products named "Ruyi Life" to meet the welfare fund management needs of employees from enterprises and public institutions.

(9) Precious Metal Business

We operate four product lines of precious metal business: physical bullion, trading, precious metals linked financing and wealth management. We proactively adjusted business structure and launched product innovation to promote steady and fast growth in precious metal business. In the first half of 2013, the total amount of precious metal business reached RMB698.2 billion. We cleared RMB207.0 billion on behalf of Shanghai Gold Exchange, maintaining the leading position among peers.

In the first half of 2013, we have implemented a sound trading strategy and grasped good chances to conduct gold consignment sales and domestic cross-variety trading to address Chinese market requirements.

- in the face of fluctuations of the precious metal market, we proactively adjusted our business structure and diversified our products to promote continuously steady growth in precious metal business;

- we offered series of physical products themed with the twelve animals and the culture of famous mountains to meet holiday market and realized sales of physical precious metals in E-shops to meet customers' demands in precious metal investments;

- we innovatively introduced RMB gold forward products to assist gold manufacturing and using enterprises to avoid market risk, cut down production cost and support development of real economy;

- we issued nine of "Enjoy Returns-Gold Arbitrage Investment Oriented RMB Wealth Management Products" were made to diversify varieties of wealth management products and satisfy customers' requirements for sound asset allocation; and

- we popularized products of "Gold Accumulation" to diversify gold investment channels of enterprises and individuals and realize fast expansion of business scale.

Personal Banking

Our personal banking products and services include saving deposits, personal loans, private banking, bank cards, personal wealth management and others. In the first half of 2013, our personal banking has continued to maintain our leading position in PRC banking industry, and our market influence continues to increase. Our personal loans business, personal deposits business, wealth management business and credit cards business rank first in terms of market share.

We have a solid personal banking client base in the PRC. In the first half of 2013, we had 411 million personal customers, including 8.01 million personal loan customers.

Focusing on the overall target of "Building the No. 1 Retail Bank in the PRC", we have improved our customer-oriented operation management system, implemented process reengineering for personal banking service, streamlined the business processing procedures, increased the level of specialisation and accelerated transformation of personal banking operation and management system. In particular:

- in face of challenges brought about by fierce competition of the banking sector and interest rate marketization, we continued to carry out our "strong personal banking" strategy to advance the transformation of personal banking operation;

- targeting at new markets and new customers, our public and private departments jointly conducted cluster marketing to develop commodity trading market and explore such livelihood fields, social insurance, health care and transportation;

- we continued to upgrade our self-service banks and selected commodity trading markets and key county areas to accelerate the distribution of self-service facilities and extend the service channels;

- centering on the star service system for personal customers, we stepped up efforts in the building of a marketing service team, accelerated the transformation of customer service mode and improved our ability in identifying and obtaining new quality customers; and

- we accelerated product innovation and enhanced the competitive edge of personal banking business, securing our leading position among peers in terms of savings deposits, personal loans, banking wealth management and credit card business.

According to statistics from the PBOC, as at the end of June 2013, we ranked first in the industry in terms of both the size of savings deposits and personal loans, with a market share of 15.9% and 13.6% respectively.

We are well recognised in the market for our excellent personal banking services and have been awarded the "Best Large-Scale Retail Bank in China" by The Asian Banker for three consecutive years.

(1) Savings Deposits

We provide demand deposits and term deposits in RMB and foreign currencies. At the end of June 2013, the balance of our domestic savings deposits amounted to RMB6,986,357 million.

We have adopted various measures to promote our personal deposits business and expand fund sources, including:

- we further promoted coordinated marketing of corporate banking and personal banking, explored source markets and expanded customer base by focusing on payroll payment agency service and commodity trading market business, which helped to consolidate the basis for savings deposits growth; and

- we enhanced refined management of interest rates, constantly consolidated channel advantages, retained customers with quality products and services and promoted virtuous circulation of customer funds in our system.

(2) Personal Loans

Loans to personal customers include personal housing loans, personal consumption loans, personal business loans, and credit card overdrafts. At the end of June 2013, personal loans amounted to RMB2,541,240 million. At the end of September 2013, personal loans amounted to RMB2,650,775 million.

Personal loans are the major development direction for our personal banking business. In the first half of 2013, we have seized the opportunities arising from the State's efforts to stimulate consumption by residents and expanded domestic demand, and increased the capacity to meet demands for personal loans. We continued to improve marketing and product innovation to promote our personal loans business, including:

- we implemented differentiated housing credit policy to support the credit needs of the borrowers eligible for first personal housing and improved housing and actively propelled personal housing loans on the premise of controllable risks;

- we adapted to new consumption needs by accelerating product innovation and upgrading and promoted such products as personal household consumption loans, cultural consumption loans and overseas study loans to facilitate healthy growth of personal consumption loans; and

- we marketed personal business loans targeting at key commodity trading markets and offered financing service to small and medium merchants.

(3) Personal Wealth Management

We offer a series of personal wealth management products and services, including financial advisory services, investment management products, bank assurance services as well as entrusted agency services. In the first half of 2013, sales of various personal wealth management products amounted to RMB2,548.5 billion, of which sales of personal banking wealth management products, agency funds, government bonds and personal insurance products were RMB2,005.9 billion, RMB450.4 billion, RMB43.1 billion and RMB49.1 billion, respectively.

In the first half of 2013, we offered the star-class services for personal customers, have strengthened innovation in products and services according to the focus of the market and needs, and continuously amplified our leading edge in personal wealth management market. Specifically:

- based on customer needs, we intensified innovation in wealth management products and optimized product structure to maintain our leading position in the market;
- we established the differentiated product issue mechanisms specific to different regions and different types of customers and focused upon expansion of personal wealth management services in commodity trading markets and developed regions;
- we strengthened cooperation with asset management institutions and achieved sound development in agency wealth management business;
- we launched precise marketing to expand target customers, enabling the continuous scale-up of Elite Club Accounts;
- we actively carried out the activity of Wealth Cultural Tour to establish the platform for marketing services and cultural exchanges in respect of wealthy customers; and
- we built a high quality service team and enhanced our service capability.

At the end of June 2013, the number of employees with certificates of Associate Financial Planner (AFP) and Certified Financial Planner (CFP) was 23,672 and 3,745, respectively, maintaining the leading position in the banking industry. We had 23.74 million Elite Club Account customers, representing an increase of 16.3% from the end of the previous year. Also, the number of wealthy customers reached 3.99 million.

(4) Private Banking

We continued to improve private banking products and service system, introduced self-developed exclusive private banking products, developed fully entrusted wealth management service and wealth management service for designated accounts, and formed product selection and agency mechanism across institutions and markets. We quickened construction of private banking marketing service system, fully covering high-end customer markets nationwide. Besides, we assigned specific persons to certain products and services and professional customer maintenance and cultivated professional teams, thus rapidly enhancing marketing service capability. We developed overseas private banking products and services with a focus on the Private Banking Center (Hong Kong). We were awarded the “Best Private Bank in China” by The Asian Banker twice in a row. Private banking centers were established in all domestic branches, more than 300 private banking service centers were extended to key areas and areas with abundant high-net-worth customer resources, and a Private Banking Center was set up in Singapore to expedite overseas expansion step of private banking. At the end of June 2013, we had over 31,300 private banking customers and managed RMB553.8 billion worth of assets.

(5) Bank Cards Business

In the first half of 2013, we accelerated expansion of new markets, improved bank card service quality and boosted bank card product innovation, further consolidating our leading position in the banking industry. At the end of June 2013, we issued 500 million bank cards, representing an increase of 30.58 million cards from the end of the previous year. In the first half of 2013, consumption volume of bank cards increased by 45.8% compared to the same period of last year to RMB2,606.3 billion. Income from bank card business grew by 35.9% compared to the same period of last year to RMB14,275 million. In the first half of 2013, major statistics of our bank cards are as follows:

Item	At 30 June 2013	At 31 December 2012	Growth rate (%)
Number of bank cards issued (unit: 10,000)	49,944	46,886	6.5
Debit cards	41,677	39,173	6.4
Credit cards	8,267	7,713	7.2
	Six months ended 30 June 2013	Six months ended 30 June 2012	Growth rate (%)
Consumption volume of bank cards (in RMB100 millions)	26,063	17,873	45.8
Average consumption volume per card[1] (in RMB yuan)	5,378	4,180	28.7

Note:

(1) Average consumption volume per card = Consumption volume during the period / Average number of cards issued monthly during the period.

Credit Card

By the end of June 2013, 82.67 million credit cards were issued and the consumption volume stood at RMB751.5 billion; the balance of domestic personal credit card overdrafts amounted to RMB268,401 million. We led the peers in terms of volume of cards issued, consumption volume and overdrafts.

We have maintained the strategy of "scale, upgrade, globalisation, and specialisation" for the development of our credit card business, and adopted various measures to maintain our leading position in credit card business. In particular:

- we issued five types of cards, namely transportation card, corporate card, CNPC card, housing fund card and airline business travel card, and expanded the volume of card issuance;
- we also offered such new products as Cool Pass Card, Multi-currency Credit Card, Anbang Insurance Credit Card and Money Fund Card;
- introduced credit card SMS installment service to diversify processing channels of installment payments;
- optimized acquiring system, constructed a globally integrated and standardized acquiring management platform and realized such functions as one-party file creation and multi-party sharing so as to enhance merchant acquiring management; and
- we released AE Chip Card and JCB Chip Card, completing our chip card product portfolio.

Debit Card

We have issued RMB debit cards and dual currency debit cards, such as RMB-USD debit cards, to our customers. At the end of June 2013, 417 million debit cards were issued and debit card consumption amounted to RMB1,854.8 billion.

In the first half of 2013, we have further enhanced our competitive edges in debit card business through the following measures:

- focusing on the issuance of co-brand debit cards, we intensified industry cooperation and joint marketing to attract new customers and expand the volume of card issuance; and

- we carried forward product innovation and launched such new products as Pacific co-brand debit card with bank assurance function and Cool Pass debit card and further accelerated promotion of chip cards.

By the end of June 2013, 18 overseas credit card issuers issued 327 thousand credit cards and 21 overseas debit card issuers issued 256 thousand debit cards abroad, representing an increase of 29 thousand and 55 thousand cards, respectively.

Treasury Operations

Our treasury operations include money market activities, trading book business, banking book investments, franchise treasury business, and Wealth Management Business etc.

We take strategic priority in developing treasury operations to advance operational transformation and build up competitiveness in the future. We accelerate the development of various financial tools and explore business potential, in order to enhance our operation capability in both domestic and foreign currencies across domestic and overseas financial markets.

In the first half of 2013, facing complex financial environment, we developed in both asset size and performance through active product innovation, timely adjustment of investment and trading strategies, enhancement of capital operation efficiency and management level and prevention of business risks.

(1) Money Market Activities

In the first half of 2013, interest rates in the money market were generally low yet stable, with short term fluctuations in June. We strengthened liquidity management and market anticipation and reasonably arranged fund raising opportunity, term and scale. We also adjusted the structure of borrowings, effectively cut down borrowing cost, seized market opportunities to timely borrow and appropriately extend lending terms, and supported performance of asset business. Amid financial constraints, we issued net lending to the market, exerting the fundamental role of a big bank in stabilizing market. In the first half of 2013, the transaction volume of domestic RMB money market financing was RMB8.27 trillion.

In respect of foreign currencies, liquidity of domestic foreign currency funds was stable with minor fluctuations. Foreign currency lending prices declined overall compared to the same period of last year. We strengthened the position management for foreign currency funds to secure safety of foreign exchange payment. In addition, we closely monitored market developments and prudently selected counterparties to mitigate credit risk; we also rationally arranged term structure to improve the yield of foreign currency fund operation. In the first half of 2013, our foreign currency transaction volume in money markets amounted to USD137.1 billion.

(2) Trading Book Business

Our trading accounts are used to recognise and settle our proprietary trades, including trading of bonds and bills which are issued by the Chinese government, the PBOC and foreign governments as well as derivatives, foreign exchange and foreign/local currency dominated bonds transactions. We are one of the largest market makers in domestic interbank market. Furthermore, we avoid investment risks by using derivative instruments. In the first half of 2013, the transaction volume of RMB bonds in the trading book was RMB172.8 billion.

Under the strategies of portfolio duration control and market timing, we adjusted positions flexibly based on market trends.

- when market interest rates were stable at the beginning of the year, we appropriately expanded bond exposures of the trading book to get income from spread;

- when the market fluctuated violently and interest rates hiked largely in the second quarter, we strived to control portfolio durations, continuously balanced positions of selling low-yield bonds to buy high ones to increase yield of bond portfolios and timely carried out market timing of interest rate swap to acquire returns; and

- in respect of foreign currency bond trading, the credit spread turned wider generally when the benchmark US treasury yield stirred up. We controlled our portfolio durations, selected investment areas and adopted the trading strategy of flexibly adjusting long and short positions to strengthen market timing and increase profits.

(3) Banking Book Investment

Our banking accounts are used to calculate our investments which are made for holding purpose. Currently, our investment portfolio includes RMB-denominated bonds which are issued by the Chinese government, the PBOC, policy banks and few other local financial institutions. We also hold short-term commercial paper issued by domestic enterprises. In overseas markets, we invest in foreign currency bonds issued by foreign governments, financial institutions, corporate and international organisations.

We have taken the following measures to facilitate the stable growth of our banking book investment:

- we strengthened study of market trends, reasonably balanced return on investment and interest rate risk and maintained relatively even investment progress;

- we appropriately scaled up investment and controlled portfolio durations, mainly invested in government bonds and policy bank bonds, increased investment in quality corporate bonds and increased the portion of credit bonds to optimize the structure of investment portfolios; and

- in respect of foreign currencies, we seized good investment opportunities in view of international bond market situations. We seized good opportunities to increase our holdings of credit products such as financial institution bonds and corporate bonds to enhance yield on investment portfolios. Besides, we made investment in increasingly more countries and regions, controlled portfolio durations to avoid interest rate hike risk.

(4) Franchise Treasury Business

We offer a wide range of treasury operation services to enterprises and individual clients. We provide spot foreign exchange settlement and sale, forward foreign exchange trading, RMB and foreign exchange swap and RMB interest rate swap services. In addition, we act as the agent of our clients in treasury operations including 24-hour foreign exchange purchase and sale, precious metal purchase and sale under account, forward currency contracts, interest rate swap, currency swap, options and other financial derivatives trading services. In the first half of 2013, the volume of franchise trading and foreign exchange purchase and sales amounted to USD291.5 billion.

We have taken several operational measures to facilitate our agency treasury operations:

- we expanded our franchise treasury product line to enhance market competitiveness on the basis of the 24 hour global trading system;

- we introduced Paper Foreign Exchange, Paper Crude Oil and Paper Precious Metals collateral loans businesses to diversify businesses of trading products. Flexible entrusting of Paper Precious Metals and foreign exchange trading were released;

- we diversified currencies of foreign exchange purchase and sales and constantly enhanced capability of foreign exchange purchase and sales service by counters and via E-banking channel; and

- we conducted derivatives business and upgraded functions of the trading systems to enhance the service level of derivatives business.

(5) *Wealth Management Business*

Based on the market trend, we strictly carried out regulatory requirements on investment and operation of wealth management business, rigorously regulated product design, sales and fund orientations, properly disclosed information and promoted normative, healthy and orderly development of wealth management business. Exclusive wealth management products were marketed to important customers and key regions to meet diversified wealth management requirements of customers, and were issued targeting at the Yangtze River Delta and the Pearl River Delta. The exclusive wealth management product "Merchant Friend Wealth" was promoted among commodity market customers. "Enjoy Returns" serial gold arbitrage products were ameliorated and franchise overseas wealth management products with sound yields were introduced to further enrich transaction arbitrage and overseas investment products. Independently developed quantitative model was applied to launch quantitative and structured product investment. We integrated and improved products with non-fixed terms to optimize product structure, enhance management level of net worth products and strengthen product competitiveness. In addition, we strengthened investment market research, investment transaction management and post-investment management, reinforced interest rate and credit risk control, enhanced business compliance level and faithfully protected investors' rights and interests. In addition, we perfected functions of wealth management systems, lifted electronic processing level of transactions and promoted building of wealth management product renovation project. In the first half of 2013, cumulative sales of banking wealth management products amounted to RMB2,811.2 billion, of which personal wealth management products and corporate wealth management products contributed to RMB2,005.9 billion and RMB805.3 billion, respectively.

The globalized asset management business system was built to upgrade the capability of overseas asset management service. The overseas asset management vehicle has become the Qualified Foreign Institutional Investor (QFII) and the Renminbi Qualified Foreign Institutional Investor (RQFII) and was granted USD100 million for the first investment as a QFII.

DISTRIBUTION CHANNELS

We deliver our products and services through a variety of distribution channels. We have continued to focus on adjusting allocation of regional branches, upgrading and improving outlets, building up service channels with tiered and classified functions and systems, and improving service quality.

With respect to traditional branches and outlets, we keep cultivating and improving the core competence of our branches by coordinating the construction of various channels, optimising regional layout of outlets and facilitating the transition of the outlets' operation, so as to solidify the advantages of our service channels. Meanwhile, we have continued to integrate our electronic banking network and our traditional network. In terms of transaction volume, our electronic banking services (including ATMs, self-service banking, internet banking, telephone banking and mobile banking) rank first among all commercial banks in the PRC.

In recent years, we have been awarded "Global Best Integrated Corporate Banking Website", "Best Integrated Personal Banking Website in Asia", "Best Mobile Banking", "Best Marketing", "Best Electronic Banking", "Outstanding Contribution Award of Internet Banking", "Mobile Banking – Best Wealth Management Application Award", "Best User Experience Award" and "Electronic Banking Brand of Greatest Customer Satisfaction" by *Global Finance, Securities Times, Hexun.com and other institutions*.

Domestic Branch Network

We have a nationwide network of branches. As at the end of June 2013, we had 17,225 domestic institutions, including the Head Office, 31 tier-one branches, 5 branches directly controlled by the Head Office, 26 banking departments of tier-one branches, 398 tier-two branches, 3,074 tier-one sub-branches, 13,613 outlets, 34 institutions directly controlled by the Head Office and their branches, and 43 major subsidiaries and their branches.

In the first half of 2013, we opened 144 new outlets in new urban and emerging districts with rich financial resources, improving the service system of institution network. We upgraded 189 sub-operating offices and deposit-taking offices to sub-branches, improving the comprehensive service capability of outlets. Besides, we also established 810 independent self-service banking outlets, enhancing service level of self-service channels, which effectively facilitated the customer diversion of counter-based businesses and provided customers with convenient and quick financial services.

Electronic Banking

The number of our electronic banking customers and the transaction volume of our electronic banking have increased steadily in recent years. As at the end of June, the total number of our personal internet banking customers topped 150 million, and the total number of mobile banking and personal telephone banking customers topped 100 million successively.

Being customer-centred and market-oriented, we continuously reinforced our leading position in innovation, expedited developing new fields, new markets and new customers, accelerated overseas business expansion and further strengthened risk prevention and control to ensure the balanced and rapid development of E-banking business in scale, quality and efficiency. We vigorously promoted the brand of "ICBC Mobile Banking" and focused on the expansion of major markets such as mobile banking and e-commerce, which enhanced our brand recognition and further consolidated our market competitiveness.

(1) Internet Banking

We provide internet banking services through our official website: www.icbc.com.cn for a wide range of customers. We also provide large corporation, government and financial institution customers with specialised products and services through our "Bank-Enterprise Link".

We have launched the online large enterprise interbank fund management system for large scale group customers and online financial software in corporate internet banking service targeted at small and medium enterprise customers, improving our internet banking services for corporate customers. Meanwhile, we have introduced cross-border foreign exchange remittance in corporate internet banking, personal internet banking, online financial analysis system as well as global account management service covering both corporate and personal internet banking customers to enrich the system of internet banking products. We were the industry pioneer in introducing online financial supermarket, small foreign exchange settlement and sales, remittance to overseas Visa cards and other innovative products, and we launched a range of new functions including remittance to E-mail account and mobile phone number, inter-bank account management and online application for credit cards, providing abundant and convenient internet banking services for individual customers. We opened VIP personal internet banking service, and provided high-quality customers with exclusive service channel, service area, financial products and promotions. We introduced customer experience mechanisms, and refined the product functions of personal internet banking, corporate internet banking and other products, strengthening the leading position of our internet banking business.

We consolidated the position of Internet banking as the major transaction channel and introduced personal Internet banking systems accommodating to Apple Mac, Google and Android Tablet, covering all the mainstream operating systems, browsers and tablets. We provided private banking zone in the Internet banking system for PC users and iPad users, building up an exclusive service platform for quality customers. We also added innovative functions to the corporate banking system, including foreign exchange trading and Gold Accumulation Products service, to enrich the corporate Internet banking product lines.

We also launched new functions including reimbursement of bank-enterprise interconnected business cards and issue of promissory note through the corporate internet banking. The personal internet banking launched B2C payment for iPad-version Internet Banking and took the lead in promoting personal internet banking customer terminals for tablet PC with Windows 8 operating systems among domestic commercial banks.

Our internet banking services are widely recognised. We were awarded "Best Internet Banking in China" by The Asian Banker, "Best Integrated Corporate Bank Website – Global", "Best Internet Banking in Deposit Service – Global", "Best Personal Internet Banking of Asia" and "Best Personal Internet Banking of China" by the *Global Finance* for several times.

(2) Telephone Banking

We provide telephone banking service 24 hours per day and 365 days per year through "95588", accessible in all areas of the PRC, and "21895588", accessible in Hong Kong.

We led in launching speed-dial service of telephone banking among domestic peers, enabling customers to directly access corresponding function menu by dialling speed-dial codes. We were also the first bank to create the self-service voice mode named "online intelligent customer service", further improving the efficiency of online self-service customer services. Newly established service channels such as SMS banking and online customer service have played an increasingly important substituting role in diverting customers from manual telephone services.

(3) Mobile Banking

We speeded up product innovation in mobile financial services, launched new products and functions such as USB Key for iPhone mobile banking, personal loan and mobile equity market for Windows Phone 8 and Android mobile banking. A number of marketing campaigns were carried out and the reputation and influence of our mobile banking was expanded.

In the first half of 2013, the trading volume of mobile banking increased by 11.6 times compared to the same period of last year, and the number of customers grew by 22.8% compared to the end of last year.

(4) Self-service Banking

We provide self-service banking through ATMs and other self-service terminals. At the end of June 2013, we had 18,491 self-service banking outlets and 80,170 ATMs. Transactions conducted via ATM amounted to RMB3,933.1 billion.

We accelerated the installation of self-service equipment and extended our service channels to new business areas such as the commodity trading markets and major counties. By simplifying the processing procedures of self-service terminals, we increased the business varieties, set prices reasonably and intensified advertising on the functions of self-service equipment as well as the customer diversion and guidance for counter-based businesses to raise the efficiency of self-service equipment and diversion rate of counter-based businesses.

SERVICE ENHANCEMENT

In the first half of 2013, we centred on the activities themed "The Year for Service Quality Improvement", implementing service improvement strategy with thorough solutions. With the focus on improving service quality, we coordinated the work relating to service improvement, substantially lifted our overall service level with the service quality being improved continuously.

The efficiency of customer services was rapidly raised and customer experience was continuously enhanced. We actively carried out cross-department, cross-institution, cross-platform and cross-business procedure reform and upgrading, made more efforts in back-office centralized processing of non-real-time counter-based businesses, and the efficiency of outlets' business acceptance and processing increased considerably. In the first half of 2013, the average waiting time of our customers declined by 21% compared to the same period of last year.

Customer service channels were further broadened and customer services were made more convenient. Through improvement and adjustment, establishment, relocation and redecoration, etc., we improved the layout of outlet network and service functions. We further increased efforts to deployment of self-service facilities and operating maintenance and carried out special self-service governance project, which further enhanced the friendliness and attraction of self-service and the percentage of transactions concluded through self-service channels to total transactions rose to 77.3%

Complaints from customers were significantly reduced and customer satisfaction level was constantly lifted. We constantly improved the customer complaint management mechanism and continuously enhanced the delicacy complaint management, practically increasing the complaint processing efficiency and improving the customer satisfaction by solving prominent problems fed back by customers and tracing and urging the processing of typical cases. In the first half of 2013, the number of customer complaints decreased by 54% compared to the same period of last year, 28 branches realized zero repeated complaints and customer satisfaction rate in relation to complaint processing maintained at more than 95%.

The long-acting mechanism for service improvement is increasingly improved and the monitoring on service quality became more timely and efficient. We continuously enhanced the establishment and promotion of rules and regulations on services, further strengthened the monitoring on customer service quality and promoted the service quality monitoring and queuing management system at operating outlets. Besides, we carried out the survey on settlement service for corporate customers and continuously pushed forward the third-party survey on personal customer satisfaction, pertinently improving services and customer satisfaction.

INTERNATIONALIZED AND DIVERSIFIED OPERATION

We steadily pushed forward the internationalized and diversified operation and development. Based on the primarily completed global service network, we improved the strategy of "one policy for one institution", emphatically carrying forward the localized, mainstreamed and differentiated development of overseas institutions so as to lift their competitiveness. Additionally, we reinforced interaction between the Group and subsidiaries, therefore achieving steady enhancement in comprehensive service capability. Through strengthening interaction and information sharing between domestic and overseas institutions, we promoted the global key product lines such as retail banking, E-banking, professional financing and cash management to develop in a diversified and in-depth way. RMB clearing bank in Singapore commenced operation officially, forming a coordinated development pattern of cross-border RMB businesses. In the first half of 2013, the volume of cross-border RMB business exceeded RMB1 trillion, with clearing network covering nearly 70 countries and regions around the world. We also enhanced the cross-border, cross-market and cross-product-line risk prevention as well as the consolidated risk management of the Group.

In terms of building of overseas institutions, Standard Bank Argentina S.A. was officially renamed as ICBC (Argentina); the integration of ICBC (USA) and ICBC (Argentina) was steadily pushed forward, and the network of tier-two branches of ICBC (Malaysia) was expanded. In addition, the agreement on acquisition of 20% shares of Bank SinoPac was signed. At the end of June 2013, we has set up 388 institutions in 39 countries and regions, established correspondent relationship with 1,661 overseas banks in 141 countries and regions, with a service network covering Asia, Africa, Latin America, Europe, America and Australia as well as major international financial centers.

At the end of June 2013, total assets of overseas institutions (including overseas branches, subsidiaries, and investment in Standard Bank) of us were USD182,177 million, representing an increase of USD19,455 million or 12.0% from the end of the previous year, and they accounted for 6.0% of the Group's total assets. Total loans amounted to USD93,364 million, representing an increase of USD21,481 million or 29.9%, and total deposits reached USD67,068 million, representing an increase of USD9,654 million or 16.8%. Profit before tax in the first half of 2013 was USD1,070 million, representing an increase of 23.8% compared to the same period of last year.

MAJOR INDICATORS FOR OVERSEAS INSTITUTIONS

Item	Assets (in USD millions) At 30 June 2013	Assets (in USD millions) At 31 December 2012	Profit before tax (in USD millions) Six months ended 30 June 2013	Profit before tax (in USD millions) Six months ended 30 June 2012	Number of institutions At 30 June 2013	Number of institutions At 31 December 2012
Hong Kong and Macau	93,857	78,189	547	388	170	169
Asia-Pacific region (except Hong Kong and Macau)	39,757	30,431	154	167	73	71
Europe	23,084	16,966	90	101	15	15
America	53,696	46,592	113	32	129	127
Africa[(1)]	4,688	5,244	166	176	1	1
Eliminations	(32,905)	(14,700)				
Total	**182,177**	**162,722**	**1,070**	**864**	**388**	**383**

Note:

(1) The assets represents the balance of our investment in Standard Bank as of the dates indicated, and the profit before tax represents our gain on investment recognized by us for the periods indicated.

Diversified Operation

Our capability of diversified operation was improved steadily. ICBC Credit Suisse Asset Management gave a full play to our edge of asset management platform, accelerated innovation, expanded investment management system and realized steady growth in business performance, continuously taking a lead in the banking fund companies. ICBC Leasing continued to make greater efforts to expand business, quickened our pace in operating transformation, and proactively innovated leasing product and service means, becoming the most creative financial leasing company with the strongest comprehensive power in China. Depending on the Group's dominant position, ICBC-AXA adhered to localized and independent operation and development, deepened bank-insurance cooperation mode, and intensified product innovation. Consequently, our business scale grew rapidly with market standing boosted quickly. ICBC International made use of the Group's resources, actively expanded financing for large multinationals and domestic enterprises.

CONTROLLED SUBSIDIARIES AND MAJOR EQUITY PARTICIPATING COMPANY

Overseas Subsidiaries

INDUSTRIAL AND COMMERCIAL BANK OF CHINA (ASIA) LIMITED

ICBC (Asia) is a wholly owned subsidiary and a Hong Kong registered bank. It has an issued share capital of HKD4,129 million. It provides comprehensive commercial banking services and the major businesses include commercial credit, trade finance, investment service, retail banking, E-banking, custody, credit card, receiving bank services for IPOs and dividend distribution. At the end of 2012, ICBC (Asia) recorded total assets of USD54,916 million and net assets of USD5,148 million. It generated a net profit of USD518 million during the year.

ICBC INTERNATIONAL HOLDINGS LIMITED

ICBC International is a wholly-owned subsidiary and is a full-licensed investment bank in Hong Kong. It has a paid-up capital of HKD4,839 million. It mainly renders a variety of investment banking services, including listing sponsor and underwriting, equity financing, bond financing, direct investment, securities brokerage and fund management. At the end of 2012, it recorded total assets of USD852 million and net assets of USD663 million.

INDUSTRIAL AND COMMERCIAL BANK OF CHINA (MACAU) LIMITED

ICBC (Macau) is the largest local legal banking entity and the second largest commercial bank in Macau. It has a registered capital of MOP461 million, in which we holds an 89.33% stake, ICBC (Macau) mainly engages in comprehensive commercial banking services such as deposit, loan, trade finance and international settlement. At the end of 2012, ICBC (Macau) recorded total assets of USD14,595 million and net assets of USD1,074 million respectively. It generated a net profit of USD138 million in 2012 during the year.

INDUSTRIAL AND COMMERCIAL BANK OF CHINA (MALAYSIA) BERHAD

ICBC (Malaysia) is a wholly-owned subsidiary established in Malaysia. With a registered capital of MYR331 million, it is able to provide a full range of commercial banking services. At the end of 2012, ICBC (Malaysia) recorded total assets of USD1,029 million and net assets of USD118 million. It generated a net profit of USD4.97 million during the year.

PT. BANK ICBC INDONESIA

ICBC (Indonesia) is a full-licensed commercial banking subsidiary registered in Indonesia, with a paid-up capital of IDR1.5 trillion, in which we hold a 97.5% stake. ICBC (Indonesia) mainly specializes in financial services such as deposit, loan and trade finance, settlement, agency services, inter-bank borrowing and lending and foreign exchange. At the end of 2012, ICBC (Indonesia) recorded total assets of USD2,498 million and net assets of USD182 million. It generated a net profit of USD11.76 million during the year.

INDUSTRIAL AND COMMERCIAL BANK OF CHINA (THAI) PUBLIC COMPANY LIMITED

ICBC (Thai), a subsidiary of us, has a registered capital of THB14,187 million, in which we hold a 97.7% stake. ICBC (Thai) holds a comprehensive banking license and provides various services including deposit, loan, trade finance, remittance, settlement, leasing and consulting. At the end of 2012, ICBC (Thai) recorded total assets of USD4,227 million and net assets of USD491 million. It generated a net profit of USD15.61 million during the year.

INDUSTRIAL AND COMMERCIAL BANK OF CHINA (ALAMATY) JOINT STOCK COMPANY

ICBC (Almaty), a wholly-owned subsidiary, was incorporated in Kazakhstan with a registered capital of KZT8,933 million. It principally engages in commercial banking services such as deposit, loan, international settlement and trade and finance, foreign currency exchange, guarantee, account management, Internet banking and bank card service. At the end of 2012, ICBC (Almaty) recorded total assets of USD225 million and net assets of USD75.34 million. It generated a net profit of USD2.67 million during the year.

INDUSTRIAL AND COMMERCIAL BANK OF CHINA (MIDDLE EAST) LIMITED

ICBC (Middle East), a wholly-owned subsidiary, was incorporated in United Arab Emirates with a registered capital of USD50 million. Its scope of business covers investment banking and commercial banking businesses. At the end of 2012, ICBC (Middle East) recorded total assets of USD1,091 million and net assets of USD67.81 million. It generated a net profit of USD5.77 million during the year.

INDUSTRIAL AND COMMERCIAL BANK OF CHINA (LONDON) LIMITED

ICBC (London), a wholly-owned subsidiary of us, was incorporated in the United Kingdom with a registered capital of USD200 million. It provides a full spectrum of banking services such as exchange and remittance, loan, trade finance, international settlement, funds clearing, agency and custody. At the end of 2012, ICBC (London) recorded total assets of USD2,885 million and net assets of USD271 million. It generated a net profit of USD23.85 million during the year.

INDUSTRIAL AND COMMERCIAL BANK OF CHINA (EUROPE) S.A.

ICBC (Europe), a wholly-owned subsidiary, was incorporated in Luxembourg with a registered capital of EUR115 million. Paris Branch, Amsterdam Branch, Brussels Branch, Milan Branch, Madrid Branch and Warsaw Branch are structured under ICBC (Europe), which mainly offers corporate and retail banking services such as deposit, withdrawal, remittance, settlement, loan, trade finance, capital, investment banking, custody, franchise wealth management. At the end of 2012, ICBC (Europe) recorded total assets of USD4,309 million and net assets of USD193 million. It generated a net profit of USD24.45 million during the year.

ZAO INDUSTRIAL AND COMMERCIAL BANK OF CHINA (MOSCOW)

ICBC (Moscow), a wholly-owned subsidiary of us, was incorporated in Russia with a registered capital of RUB2.31 billion. It mainly provides a full spectrum of corporate banking services including loan, settlement, trade finance, deposit, foreign currency exchange, franchise treasury business, global cash management and corporate financial consulting as well as remittance for natural persons without account. ICBC (Moscow) is ruble clearing bank for RMB trading against ruble on China Foreign Exchange Trade System, important market maker and RMB clearing bank for RMB trading against ruble on MICEX-RTS. At the end of 2012, ICBC (Moscow) recorded total assets of USD472 million and net assets of USD83.60 million. It generated a net profit of USD4.90 million during the year.

INDUSTRIAL AND COMMERCIAL BANK OF CHINA (CANADA)

ICBC (Canada) is a subsidiary of us in Canada with a paid-up capital of CAD83.00 million, in which we hold a 80% stake. Holding a full commercial banking license, ICBC (Canada) provides various corporate and retail banking services such as deposit, loan, settlement remittance, trade finance, foreign exchange trading, funds clearing, RMB cross-border settlement, RMB currency notes, cash management, E-banking, bank card service and investment and financing information consulting. At the end of 2012, ICBC (Canada) recorded total assets of USD775 million and net assets of USD102 million. It generated a net profit of USD3.50 million during the year.

INDUSTRIAL AND COMMERCIAL BANK OF CHINA FINANCIAL SERVICES LLC

ICBCFS, as a wholly-owned subsidiary of us in the United States, has a registered capital of USD50.00 million. It mainly specializes in securities clearing business in Europe and America, and offers professional banking services including securities clearing, settlement and financing, accounting and transaction statement in European and American markets for institutional customers. At the end of 2012, ICBCFS recorded total assets of USD36,498 million and net assets of USD69.24 million. It generated a net profit of USD9.01 million during the year.

INDUSTRIAL AND COMMERCIAL BANK OF CHINA (USA) NA

ICBC (USA), a controlled subsidiary of us in the United States, has a paid-up capital of USD169 million, in which we hold an 80% stake. Holding a full-functional commercial banking license registered in the UFIQAC, ICBC (USA) is a member of Federal Deposit Insurance Corporation, providing corporate and retail banking services such as deposit, loan, settlement and remittance, trade finance, cross-border settlement, cash management, E-banking and bank card services. At the end of 2012, ICBC (USA) recorded total assets of USD762 million and net assets of USD170 million. It generated a net profit of USD0.63 million since the completion date of the acquisition till the end of the year.

INDUSTRIAL AND COMMERCIAL BANK OF CHINA (ARGENTINA) LIMITED

On 30 November 2012, we completed the acquisition of 80% stake in Standard Bank Argentina S.A., making us a controlling shareholder of Standard Bank Argentina S.A. In the first half of 2013, Standard Bank Argentina S.A. was officially renamed as Industrial and Commercial Bank of China (Argentina) Limited. With the full-functional commercial banking license and a registered capital of ARS847 million, it specializes in deposit, loan, settlement and remittance, trade finance, foreign exchange trading, capital settlement, financial market, cash management, investment banking, E-banking, credit card services, retail banking and SME services. At the end of 2012, it recorded total assets of USD4,268 million and net assets of USD419 million.

Domestic Subsidiaries

ICBC CREDIT SUISSE ASSET MANAGEMENT CO., LTD.

ICBC Credit Suisse Asset Management, a subsidiary of us, has a registered capital of RMB200 million, in which we hold an 80% stake. It mainly engages in fund placement, fund distribution, asset management and such other businesses as approved by the CSRC, and owns many business qualifications including mutual fund, QDII, enterprise annuity, specific asset management, domestic and overseas investment manager of social security fund, RQFII, insurance capital management and special asset management. It is one of the fund companies with “full qualification” in the industry. ICBC Credit Suisse Asset Management (International) Co., Ltd., the subsidiary of ICBC Credit Suisse Asset Management in Hong Kong, has acquired the business qualifications for RQFII and domestic investment manager of social security fund. In 2012, ICBC Credit Suisse Asset Management has won various awards including “Top 10 Golden Bull Fund Company” and “Annual Golden Bull Bond Fund” from China Securities Journal and “Top 10 Star Fund Company” from Securities Times. At the end of 2012, it managed a total of 28 mutual funds and several enterprise annuities and special account portfolios, and the size of the assets under management amounted to approximately RMB156.8 billion, recorded total assets of RMB1,013 million and net assets of RMB801 million, and generated an annual net profit of RMB197 million.

ICBC FINANCIAL LEASING CO., LTD.

ICBC Leasing, a wholly-owned subsidiary, has a registered capital of RMB8.0 billion. It mainly engages in financial leasing in the fields of aviation, shipping and large-scale equipment and various leasing products and provides a variety of financial and industrial services including rental assignment, investment funds, securitisation of investment assets, assets transactions and management. In 2012, ICBC Leasing was awarded the "Most Influential Financial Leasing Company" by Financial Times. At the end of 2012, ICBC Leasing recorded total assets of RMB119,049 million, net assets of RMB11,017 million, and generated an annual profit of RMB1,166 million.

ICBC-AXA ASSURANCE CO., LTD.

ICBC-AXA, a subsidiary of us, has a registered capital of RMB3,705 million, in which we hold a 60% stake. ICBC-AXA engages in a variety of insurance businesses such as life insurance, health insurance and accident insurance, and re-insurance of these businesses, businesses in which use of insurance capital is permitted by laws and regulations of the State, and other businesses approved by the CIRC. On 5 July 2012, we completed the transfer of 60% equity interests of AXA-Minmetals Assurance Co., Ltd. AXA-Minmetals Assurance Co., Ltd officially changed its name to ICBC-AXA Assurance Co., Ltd. on 6 July 2012. At the end of 2012, ICBC-AXA recorded total assets of RMB10,951 million and net assets of RMB2,691 million.

Majority Equity Participation Company

STANDARD BANK GROUP LIMITED

Standard Bank is the largest commercial bank in Africa. We hold 20.05% of the ordinary shares of Standard Bank. We continued to push forward the strategic cooperation with Standard Bank, initiated a total of 132 cooperative projects in a variety of fields such as corporate banking, settlement and cash management, information technology, financial market and precious metals, among which, the total value of the agreements entered between the two banks in relation to financing to Africa amounted to USD7.7 billion. In 2012, two new large cooperative projects in relation to information and technology and commodity financing were launched. At the end of 2012, Standard Bank recorded total assets of ZAR1,544,220 million and net assets of ZAR130,173 million, and generated an annual net profit of ZAR19,411 million.

INFORMATION TECHNOLOGY AND PRODUCT INNOVATION

With continuous advancement of the "Technology Driven" development strategy, we carried forward the infrastructure construction, accelerated product development and innovation, and increased value-creating capability, providing strong support to expedite operation reform, improve service level, promote internationalization and intensify risk management.

We vigorously pushed forward system application, launching a number of basic service platforms and products in fields such as customer service, business management and risk management. We coped with interest liberalization trend and upgrade relevant systems to support multi-dimensional and differentiated interest rate pricing. Based on the demands of financial services for people's livelihood, we integrated and improved service functions of social security, finance, health care, education and municipal administration. We provided more technology support to overseas institutions and completed the establishment of systems relating to RMB clearing of Singapore Branch. The FOVA was extended to cover 37 overseas institutions. Achievement was made in promoting internet banking and mobile banking in ICBC (Asia), and the internet banking covered 26 overseas institutions. In the first half of 2013, we obtained 37 patents from the State Intellectual Property Office, and the total number of patents owned by us amounted to 261.

Centring on the reform and development, we improved work mechanism and methods for product innovation, deepened product innovation in key areas and promoting financial services for customers. We updated the measures for risk management on product research and development, which covered the whole process of product research and development as well as assessment. The regular analysis mechanism on product operation dynamic was established to continuously enhance product quality and service level. We developed new products such as account-based foreign exchange trading and short-term credit card instalment repayment business. We also strengthened channel innovation, added new functions such as B2C payment, two-way precious metal trading and two-way foreign exchange trading to customer terminals of iPad internet banking as well as iPhone and Android mobile banking. We launched internal transfer and remittance, payroll payment agency service and bill services of the overseas bank-enterprise interconnection system, realizing centralized management of domestic and overseas corporate accounts. In addition, we also launched the personal and corporate internet banking in ICBC (Asia) and unified the internet banking system of overseas institutions in an all-round way.

HUMAN RESOURCES MANAGEMENT

As at 30 June 2013, we had 424,516 employees worldwide (excluding labour dispatched for services totalling 27,729 persons).

Centring on the demands of the strategic development, we continuously pushed forward the group based, market-based and diversified reform of our cadre system in accordance with the working concepts of people-oriented, service collaboration and scientific management. We constantly improved the mechanism of public competition for post, strengthened training for and appointment of young cadres, and continued to promote exchanges and communications among employees at different levels or from different departments at the level among us. We enhanced the building teams of talents and personnel, enhanced capabilities and qualities of employees and broadened the career development paths for them. Great efforts were made to develop, select, bring in and reserve internationalized talents to meet the talent needs of overseas institutions for their transformation development. We also accelerated the establishment of compensation governance mechanism at group level, carried out the Group's total payroll budget management and improved the remuneration system for employees. We pushed forward the reform of profit centers, bringing private banking departments into the coverage of reform pilot. Besides, we specified the function definition and profit-making mode of the Private Banking Department, and the number of profit centers increased to 9. In the first half of 2013, profit centers achieved a total profit before tax of RMB30,879 million.

Aiming at serving for employee growth and business development, we continuously developed all-staff training system for managerial employees, professional staff and business personnel. Focusing on providing trainings for internationalized talents, continuous career development and senior customer managers, we reinforced project management and created new training methods to practically enhance the pertinence and effectiveness of trainings. We constantly consolidated basic training resources and built training infrastructure with features of ICBC, so as to further improve the operating and implementing system which scientifically integrated training bases, internet college, simulated bank and international cooperation project. In the first half of 2013, we completed 19 thousand sessions of various trainings for 1.19 million persons, with an average of 3.43 days of training per person of the Group.

We enhanced the publicity of corporate culture. Corporate culture training was arranged for employees, the values of our corporate culture were vividly illustrated by means of stories, cartoons, videos and mobile newspaper. We also publicized our core value of "Integrity Leads to Prosperity" through the page of "corporate culture" on our official website, which improved the public awareness of our corporate culture. We steadily pushed forward the improvement of professional culture, explored to establish basic characteristic culture, and drove the integrated development of the corporate culture and business management. We proactively publicized the advanced and typical deeds such as "Touching ICBC", guiding the staff to follow us core value.

LEGAL AND REGULATORY PROCEEDINGS

We are involved in legal proceedings in the ordinary course of our business. Most of the legal proceedings were initiated by us for recovering non-performing loans, while some legal proceedings arose from customer disputes. As at 30 June 2013, the aggregate amount of pending proceedings which we acted as defendant was RMB1,954 million. We do not expect any material adverse effect from these pending legal proceedings on our business, financial position, operating results and the issuance of the Bonds.

We are required to comply with applicable anti-money laundering and anti-terrorism laws and other regulations in the PRC, Hong Kong, Singapore and other jurisdictions where we have operations. These laws and regulations require us, 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. We have strictly complied with applicable anti-money laundering laws and other relevant regulations. We have taken steps to improve our anti-money laundering process mechanism, actively fulfilled applicable anti-money laundering regulatory requirements and comprehensively improved the management standard of our anti-money laundering compliance. As at 30 June 2013, we were not aware of any money laundering or other major illegal or improper activities engaged by or involving any employee of our domestic or overseas branches or subsidiaries.

FUNDING AND CAPITAL ADEQUACY

FUNDING

Our funding operations are designed to ensure stability of funding, minimise funding costs and effectively manage liquidity. Although customer deposits have always been our main source of funding, we aim to maintain a diversified funding base. Our funding is primarily derived from deposits placed with us by our corporate and consumer customers. We also derive funding from shareholders' equity, debt instrument issuance and interbank borrowings. We raise foreign currency from customers' foreign currency deposits and occasionally from borrowings with counterparties. The following table gives a breakdown of our customer deposits classified by product type and business line as at the dates indicated:

	As at 31 December							
	2010		**2011**		**2012**		**As at 30 June 2013**	
Item	**Amount**	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**
	(RMB m)	%	*(RMB m)*	%	*(RMB m)*	%	*(RMB m)*	%
Corporate deposits	**5,471,309**	**49.1**	**6,181,945**	**50.4**	**6,908,245**	**50.7**	**7,277,389**	**50.2**
Time deposits	1,925,605	17.3	2,364,558	19.3	2,915,072	21.4	3,323,182	22.9
Demand deposits	3,545,704	31.8	3,817,387	31.1	3,993,173	29.3	3,954,207	27.3
Personal deposits	**5,243,657**	**47.0**	**5,901,437**	**48.1**	**6,554,287**	**48.0**	**6,986,357**	**48.1**
Time deposits	2,990,945	26.8	3,335,741	27.2	3,754,118	27.5	3,979,111	27.4
Demand deposits	2,252,712	20.2	2,565,696	20.9	2,800,169	20.5	3,007,246	20.7
Other deposits[1]	**192,876**	**1.8**	**177,837**	**1.5**	**180,378**	**1.3**	**244,656**	**1.7**
Overseas and others	**237,715**	**2.1**	–	–	–	–	–	–
Total	**11,145,557**	**100.0**	**12,261,219**	**100.0**	**13,642,910**	**100.0**	**14,508,402**	**100.0**

Note:

(1) Include outward remittance and remittance payables.

The following table gives a breakdown of our customer deposits (on a consolidated basis) classified by remaining maturity for the periods indicated:

	As at 31 December							
	2010		**2011**		**2012**		**As at 30 June 2013**	
Item	**Amount**	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**
	(RMB m)	%	*(RMB m)*	%	*(RMB m)*	%	*(RMB m)*	%
Demand[1]	6,134,482	55.1	6,660,720	54.4	7,076,646	51.9	7,465,105	51.5
Less than 3 months	1,697,494	15.2	1,896,819	15.5	2,041,502	15.0	2,070,049	14.3
3 to 12 months	2,527,394	22.7	2,615,102	21.3	2,964,264	21.7	3,475,094	23.9
1 to 5 years	772,418	6.9	1,071,244	8.7	1,533,049	11.2	1,479,,208	10.2
Over 5 years	13,769	0.1	17,334	0.1	27,449	0.2	18,946	0.1
Total	**11,145,557**	**100.0**	**12,261,219**	**100.0**	**13,642,910**	**100.0**	**14,508,402**	**100.0**

Note:

(1) Includes the time deposits payable on demand.

Capital Adequacy

The following table sets forth our core capital and supplementary capital, risk-weighted assets and capital adequacy ratios (on a standalone basis) calculated in accordance with the applicable CBRC guidelines.

Item	As at 31 December 2010	2011	2012
	(RMB million, except for percentages)		
Core capital	750,970	882,300	1,044,564
Share capital	349,019	349,084	349,620
Reserves[1]	400,724	532,135	691,482
Minority interests	1,227	1,081	3,462
Supplementary capital	174,505	271,830	298,365
General provisions for loan impairment	67,905	77,889	88,037
Long-term subordinated notes	78,286	167,655	187,585
Convertible notes	24,870	24,615	22,558
Other supplementary capital	3,444	1,671	185
Total capital base before deductions	925,475	1,154,130	1,342,929
Deductions	53,102	41,667	43,915
Unconsolidated equity investments	22,649	18,957	19,574
Goodwill	27,369	22,223	24,287
Others	3,084	487	54
Net capital base	872,373	1,112,463	1,299,014
Net core capital base	709,193	850,355	1,010,463
Risk weighted assets and market risk capital adjustment	7,112,357	8,447,263	9,511,205
Core capital adequacy ratio	9.97%	10.07%	10.62%
Capital adequacy ratio	12.27%	13.17%	13.66%

Note:

(1) Mainly includes the valid portion of capital reserve, surplus reserves, general reserve and the valid portion of retained profits.

In the first half of 2013, focusing on establishing a long-acting capital replenishment and constraint mechanism, we continued to improve the capital management system and promote the enterprise capital management in all areas. Besides, we proactively sought exogenous channels for capital replenishment, strengthened the coordinated management on capital replenishment and utilization, reinforced capital constraint and maintained stable capital adequacy level.

As at the end of June 2013, we calculated capital adequacy ratios at various levels in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) promulgated by CBRC in June 2012 (the "**Capital Regulation**"), which came into effect on 1 January 2013. Specifically, the core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio stood at 10.48%, 10.48% and 13.11% respectively, all of which fulfilled regulatory requirements. In the first half of 2013, our profit maintained continuous growth, which effectively supplemented the core tier-one capital. Meanwhile, the growth rate of risk-weighted assets was controlled effectively and the capital adequacy ratio kept moderate.

The following table sets forth information relating to our capital adequacy as at 30 June 2013 calculated in accordance with the Capital Regulation:

CAPITAL ADEQUACY RATIO

Item	At 30 June 2013
	In RMB millions, except for percentages
Core tier-one capital	**1,173,434**
Paid-in capital	349,650
Valid portion of capital reserve	128,086
Surplus reserve	98,195
General reserve	189,296
Retained profi ts	427,043
Valid portion of non-controlling interests	1,831
Others[(2)]	(20,667)
Core tier-one capital deductions	**8,735**
Goodwill	8,209
Other intangible assets other than land use right	1,704
Cumulative cash flow hedge reserves that relate to the hedging of items that are not fair valued on the balance sheet	(3,877)
Investment in core tier-one capital instruments issued by financial sector entities that are under control but not subject to consolidation	2,699
Net core tier-one capital	**1,164,699**
Other tier-one capital[(3)]	**23**
Net tier-one capital	**1,164,722**
Tier-two capital	**312,226**
Valid portion of tier-two capital instrument and related premium	186,842
Surplus provision for loan impairment	125,301
Valid portion of non-controlling interests	83
Tier-two capital deductions	**20,400**
Significant capital investments in tier-two capital instruments issued by financial sector entities that are not subject to consolidation	20,400
Net capital base	**1,456,548**
Risk-weighted assets	**11,108,508**
Core tier-one capital adequacy ratio	**10.48%**
Tier-one capital adequacy ratio	**10.48%**
Capital adequacy ratio	**13.11%**

Note:

(1) Please refer to Note 45(d): Capital Management to our financial statements as at and for the six months ended 30 June 2013, included elsewhere in this offering circular.

(2) Others are foreign currency translation reserve.

(3) As at 30 June 2013, our other tier-one capital was the valid portion of non-controlling interests.

The following table sets forth information relating to our capital adequacy as at 30 June 2013 calculated in accordance with the Regulations Governing Capital Adequacy of Commercial Banks and related regulations promulgated by CBRC:

Item	At 30 June 2013
Core capital adequacy ratio	10.80%
Capital adequacy ratio	13.65%

The following table sets forth information relating to our capital adequacy as at 30 September 2013 calculated in accordance with the Capital Regulation:

Item	**At 30 September 2013**
	In RMB millions, except for percentages
Net core tier-one capital	1,225,035
Net tier-one capital	1,225,055
Net capital	1,523,899
Core tier-one capital adequacy ratio	10.59%
Tier-one capital adequacy ratio	10.59%
Capital adequacy ratio	13.17%

The following table sets forth information relating to our capital adequacy as at 30 September 2013 calculated in accordance with the Regulations Governing Capital Adequacy of Commercial Banks and related regulations promulgated by CBRC:

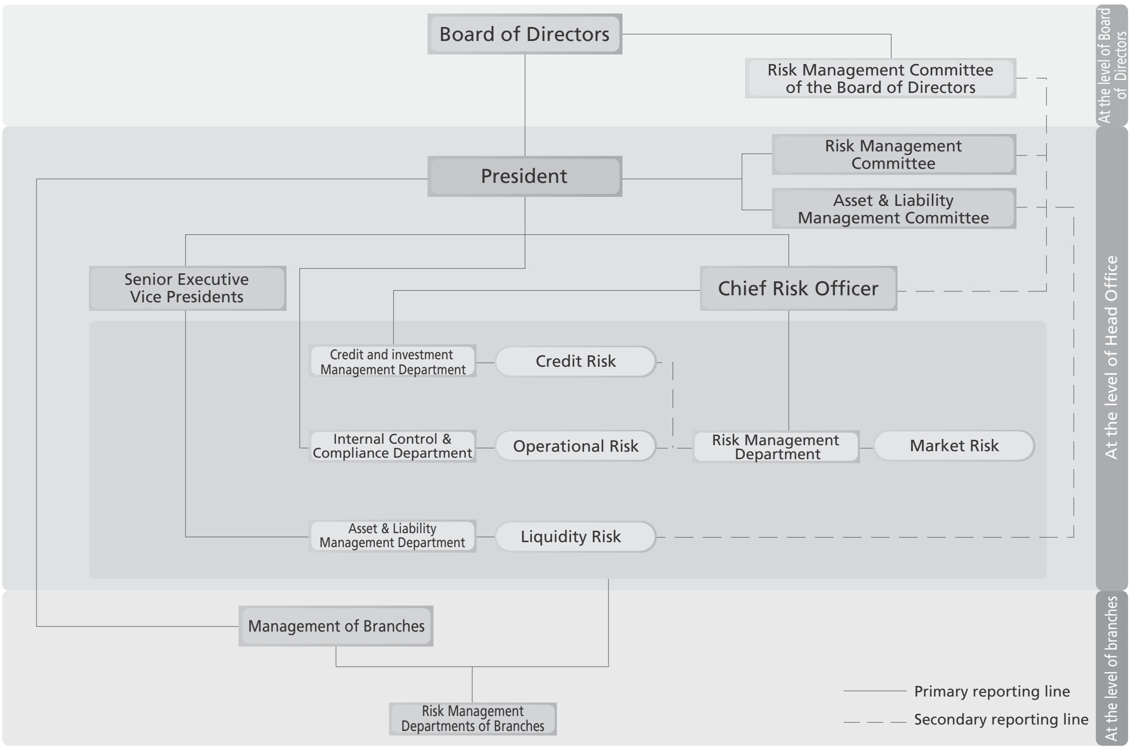
Item	**At 30 September 2013**
Core capital adequacy ratio	10.64%
Capital adequacy ratio	13.36%

RISK MANAGEMENT

ENTERPRISE RISK MANAGEMENT SYSTEM

The enterprise risk management system is a process where our Board of Directors, the Senior Management and other employees perform their respective duties and responsibilities to take effective control of all the risks at various business levels in order to provide reasonable guarantee to the achievement of our objectives. The principles of risk management include matching of return with risk, internal checking and balance with consideration as to efficiency, risk diversification, combination of quantitative and qualitative analysis, use of dynamic adaptability adjustments and gradual improvement, etc.

Our organizational structure of risk management comprises the Board of Directors and its special committees, the Senior Management and its special committees, the Risk Management Department, the Internal Audit Department, etc. The risk management organizational structure is illustrated below:



Note: Substantial risks such as reputational risk have been incorporated into the enterprise risk management framework.

ACHIEVEMENTS IN RISK MANAGEMENT IN RECENT YEARS

Since our initial public offering in 2006, we have actively responded to the challenges brought by various uncertain factors and risks by enhancing corporate governance and improving internal control. We have continued to improve our enterprise risk management system, strengthened the construction of enterprise risk management policies, developed and completed templates for risk evaluation, gradually established industry-leading risk information system and built up a enterprise risk management system with our unique characteristics which will be continuously improved and refined.

In recent years, we have achieved a series of satisfactory results in risk management. Our achievement can be summarised as "full process, full coverage, new standards and new technologies". In particular, we have implemented risk management throughout the entire process of risk identification, measurement, control, monitoring, evaluation and reporting. Our risk management covers all of our entities from the group level to all overseas branches and all business operations.

We have taken the initiative in the PRC in developing and researching measurement methods of various risks pursuant to the new capital regulatory standards and maintained a leading position in risk measurement. We have established an industry-leading information technology support system with the capability to comprehensively cover the entire risk management process, in order to provide technical support for risk management.

Our ongoing efforts in risk management in recent years have achieved remarkable results. We have continued to improve our assets quality and taken a leading position in this regard in the PRC banking industry. As at 31 December 2010, 2011 and 2012, 30 June 2013 and 30 September 2013, our non-performing loan ratios were 1.08%, 0.94%, 0.85%, 0.87% and 0.91%, respectively.

In the face of complex and volatile operating environment in the first half of 2013, we actively improved our enterprise risk management system and further enhanced risk management of the Group. We strengthened our enterprise risk management system, amended the measures regarding risk management assessment and intensified analysis and study of key risk problems, resulting in enhanced enterprise risk management.

During the first half of 2013, we continuously promoted the implementation of the Regulation Governing Capital of Commercial Banks (Provisional) promulgated by CBRC in June 2012, and continued to strengthen risk management competency and measurement capability by improving data quality management, optimizing risk measurement models, upgrading and reforming IT systems and extending the same to overseas, and enhancing the application of risk measurement results. In addition, we strengthened our management of internal rating of credit risk, improved the internal rating system of our non-retail business, promoted the optimization and validation of the internal rating system and model of retail business, and continuously promoted the full application of the internal rating results. We further enhanced the internal measurement model of market risk and accelerated the extension of the global market risk management system (GMRM) abroad. We also actively carried out testing of the market risk internal model approach, and promoted the application of the internal model approach (IMA) in limit management, risk reporting, stress testing and capital measurement in a deep-going manner. We continued to improve the operational risk management system and strengthened the application of the operational risk advanced measurement approach (AMA).

CREDIT RISK

Credit Risk Management

In the first half of 2013, in response to the changes in the macroeconomic environment and financial regulatory requirements, we adhered to drive the real economy by financial services and constantly adjusted and improved various credit policies according to the changes in economic environment and industrial development trends, made greater efforts in credit restructuring and continued the building of the credit system. We strictly controlled the credit risks of key areas, standardized the credit operation process, and strengthened the construction of credit risk monitoring and management mechanism. We also innovated in off-site monitoring approaches, and improved management of loans with potential risks and collection and disposal of NPLs. As a result, our credit risk management was fully enhanced.

We continued to advance the development of the credit system and further optimized the credit regulatory system. We amended and improved the management rules regarding loan guarantee, pledge and guarantee for receivables and classification of credit risk exposure of the banking book, and deeply promoted the reform of credit business process, and optimized the parallel solutions of sub-processes, including credit, rating, approval and collateral assessment. We expedited the integrated construction of global credit management system (GCMS), and launched functions such as integrated management of group customer information and uniform credit rating and granting. The risk management has been further strengthened.

We improved industry credit policies and enhanced industry risk management. Based on the macroeconomic policy, the orientation of industrial policy and the characteristics of industrial operation, we continuously adjusted and improved the credit policy for each industry and further expanded the coverage of industrial credit policies. We actively supported the advanced manufacturing, modern services, culture industries, and strategic emerging sectors, in line with the country's economic restructuring orientation, and continued to promote the "green credit". By scientifically navigating the direction of granting credit and structural adjustment, we implemented strict quota management on industries with over-capacity, improved quota management plans and operation procedures, and enhanced the control and withdrawal mechanism for business with potential risks. Consequently, the total amount of financing for industries with over-capacity reduced and the financing structure continuously improved. We upgraded the functions of the industrial credit limit management system and realized stringent control of industrial quota system.

We strengthened risk management of loans to local government financial vehicles (LGFVs). We earnestly followed the relevant policies and regulatory requirements of the State Council and CBRC, enhanced the management of financing for LGFVs, timely adjusted policies on loans to LGFVs, and accelerated the rectification and credit enhancement of loans to LGFVs. And we strictly controlled new loans to LGFVs, and continued to withdraw the approval authority on loans to LGFVs.

We strengthened risk management on the real estate industry. We earnestly implemented the country's macro-control policy, continued to implement industrial limit management, strictly controlled the direction of real estate loans and further optimized the structure of loan customers. We enhanced credit risk control in a comprehensive manner, and prevent and eliminate real estate credit risk. We also strengthened off-site monitoring and analysis of real estate loans, and actively planned and implemented risk prevention and control measures.

We strengthened risk management in relation to trade finance. In face of the complex external environment, we regulated the business operation of commodity financing, defined stricter access standards for logistic monitoring enterprises and strengthened the supervision of cooperative institutions. We explored the work mechanism for supply chain financing on our own initiative, innovated in the off-site monitoring mode of trade finance, strengthened trade background authenticity verification and improved system capability in preventing and combating fraudulent transactions.

We enhanced risk management of personal loans. We steadily developed personal loan business, actively adjusted the structure of personal credit products and optimized the allocation of personal credit resources. In respect of personal housing loans, we continued to implement a differentiated housing credit policy and actively promoted the innovation of personal consumption loans. We also set higher access standards for borrowers, pushed forward the management of personal customer comprehensive credit and effectively controlled the overall risk of personal customer financing. We strengthened compliance management of personal loans to ensure business operations comply with laws and regulations. The personal loan collection mechanism was improved.

We enhanced credit risk management of small enterprise. We strengthened the examination of small enterprise credit risks and prevented the cross-default risks of small enterprise loans, personal loans and credit cards. We set stricter access standards for small enterprise trade financing, improved small enterprise credit management and enhanced on-site inspection and off-site monitoring and management. We also actively resolved credit risk by gradual credit reduction and improvement of guarantee methods, and realized stringent control over small enterprise post-lending management. Risk management of credit card business was enhanced. We constantly improved credit card risk management system, strengthened the credit approval management of credit card business, actively pushed forward credit policy adjustment and improved the dynamic management of credit limits. We established a multi-dimensional asset quality supervision mechanism, intensified the collection of large-amount NPLs of credit card business, and improved the uniform system platform for risk management before, during and after the credit card lending.

Credit risk management of treasury operations was improved. We improved the risk monitoring and analysis mechanism and, on our own initiative, improved the structure of bond investment portfolio according to the trend of domestic and international financial markets, effectively mitigating the credit risk of investment portfolios. We took various risk management measures to strengthen the credit risk management of treasury operations, including defining customers' access standards, controlling credit limit, controlling investment limit, controlling margin proportion, rating management and controlling authority limit for single transactions.

We strengthened the quality management of credit assets to guarantee the stable quality of such assets. We improved NPLs forecast and alert mechanism to facilitate timely risk response measures. We strengthened the management of NPLs in key areas and large-amount NPLs, and enhanced the management, collection and disposal of NPLs. We also strengthened planned management, and carried out bad debt write-offs in an orderly manner. Besides, we promoted the NPL transfer in batches and broadened the channels for NPL disposal.

Credit Risk Analysis

Details of our maximum exposure to credit risk without taking account of any collateral and other credit enhancements

In RMB millions

Item	At 30 June 2013	At 31 December 2012
Balances with central banks	3,226,092	3,098,883
Due from banks and other financial institutions	641,073	636,450
Financial assets held for trading	43,771	20,317
Financial assets designated at fair value through profit or loss	268,216	201,208
Derivative financial assets	26,949	14,756
Reverse repurchase agreements	462,000	544,579
Loans and advances to customers	9,202,023	8,583,289
Financial investments	4,066,506	3,858,420
Receivables	369,542	364,715
Held-to-maturity investments	2,674,164	2,576,562
Available-for-sale financial assets	1,022,800	917,143
Others	439,054	220,183
Subtotal	**18,375,684**	**17,178,085**
Credit commitments	**2,173,530**	**2,076,206**
Maximum credit risk exposure	**20,549,214**	**19,254,291**

Distribution of loans by five-tier classification

In RMB millions, except for percentages

	At 30 June 2013		At 31 December 2012	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Pass	9,135,274	96.79	8,501,566	96.57
Special mention	220,600	2.34	227,551	2.58
NPLs	81,768	0.87	74,575	0.85
Substandard	34,106	0.37	29,418	0.33
Doubtful	39,827	0.42	36,482	0.42
Loss	7,835	0.08	8,675	0.10
Total	**9,437,642**	**100.00**	**8,803,692**	**100.00**

Loan quality maintained stable. As at the end of June 2013, according to the five-tier classification, pass loans amounted to RMB9,135,274 million, representing an increase of RMB633,708 million from the end of the previous year and accounting for 96.79% of total loans. Special mention loans amounted to RMB220,600 million, representing a decrease of RMB6,951 million, accounting for 2.34% of total loans. Outstanding NPLs amounted to RMB81,768 million, increased by RMB7,193 million, and the NPL ratio was 0.87%. As at the end of September 2013, the balance of non-performing loans amounted to RMB87,361 million, representing an increase of RMB12,786 million over the end of the previous year. The NPL ratio was 0.91%, representing an increase of 0.06 percentage points compared to the end of the previous year.

Distribution of loans and NPLs by business line

In RMB millions, except for percentages

	At 30 June 2013				At 31 December 2012			
Item	Loan	Percentage (%)	NPLs	NPL ratio (%)	Loan	Percentage (%)	NPLs	NPL ratio (%)
Corporate loans	6,710,747	71.1	65,164	0.97	6,332,578	71.9	60,977	0.96
Discounted bills	185,655	2.0	–	–	184,011	2.1	–	–
Personal loans	2,541,240	26.9	16,604	0.65	2,287,103	26.0	13,598	0.59
Total	**9,437,642**	**100.0**	**81,768**	**0.87**	**8,803,692**	**100.0**	**74,575**	**0.85**

The balance of non-performing corporate loans reached RMB65,164 million, representing an increase of RMB4,187 million over the end of the previous year, with a NPL ratio of 0.97%. The rebound of NPLs was attributed to the rising pressure of macro-economic downturn and depression of external markets, which had caused bigger operation difficulties to some enterprises, particularly small and medium enterprises. The balance of non-performing personal loans stood at RMB16,604 million, increased by RMB3,006 million, and NPL ratio was 0.65%, which was mainly due to the increase in NPLs for personal business loans, credit card overdrafts and personal consumption loans resulting from decrease of operating income or salaries of some borrowers.

Distribution of loans and NPLs by geographic area

In RMB millions, except for percentages

	At 30 June 2013				At 31 December 2012			
Item	Loan	Percentage (%)	NPLs	NPL ratio (%)	Loan	Percentage (%)	NPLs	NPL ratio (%)
Head Office	339,605	3.6	3,278	0.97	312,927	3.6	2,811	0.90
Yangtze River Delta	2,021,064	21.4	19,784	0.98	1,936,722	22.0	15,465	0.80
Pearl River Delta	1,293,613	13.7	11,733	0.91	1,240,314	14.1	10,171	0.82
Bohai Rim	1,652,755	17.5	14,122	0.85	1,558,968	17.7	13,180	0.85
Central China	1,265,699	13.4	13,422	1.06	1,190,327	13.5	13,885	1.17
Western China	1,655,948	17.6	10,299	0.62	1,524,074	17.3	10,774	0.71
Northeastern China	546,954	5.8	5,395	0.99	514,030	5.8	5,308	1.03
Overseas and others	662,004	7.0	3,735	0.56	526,330	6.0	2,981	0.57
Total	**9,437,642**	**100.0**	**81,768**	**0.87**	**8,803,692**	**100.0**	**74,575**	**0.85**

We continuously optimized the geographic credit mix and promoted a balanced allocation of credit resources for different geographic areas, and maintained the stability of credit quality. We actively supported the development of Central China, Western China and Northeastern China, and granted RMB240,170 million new loans in the three regions, accounting for 37.9% of the total increment of loans. Overseas and other loans increased by RMB135,674 million, up 25.8%, accounting for 21.4% of the total increment of loans, which was mainly caused by increase of loans to ICBC (Asia), Singapore Branch and ICBC (Europe).

The balance of NPLs increased relatively more in the Yangtze River Delta, Pearl River Delta and Bohai Rim, mainly resulted from weak demand at home and abroad which caused fund shortage of export-oriented small and micro enterprises that were suffering from problems such as decreasing orders, rising costs and declining profits.

Distribution of corporate loans and non-performing corporate loans of domestic branches by industry

In RMB millions, except for percentages

	At 30 June 2013				At 31 December 2012			
Item	Loan	Percentage (%)	NPLs	NPL ratio (%)	Loan	Percentage (%)	NPLs	NPL ratio (%)
Manufacturing	1,444,298	23.7	23,979	1.66	1,392,266	23.8	22,442	1.61
Chemicals	221,753	3.6	2,700	1.22	214,625	3.7	3,115	1.45
Machinery	218,812	3.6	4,489	2.05	212,086	3.6	2,721	1.28
Metal processing	172,720	2.8	2,785	1.61	173,477	3.0	2,570	1.48
Textiles and apparels	137,126	2.3	3,470	2.53	135,744	2.3	3,179	2.34
Iron and steel	129,309	2.1	1,279	0.99	135,925	2.3	1,402	1.03
Computer, telecommunications equipment, and other electronic equipment	113,389	1.9	752	0.66	94,558	1.6	1,103	1.17
Transportation equipment	81,724	1.3	1,686	2.06	72,752	1.3	1,312	1.80
Non-metallic mineral	65,064	1.1	1,590	2.44	63,599	1.1	1,710	2.69
Petroleum processing, coking and nuclear fuel	55,564	0.9	286	0.51	55,161	0.9	312	0.57
Others	248,837	4.1	4,942	1.99	234,339	4.0	5,018	2.14
Transportation, storage and postal services	1,181,455	19.4	7,452	0.63	1,135,626	19.4	9,538	0.84
Wholesale and retail	764,019	12.5	19,345	2.53	705,800	12.1	14,186	2.01
Production and supply of electricity, heat, gas and water	573,050	9.4	2,364	0.41	579,726	9.9	2,727	0.47
Real estate	479,098	7.9	4,331	0.90	487,186	8.3	4,297	0.88
Water, environment and public utility management	474,866	7.8	81	0.02	464,000	7.9	341	0.07
Leasing and commercial services	415,029	6.8	856	0.21	382,835	6.6	959	0.25
Mining	247,793	4.1	575	0.23	233,124	4.0	473	0.20
Construction	159,370	2.6	669	0.42	145,798	2.5	932	0.64
Lodging and catering	128,039	2.1	561	0.44	101,489	1.7	796	0.78
Science, education, culture and sanitation	91,623	1.5	569	0.62	84,339	1.5	578	0.69
Others	133,767	2.2	968	0.72	132,646	2.3	983	0.74
Total	**6,092,407**	**100.0**	**61,750**	**1.01**	**5,844,835**	**100.0**	**58,252**	**1.00**

In the first half of 2013, we continued to promote credit restructuring, and proactively supported the development of advanced manufacturing, modern services, culture industries and strategic emerging sectors in line with the country's economic structural adjustment orientation. Specifically, loans to the wholesale and retail industry, being main part of the loans to the service sector, increased by RMB58,219 million or 8.2%; and loans to the manufacturing industry increased by RMB52,032 million or 3.7%, with new loans mainly granted to leading and backbone enterprises and competitive SMEs in the advanced manufacturing industries including equipment manufacturing, electronic information manufacturing and agricultural products processing industries. Loans to the wholesale and retail industry and manufacturing industry accounted for 44.5% of new corporate loans granted. Loans granted to the transportation, storage and postal services industry increased by RMB45,829 million, mainly to the key ongoing and continuing projects supported by the state. Real estate loans decreased by RMB8,088 million, mainly due to our strict quota management on real estate industry.

NPLs decreased relatively more in the transportation, storage and postal services, and electricity, heat, gas and water production and supply industries. The increase in the NPLs in wholesale and retail industry was mainly due to economic growth slowdown, which caused weak downstream demand of wholesale industry, fund shortage of some wholesale enterprises such as those in steel trading, and decline in the income and profits of retail enterprises.

Changes in allowance for impairment losses on loans

	Individually assessed	Collectively assessed	Total
		In RMB millions	
At 1 January 2013	**31,405**	**188,998**	**220,403**
Charge for the period	6,547	15,380	21,927
Including: Impairment allowances charged	11,124	57,407	68,531
Impairment allowances transferred	284	(284)	–
Reversal of impairment allowances	(4,861)	(41,743)	(46,604)
Accreted interest on impaired loans	(937)	–	(937)
Write-offs for the period	(5,351)	(1,173)	(6,524)
Recoveries of loans and advances previously written off	719	31	750
At 30 June 2013	**32,383**	**203,236**	**235,619**

At the end of June 2013, allowance for impairment losses on loans was RMB235,619 million, representing an increase of RMB15,216 million over the end of the previous year; allowance to NPL ratio was 288.16%; allowance to total loans ratio was 2.50%. As at the end of September 2013, the ratio of allowance to NPL stood at 268.87%, representing a decrease of 26.68 percentage points over the end of last year. The allowance to total loans ratio was 2.44%, and the allowance to total loans ratio for domestic institutions was 2.56%.

Distribution of loans by collateral

In RMB millions, except for percentages

Item	At 30 June 2013		At 31 December 2012	
	Amount	Percentage (%)	Amount	Percentage (%)
Loans secured by mortgages	4,164,890	44.1	3,754,475	42.6
Including: Personal housing loans	1,547,065	16.4	1,340,891	15.2
Pledged loans	1,216,570	12.9	1,087,051	12.4
Including: Discounted bills	185,655	2.0	184,011	2.1
Guaranteed loans	1,325,818	14.0	1,269,028	14.4
Unsecured loans	2,730,364	29.0	2,693,138	30.6
Total	**9,437,642**	**100.0**	**8,803,692**	**100.0**

Loans secured by mortgages stood at RMB4,164,890 million, representing an increase of RMB410,415 million or 10.9% over the end of the previous year. Pledged loans amounted to RMB1,216,570 million, representing an increase of RMB129,519 million or 11.9%. Unsecured loans increased by RMB37,226 million or 1.4% to RMB2,730,364 million.

Overdue loans

In RMB millions, except for percentages

Overdue periods	At 30 June 2013 Amount	At 30 June 2013 Percentage of total loans (%)	At 31 December 2012 Amount	At 31 December 2012 Percentage of total loans (%)
3 to 6 months	12,155	0.13	9,485	0.11
6 to 12 months	15,457	0.16	11,903	0.14
Over 12 months	41,603	0.44	40,707	0.46
Total	**69,215**	**0.73**	**62,095**	**0.71**

Note: Loans and advances to customers are deemed overdue when either the principal or interest is overdue. For loans and advances to customers repayable by installments, the total amount of loans is deemed overdue if part of the installments is overdue.

Renegotiated loans

Renegotiated loans and advances amounted to RMB7,932 million, representing an increase of RMB744 million or 10.4% as compared to the end of the previous year. Renegotiated loans and advances overdue for over three months amounted to RMB3,408 million, representing a decrease of RMB561 million.

Extended loans

The balance of extended loans amounted to RMB11,813 million, representing a decrease of RMB2,419 million from the end of the previous year, of which the NPLs balance was RMB2,472 million, representing a decrease of RMB397 million from the end of the previous year.

Borrower concentration

The total amount of loans granted by us to the single largest customer and top 10 single customers accounted for 3.8% and 17.2% of our net capital, respectively. The total amount of loans granted to the top 10 single customers was RMB250,027 million, accounting for 2.6% of the total loans. The table below shows the details of our loans granted to the top 10 single borrowers as at the end of June 2013.

In RMB millions, except for percentages

Borrower	Industry	Amount	% of total
Borrower A	Transportation, storage and postal services	55,506	0.6
Borrower B	Manufacturing	27,594	0.3
Borrower C	Transportation, storage and postal services	26,657	0.3
Borrower D	Transportation, storage and postal services	24,432	0.2
Borrower E	Transportation, storage and postal services	24,023	0.2
Borrower F	Transportation, storage and postal services	24,014	0.2
Borrower G	Transportation, storage and postal services	19,593	0.2
Borrower H	Transportation, storage and postal services	16,964	0.2
Borrower I	Mining	16,200	0.2
Borrower J	Transportation, storage and postal services	15,044	0.2
Total		**250,027**	**2.6**

MARKET RISK

In the first half of 2013, we continued to strengthen our consolidated management of market risk and comprehensively enhanced the management and measurement of market risk at the Group level. We actively prepared for the implementation of market risk IMA, and continuously improved the market risk management system at the Group level. We accelerated the promotion of the extension of the global market risk management system (GMRM) to abroad, further optimised the market risk measurement model and enhanced risk data integration capability. We also actively carried out the testing of the market risk internal model approach (IMA), and promoted the core application of the internal model approach (IMA) in areas such as limit management, risk reporting, stress testing and capital measurement.

Market Risk Management of the Banking Book

We actively improved the market risk management system of the banking book, further enhanced measurement of interest rate and exchange rate risks, and strengthened the capability in managing interest rate and exchange rate risks at the Group level. We strengthened the capability in monitoring and analyzing interest rate risk of the banking book at the Group level, upgraded interest rate management system, and improved the accuracy of system measurement, laying a solid foundation for refined management of interest rate risk.

Market Risk Management of the Trading Book

We continued to strengthen and improve risk measurement and product control of the trading book by adopting multiple methods including Value at Risk (VaR), sensitivity analysis and exposure analysis to measure and manage products in the trading book. We further also optimized the market risk limit management system based on trading portfolios, expanded the coverage of the limit management in overseas institutions, refined management of limit indicators, and realized dynamic monitoring and management with the help of our global market risk management (GMRM) system.

Market Risk Analysis

1. Interest Rate Risk Analysis

In the first half of 2013, as China's interest rate liberalization reform substantially deepened, a new financial market price formation and transmission mechanism gradually improved, and market interest rates fluctuated in a greater span. We paid close attention to the changes in monetary policy and domestic and overseas financial markets, and actively responded to the challenge posed by interest rate liberalization. In order to actively prevent the re-pricing risk during the interest rate downward cycle and improve interest rate risk management, we strengthened the deposit and loan interest rate pricing management, improved the maturity structure of assets and liabilities, and reasonably controlled long-term liability business. We moderately prolonged asset duration.

As at the end of June 2013, we had a cumulative negative exposure of RMB630,103 million for interest rate sensitivity within one year, representing an increase of RMB430,584 million over the end of the previous year, mainly due to the increase in customer deposits within one year; we had a positive exposure of RMB1,759,578 million for interest rate sensitivity for more than one year, which had increased by RMB634,327 million, mainly because we at our own initiative adopted investment policy to moderately increase asset duration, which led to the increase in the bond investment with a term of over one year. The structure of our interest rate risk exposure according to the contractual re-pricing date or maturity date (whichever is earlier) is shown in the following table:

Interest rate risk exposure

In RMB millions

	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years
At 30 June 2013	(2,949,267)	2,319,164	440,049	1,319,529
At 31 December 2012	(1,539,586)	1,340,067	(48,908)	1,174,159

The following table illustrates the interest rate sensitivity analysis on the assumption that the overall interest rate in the market moves in parallel and takes no account of the risk management actions that the Management may take to mitigate interest rate risk:

Interest rate sensitive analysis

In RMB millions

Changes of interest rate in basis points	At 30 June 2013 Impact on net interest income	Impact on equity	At 31 December 2012 Impact on net interest income	Impact on equity
Increase by 100 basis points	(15,624)	(26,343)	(6,994)	(22,489)
Decrease by 100 basis points	15,624	28,068	6,994	23,851

Note: Please refer to Note 45(c)(iii): Interest Rate Risk to the financial statements as at and for the six months ended 30 June 2013 included elsewhere in this offering circular.

2. Exchange Rate Risk Analysis

In the first half of 2013, the PBOC further improved the Renminbi exchange rate formation mechanism. Renminbi appreciated slightly with obvious two-way fluctuations feature while the exchange rate elasticity was significantly enhanced, and the exchange rate of Renminbi against US dollar appreciated by 1.73% from the end of the previous year. We closely monitored the changes in external market and internal funds, actively adopted a combination of measures such as price leverage to adjust and optimize the aggregate amount and structure of foreign exchange assets and liabilities, and controlled the exchange rate risk while maintaining a coordinated development of foreign exchange deposit and loan businesses.

Foreign exchange exposure

In RMB (USD) millions

Foreign exchange exposure	At 30 June 2013 RMB	USD equivalent	At 31 December 2012 RMB	USD equivalent
Exposure of on-balance sheet foreign exchange items, net	295,399	48,040	266,916	42,820
Exposure of off-balance sheet foreign exchange items, net	(176,973)	(28,781)	(187,054)	(30,008)
Total foreign exchange exposure, net	**118,426**	**19,259**	**79,862**	**12,812**

3. Market Risk Analysis of the Trading Book

We applied the Historical Simulation Method (adopting a confidence interval of 99%, holding period of one day and historical data of 250 days) to measure the VaR of the interest rate risk, exchange rate risk, and commodity risk of underlying and derivative products of the trading books of the Head Office and all overseas branches.

Value risk (VAR) of the trading book

In RMB millions

Item	Six months ended 30 June 2013 Period end	Average	Maximum	Minimum	Six months ended 30 June 2012 Period end	Average	Maximum	Minimum
Interest rate risk	74	26	78	13	36	34	43	27
Exchange rate risk	37	29	51	18	31	17	37	3
Commodity risk	1	3	12	0	14	9	20	1
Total portfolio VaR	**68**	**37**	**80**	**26**	**47**	**36**	**48**	**29**

Note: The scope of VaR measurement in the first half of 2013 was widened in comparison with the same period of the previous year, and the comparative figures are not restated. Please refer to Note 45(c)(i): VaR to the financial statements as at and for the six months ended 30 June 2013 included elsewhere in this offering circular.

LIQUIDITY RISK

Integrated with the changes in the macroeconomic environment and the financial regulatory policies, we continued to strengthen the development of our liquidity risk management system and improve the management of our liquidity risk. In light of the Guideline on Liquidity Risk Management of Commercial Banks promulgated by CBRC and relevant requirements, we enhanced the liquidity risk management at the Group level, improved the Renminbi treasury operation management plan of overseas institutions, and widened the monitoring scope of liquidity risk of off-balance sheet business. We intensified monitoring to further enhance the coordination and management capability of liquidity risk of on– and off– balance sheet business and the capability of the Group to prevent liquidity risk.

Liquidity Risk Analysis

In the first half of 2013, liquidity of Chinese domestic Renminbi market remained stable as a whole, and due to seasonal and structural factors at certain time points, inter-bank market interest rates fluctuated in a bigger span. We closely monitored the macro-control policy and the situation of market funds, and dynamically adjusted our liquidity management strategy and fund operation tempo according to our asset and liability business development and liquidity status. We maintained liquidity reserve assets at various levels, raised our fund use efficiency while ensuring bank-wide liquidity security, and practically improved our ability to deal with liquidity risk.

In respect of foreign currencies, we closely observed the changes in market interest rates and funds, adjusted foreign currency liquidity management strategy and internal and external fund prices in a flexible manner, coordinated the balanced development of foreign currency assets and liabilities business while ensuring a safe liquidity level.

We assessed the liquidity risk status by using liquidity exposure analysis. Our negative liquidity exposure for one to three months reduced mainly due to the increase of customer loans and decrease of customer deposits. The negative liquidity exposure for three months to one year increased mainly due to the increase of customer deposits and decrease in investment in bond with a corresponding term. The long and medium-term customer loans and investment in bond with a term of over one year increased, leading to the expansion of the positive liquidity exposure for one to five years and for over five years. Given our demand deposits continued to grow while keeping a relatively high deposition rate, and at the same time, we made major investment in central bank bills, treasury bonds and other high-liquidity assets, we had sufficient liquidity reserves and the cumulative positive liquidity exposure had further increased compared to the end of last year. Therefore, our overall liquidity was safe. The liquidity exposure analysis as at the end of June 2013 is shown in the table below:

Liquidity exposure analysis

In RMB millions

	Overdue/ repayable on demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	Total
At 30 June 2013	(7,354,448)	(515,200)	(169,903)	(907,823)	2,692,274	4,417,270	3,012,923	1,175,093
At 31 December 2012	(7,008,584)	(439,485)	(461,287)	(697)	2,158,073	4,046,904	2,833,535	1,128,459

As at the end of June 2013, the relevant indicators reflecting our liquidity status satisfied the regulatory requirements, with details shown in the table below:

Item		Regulatory criteria	At 30 June 2013	At 31 December 2012	At 31 December 2011
Liquidity ratio (%)	RMB	>=25.0	31.8	32.5	27.6
	Foreign currency	>=25.0	67.5	65.2	90.6
Loan-to-deposit ratio (%)	RMB and foreign currency	<=75.0	64.8	64.1	63.5

Note: The regulatory indicators in the table are calculated in accordance with related regulatory requirements, definitions and accounting standards applicable to the corresponding period. The comparative figures are not restated.

INTERNAL CONTROL AND OPERATION RISK

Internal Control

We constantly pushed forward the development of internal control system according to the general requirements of "regulation-based behavior, proper authorization, effective monitoring, inspection and control" on internal control. We deployed the streamlining of rules, strengthened the proposal and approval of rules and overall management of rules, and improved the effective rule management mechanism of the Group. We also dynamically tracked external regulatory laws and regulations, and coordinated the deployment of the monitoring and inspection of our major risk areas and key risk points. Besides, we gave full play of the internal control monitoring and analysis platform and strengthened offsite supervision and management, and utilised the monitoring results of information system to improve internal control assessment measures and the quality of internal control assessment. In the first half of 2013, we further improved our internal control system and enhanced the integrity, reasonableness and effectiveness of internal control.

Operational Risk Management

In accordance with the latest regulatory requirements on and the trend of changes in operational risk of banking industry, we further improved operational risk management mechanism, implemented operational risk management rules, gave full play to the role of the three defense lines in operational risk management, and continuously promoted the preparation for the implementation of operational risk advanced measurement approach (AMA). We improved the key risk indicator system of operational risk and amended the criteria for identifying operational risk loss events. We kept promoting self-assessment on operational risk and risk control throughout all business lines, and made operational risk management more foresighted. We upgraded the internal control functions of asset management system to realize the pre-event control of compliance problems of credit business. We also monitored fraudulent transactions on a round-the-clock basis through relying on the credit card risk monitoring system, and established a forged card inspection and handling mechanism to prevent credit card fraud risk. We continuously strengthened the operational risk management and control of the overseas institutions, and promoted the application of operational risk management instruments in overseas institutions, thereby enhancing overseas institutions' operational risk management. In the first half of 2013, our operational risk management continuously improved, and risk prevention and control capability further enhanced.

Legal Risk

We continued to deepen the reform of our legal affairs management system, reinforced the role of the Legal Affairs Department of the Head Office as our core legal risk control department, and enhanced the legal risk prevention and control capability of branches' legal affairs departments. We strengthened the development of legal risk management system and rules and improved the legal risk consolidated management mechanism and process. We also strengthened our legal service initiative, and applied legal means to support the internationalized and diversified operations as well as the development and innovation of various business lines. We strengthened the monitoring and management of legal proceedings, in particular where we were the defendant, thereby preventing and controlling the risk in such legal proceedings, and kept improving our standard of lawsuit management. We further regulated contract management, and strengthened the authorization management, trademark management, and the protection of relevant intellectual properties.

Anti-money Laundering

In strict compliance with applicable laws and regulations concerning anti-money laundering, we actively implemented the "risk-based" regulatory requirements in respect of anti-money laundering, and fully enhanced the compliance management standard in this aspect. As required by the PBOC, we earnestly deployed the pilot reporting of large-value and suspicious transactions, designed a series of new anti-money laundering operation processes, monitoring indicators and models, and rolled out the new-generation anti-money laundering monitoring system, which greatly improved the effectiveness of anti-money laundering. We continuously deepened the reform of centralized processing of anti-money laundering, and developed a centralized and efficient anti-money laundering mode of work. We formulated a number of antimony laundering internal control rules, including large-value and suspicious transaction reporting management rules. In addition, we continued our efforts in maintaining customer information and further improved the completeness and authenticity of customer information. We actively carried out anti-money laundering assessment for overseas institutions, steadily promoted the application of anti-money laundering system in overseas institutions, and continually improved the Group's anti-money laundering management standard. We also enhanced the buildup of anti-money laundering expert team, continuously carried out entry training to anti-money laundering posts of financial industry and professional training for personnel of anti-money laundering posts, and organized employees to participate in the Certified Anti-Money Laundering Specialist (CAMS) qualification certification and enhance their awareness and skills in anti-money laundering risk prevention. In the first half of 2013, no domestic or overseas institution or any employee was found to be or was suspected of being involved in money laundering or terrorist financing activities.

Reputational Risk

We continued to strengthen reputational risk management and promote the development of reputational risk management system and work mechanism. We deployed work on the identification, assessment, monitoring, control, mitigation and evaluation of reputational risk, and strengthened the consolidated management of reputational risk. Targeted at protection of consumers' rights and improvement of service quality and internal management, we carried out our reputational risk management work and enhanced the pre-event control and mitigation of reputational risk factors. We paid attention to the influence of Weibo and other new media on reputational risk, and studied the new changes in reputational risk transmission and corresponding countermeasures for reputational risk management. In the first half of 2013, our reputational risk was controllable.

Country Risk

In the face of the complex and volatile international situation during the first half of 2013, we continued to strengthen country risk management and improve country risk management system. We closely watched changes in risk exposures, constantly tracked, monitored and reported country risk, timely updated and adjusted the country risk rating and limits, and actively conducted stress testing on country risk. In addition, we further strengthened the pre-warning mechanism for country risk, improved relevant contingency plans, effectively controlled country risk while pushing ahead the internationalization strategy.

BUILDING THE THREE PILLARS

Pursuant to the overall planning of CBRC for the implementation of the new capital regulatory standards, we constantly strengthened enterprise risk management, kept improving credit risk management, and accelerated market risk management. We maintained a leading level in operational risk management among peers, implemented prudent liquidity risk management and steadily pressed ahead with the preparatory work for the implementation of the New Capital Accord. In 2012, CBRC inspected and accepted our implementation of the advanced capital management methods and the meeting of our Board of Directors reviewed and approved the Compliance & Implementation Planning for Three Pillars of the Regulation Governing Capital of Commercial Banks (Provisional) promulgated by CBRC in June 2012 (the "**Capital Regulation**").

Pillar 1

In respect of credit risk, we further optimized the customer rating model, improved the group legal person customer rating system with “unified model, regulations and system”, and reinforced the group management of the internal rating of credit risks. We pushed forward the optimization of the internal rating system and model and constantly improved the business verification system of internal rating business. Besides, we continuously promoted the application of internal rating results in credit approval, risk monitoring and early warning, risk limit setting, economic capital measurement and performance appraisal.

In respect of market risk, we continued to improve the market risk management system based on the internal model approach (IMA). We also optimized the measurement mode and data management of market risks, promoted the global market risk management system (GMRM) abroad, actively carried out the testing of the market risk internal model approach, and promoted the application of the IMA in limit management, stress test, capital measurement and risk reporting.

In respect of operational risk, we continued to promote the building of the advanced measurement approach (AMA) for operational risk, and improved the AMA system. We further optimized the AMA model and the AMA information system, and promoted the application of the project results under AMA for operational risk.

Pillar 2

In 2012, we completed the system construction of internal capital adequacy assessment process (ICAAP), and put the assessment system for substantive risks, the forecasting system for capital adequacy and the integrated stress testing system into operation. We further improved the level of enterprise risk management on the basis of meeting the regulatory requirements of Pillar 2.

Pillar 3

We closely examined the regulatory requirements of CBRC on information disclosure of Pillar 3 and the disclosure practices of our international peers. Taking our practical situation into consideration, we built the information disclosure policy system under Pillar 3 and completed the formulation of the template information disclosure. At the end of 2012, we have met the requirements under the Capital Regulation in information disclosure under Pillar 3 and has equipped with the ability of the information disclosure under Pillar 3.

ASSETS AND LIABILITIES

The following discussions and analysis should be read in conjunction with our audited consolidated financial statements as at and for the years ended 31 December 2010, 2011 and 2012, our unaudited consolidated financial statements as at and for the six months ended 30 June 2013, and our unaudited consolidated financial statements as at and for the nine months ended 30 September 2013. Our consolidated financial statements have been prepared in accordance with IFRS. Unless otherwise stated, all financial data discussed in this section are consolidated financial data.

In this section, unless otherwise specified, loans and advances to customers or loans to customers represent total loans and advances to customers before deduction of allowance for impairment losses on loans, rather than net loans and advances to customers.

ASSETS

Overview

As at the end of 2012, our total assets was RMB17,542,217 million, representing an increase of RMB2,065,349 million or 13.3% from the end of the previous year, of which total loans and advances to customers (collectively referred to as "loans") increased by RMB1,014,795 million or 13.0%, investment increased by RMB167,985 million or 4.3%, and cash and balances with central banks increased by RMB412,787 million or 14.9%. In terms of structure, investment accounted for 23.3% of total assets, representing a decrease of 2.0 percentage points from the end of the previous year; due from banks and other financial institutions accounted for 3.6%, representing an increase of 0.5 percentage points from the end of the previous year; and reverse repurchase agreements accounted for 3.1%, representing an increase of 0.8 percentage points from the end of the previous year.

As at the end of June 2013, our total assets was RMB18,723,353 million, representing an increase of RMB1,181,136 million or 6.7% from the end of the previous year, of which, loans increased by RMB633,950 million or 7.2%, investment increased by RMB298,377 million or 7.3%, and cash and balances with central banks increased by RMB126,048 million or 4.0%. In terms of structure, net loans and advances to customers accounted for 49.1% of total assets, representing an increase of 0.2 percentage points from the end of last year; investment accounted for 23.4%, representing an increase of 0.1 percentage points; and cash and balances with central banks accounted for 17.6%.

As at the end of September 2013, our total assets was RMB18,742,548 million, representing an increase of RMB1,200,331 million or 6.84% over the end of the previous year. Total loans and advances to customers was RMB9,644,520 million, representing an increase of RMB840,828 million or 9.55% over the end of last year, of which RMB loans of domestic branches grew by RMB722,475 million or 9.16%.

	As at 31 December						As at 30 June 2013		As at 30 September 2013	
	2010		2011		2012					
	(Audited)						(Unaudited)			
Item	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
	(RMB m)	%	*(RMB m)*	%	*(RMB m)*	%	*(RMB m)*	%	*(RMB m)*	%
Total loans and advances to customers	6,790,506	–	7,788,897	–	8,803,692	–	9,437,642	–	9,644,520	–
Less: Allowance for impairment losses on loans	167,134	–	194,878	–	220,403	–	235,619	–	234,885	–
Loans and advances to customers, net	6,623,372	49.2	7,594,019	49.1	8,583,289	48.9	9,202,023	49.1	9,409,635	50.2
Investment	3,732,268	27.7	3,915,902	25.3	4,083,887	23.3	4,382,264	23.4	4,379,588	23.4
Cash and balances with central banks	2,282,999	17.0	2,762,156	17.8	3,174,943	18.1	3,300,991	17.6	3,360,532	17.9
Due from banks and other financial institutions	248,860	1.8	478,002	3.1	636,450	3.6	641,073	3.4	636,745	3.4
Reverse repurchase agreements	262,227	2.0	349,437	2.3	544,579	3.1	462,000	2.5	406,661	2.2
Others	308,896	2.3	377,352	2.4	519,069	3.0	735,002	4.0	549,387	2.9
Total assets	**13,458,622**	**100.0**	**15,476,868**	**100.0**	**17,542,217**	**100.0**	**18,723,353**	**100.0**	**18,742,548**	**100.0**

Loans

In 2012, we reasonably controlled the aggregate amount and pace of lending, thoroughly adjusted credit structure, optimized credit resource allocation and promoted coordinated development of regional credit in accordance with changes in macroeconomic environment and financial regulatory requirements as well as development needs of real economy. We actively bolstered the development of advanced manufacturing, modern services, cultural industries and strategic emerging sectors, continuously improved the financial services for small (micro) and medium-sized enterprises, and strengthened credit support for trade finance and the reasonable credit demands of individuals, maintaining a stable and appropriate level of lending. As at the end of 2012, loans amounted to RMB8,803,692 million, representing an increase of RMB1,014,795 million or 13.0% from the end of the previous year, of which, RMB denominated loans of domestic operations increased by RMB867,202 million or 12.3% to RMB7,890,779 million from the end of the previous year.

In the first half of 2013, we supported real economy development and industrial restructuring according to changes in macroeconomic environment and financial regulatory requirements, and properly controlled loan granting direction and pace. We continued to bolster the development of advanced manufacturing, modern services, culture industries and strategic emerging sectors, and supported appropriate credit demands of small and medium enterprises, trade finance and individuals. Furthermore, we paid equal attention to both credit structure adjustment and risk prevention and control, maintaining a stable and appropriate loan growth and a reasonable structure of loan granting direction. As at the end of June 2013, loans amounted to RMB9,437,642 million, representing an increase of RMB633,950 million or 7.2% from the end of the previous year, of which, RMB-denominated loans of domestic operations increased by RMB490,748 million or 6.2% to RMB8,381,527 million.

As at the end of September 2013, loans amounted to RMB9,644,520 million, representing an increase of RMB840,828 million or 9.55% over the end of the previous year, of which RMB loans of domestic branches grew by RMB722,475 million or 9.16%.

Distribution of Loans by Business Line

The following table sets out the distribution of our loans to customers by business line as at the indicated dates

	As at 31 December				As at 30 June 2013		As at 30 September 2013	
	2011		2012					
Item	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
	(RMB m)	%	*(RMB m)*	%	*(RMB m)*	%	*(RMB m)*	%
Corporate loans	5,666,511	72.7	6,332,578	71.9	6,710,747	71.1	6,845,973	71.0
Discounted bills	107,460	1.4	184,011	2.1	185,655	2.0	147,772	1.5
Personal loans	2,014,926	25.9	2,287,103	26.0	2,541,240	26.9	2,650,775	27.5
Total	**7,788,897**	**100.0**	**8,803,692**	**100.0**	**9,437,642**	**100.0**	**9,644,520**	**100.0**

Distribution of Corporate Loans by Maturity

The following table sets out the distribution of our corporate loans by maturity as at the indicated dates.

	As at 31 December					
	2011		2012		As at June 30 2013	
Item	**Amount**	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**
	(RMB m)	*%*	*(RMB m)*	*%*	*(RMB m)*	*%*
Short-term corporate loans.................	1,965,458	34.7	2,470,061	39.0	2,697,110	40.2
Medium to long-term corporate	3,701,053	63.3	3,862,517	61.0	4,013,637	59.8
Total..	**5,666,511**	**100.0**	**6,332,578**	**100.0**	**6,710,747**	**100.0**

Distribution of Corporate Loans by Product Line

The following table sets out the distribution of our corporate loans by product type as at the indicated dates.

	As at 31 December					
	2011		2012		As at 30 June 2013	
Item	**Amount**	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**
	(RMB m)	*%*	*(RMB m)*	*%*	*(RMB m)*	*%*
Working capital loans.........................	2,273,487	40.1	2,795,081	44.1	3,015,433	44.9
Including: Trade finance	889,115	15.7	1,033,073	16.3	1,146,501	17.1
Project loans.......................................	2,849,116	50.3	3,017,048	47.7	3,177,875	47.4
Property loans	543,908	9.6	520,449	8.2	517,439	7.7
Total..	**5,666,511**	**100.0**	**6,332,578**	**100.0**	**6,710,747**	**100.0**

As at 31 December 2012:

- Corporate loans increased by RMB666,067 million or 11.8%. In terms of maturity, short-term corporate loans increased by RMB504,603 million or 25.7%, accounting for 75.8% of the total increase in all corporate loans; medium to long-term corporate loans increased by RMB161,464 million or 4.4%, accounting for 24.2% of the total increase, mainly resulted from our active adjustment on credit structure. In terms of product type, working capital loans increased by RMB521,594 million or 22.9%, of which, trade finance increased by RMB143,958 million or 16.2%, mainly because we continued to support the credit demands of enterprises in the production and circulation areas; project loans increased by RMB167,932 million or 5.9%, mainly attributable to support provided to national key projects under construction and continuing projects; and property loans decreased by RMB23,459 million or 4.3%, mainly because we prudently granted property loans in line with the risk status in the real estate market.

- Discounted bills increased by RMB76,551 million or 71.2%, mainly because we strengthened the adjustment on the scale and structure of bill assets and intensified support to the real economy based on macro economy and the trend of interest rate in bill market.; and

- Personal loans increased by RMB272,177 million or 13.5%, mainly because we implemented the differentiated housing credit policy, enriched the product system of personal loans and promoted the steady development of personal loan business in adherence to the national macroeconomic policy.

As at 30 June 2013:

- Corporate loans increased by RMB378,169 million or 6.0%. In terms of maturity, short-term corporate loans increased by RMB227,049 million or 9.2%, accounting for 60.0% of the total increase in all corporate loans; medium to long-term corporate loans increased by RMB151,120 million or 3.9%. In terms of product type, working capital loans increased by RMB220,352 million or 7.9%, of which, trade finance increased by RMB113,428 million or 11.0%, mainly because we continued to increasingly support the credit demands of enterprises in the production and circulation areas; project loans increased by RMB160,827 million or 5.3%, mainly invested to national key projects under construction and continuing projects; and property loans decreased by RMB3,010 million or 0.6%.

- Discounted bills increased by RMB1,644 million or 0.9% from the end of the previous year, mainly because we actively adjusted the current scale of discounted bills based on the bank-wide credit granting progress to meet the management needs of asset and liability portfolio.

Distribution of Corporate Loans by Industry

The following table sets out the distribution of our corporate loans by industry as at the indicated dates.

	As at 31 December							
	2010		2011		2012		As at 30 June 2013	
Item	**Amount**	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**
	(RMB m)	%	*(RMB m)*	%	*(RMB m)*	%	*(RMB m)*	%
Manufacturing	940,641	20.0	1,121,413	21.5	1,392,266	23.8	1,444,298	23.7
Chemicals	141,007	3.0	174,423	3.3	214,625	3.7	221,753	3.6
Machinery	134,355	2.8	180,605	3.5	212,086	3.6	218,812	3.6
Metal processing	114,635	2.4	143,597	2.8	173,477	3.0	172,720	2.8
Textiles and apparels	96,769	2.1	114,382	2.2	135,744	2.3	137,126	2.3
Iron and steel	92,866	2.0	106,396	2.0	135,925	2.3	129,309	2.1
Computer, telecommunications equipment, and other electronic equipment	51,334	1.1	56,920	1.1	94,558	1.6	113,389	1.9
Transportation equipment	49,557	1.0	63,189	1.2	72,752	1.3	81,724	1.3
Non-metallic mineral	40,317	0.9	52,047	1.0	63,599	1.1	65,064	1.1
Petroleum, processing, coking and nuclear fuel	69,577	1.5	41,687	0.8	55,161	0.9	55,564	0.9
Others	150,224	3.2	188,167	3.6	234,339	4.0	248,837	4.1
Transportation, storage and postal services	990,916	21.1	1,052,529	20.2	1,135,626	19.4	1,181,455	19.4
Wholesale, retail	388,023	8.3	535,270	10.2	705,800	12.1	764,019	12.5
Production and supply of electricity, gas and water	571,072	12.1	587,723	11.3	579,726	9.9	573,050	9.4
Real estate	512,018	10.9	512,178	9.8	487,186	8.3	479,098	7.9
Water, environment and public utility management	549,326	11.7	499,196	9.6	464,000	7.9	474,866	7.8
Leasing and commercial services	357,624	7.6	349,508	6.7	382,835	6.6	415,029	6.8
Mining	129,488	2.8	179,474	3.4	233,124	4.0	247,793	4.1
Construction	84,048	1.8	115,047	2.2	145,798	2.5	159,370	2.6
Lodging and catering	–	–	60,849	1.2	101,489	1.7	128,039	2.1
Science, education, culture and sanitation	68,102	1.4	67,673	1.3	84,339	1.5	91,623	1.5
Others	109,085	2.3	134,745	2.6	132,646	2.3	133,767	2.2
Total	**4,700,343**	**100.0**	**5,215,605**	**100.0**	**5,844,835**	**100.0**	**6,092,407**	**100.0**

In 2012, we enhanced credit restructuring efforts, and proactively supported the development of advanced manufacturing, service sector, cultural industry and strategic emerging industries in line with the country's economic structural adjustment orientation. The increment of the loans to the manufacturing industry was RMB270,853 million, up 24.2%, which was mainly attributable to advanced manufacturing industries including equipment manufacturing and agricultural products processing industries as well as leading enterprises in some traditional industries; and the increment of loans to the wholesale and retail industry, mainly part of the loans to the service sector, was RMB170,530 million, together with that to the manufacturing industry accounting for 70.1% of new corporate loans granted. Loans granted to the transportation, storage and postal services industry increased by RMB83,097 million, mainly to support the key projects under construction and major continued projects. Loans to the water, environment and public utility management industry and the real estate industry decreased by RMB35,196 million and RMB24,992 million respectively, mainly benefiting from our effort to adjust credit structure and continue to control loans granted to the urban construction area and implement strict quota management of the real estate industry.

In the first half of 2013, we continued to promote credit restructuring, and proactively supported the development of advanced manufacturing, modern services, culture industries and strategic emerging sectors in line with the country's economic structural adjustment orientation. Specifically, loans to the wholesale and retail industry, being main part of the loans to the service sector, increased by RMB58,219 million or 8.2%; and loans to the manufacturing industry increased by RMB52,032 million or 3.7%, with new loans mainly granted to leading and backbone enterprises and competitive SMEs in the advanced manufacturing industries including equipment manufacturing, electronic information manufacturing and agricultural products processing industries. Loans to the wholesale and retail industry and manufacturing industry accounted for 44.5% of new corporate loans granted. Loans granted to the transportation, storage and postal services industry increased by RMB45,829 million, mainly to the key on-going and continuing projects supported by the state. Real estate loans decreased by RMB8,088 million, mainly due to our strict quota management on real estate industry.

Distribution of Personal Loans by Product Line

The table below shows the distribution of our personal loans by product line as at the indicated dates.

	As at 31 December					
	2011		2012		As at 30 June 2013	
Item	**Amount**	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**
	(RMB m)	%	*(RMB m)*	%	*(RMB m)*	%
Personal housing loans	1,189,438	59.0	1,340,891	58.6	1,547,065	60.9
Personal consumption loans	381,209	18.9	381,611	16.7	382,349	15.0
Personal business loans	266,232	13.2	319,709	14.0	343,425	13.5
Credit card overdrafts	178,047	8.9	244,892	10.7	268,401	10.6
Total	**2,014,926**	**100.0**	**2,287,103**	**100.0**	**2,541,240**	**100.0**

We supported the development of personal consumption loans and personal business loans and promoted continuous optimisation of personal loan structure. As at 31 December 2012:

- personal housing loans increased by RMB151,453 million or 12.7%, accounting for 55.6% of the increase of personal loans, principally due to the recovery of real estate market to some extent and the steady growth in personal housing loans resulted from the decrease of benchmark interest rate on loans in the second half of 2012 and the release of some rigid demands in real estate market;

- personal consumption loans increased by RMB402 million or 0.1%, as we intensified the management on the usage of personal consumption loans and proactively adjusted loan product structure, resulting in the slowdown of its growth rate;

- personal business loans increased by RMB53,477 million or 20.1%, mainly because we focused on the commodity exchange market and increased efforts in marketing and servicing to promote the development of relevant businesses; and

- credit card overdrafts increased by RMB66,845 million or 37.5%, mainly due to the continual development of credit card instalment repayment business as well as the stable growth of credit card issuance and consumption volume.

As at 30 June 2013:

- personal loans increased by RMB254,137 million or 11.1% from the end of last year, mainly due to an increase of RMB206,174 million or 15.4% in personal housing loans with the increment increased by RMB179,261 million over the same period of last year;

- personal consumption loans increased by RMB738 million or 0.2%, principally because we strengthened management on the purpose of personal consumption loans and actively adjusted loan product structure, resulting in the slow-down of growth rate;

- personal business loans increased by RMB23,716 million or 7.4%; and

- credit card overdrafts increased by RMB23,509 million or 9.6%, mainly due to our vigorous development in credit card instalments and continuous growth in issuance volume and consumptions of credit cards.

Distribution of Loans by Geographic Area

We classify the loans by geographic area based on the location of the sub-branches that granted the loans. Generally, there is a high correlation between the location of the borrower and that of the lender (with the exception of the loans granted by our Head Office). The table below shows the distribution of our total loans granted to customers by geographic area as at the indicated dates.

	As at 31 December							
	2010		2011		2012		As at 30 June 2013	
Item	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
	(RMB m)	%	(RMB m)	%	(RMB m)	%	(RMB m)	%
Head Office	163,606	2.4	248,044	3.2	312,927	3.6	339,605	3.6
Yangtze River Delta	1,583,758	23.3	1,743,851	22.4	1,936,722	22.0	2,021,064	21.4
Pearl River Delta	979,399	14.4	1,090,247	14.0	1,240,314	14.1	1,293,613	13.7
Bohai Rim	1,253,538	18.5	1,409,314	18.1	1,558,968	17.7	1,652,755	17.5
Central China	919,738	13.6	1,047,939	13.5	1,190,327	13.5	1,265,699	13.4
Western China	1,142,027	16.8	1,311,132	16.8	1,524,074	17.3	1,655,948	17.6
Northeastern China	408,604	6.0	462,909	5.9	514,030	5.8	546,954	5.8
Overseas and others	339,836	5.0	475,461	6.1	526,330	6.0	662,004	7.0
Total	**6,790,506**	**100.0**	**7,788,897**	**100.0**	**8,803,692**	**100.0**	**9,437,642**	**100.0**

We continuously optimized the geographic credit mix and promoted a balanced allocation of credit resources for different geographic areas, and maintained the stability of credit quality. We actively supported the development of Central China, Western China and Northeastern China. In the first half of 2013, we granted RMB240,170 million new loans in the three regions, accounting for 37.9% of the total increment of loans. During the same period, our overseas and other loans increased by RMB135,674 million, up 25.8%, accounting for 21.4% of the total increment of loans, which was mainly caused by increase of loans to ICBC (Asia), Singapore Branch and ICBC (Europe).

Distribution of Loans by Collateral

The table below shows the distribution of our loan portfolio by collateral as at the indicated dates.

	As at 31 December							
	2010		2011		2012		As at 30 June 2013	
Item	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
	(RMB m)	%	(RMB m)	%	(RMB m)	%	(RMB m)	%
Loans secured by mortgages	2,780,346	40.9	3,234,332	41.5	3,754,475	42.6	4,164,890	44.1
Including: Personal housing loans	1,090,095	16.1	1,189,438	15.3	1,340,891	15.2	1,547,065	16.4
Pledged loans	665,641	9.8	792,016	10.2	1,087,051	12.4	1,216,570	12.9
Including: Discounted bills	117,135	1.7	107,460	1.4	184,011	2.1	185,655	2.0
Guaranteed loans	1,070,211	15.8	1,201,184	15.4	1,269,028	14.4	1,325,818	14.0
Unsecured loans	2,274,308	33.5	2,561,365	32.9	2,693,138	30.6	2,730,364	29.0
Total	**6,790,506**	**100.0**	**7,788,897**	**100.0**	**8,803,692**	**100.0**	**9,437,642**	**100.0**

As at the end of 2012, Loans secured by mortgages stood at RMB3,754,475 million, representing an increase of RMB520,143 million or 16.1% from the end of the previous year. Pledged loans amounted to RMB1,087,051 million, representing an increase of RMB295,035 million or 37.3%, which is mainly due to the increase in scale of discounted bills. Unsecured loans amounted to RMB2,693,138 million, representing an increase of RMB131,773 million or 5.1% from the end of the previous year.

As at 30 June 2013, loans secured by mortgages stood at RMB4,164,890 million, representing an increase of RMB410,415 million or 10.9% over the end of the previous year. Pledged loans amounted to RMB1,216,570 million, representing an increase of RMB129,519 million or 11.9%. Unsecured loans increased by RMB37,226 million or 1.4% to RMB2,730,364 million.

Borrower Concentration

As at 30 June 2013, the total amount of loans we granted to the single largest customer and top 10 single customers accounted for 3.8% and 17.2% of our net capital, respectively. The total amount of loans granted to our top 10 single customers was RMB250,027 million, accounting for 2.6% of the total loans. The table below shows the details of the loans granted to our top 10 single borrowers as at the end of June 2013.

Borrower	Industry	Amount	% of total loans
(RMB m)			
Borrower A	Transportation, storage and postal services	55,506	0.6
Borrower B	Manufacturing	27,594	0.3
Borrower C	Transportation, storage and postal services	26,657	0.3
Borrower D	Transportation, storage and postal services	24,432	0.2
Borrower E	Transportation, storage and postal services	24,023	0.2
Borrower F	Transportation, storage and postal services	24,014	0.2
Borrower G	Transportation, storage and postal services	19,593	0.2
Borrower H	Transportation, storage and postal services	16,964	0.2
Borrower I	Mining	16,200	0.2
Borrower J	Transportation, storage and postal services	15,044	0.2
Total		**250,027**	**2.6**

The Asset Quality of Our Loan Portfolio

Five-tier classification of assets

Our loans and other assets are classified in compliance with CBRC and PBOC guidelines. The table below sets out the five-tier classification laid down in the PBOC guidelines.

Tier	Summary Description
Pass	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	Borrowers are still able to service the loans currently, although the repayment of loans might be adversely affected by some factors.
Substandard	Account under which the principal and/or interest is overdue for more than 3 months; or for which there is evidence indicating that there are difficulties in recovering the debt; or an overdraft to a debtor without credit line or the facility has been revoked or exceeded or the limit or period of the facility has been exceeded with no crediting of funding for repayment within three months.
Doubtful	Borrowers cannot pay back principal and interest of loans in full and significant losses will incur 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.

Assets classified as Substandard, Doubtful or Loss are considered non-performing assets ("**NPAs**"). NPAs include loans and receivables, securities and other assets we hold that meet such classifications. Non-performing loans ("**NPLs**") are a subset of NPAs.

The table below shows the distribution of loans we granted as at the indicated dates.

Item	As at 31 December						As at 30 June 2013	
	2010		2011		2012			
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
	(RMB m)	%	*(RMB m)*	%	*(RMB m)*	%	*(RMB m)*	%
Pass	6,489,450	95.57	7,484,060	96.09	8,501,566	96.57	9,135,274	96.79
Special mention	227,815	3.35	231,826	2.97	227,551	2.58	220,600	2.34
Non-performing loans (NPL).	73,241	1.08	73,011	0.94	74,575	0.85	81,768	0.87
Substandard	18,932	0.28	24,092	0.31	29,418	0.33	34,106	0.37
Doubtful	41,765	0.62	38,712	0.50	36,482	0.42	39,827	0.42
Loss	12,544	0.18	10,207	0.13	8,675	0.10	7,835	0.08
Total	**6,790,506**	**100.00**	**7,788,897**	**100.00**	**8,803,692**	**100.00**	**9,437,642**	**100.00**
NPL ratio[1]		**1.08**		**0.94**		**0.85**		**0.87**

Note:

(1) Calculated by dividing the balance of NPL by total balance of loans.

Our loan quality maintained stable. As at the end of 2012, according to the five-tier classification, pass loans amounted to RMB8,501,566 million, representing an increase of RMB1,017,506 million from the end of the previous year and accounting for 96.57% of total loans, up 0.48 percentage points. Special mention loans stood at RMB227,551 million, representing a decrease of RMB4,275 million and accounting for 2.58% of total loans, down 0.39 percentage points. Outstanding NPLs amounted to RMB74,575 million, increased by RMB1,564 million, and NPL ratio was 0.85%, down 0.09 percentage points.

As at the end of June 2013, according to the five-tier classification, pass loans amounted to RMB9,135,274 million, representing an increase of RMB633,708 million from the end of the previous year and accounting for 96.79% of total loans. Special mention loans amounted to RMB220,600 million, representing a decrease of RMB6,951 million, accounting for 2.34% of total loans. Outstanding NPLs amounted to RMB81,768 million, increased by RMB7,193 million, and NPL ratio was 0.87%. As at the end of September 2013, outstanding NPLs amounted to RMB87,361 million, representing an increase of RMB12,786 million over the end of the previous year. The NPL ratio was 0.91%, representing an increase of 0.06 percentage points compared to the end of the previous year.

Distribution of NPLs by business line

The table below shows the distribution of NPLs by business line as at the indicated dates.

Item	As at 31 December				As at 30 June 2013	
	2011		2012			
	Amount	NPL ratio	Amount	NPL ratio	Amount	NPL ratio
	(RMB m)	%	*(RMB m)*	%	*(RMB m)*	%
Corporate loans	62,263	1.10	60,977	0.96	65,164	0.97
Discounted bills	–	–	–	–	–	–
Personal loans	10,748	0.53	13,598	0.59	16,604	0.65
Total	**73,011**	**0.94**	**74,575**	**0.85**	**81,768**	**0.87**

As at 31 December 2012, the balance of non-performing corporate loans stood at RMB60,977 million, decreased by RMB1,286 million from the end of the previous year, and NPL ratio was 0.96%, down 0.14 percentage points. The balance of nonperforming personal loans stood at RMB13,598 million, increased by RMB2,850 million, and NPL ratio was 0.59%, up 0.06 percentage points, which was mainly due to the increase in NPL amount of personal business loans, personal consumption loans and bank card overdrafts as a result of decrease of operating results or salaries of borrowers affected by the slower economic growth.

As at 30 June 2013, the balance of non-performing corporate loans reached RMB65,164 million, representing an increase of RMB4,187 million over the end of the previous year, with a NPL ratio of 0.97%. The rebound of NPLs was attributed to the rising pressure of macro-economic downturn and depression of external markets, which had caused bigger operation difficulties to some enterprises, particularly small and medium enterprises. The balance of non-performing personal loans stood at RMB16,604 million, increased by RMB3,006 million, and NPL ratio was 0.65%, which was mainly due to the increase in NPLs for personal business loans, credit card overdrafts and personal consumption loans resulting from decrease of operating income or salaries of some borrowers.

Overdue Loans

The table below indicates the status of our overdue loans as at the indicated dates.

	As at 31 December							
	2010		2011		2012		As at 30 June 2013	
Item	Amount	Percentage of total loans	Amount	Percentage of total loans	Amount	Percentage of total loans	Amount	Percentage of total loans
	(RMB m)	*%*	*(RMB m)*	*%*	*(RMB m)*	*%*	*(RMB m)*	*%*
3 to 6 months	3,264	0.0	4,475	0.06	9,485	0.11	12,155	0.13
6 to 12 months	5,248	0.1	6,539	0.08	11,903	0.14	15,457	0.16
Over 12 months	55,836	0.8	47,001	0.60	40,707	0.46	41,603	0.44
Total	**64,348**	**0.9**	**58,015**	**0.74**	**62,095**	**0.71**	**69,215**	**0.73**

Note: Loans and advances to customers are deemed overdue when either the principal or interest is overdue. For loans and advances to customers repayable by instalments, the total amount of loans is deemed overdue if part of the instalments is overdue.

Allowance for Impairment Losses on Loans

The following table summarises the changes in our impairment allowances on loans and advances for the periods specified:

	Year ended 31 December											
	2010			2011			2012			Six months ended 30 June 2013		
	Individually Assessed	Collectively Assessed	Total	Individually Assessed	Collectively Assessed	Total	Individually Assessed	Collectively Assessed	Total	Individually Assessed	Collectively Assessed	Total
						(RMB millions)						
At the beginning of the period/ year	**45,500**	**99,952**	**145,452**	**41,300**	**125,834**	**167,134**	**35,409**	**159,469**	**194,878**	**31,405**	**188,998**	**220,403**
Charge for the period/year	1,807	26,081	27,888	(2,174)	34,006	31,832	2,286	30,286	32,572	6,547	15,380	21,927
Including:												
Impairment allowances charged	13,481	69,971	83,452	9,310	85,970	95,280	13,933	103,257	117,190	11,124	57,407	68,531
Impairment allowances transferred	12	(12)	–	375	(375)	–	84	(84)	–	284	(284)	–
Reversal of impairment allowances	(11,686)	(43,878)	(55,564)	(11,859)	(51,589)	(63,448)	(11,731)	(72,887)	(84,618)	(4,861)	(41,743)	(46,604)
Accreted interest on impaired loans	(754)	–	(754)	(602)	–	(602)	(944)	–	(944)	(937)	–	(937)
Write-offs	(6,394)	(510)	(6,904)	(4,057)	(489)	(4,546)	(6,279)	(1,249)	(7,528)	(5,351)	(1,173)	(6,524)
Recoveries of loans previously written off	913	176	1,089	942	118	1,060	701	191	892	719	31	750
Others/Transfer out	228	135	363	–	–	–	232	301	533	–	–	–
At the end of the period/ year	**41,300**	**125,834**	**167,134**	**35,409**	**159,469**	**194,878**	**31,405**	**188,998**	**220,403**	**32,383**	**203,236**	**235,619**

Financial Investments

Our investment portfolio consists of listed and unlisted Renminbi and foreign currency denominated securities and other financial assets. The securities we hold are classified into (1) securities not related to restructuring; (2) securities related to restructuring; and (3) equity instruments. We have paid close attention to the financial market trends domestically and abroad in order to rationally arrange the investment schedule, timely adjust the investment strategy and actively adjust the investment structure. Unless the context otherwise requires, the amount of investment referred to in this section represents net investment amount after deduction of the provision for impairment loss for the investment.

As at 30 September 2013, the total amount of our financial investments was RMB4,379,588 million.

Other Components of Our Assets

Other components of our assets mainly include: (1) cash and balances with the Central bank; (2) due from banks and other financial institutions; and (3) reverse repurchase agreements.

LIABILITIES AND SOURCES OF FUNDS

As at 30 September 2013, our total liabilities were RMB17,507,159 million, representing an increase of 6.7% compared to 31 December 2012. As at 30 June 2013, our total liabilities were RMB17,548,260 million, representing an increase of 6.9% compared to 31 December 2012. Our total amount of liabilities as at 31 December 2010, 2011 and 2012 were RMB12,636,965 million, RMB14,519,045 million and RMB16,413,758 million, respectively; representing an increase of 13.0% from 31 December 2011 to 31 December 2012 and an increase of 14.9% from 31 December 2010 to 31 December 2011; and the CAGR from 2010 to 2012 was 14.0%.

The table below indicates the structure of our liabilities as at the dates below.

	As at 31 December						As at 30 June 2013		As at 30 September 2013	
	2010		2011		2012					
Item	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
	(RMB m)	%	*(RMB m)*	%	*(RMB m)*	%	*(RMB m)*	%	*(RMB m)*	%
Due to customers	11,145,557	88.2	12,261,219	84.5	13,642,910	83.1	14,508,402	82.7	14,692,718	83.9
Due to banks and other financial institutions	1,048,002	8.3	1,341,290	9.2	1,486,805	9.1	1,271,443	7.3	1,219,635	7.0
Repurchase agreements	84,888	0.7	206,254	1.4	237,764	1.4	337,871	1.9	335,071	1.9
Debt securities issued	102,264	0.8	204,161	1.4	232,186	1.4	250,203	1.4	246,881	1.4
Others	256,254	2.0	506,121	3.5	814,093	5.0	1,180,341	6.7	1,012,854	5.8
Total liabilities	**12,636,965**	**100.0**	**14,519,045**	**100.0**	**16,413,758**	**100.0**	**17,548,260**	**100.0**	**17,507,159**	**100.0**

PRINCIPAL SHAREHOLDERS

As at 30 September 2013, the total number of our shareholders (number of holders of A shares and H shares on the register of shareholders as at 30 September 2013) was 890,238.

The table below sets out the particulars of our top 10 shareholders as at 30 September 2013 (based on the register of shareholder as at 30 September 2013).

Name of shareholder	Nature of shareholder	Types of shares	Shareholding percentage (%)	Total number of shares held	Number of share subject to restrictions on sales	Number of pledged or locked-up shares
Central Huijin Investment Ltd.	Stated-owned	A shares	35.4	124,155,852,951	0	None
Ministry of Finance of the People's Republic of China	Stated-owned	A shares	35.2	123,316,451,864	0	None
HKSCC Nominees Limited	Foreign legal person	H shares	24.5	86,008,737,030	0	Unknown
Ping An Life Insurance Company of China Ltd. – Traditional-Ordinary insurance products	Other domestic entities	A shares	1.1	3,888,418,475	0	None
ICBC Credit Suisse Asset Management Co., Ltd-Assets management for specific customers	Other domestic entities	A shares	0.3	1,053,190,083	0	None
China Securities Finance Corporation Limited	Other domestic entities	A shares	0.2	599,835,700	0	None
An-Bang Insurance Group Co., Ltd. – Traditional insurance products	Other domestic entities	A shares	0.2	544,890,787	0	None
China Life Insurance Company Limited – Participating – Individual participating 005L – FH002 Hu	Other domestic entities	A shares	0.1	508,268,123	0	None
China Life Insurance Company Limited – Traditional – Ordinary insurance products – 005L – CT001 Hu	Other domestic entities	A shares	0.1	394,224,285	0	None
China Pacifi c Life Insurance Co., Ltd. – Traditional – Ordinary insurance products	Other domestic entities	A shares	0.1	301,137,350	0	None

Notes:

(1) Particulars of shareholding of H share holders were based on the number of shares set out in our register of shareholders maintained at the H share registrar.

(2) On 14 June 2013, we were notified by Central Huijin Investment Ltd. that it intended to continue to increase, in its own capacity, its shareholding in us by acquiring shares from the secondary market within six months from 13 June 2013. From 13 June 2013 to 30 September 2013, Central Huijin Investment Ltd. increased its holding by 175,445,497 A shares of us accumulatively, accounting for 0.050% of the total shares issued by us as at 30 September 2013.

(3) Both "China Life Insurance Company Limited – Traditional – Ordinary insurance products – 005L – CT001 Hu" and "China Life Insurance Company Limited – Participating – Individual participating – 005L – FH002 Hu" are managed by China Life Insurance Company Limited. Apart from these, we are not aware of any connected relations or concerted action among the afore-mentioned shareholders.

MANAGEMENT, DIRECTORS AND EMPLOYEES

The table below sets out the particulars of our Directors, Supervisors and Senior Management as at the date of this offering circular:

Name	Position	Gender
Jiang Jianqing	Chairman of the Board of Directors, Executive Director	Male
Yi Huiman	Vice Chairman, Executive Director, President	Male
Luo Xi	Executive Director, Senior Executive Vice President	Male
Liu Lixian	Executive Director, Secretary of Party Discipline Committee	Male
Huan Huiwu	Non-executive Director	Male
Wang Xiaoya	Non-executive Director	Female
Ge Rongrong	Non-executive Director	Female
Li Jun	Non-executive Director	Male
Wang Xiaolan	Non-executive Director	Male
Yao Zhongli	Non-executive Director	Male
Xu Shanda	Independent Non-executive Director	Male
Wong Kwong Shing, Frank	Independent Non-executive Director	Male
Malcolm Christopher McCarthy	Independent Non-executive Director	Male
Kenneth Patrick Chung	Independent Non-executive Director	Male
Or Ching Fai	Independent Non-executive Director	Male
Hong Yongmiao	Independent Non-executive Director	Male
Zhao Lin	Chairman of the Board of Supervisors Shareholder Supervisor	Male
Wang Chixi	Shareholder Supervisor	Female
Dong Juan	External Supervisor	Female
Meng Yan	External Supervisor	Male
Zhang Wei	Employee Supervisor	Male
Li Mingtian	Employee Supervisor	Male
Zhang Hongli	Senior Executive Vice President	Male
Wang Xiquan	Senior Executive Vice President	Male
Zheng Wanchun	Senior Executive Vice President	Male
Gu Shu	Senior Executive Vice President	Male
Wei Guoxiong	Chief Risk Officer	Male
Lin Xiaoxuan	Chief Information Officer	Male
Hu Hao	Board Secretary	Male

Biographies of Directors, Supervisors and Senior Management

Jiang Jianqing, Chairman, Executive Director

Mr. Jiang has served as Chairman of the Board of Directors and Executive Director of Industrial and Commercial Bank of China Limited since October 2005. He joined ICBC in 1984, and was appointed as President in February 2000. Mr. Jiang previously served in several positions including Deputy Head of ICBC Shanghai Branch, President of Shanghai Urban Cooperation Commercial Bank (now known as Bank of Shanghai), Head of ICBC Shanghai Branch and Senior Executive Vice President of ICBC. He is concurrently Vice Chairman of China Society for Finance and Banking, and a tutor to PhD students of Shanghai Jiao Tong University. He graduated from Shanghai University of Finance and Economics and Shanghai Jiao Tong University, and received a Master's degree in Engineering and a Doctorate degree in Management from Shanghai Jiao Tong University.

Yi Huiman, Vice Chairman, Executive Director, President

Mr. Yi has served as Vice Chairman and Executive Director of Industrial and Commercial Bank of China Limited since July 2013, has served as President of Industrial and Commercial Bank of China Limited since May 2013. He served as Senior Executive Vice President of Industrial and Commercial

Bank of China Limited since July 2008. He joined ICBC in 1985, and was appointed as member of the Senior Management in October 2005. He served in several positions at ICBC including Deputy Head of Zhejiang Branch, Deputy Head and Head of Jiangsu Branch, and Head of Beijing Branch. He is concurrently Chairman of Industrial and Commercial Bank of China (Malaysia) Berhad. He obtained a Master's degree in Executive Business Administration from Guanghua School of Management of Peking University.

Luo Xi, Executive Director, Senior Executive Vice President

Mr. Luo has served as Executive Director of Industrial and Commercial Bank of China Limited since July 2013, has served as Senior Executive Vice President of Industrial and Commercial Bank of China Limited since December 2009. He joined Agricultural Bank of China ("ABC") in December 1987, and was appointed as Assistant to President and General Manager of the International Department in January 2002, Senior Executive Vice President of ABC in March 2004, and Executive Director and Senior Executive Vice President of Agricultural Bank of China Limited in January 2009. He previously served several positions including Deputy Head of ABC Hainan Branch, Deputy Head of ABC Fujian Branch, General Manager of ABC Assets Preservation Department, General Manager of ABC Asset Risk Supervision Department and General Manager of ABC International Department. He is concurrently Chairman of ZAO Industrial and Commercial Bank of China (Moscow) and Industrial and Commercial Bank of China (Canada), Vice Chairman of China Society of International Finance, Director of Consumer Protection Committee of China Banking Association, and member of the Foreign Policy Advisory Committee of the Ministry of Foreign Affairs. He graduated from the Graduate School of the People's Bank of China and received a Master's degree in Economics.

Liu Lixian, Executive Director, Secretary of Party Discipline Committee

Mr. Liu has served as Executive Director of Industrial and Commercial Bank of China Limited since July 2013, has served as Secretary of Party Discipline Committee of Industrial and Commercial Bank of China Limited since October 2005. He was appointed as Executive Vice President of China Huarong Asset Management Corporation in September 2003, and joined ICBC in 2005. He previously served in several positions including Deputy Director– General of the Bribery and Corruption Inspection Department, Deputy Director-General of the General Bureau of Anti-bribery and Corruption, Director-General of the Inspection Technology Bureau, and Director-General of the Inspection Theory Research Institute of the Supreme People's Procuratorate. He graduated from Jilin University.

Huan Huiwu, Non-executive Director

Mr. Huan has served as Non-executive Director of Industrial and Commercial Bank of China Limited since February 2009. He joined the Ministry of Finance (MOF) in 1982, and served as Chief of the Cadre Deployment Division of the Department of Human Resources, Chief of the Cadre Deployment Division of the Department of Human Resources and Education, Deputy Director-General of the Department of Human Resources and Education, and Executive Deputy Secretary of the Party Committee (at the rank of Director-General). He graduated from the Party School of the Central Committee of the Communist Party of China as a postgraduate in Economics and Administration.

Wang Xiaoya, Non-executive Director

Ms. Wang has served as Non-executive Director of Industrial and Commercial Bank of China Limited since January 2012. She joined Central Huijin Investment Ltd. in 2012. She previously taught at Central China Normal University where she served as Assistant Lecturer and Lecturer. She joined the Research Bureau of the People's Bank of China in 1997 where she served as Deputy Chief of division, Chief of division and Deputy Director and served as Deputy Mayor of Tongliao City in Inner Mongolia Autonomous Region at the same time. Ms. Wang graduated from the Graduate School of Chinese Academy of Social Sciences and received a Doctorate degree in Economics. Ms. Wang also received a Bachelor of Law degree and a Master of Economics degree from the Political and Education Faculty and Economics Faculty of Central China Normal University. Ms. Wang Xiaoya is a researcher and is currently a Member of the Post– Doctoral Academic Committee and a Post– Doctoral Co-mentor at the People's Bank of China Research Institute of Finance.

Ge Rongrong, Non-executive Director

Ms. Ge has served as Non-executive Director of Industrial and Commercial Bank of China Limited since January 2012. She has worked at Huijin since 2005 and had served as Deputy Officer and Officer of the Construction Bank Share Management Division of the Banking Department at Huijin and an Employee Supervisor of Huijin. Ms. Ge previously served as Lecturer at the Economics Management College of Beijing University of Industry in 1994, and subsequently served as Assistant Researcher at China Eagle Securities Company and staff member of the Department of Public Offering and Supervision at China Securities Regulatory Commission. Ms. Ge graduated from China University of Technology and received a Doctorate degree in Management. Ms. Ge also received a Bachelor's degree in Engineering from Zhejiang University and a Master's degree in Economics from Beijing Normal University. She is a senior economist.

Li Jun, Non-executive Director

Mr. Li has served as Non-executive Director of Industrial and Commercial Bank of China Limited since December 2008. He joined Central Huijin Investment Ltd. in 2008. He previously served as Assistant Representative of Beijing Representative Office of the Bank of Credit and Commerce International, Deputy Representative of BNP Paribas China Representative Office, Consultant of the International Banking Department of Banco Bilbao Vizcaya Argentaria, Deputy General Manager of the Research Centre of China Technology Trust and Investment Company, General Manager of the Research Department of China Sci-Tech Securities, and Professor of the Finance Department of the School of Economics and Management of the University of Science and Technology Beijing. Mr. Li is concurrently a Non-executive Director of Shenyin & Wanguo Securities Co., Ltd. He graduated from University of Madrid in Spain and received a Doctorate degree in Business Management.

Wang Xiaolan, Non-executive Director

Mr. Wang has served as Non-executive Director of Industrial and Commercial Bank of China Limited since January 2012. He joined the Department of Industry and Transportation of the Ministry of Finance in 1982. He served as Deputy Chief, Chief and Deputy Director-General of the State-owned Assets Administration Commission from 1989. Mr. Wang served as Chief, Assistant Commissioner and Deputy Supervision Commissioner of the General Office in the Financial Supervision Commissioner Office of the Ministry of Finance in Beijing from 1997. Mr. Wang served as Deputy Supervision Commissioner and Supervision Commissioner (at the rank of Director-General) of the Financial Supervision Commissioner Office of the Ministry of Finance in Chongqing City from 2004. Mr. Wang graduated from Central University of Finance and received a Bachelor's degree in Economics. Mr. Wang Xiaolan is a senior economist, a certified public accountant and is qualified to practise as a registered asset appraiser.

Yao Zhongli, Non-executive Director

Mr. Yao has served as Non-executive Director of Industrial and Commercial Bank of China Limited since January 2012. He joined the Ministry of Finance in 1991 and served as Deputy Officer and Officer at the Theory Department of China Financial and Economic News of the Ministry of Finance and Deputy Chief Editor (at the rank of Deputy Director-General) and Chief Editor (at the rank of Director-General) of China Financial and Economic News of the Ministry of Finance. He graduated from the Economics Faculty of Peking University and received a Doctorate degree in Economics. Mr. Yao also received a Bachelor's degree in Economics and a Master's degree in Economics from the Economics Faculty of Sichuan University and the Economics Faculty of Peking University, respectively. Mr. Yao Zhongli is a senior editorial specialist.

Xu Shanda, Independent Non-executive Director

Mr. Xu has served as Independent Non-executive Director of Industrial and Commercial Bank of China Limited since September 2007. From January 2000 to 2007, he was appointed as Deputy Commissioner of the State Administration of Taxation ("SAT"). He worked as Deputy Director-General of the Tax System Reformation Department of SAT, Deputy Director-General and Director-General of the Policy and Legislation Department of SAT, Director-General of Local Taxes Department of SAT, Director-General of Supervisory Bureau of SAT and a member of the National Committee of the 11th Chinese People's Political Consultative Conference. Currently, he is Chairman of the China Certified

Tax Agents Association, consultant to the China Public Finance Society, member of the Chinese Economist 50 Forum and member of the 50 Forum Academic Auditing Committee. He is an Independent Non-executive Director of China Pacific Insurance (Group) Co., Ltd., part-time professor and invited researcher of Tsinghua University, Peking University, National School of Administration, Xi'an Jiaotong University, University of Science & Technology of China, Nankai University, Central University of Finance and Economics and Zhejiang Engineering University. He received his Bachelor's degree from Department of Automation, Tsinghua University, Master's degree in Agricultural Economics & Management from the Chinese Academy of Agricultural Sciences, and Master's degree in Finance from the University of Bath in UK.

Wong Kwong Shing, Frank, Independent Non-executive Director

Mr. Wong has served as Independent Non-executive Director of Industrial and Commercial Bank of China Limited since January 2009. He previously held a number of senior positions with regional responsibility at financial institutions including Citibank, J.P. Morgan and NatWest, and took positions as Chairman of Hong Kong Futures Exchange Limited, Chairman of the Leveraged Foreign Exchange Trading Ordinance Arbitration Panel and member of the Foreign Exchange and Money Market Practices Committee of Hong Kong Association of Banks. He joined DBS Bank in 1999, and served as Vice Chairman of DBS Bank Ltd., Director and Chief Operating Officer of DBS Bank Ltd. and DBS Group Holdings, and Chairman of DBS Bank (Hong Kong) and Chairman of DBS Bank (China). He also served as an Independent Non-executive Director of the National Healthcare Group Pte Ltd under the Ministry of Health of Singapore. At present, he is concurrently a Director of PSA International Pte Ltd, Mapletree Investments Pte Ltd and China Mobile Limited, a member of the Hong Kong SAR Financial Services Development Council and chairman and company director of Mapletree Greater China Commercial Trust Management Ltd.

Malcolm Christopher McCarthy, Independent Non-executive Director

Sir M.C. McCarthy has served as Independent Non-executive Director of Industrial and Commercial Bank of China Limited since December 2009. Sir M.C. McCarthy worked first as an economist for ICI before joining the UK Department of Trade and Industry where he held various posts from economic adviser to undersecretary. He subsequently worked as a senior executive of Barclays Bank first in Japan and then North America. He served as Chairman and Chief Executive of Office of Gas and Electricity Markets (Ofgem), Chairman of the Financial Services Authority (FSA), a non-executive director of HM Treasury, Chairman of the board of directors of J.C. Flowers & Co. UK Ltd, a non-executive director of NIBC Holding N.V and NIBC Bank N.V. Currently Sir M.C. McCarthy serves as a non– executive director of Intercontinental Exchange, OneSavings Bank plc and Castle Trust Capital plc, and a director of the School Board of Said Business School of Oxford University and a Trustee of IFRS Foundation. He is an Honorary Fellow of Merton College, an Honorary Doctorate of the University of Stirling, an Honorary Fellow of Cass Business School, and a Freeman of the City of London. He has a MA History at Merton College of Oxford University, PhD Economics of Stirling University, and MS at Graduate School of Business of Stanford University.

Kenneth Patrick Chung, Independent Non-Executive Director

Mr. Chung has served as Independent Non-Executive Director of Industrial and Commercial Bank of China Limited since December 2009. Mr. Chung joined Deloitte Haskins and Sells London Office in 1980. He became a partner of PricewaterhouseCoopers in 1992, and was a financial service specialist of PricewaterhouseCoopers (Hong Kong and China) since 1996. Previously, he was the human resources partner of PricewaterhouseCoopers (Hong Kong), the responsible partner of the audit department of PricewaterhouseCoopers (Hong Kong and China), the global lead partner of the audit engagement team for Bank of China Limited, the honorary treasurer of The Community Chest of Hong Kong and was a member of the Ethics Committee, Limitation of Professional Liability Committee, Communications Committee, and the Investigation Panel of the Hong Kong Society of Accountants. Mr. Chung has also served as the audit partner for the restructurings and initial public offerings of Bank of China Limited, Bank of China (Hong Kong) Limited and Bank of Communications Co. Ltd. Currently, Mr. Chung serves as the honorary treasurer of International Social Service Hong Kong Branch and the chairman of the audit committee of Harvest Real Estate Investments (Cayman) Limited. He is a member of the Institute of Chartered Accountants in England and Wales, a member of the Hong Kong Institute of Certified Public Accountants and a member of the Macau Society of Certified Practising Accountants. Mr. Chung received a bachelor's degree in economics from the University of Durham.

Or Ching Fai, Independent Non-executive Director

Mr. Or has served as Independent Non-Executive Director of Industrial and Commercial Bank of China Limited since May 2012. Mr. Or previously served as General Manager and a Director of The Hongkong and Shanghai Banking Corporation Limited, Chairman of HSBC Insurance Limited, Chief Executive and Vice Chairman of Hang Seng Bank Limited, Chairman of Hang Seng Insurance Company Limited and Hang Seng Bank (China) Limited, a Director of Cathay Pacific Airways Limited, and a Director of Hutchison Whampoa Limited. He was Chairman of the Hong Kong Association of Banks, Vice President and a Council Member of the Hong Kong Institute of Bankers, Chairman of the Financial Services Advisory Committee and a member of the Services Promotion Programme Committee of the Hong Kong Trade Development Council, a member of the Risk Management Committee of the Hong Kong Exchanges and Clearing Limited, a member of the Aviation Development Advisory Committee, Chairman of Executive and Campaign Committee of the Community Chest of Hong Kong, a Council Member of The University of Hong Kong, an Adviser of the Employers' Federation of Hong Kong. Mr. Or currently acted as Chairman, CEO and Executive Director of China Strategic Holdings Limited, Chairman and Independent Non-executive Director of Esprit Holdings Limited, Vice Chairman and an Independent Non-executive Director of G-Resources Group Limited, an Independent Non-executive Director of Chow Tai Fook Jewellery Group Limited and Television Broadcasts Limited, Acting Chairman of the Council of City University of Hong Kong, and a Vice Patron of the Board of the Community Chest of Hong Kong. Mr. Or graduated from The University of Hong Kong with a Bachelor's degree in Economics and Psychology. He was awarded a Silver Bauhinia Star from the Hong Kong Special Administrative Region and Honorary University Fellowships from The University of Hong Kong in 2009. He is a Justice of the Peace.

Hong Yongmiao, Independent Non-executive Director

Mr. Hong has served as Independent Non-Executive Director of Industrial and Commercial Bank of China Limited since August 2012. Mr. Hong was previously in charge of the National Science Fund for Distinguished Overseas Young Scholars supported by the National Natural Science Foundation of China, and has acted as President of the Chinese Economists Society in North America, and editor for journals such as Journal of Econometrics and Econometric Theory. He is currently an Ernest S. Liu Professor of Economics and International Studies at Cornell University in the United States, and Dean of the School of Economics and the Wang Yanan Institute for Studies in Economics at Xiamen University. He has been enrolled as one of the first participants of the "Thousand Talents Plan" and serves as a lecture professor of the "Changjiang Scholars" launched by the Ministry of Education and a part-time professor in some scientific and research institutions and colleges, including Tsinghua University, Chinese Academy of Sciences and Shandong University. He is also a committee member of the academic board of Economic Research Journal of the Chinese Academy of Social Sciences and China Economic Quarterly published by Peking University, and Co-Editor of China Journal of Economics published by Tsinghua University. Mr. Hong graduated from Xiamen University with a Bachelor of Science degree and a Master's degree in Economics from Xiamen University, and obtained his Doctorate degree in Economics from the University of California San Diego.

Zhao Lin, Chairman of the Board of Supervisors, Shareholder Supervisor

Mr. Zhao has served as Chairman of the Board of Supervisors of Industrial and Commercial Bank of China Limited since June 2008. He was appointed as Executive Director and Senior Executive Vice President of China Construction Bank in September 2004, and previously was Deputy Head of Hubei Branch, Deputy General Manager and General Manager of the Executive Office of the Head Office, Chief Auditor, and Senior Executive Vice President of China Construction Bank. He graduated from Zhongnan University of Economics and Law, and received the Executive Master of Business Administration (EMBA) degree from Tsinghua University. He is a senior economist.

Wang Chixi, Shareholder Supervisor

Ms. Wang has served as Supervisor of Industrial and Commercial Bank of China Limited since October 2005. In 2003, she was appointed as full-time Supervisor (at the rank of Director-General) and General Manager of the Supervisory Board Office of ICBC as designated by the State Council. She joined ICBC in 2005. She had taken several positions including Deputy Director-General of the Financial Audit Department of the National Audit Office, Deputy Director– General of the Agricultural, Forestry and Sea Products Audit Bureau of the National Audit Office and was appointed as full-time Supervisor (at the rank of Director-General) and General Manager of the Board of Supervisors' Office of Agricultural Bank of China as designated by the State Council. She graduated from Shenyang Agricultural College, and is a PRC Certified Public Accountant (as a non-practising member).

Dong Juan, External Supervisor

Ms. Dong has served as External Supervisor of Industrial and Commercial Bank of China Limited since May 2009. She is currently Chairperson of the Board of Directors of Grandchina International Consulting Co., Ltd. She previously served as Deputy Chief and Chief of the Foreign Trade Division of Commerce and Trade Department of the MOF, Director-General of the Enterprise Affairs Department of the State Administration of State-owned Assets, Director-General of the Evaluation Department of the MOF, and an independent non-executive director of Shanghai Qiangsheng Holding Co., Ltd., Baocheng Investment Co., Ltd. and The Ming An (Holdings) Company Limited. At present, Ms. Dong concurrently serves as an independent non-executive director of Sinotex Investment & Development Co., Ltd. Ms. Dong graduated from Shanxi Finance and Economics Institute and from Dongbei University of Finance and Economics with a Master's degree in economics. Ms. Dong is also a PRC Certified Public Accountant (as a non-practising member).

Meng Yan, External Supervisor

Mr. Meng has served as External Supervisor of Industrial and Commercial Bank of China Limited since May 2009. Currently, he is Dean, Professor and Tutor to PhD students in the School of Accountancy of Central University of Finance and Economics ("CUFE"). He is also an Executive Council Member of the Accounting Society of China, a Council Member of the China Audit Society, an Executive Council Member of the Banking Accounting Society of China, a member of the Steering Committee on Teaching and Learning of Business Administration Disciplines of Higher Education Institutions under the Ministry of Education, and a member of the National Accounting Master Education Steering Committee. Mr. Meng served as Head of the Department of Accountancy of CUFE. He was also an Expert Consultant of the Accounting Standards Committee of the MOF for accounting standards, an Expert Consultant of the MOF for independent auditing standards, and an Expert Consultant of the MOF for enterprise performance evaluation and an independent non-executive director of Beijing North Star Company Limited, China Merchants Property Development Company and Beijing Bashi Media Co., Ltd. At present, he concurrently serves as an independent supervisor of China COSCO Holdings Company Limited, and an independent non-executive director of Yantai Wanhua Polyurethane Co., Ltd., Jolimark Holdings Limited and COFCO Property (Group) Co., Ltd. Mr. Meng obtained his Doctorate degree in economics from the Research Institute for Fiscal Science of the MOF.

Zhang Wei, Employee Supervisor

Mr. Zhang has served as Employee Supervisor of Industrial and Commercial Bank of China Limited since August 2006. He joined ICBC in 1994, and has served as General Manager of the Legal Affairs Department since 2004. Currently, he is also Vice Chairman of the Banking Law Research Institute and an executive council member of the Securities Law Research Institute of China Law Society, a council member of China Society for Finance and Banking and a professor of China University of Political Science and Law. He graduated from Peking University with a Doctorate degree in Law and is a research fellow.

Li Mingtian, Employee Supervisor

Mr. Li has served as Employee Supervisor of Industrial and Commercial Bank of China Limited since July 2012. He joined ICBC in 1984 and has served as Deputy Secretary of the Party Discipline Committee since 2001 and concurrently as Director of the Discipline Enforcement Department since 2004. He had previously served as Deputy Director of the Human Resources Department, Deputy General Manager of the Banking Department, and Deputy Head and CPC Committee member of Shaanxi Branch. He graduated from Hunan University of Finance and Economics with a Master's degree in Economics. He is a senior economist.

Zhang Hongli, Senior Executive Vice President

Mr. Zhang has served as Senior Executive Vice President of Industrial and Commercial Bank of China Limited since May 2010. Previously, he had been serving as a member of the Global Banking Management Committee and Head of Asia-Pacific of Deutsche Bank Global Banking and Chairman of Deutsche Bank (China) Co., Ltd. since October 2004. He worked as Financial Manager at the headquarters of Hewlett-Packard since July 1991, a Director and Head of the China operations of Schroders PLC since July 1994, an Executive Director of Goldman Sachs Asia and the Chief Representative of Goldman Sachs (China) LLC Beijing Representative Office since June 1998, and Head of Deutsche Bank Investment Banking Greater China, Vice Chairman of Deutsche Bank Asia and Chairman of Deutsche Bank China from March 2001 to September 2004. He is concurrently the Chairman of ICBC International Holdings Limited, Vice Chairman of Standard Bank Group Limited (SBG), and Chairman of Industrial and Commercial Bank of China (USA) NA. Mr. Zhang received a Bachelor's degree from Heilongjiang Bayi Agricultural University and a Master's degree in Genetics from the University of Alberta, Canada, as well as a Master's degree in Business Administration (MBA) from the Santa Clara University in California, USA, and a Doctorate degree in Management Science and Engineering from the Chinese Academy of Social Sciences.

Wang Xiquan, Senior Executive Vice President

Mr. Wang has served as Senior Executive Vice President of Industrial and Commercial Bank of China Limited since September 2012. He joined ICBC in 1985 and has served as a member of Senior Management of Industrial and Commercial Bank of China Limited since April 2010. He previously served in several positions at ICBC, including Head of Yangquan Branch in Shanxi Province, Deputy Head of Hebei Branch, General Manager of the Asset Risk Management Department, Director-General of the Internal Audit Department and General Manager of the Human Resources Department. He graduated from Nanjing University, and received a Doctorate degree in Management.

Zheng Wanchun, Senior Executive Vice President

Mr. Zheng has served as President of China Great Wall Asset Management Corporation since March 2011. He served as Assistant to Head of ICBC Hainan Branch and concurrently as General Manager of Banking Department, Deputy General Manager of Industrial and Commercial Credit Department of the Head Office of ICBC; he served as Deputy General Manager and General Manager of the Debt Management Department, General Manager of Operation Management Department and Assistant to President of China Huarong Asset Management Corporation; he became Vice President of China Huarong Asset Management Corporation in December 2004 and concurrently served as Chairman of Huarong Securities and Chairman of Rongde Asset (Sino-German Joint Venture); in January 2009, he served as Vice President of China Huarong Asset Management Corporation and concurrently as Chairman of Huarong Securities and Chairman of Huarong Futures. Mr. Zheng graduated from Renmin University of China, and obtained a Master's degree and a Doctorate degree in Economics.

Gu Shu, Senior Executive Vice President

Mr. Gu has served as Head of ICBC Shandong Branch since December 2010. He joined ICBC in March 1998, served as Deputy General Manager of Accounting and Settlement Department and Deputy General Manager of the Planning and Finance Department; he became General Manager of Finance and Accounting Department of ICBC in July 2006; he acted as Board Secretary of ICBC in July 2008 and concurrently General Manager of Corporate Strategy and Investor Relations Department. Mr. Gu obtained a Bachelor's degree in Engineering from Shanghai Jiaotong University in 1990, a Master's degree in Economics from Dongbei University of Finance and Economics in 1995, and a Doctorate degree in Economics from Shanghai University of Finance and Economics in 1998.

Wei Guoxiong, Chief Risk Officer

Mr. Wei has served as Chief Risk Officer of Industrial and Commercial Bank of China Limited since August 2006. He joined ICBC in 1987, and was appointed as General Manager of the Credit Management Department in 2001. He previously served in several positions at ICBC including Acting Head of Wenzhou Branch, Deputy Head of Zhejiang Branch and General Manager of the Industrial and Commercial Credit Department of the Head Office. He graduated from Tianjin University of Finance and Economics, and received a Master's degree in Economics.

Lin Xiaoxuan, Chief Information Officer

Mr. Lin has served as Chief Information Officer of Industrial and Commercial Bank of China Limited since November 2010. Mr. Lin joined ICBC in 1989, and has served as General Manager of Information and Technology Department of ICBC from 2001, and Chief Officer of Information and Technology, and concurrently General Manager of Information and Technology Department, of ICBC since July 2009. He also served as Chief of Technology Protection Section and Head of Software Development and Operation Centre of ICBC Fujian Branch, Deputy General Manager of Technology Protection Department of the Head Office and later General Manager of Information and Technology Department of ICBC, and for a certain period of time concurrently served as General Manager of Data Centre of ICBC. Currently, Mr. Lin is also the President of Financial Computer of China Magazine. He graduated from East China Normal University and received a Master's degree in Engineering. He is a research fellow.

Hu Hao, Board Secretary

Mr. Hu has served as Board Secretary of Industrial and Commercial Bank of China Limited since December 2010. Mr. Hu joined ICBC in 1984, serving successively as Deputy General Manager of the Industrial and Commercial Credit Department, Deputy General Manager of the Credit Management Department, General Manager of the Institution Operations Department and General Manager of the International Banking Department. He previously served as President of Chinese Mercantile Bank, Chairman of Industrial and Commercial Bank of China Luxembourg S.A., Deputy Director-General of Construction and Administration Bureau of South-to-North Water Diversion Middle Route Project, and a director of Taiping General Insurance Company Limited and Taiping Life Insurance Co., Ltd. Currently, Mr. Hu is also General Manager of Corporate Strategy and Investor Relations Department of the Head Office of ICBC, and a Director of Xiamen International Bank. Mr. Hu graduated from Hunan University, and received a Doctorate degree in Economics from the Graduate School of the Chinese Academy of Social Sciences. He is a senior economist.

TAXATION

The following summary of certain taxation provisions under the PRC and Hong Kong laws is based on current law and practice. It does not purport to be comprehensive and does not constitute legal or tax advice. Prospective investors should consult their own tax advisers regarding the tax consequences of an investment in the Bonds.

PRC Taxation

Pursuant to the "PRC Enterprise Income Tax Law" and the "PRC Individual Income Tax Law" as well as their respective implementation rules, an income tax is levied on the payment of interest in respect of debt securities, including bonds issued by enterprises established within the territory of the PRC to non-resident enterprises (including Hong Kong enterprises) and non-resident individuals (including Hong Kong resident individuals). 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 unless there is an applicable tax treaty between the PRC and the jurisdiction in which the holders reside that reduces or exempts such PRC income tax. However, the tax so charged on interest paid on the bonds to non-PRC holders which, or who, are residents of Hong Kong (including enterprises and individuals) for purposes of the avoidance of double taxation arrangement between the PRC and Hong Kong will be 7% of the gross amount of the interest pursuant to the arrangement between the PRC and Hong Kong. We have undertaken to pay additional amounts to the investors of the Bonds so that the Bondholders receive the full amount of the scheduled payment, as further set out in the terms and conditions of the bonds.

According to the "PRC Enterprise Income Tax Law" and the "PRC Individual Income Tax Law" and their implementation rules, it is unclear whether the capital gains of non-resident enterprises and non-resident individuals derived from a sale or exchange of the Bonds will be subject to PRC income tax. If such capital gains are determined as income sourced in the PRC by PRC tax authority, those non-resident holders may be subject to enterprise income tax at a rate of 10% or individual income tax at a rate of 20% of the gross proceeds unless there is an applicable tax treaty between the PRC and the jurisdiction in which the relevant non-resident holders reside which reduces or exempts such income tax. According to the double taxation arrangement between the PRC and Hong Kong, residents of Hong Kong (including enterprise and individual) will not be subject to PRC tax on any capital gains derived from a sale or exchange of the Bonds.

Hong Kong Taxation

Withholding Tax

Under existing Hong Kong law, payments of principal and interest in respect of the Bonds may be made without withholding for or on account of any Hong Kong taxes. In addition, no tax is withheld in Hong Kong in respect of any gains arising from resale of the Bonds.

Stamp Duty

The Bonds are not subject to Hong Kong stamp duty either upon issue or on any subsequent transfer.

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).

Under the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the "**Inland Revenue Ordinance**") as it is currently applied by the Inland Revenue Department, interest on the Bonds 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:

(a) interest on the Bonds is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(b) interest on the Bonds is derived from Hong Kong and is received by or accrues to a company (other than a financial institution) carrying on a trade, profession or business in Hong Kong; or

(c) interest on the Bonds 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 the trade, profession or business.

Sums derived from the sale, disposal or redemption of the Bonds will be subject to Hong Kong profits tax where received by or accrued to:

(i) a company, other than a financial institution, who carries on a trade, profession or business in Hong Kong where the sum has a Hong Kong source.

(ii) a person other than a company who carries on a trade, profession or business in Hong Kong where the sum has a Hong Kong source and such sums are in respect of the funds of the trade, profession or business

(iii) a financial institution where such sumss arise through or from the carrying on by the financial institution of its business in Hong Kong.

The source of such sums will generally be determined by having regard to the manner and place in which the Bonds are acquired and disposed of.

SUBSCRIPTION AND SALE

We have entered into a subscription agreement with ICBC (London) plc ("**ICBC London**"), Industrial and Commercial Bank of China (Asia) Limited ("**ICBC (Asia)**"), ICBC International Capital Limited ("**ICBCI Capital**"), The Royal Bank of Scotland plc ("**RBS**"), J.P. Morgan Securities (Asia Pacific) Limited ("**J.P. Morgan**") and Standard Chartered Bank (Hong Kong) Limited ("**SC**") (together, the "**Joint Global Coordinators**") and ICBC International Securities Limited ("**ICBCI Securities**") (together with ICBC London, RBS, J.P. Morgan, SC and ICBC (Asia), the "**Joint Lead Managers**") dated 12 November 2013 (the "**Subscription Agreement**"), pursuant to which and subject to certain conditions contained therein, we have agreed to sell to each Joint Lead Manager, and each Joint Lead Manager has agreed severally but not jointly to subscribe and pay for, or to procure subscribers to subscribe and pay for, the aggregate principal amount of the 2016 Bonds and the 2018 Bonds at 100% and 100% of their principal amount, respectively.

The Joint Global Coordinators may in certain circumstances give us a termination notice at any time prior to the payment of the net proceeds of the issue of the Bonds to us. The Joint Lead Managers are offering the Bonds in accordance with the terms of the Subscription Agreement and subject to certain conditions precedent contained in the Subscription Agreement. The Subscription Agreement provides that we will indemnify the Joint Global Coordinators and the Joint Lead Managers against certain liabilities, and pay certain expenses, in connection with the offer and sale of the Bonds.

In connection with the offering of the Bonds, each Joint Lead Manager and/or its affiliate(s) may act as an investor for its own account and may take up Bonds in the offering of the Bonds and in that capacity may retain, purchase or sell for its own account such securities and any of our securities or related investments and may offer or sell such securities or other investments otherwise than in connection with the Offering. Accordingly, references herein to the Bonds being offered should be read as including any Offering of the Bonds to the Joint Lead Managers and/or their affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

From time to time, in the ordinary course of business, certain of the Joint Global Coordinators, the Joint Lead Managers and their affiliates have provided advisory and investment banking services, and entered into other commercial transactions with the Issuers and their respective affiliates, including commercial banking services, for which customary compensation has been received. It is expected that the Joint Global Coordinators, the Joint Lead Managers and their affiliates will continue to provide such services to, and enter into such transactions, with the Issuers and their respective affiliates in the future.

The Joint Global Coordinators, the Joint Lead Managers or certain of their affiliates may purchase the Bonds and be allocated the Bonds for asset management and/or proprietary purposes but not with a view to distribution. The Joint Global Coordinators, the Joint Lead Managers or their respective affiliates may purchase the Bonds for their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Bonds and/or other securities of the Issuer or its subsidiaries or associates, at the same time as the offer and sale of the Bonds 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 Bonds to which this offering circular relates (notwithstanding that such selected counterparties may also be purchasers of the Bonds).

United States

The Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States unless pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Each of the Joint Lead Managers has, severally and not jointly, represented and agreed that it has not offered or sold, and will not offer or sell, any Bonds to, or for the account or benefit of, U.S. persons (as defined in Regulation S) (x) as part of its initial distribution of the Bonds or (y) otherwise until 40 days after the later of the commencement of the offering and the date of the closing of the offering.

United Kingdom

Each Joint Lead Manager has represented and agreed that:

(a) 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 Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of any Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

Switzerland

This offering circular is not intended to constitute an offer or solicitation to purchase or invest in the Bonds described herein. The Bonds may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither the offering circular nor any other offering or marketing material relating to the Bonds constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations, and neither this offering circular nor any other offering or marketing material relating to the Bonds may be publicly distributed or otherwise made publicly available in Switzerland.

Pursuant to article 652a or article 1156 of the Swiss Code of Obligations, and neither the offering circular nor any other offering or marketing material relating to the Bonds may be publicly distributed or otherwise made publicly available in Switzerland.

Hong Kong

Each Joint Lead Manager has represented, warranted and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; 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 or which do not constitute an offer to the public within the meaning of that 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 Bonds, 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 the Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance.

Singapore

Each Joint Lead Manager has acknowledged that the offering circular has not and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented and agreed that it has not offered or sold any Bonds or caused such Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell such Bonds or cause such Bonds 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 such Bonds, 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.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA, except:

    (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

    (ii) where no consideration is or will be given for the transfer;

    (iii) where the transfer is by operation of law; or

    (iv) as specified in Section 276(7) of the SFA; or

    (v) as specified in Regulation 32 of the Securities and Futures (Offer of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

The PRC

Each Joint Lead Manager represented, warranted and agreed that the Bonds are not being offered or sold any may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities law of the People's Republic of China.

GENERAL INFORMATION

1 **Clearing Systems:** The 2016 Bonds will be cleared through Euroclear and Clearstream with a Common Code of 099174234 and an ISIN of XS0991742346 and the 2018 Bonds will be cleared through Euroclear and Clearstream with a Common Code of 099497670 and an ISIN of XS0994976701.

2 **Authorisations:** We have obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds which include (i) the approval of the PBOC dated 23 September 2013, and (ii) the approval of the National Development and Reform Commission of the PRC dated 31 December 2012, each in accordance with the Interim Measures for the Administration of the Issuance of RMB Bonds in HKSAR by Domestic Financial Institutions.

3 **No Material Adverse Change:** Save as disclosed in this offering circular, there has been no material adverse change in our financial or trading position or prospects since 31 December 2012.

4 **Litigation:** Save as disclosed in this offering circular, we are not involved in any litigation or arbitration proceedings which may have, or have had during the 12 months preceding the date of this offering circular, a material adverse effect on our financial position nor are we aware that any such proceedings are pending or threatened.

5 **Available Documents:** Copies of our annual report for the year ended 31 December 2012, as well as the Fiscal Agency Agreement, will be available for inspection from the Issue Date at our specified office at 33/F, ICBC Tower 3, Garden Road, Central, Hong Kong, during normal business hours, so long as any of the Bonds is outstanding.

6 **Financial Statements:** The unaudited 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 KPMG, Certified Public Accountants, our current auditor, in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". The unaudited consolidated financial statements as at and for the nine months ended 30 September 2013, which are included elsewhere in this offering circular, have not been audited or reviewed by any external auditor. The consolidated financial statements as at and for the years ended 31 December 2010, 2011 and 2012, which are included elsewhere in this offering circular, have been audited by the Group's previous auditor, Ernst & Young, Certified Public Accountants, as stated in their report appearing therein.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Note:

(1) The independent auditor's report on our consolidated financial statements for the years ended 31 December 2011 and 2012 set out herein is reproduced from our annual reports for the years ended 31 December 2011 and 2012. Page references referred to in the report named above refer to pages set out in such annual report.

(2) The independent auditor's report on review of our interim consolidated financial statements for the six months ended 30 June 2013 set out herein is reproduced from our interim report for the six months ended 30 June 2013. Page references referred to in the report named above refer to pages set out in such interim report.

Independent Auditors' Report

ERNST & YOUNG

22/F, CITIC Tower
1 TIM Mei Avenue, Central
Hong Kong

To the shareholders of Industrial and Commercial Bank of China Limited

(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Industrial and Commercial Bank of China Limited (the "Bank") and its subsidiaries (together, the "Group") set out on pages 154 to 285, which comprise the consolidated and company 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 promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Bank determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to 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.

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 auditors' 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 auditors consider 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 state of affairs of the Bank and of the Group as at 31 December 2011, and of the Group's profit 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.

Certified Public Accountants

Hong Kong

29 March 2012

Consolidated Income Statement

Year ended 31 December 2011
(In RMB millions, unless otherwise stated)

	Notes	2011	2010
Interest income	6	589,580	462,762
Interest expense	6	(226,816)	(159,013)
NET INTEREST INCOME	6	362,764	303,749
Fee and commission income	7	109,077	78,008
Fee and commission expense	7	(7,527)	(5,168)
NET FEE AND COMMISSION INCOME	7	101,550	72,840
Net trading income/(expense)	8	444	(476)
Net loss on financial assets and liabilities designated at fair value through profit or loss	9	(271)	(217)
Net gain on financial investments	10	219	1,009
Other operating income, net	11	5,895	3,843
OPERATING INCOME		470,601	380,748
Operating expenses	12	(169,613)	(139,480)
Impairment losses on:			
Loans and advances to customers	26	(31,832)	(27,888)
Others	15	711	(100)
OPERATING PROFIT		269,867	213,280
Share of profits of associates and jointly-controlled entities		2,444	2,146
PROFIT BEFORE TAX		272,311	215,426
Income tax expense	16	(63,866)	(49,401)
PROFIT FOR THE YEAR		208,445	166,025
Attributable to:			
Equity holders of the parent company		208,265	165,156
Non-controlling interests		180	869
		208,445	166,025
EARNINGS PER SHARE			
— Basic (RMB yuan)	19	0.60	0.48
— Diluted (RMB yuan)	19	0.59	0.48

Details of the dividends declared and paid or proposed are disclosed in note 18 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011
(In RMB millions, unless otherwise stated)

	Note	2011	2010
Profit for the year		208,445	166,025
Other comprehensive income (after-tax, net):			
Net gain/(loss) on available-for-sale financial assets	42	2,293	(5,510)
Net gain/(loss) on cash flow hedges	42	355	(211)
Share of other comprehensive income of associates and jointly-controlled entities	42	774	(882)
Foreign currency translation differences	42	(11,416)	2,374
Others	42	43	157
Subtotal of other comprehensive income for the year		(7,951)	(4,072)
Total comprehensive income for the year		200,494	161,953
Total comprehensive income attributable to:			
Equity holders of the parent company		200,368	161,316
Non-controlling interests		126	637
		200,494	161,953

Consolidated Statement of Financial Position

31 December 2011
(In RMB millions, unless otherwise stated)

	Notes	31 December 2011	31 December 2010
ASSETS			
Cash and balances with central banks	20	2,762,156	2,282,999
Due from banks and other financial institutions	21	478,002	248,860
Financial assets held for trading	22	30,822	10,188
Financial assets designated at fair value through profit or loss	23	121,386	2,798
Derivative financial assets	24	17,460	13,332
Reverse repurchase agreements	25	349,437	262,227
Loans and advances to customers	26	7,594,019	6,623,372
Financial investments	27	3,763,694	3,719,282
Investments in associates and jointly-controlled entities	29	32,750	40,325
Property and equipment	30	119,028	103,412
Deferred income tax assets	31	21,938	21,712
Other assets	32	186,176	130,115
TOTAL ASSETS		**15,476,868**	**13,458,622**
LIABILITIES			
Due to central banks		100	51
Financial liabilities designated at fair value through profit or loss	33	171,973	6,670
Derivative financial liabilities	24	12,617	10,564
Due to banks and other financial institutions	34	1,341,290	1,048,002
Repurchase agreements	35	206,254	84,888
Certificates of deposit	36	41,426	9,314
Due to customers	37	12,261,219	11,145,557
Income tax payable		51,535	33,759
Deferred income tax liabilities	31	103	318
Debt securities issued	38	204,161	102,264
Other liabilities	39	228,367	195,578
TOTAL LIABILITIES		**14,519,045**	**12,636,965**
EQUITY			
Equity attributable to equity holders of the parent company			
Share capital	40	349,084	349,019
Equity component of convertible bonds	38	2,954	2,985
Reserves		291,370	267,269
Retained profits		313,334	201,157
		956,742	820,430
Non-controlling interests		1,081	1,227
TOTAL EQUITY		**957,823**	**821,657**
TOTAL EQUITY AND LIABILITIES		**15,476,868**	**13,458,622**

Jiang Jianqing
Chairman

Yang Kaisheng
Vice Chairman and President

Shen Rujun
General Manager of Finance and Accounting Department

Consolidated Statement of Changes in Equity

Year ended 31 December 2011
(In RMB millions, unless otherwise stated)

	Attributable to equity holders of the parent company													
			Reserves											
	Issued share capital	Equity component of convertible bonds	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Foreign currency translation reserve	Cash flow hedge reserve	Other reserves	Subtotal	Retained profits	Total	Non-controlling interests	Total equity
Balance as at 1 January 2011	349,019	2,985	131,923	53,782	93,071	(6,303)	581	(4,248)	(1,537)	267,269	201,157	820,430	1,227	821,657
Profit for the year	—	—	—	—	—	—	—	—	—	—	208,265	208,265	180	208,445
Other comprehensive income	—	—	43	—	—	2,304	(11,373)	355	774	(7,897)	—	(7,897)	(54)	(7,951)
— Change in fair value of available-for-sale investments, net of tax	—	—	—	—	—	2,304	—	—	—	2,304	—	2,304	(11)	2,293
— Cash flow hedges, net of tax	—	—	—	—	—	—	—	355	—	355	—	355	—	355
— Share of other comprehensive income of associates and jointly-controlled entities	—	—	—	—	—	—	—	—	774	774	—	774	—	774
— Exchange differences on translation of foreign operations	—	—	—	—	—	—	(11,373)	—	—	(11,373)	—	(11,373)	(43)	(11,416)
— Others	—	—	43	—	—	—	—	—	—	43	—	43	—	43
Total comprehensive income	—	—	43	—	—	2,304	(11,373)	355	774	(7,897)	208,265	200,368	126	200,494
Dividend — 2010 final (note 18)	—	—	—	—	—	—	—	—	—	—	(64,220)	(64,220)	—	(64,220)
Appropriation to surplus reserve(i)	—	—	—	20,638	—	—	—	—	—	20,638	(20,638)	—	—	—
Appropriation to general reserve(ii)	—	—	—	—	11,230	—	—	—	—	11,230	(11,230)	—	—	—
Conversion of convertible bonds (note 38 and 40)	65	—	200	—	—	—	—	—	—	200	—	265	—	265
Capital injection by non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	—	—	31	31
Change in shareholdings in subsidiaries	—	—	(70)	—	—	—	—	—	—	(70)	—	(70)	(234)	(304)
Dividends to non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	—	—	(69)	(69)
Conversion of equity component of convertible bonds (note 38)	—	(31)	—	—	—	—	—	—	—	—	—	(31)	—	(31)
Balance as at 31 December 2011	**349,084**	**2,954**	**132,096**	**74,420**	**104,301**	**(3,999)**	**(10,792)**	**(3,893)**	**(763)**	**291,370**	**313,334**	**956,742**	**1,081**	**957,823**

(i) Includes the appropriation made by overseas branches and subsidiaries in the amount of RMB41 million and RMB250 million, respectively.

(ii) Includes the appropriation made by subsidiaries in the amount of RMB227 million.

(In RMB millions, unless otherwise stated)

	Attributable to equity holders of the parent company													
			Reserves											
	Issued share capital	Equity component of convertible bonds	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Foreign currency translation reserve	Cash flow hedge reserve	Other reserves	Subtotal	Retained profits	Total	Non-controlling interests	Total equity
Balance as at 1 January 2010	334,019	—	107,790	37,484	84,222	(897)	(1,919)	(4,082)	(655)	221,943	117,931	673,893	5,041	678,934
Profit for the year	—	—	—	—	—	—	—	—	—	—	165,156	165,156	869	166,025
Other comprehensive income	—	—	114	—	—	(5,406)	2,500	(166)	(882)	(3,840)	—	(3,840)	(232)	(4,072)
— Change in fair value of available-for-sale investments, net of tax	—	—	—	—	—	(5,406)	—	—	—	(5,406)	—	(5,406)	(104)	(5,510)
— Cash flow hedges, net of tax	—	—	—	—	—	—	—	(166)	—	(166)	—	(166)	(45)	(211)
— Share of other comprehensive income of associates and jointly-controlled entities	—	—	—	—	—	—	—	—	(882)	(882)	—	(882)	—	(882)
— Exchange differences on translation of foreign operations	—	—	—	—	—	—	2,500	—	—	2,500	—	2,500	(126)	2,374
— Others	—	—	114	—	—	—	—	—	—	114	—	114	43	157
Total comprehensive income	—	—	114	—	—	(5,406)	2,500	(166)	(882)	(3,840)	165,156	161,316	637	161,953
Dividend — 2009 final (note 18)	—	—	—	—	—	—	—	—	—	—	(56,783)	(56,783)	—	(56,783)
Appropriation to surplus reserve (i)	—	—	—	16,298	—	—	—	—	—	16,298	(16,298)	—	—	—
Appropriation to general reserve (ii)	—	—	—	—	8,849	—	—	—	—	8,849	(8,849)	—	—	—
Rights issue	15,000	—	29,621	—	—	—	—	—	—	29,621	—	44,621	—	44,621
Capital injection by non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	—	—	230	230
Change in shareholdings in subsidiaries	—	—	(5,602)	—	—	—	—	—	—	(5,602)	—	(5,602)	(4,373)	(9,975)
Dividends to non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	—	—	(308)	(308)
Issue of convertible bonds (note 38)	—	2,985	—	—	—	—	—	—	—	—	—	2,985	—	2,985
Balance as at 31 December 2010	**349,019**	**2,985**	**131,923**	**53,782**	**93,071**	**(6,303)**	**581**	**(4,248)**	**(1,537)**	**267,269**	**201,157**	**820,430**	**1,227**	**821,657**

(i) Includes the appropriation made by subsidiaries in the amount of RMB133 million.

(ii) Includes the appropriation made by subsidiaries in the amount of RMB109 million.

Consolidated Statement of Cash Flows

Year ended 31 December 2011
(In RMB millions, unless otherwise stated)

	Notes	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		272,311	215,426
Adjustments for:			
Share of profits of associates and jointly-controlled entities		(2,444)	(2,146)
Depreciation	12	12,027	10,844
Amortisation	12	1,426	1,314
Amortisation of financial investments		(7,562)	(9,861)
Impairment losses on loans and advances to customers	26	31,832	27,888
Impairment losses on assets other than loans and advances to customers	15	(711)	100
Unrealised foreign exchange loss		7,497	490
Interest expense on debt securities issued		5,103	2,948
Accreted interest on impaired loans	6	(602)	(754)
Gain on disposal of available-for-sale financial assets, net	10	(178)	(925)
Excess over the costs of equity investments		—	(180)
Net trading gain on equity investments	8	(3)	(21)
Net loss on financial assets and liabilities designated at fair value through profit or loss	9	271	217
Net loss/(gain) on disposal of property and equipment and other assets (other than repossessed assets)		(881)	64
Dividend income	10	(41)	(84)
		318,045	245,320
Net decrease/(increase) in operating assets:			
Due from central banks		(437,857)	(594,655)
Due from banks and other financial institutions		(37,009)	(1,269)
Financial assets held for trading		(20,475)	8,905
Financial assets designated at fair value through profit or loss		(118,555)	(1,606)
Reverse repurchase agreements		(1,344)	258,192
Loans and advances to customers		(1,036,506)	(1,071,538)
Other assets		(27,188)	(19,479)
		(1,678,934)	(1,421,450)
Net increase/(decrease) in operating liabilities:			
Financial liabilities designated at fair value through profit or loss		160,203	(9,163)
Due to central banks		49	51
Due to banks and other financial institutions		279,170	49,343
Repurchase agreements		121,366	48,828
Certificates of deposit		33,038	9,874
Due to customers		1,135,086	1,374,387
Other liabilities		27,912	19,760
		1,756,824	1,493,080
Net cash flows from operating activities before tax		395,935	316,950
Income tax paid		(47,812)	(38,774)
Net cash flows from operating activities		348,123	278,176

(In RMB millions, unless otherwise stated)

	Note	2011	2010
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment and other assets		(22,896)	(20,017)
Proceeds from disposal of property and equipment and other assets (other than repossessed assets)		1,278	666
Purchases of financial investments		(1,385,697)	(1,977,718)
Proceeds from sale and redemption of financial investments		1,349,324	1,840,399
Investments in associates and jointly-controlled entities		(10)	(808)
Acquisition of subsidiaries		—	(2,929)
Proceeds from disposal of a jointly-controlled entity		—	278
Proceeds from disposal of a subsidiary		—	(528)
Dividends received		1,268	1,071
Net cash flows from investing activities		(56,733)	(159,586)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from rights issue		—	44,848
Capital injection by non-controlling shareholders		31	230
Proceeds from issuance of subordinated bonds		89,500	25,286
Proceeds from issuance of convertible bonds		—	25,000
Proceeds from issuance of other debt securities		14,303	—
Repayment of debts issued		—	(22,000)
Interest paid on debt securities		(3,212)	(2,597)
Acquisition of non-controlling interests		(328)	(9,273)
Dividends paid on ordinary shares		(64,220)	(56,783)
Dividends paid to non-controlling shareholders		(69)	(308)
Cash paid for other financing activities		—	(357)
Net cash flows from financing activities		36,005	4,046
NET INCREASE IN CASH AND CASH EQUIVALENTS		327,395	122,636
Cash and cash equivalents at beginning of the year		528,971	409,394
Effect of exchange rate changes on cash and cash equivalents		(8,058)	(3,059)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	43	848,308	528,971
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		565,899	449,667
Interest paid		(204,648)	(147,301)

Statement of Financial Position

Year ended 31 December 2011
(In RMB millions, unless otherwise stated)

	Notes	31 December 2011	31 December 2010
ASSETS			
Cash and balances with central banks	20	2,737,238	2,272,265
Due from banks and other financial institutions	21	474,287	259,638
Financial assets held for trading	22	29,849	6,959
Financial assets designated at fair value through profit or loss	23	120,811	1,988
Derivative financial assets	24	15,476	10,879
Reverse repurchase agreements	25	229,769	228,501
Loans and advances to customers	26	7,246,627	6,355,840
Financial investments	27	3,730,354	3,682,258
Investments in subsidiaries	28	53,907	45,057
Investments in associates	29	33,369	33,717
Property and equipment	30	105,971	98,418
Deferred income tax assets	31	21,796	21,568
Other assets	32	155,965	110,576
TOTAL ASSETS		**14,955,419**	**13,127,664**
LIABILITIES			
Financial liabilities designated at fair value through profit or loss	33	171,945	5,823
Derivative financial liabilities	24	10,845	8,287
Due to banks and other financial institutions	34	1,297,947	1,010,279
Repurchase agreements	35	78,551	52,111
Certificates of deposit	36	14,434	3,471
Due to customers	37	11,963,815	10,913,696
Income tax payable		50,818	33,138
Debt securities issued	38	192,439	98,886
Other liabilities	39	218,216	188,082
TOTAL LIABILITIES		**13,999,010**	**12,313,773**
EQUITY			
Share capital	40	349,084	349,019
Equity component of convertible bonds	38	2,954	2,985
Reserves	41	305,573	269,773
Retained profits	41	298,798	192,114
TOTAL EQUITY		**956,409**	**813,891**
TOTAL EQUITY AND LIABILITIES		**14,955,419**	**13,127,664**

Jiang Jianqing
Chairman

Yang Kaisheng
Vice Chairman and President

Shen Rujun
General Manager of Finance and Accounting Department

1. CORPORATE INFORMATION

Industrial and Commercial Bank of China Limited (the "Bank"), which was previously known as Industrial and Commercial Bank of China ("ICBC"), used to be a wholly-state-owned commercial bank established on 1 January 1984 based on the authorisation of the State Council and the People's Bank of China (the "PBOC") of the People's Republic of China (the "PRC"). On 28 October 2005, with the approval of the State Council, ICBC was restructured and incorporated as a joint-stock limited company. The joint-stock limited company undertook all the assets and liabilities of ICBC upon the restructuring.

The Bank obtained its finance permit No. B0001H111000001 from the China Banking Regulatory Commission (the "CBRC") of the PRC. The Bank obtained its business license No. 100000000003965 from the State Administration for Industry and Commerce of the PRC. The legal representative is Jiang Jianqing and the registered office is located at No. 55 Fuxingmennei Avenue, Xicheng District, Beijing, the PRC.

The Bank's A Shares and H Shares are listed on the Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited and the stock codes are 601398 and 1398, respectively.

The principal activities of the Bank and its subsidiaries (collectively referred to as the "Group") comprise corporate and personal banking, treasury operations, investment banking, asset management, trust, financial leasing and other financial services. Domestic establishments refer to the Head Office of the Bank, branches and subsidiaries established inside Mainland China. Overseas establishments refer to branches and subsidiaries established under local jurisdictions outside Mainland China.

2.1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and interpretations promulgated by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, financial assets and liabilities held for trading, financial assets and liabilities designated at fair value through profit or loss and available-for-sale financial assets (unless the fair value cannot be reliably measured) that have been measured at fair value, as further explained in the respective accounting policies below. The carrying values of recognised assets and liabilities, that are hedged in fair value hedges and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged. These financial statements are presented in RMB and all values are rounded to the nearest million except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

(i) Subsidiaries

The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

(In RMB millions, unless otherwise stated)

2.1 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

(a) derecognises the assets (including goodwill) and liabilities of the subsidiary;

(b) derecognises the carrying amount of any non-controlling interest;

(c) derecognises the cumulative translation differences recorded in equity;

(d) recognises the fair value of the consideration received;

(e) recognises the fair value of any investment retained;

(f) recognises any resulting surplus or deficit in profit or loss; and

(g) reclassifies the Group's share of components previously recognised in other comprehensive income is to profit or loss or retained profits, as appropriate.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the consolidated income statement, and within equity in the consolidated statement of financial position separately from the equity attributable to equity holders of the parent company. An acquisition of non-controlling interests is accounted for as an equity transaction.

(ii) Special purpose entities

Special purpose entities ("SPEs") are consolidated if they are in substance controlled by the Bank. When assessing whether the Bank has a control over the SPEs, the Bank evaluates a range of factors, including whether:

(a) the activities of the SPE are being conducted on behalf of the Bank and according to the Bank's specific business needs so that the Bank obtains benefits from the SPE's operations;

(b) the Bank has the decision-making powers to obtain the majority of the benefits of the activities of the SPE;

(c) the Bank has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE; or

(d) the Bank retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

2.2 NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS THAT ARE EFFECTIVE IN 2011 AND RELEVANT TO THE GROUP

The IASB has issued the following new and revised IFRSs (including International Accounting Standards ("IASs")) and IFRIC (International Financial Reporting Interpretations Committee) interpretations that are effective in 2011 and relevant to the Group's operation.

IAS 24 Amendment	Amendments to *Related Party Disclosures*
IAS 32 Amendment	Amendments to IAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*
IFRIC 14 Amendment	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*

2.2 NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS THAT ARE EFFECTIVE IN 2011 AND RELEVANT TO THE GROUP (CONTINUED)

The principal effects of adopting these new and revised IFRSs and IFRIC interpretations are as follows:

IAS 24 Related Party Transactions (Amendment)

The IAS 24 Amendment clarifies the definition of a related party. The new definitions emphasise a symmetrical view of related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly-controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group. The Group reevaluates the disclosures, both qualitatively and quantitatively, for transactions entered into between government related entities that are individually significant or collectively significant but individually not. The level of detail of disclosures is determined by considering the closeness of related parties and assessing the level of significance of these transactions based on whether these transactions are 1) significance in terms of size, 2) carried out on non-market terms, 3) outside normal day-to-day operations, 4) disclosed to regulatory authorities, 5) reported to senior management, and 6) subject to shareholders' approval. Related party disclosures are shown in note 49.

IAS 32 Financial Instruments: Presentation — Classification of Rights Issues (Amendment)

The IAS 32 Amendment alters the definition of a financial liability to enable entities to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment had no effect on the financial position or performance of the Group.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

IFRIC 14 *Prepayments of a Minimum Funding Requirement* has been amended to provide guidance on assessing the recoverable amount of a net pension asset. The amendments permit an entity to treat the prepayment of a minimum funding requirement as an asset. The interpretation had no effect on the financial position or performance of the Group.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The interpretation had no effect on the financial position or performance of the Group.

Apart from the above, in May 2010, the IASB has issued its third omnibus of amendments to its standards*, which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 34 and IFRIC 13 were applied from 1 January 2011 by the Group. Except the change in accounting policy described below resulted by the adoption of the amendment of IFRS 1, none of the other amendments had a significant impact on the Group.

* Improvements to IFRSs (2010) contain amendments to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13.

2.2 NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS THAT ARE EFFECTIVE IN 2011 AND RELEVANT TO THE GROUP (CONTINUED)

IFRS 1 First-time Adoption of International Financial Reporting Standards

IFRS 1 amendment allows an entity to use fair value measurements at the valuation date as deemed cost in the special event such as privatisation or initial public offering to determine the book value of assets. Entities that have adopted IFRS can conduct a retrospective adjustment. The Group changed the accounting policies related to assets revaluation and deemed cost applied on stock reform in 2005 and made the related adjustment retrospectively in accordance with the amendment. The impact of the retrospective adjustment is shown in note 54 "comparative amounts"

IFRS 7 Financial Instruments — Disclosures

IFRS 7 amendment requires disclosure of financial effect of collateral held as security and other credit enhancements, including the amount that best represents the maximum exposure to credit risk such as a description of the extent to which collateral mitigates credit risk.

From 2011, the Group adopted the amendment to IFRS 7 and provided the description of the extent to which the credit risk is mitigated by the collateral.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Subsidiaries

A subsidiary is an entity whose financial and operating policies the Bank controls, directly and indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Bank's income statement to the extent of dividends received and receivable. The Bank's investments in subsidiaries are stated at cost less any impairment losses.

(2) Jointly-controlled entities

A jointly-controlled entity is a joint venture, not being a subsidiary or an associate, that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entities.

The Group's investments in jointly-controlled entities are accounted for under the equity method of accounting. Under the equity method, investments in jointly-controlled entities are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the jointly-controlled entities, less any impairment losses. Goodwill relating to jointly-controlled entities is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investments in the jointly-controlled entities. The consolidated income statement reflects the share of the results of operations of the jointly-controlled entities. Where there has been a change recognised directly in the equity of the jointly-controlled entities, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Profits and losses resulting from transactions between the Group and the jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities.

The results of the jointly-controlled entities are included in the Bank's income statement to the extent of dividends received and receivable. The Bank's investments in jointly-controlled entities are stated at cost less any impairment losses.

The reporting periods of the jointly-controlled entities and the Group are identical and the jointly-controlled entities' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(3) Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are accounted for under the equity method of accounting. Under the equity method, an investment in an associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the associate, less any impairment losses. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The consolidated income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Profits and losses resulting from transactions between the Group and the associates are eliminated to the extent of the Group's interests in the associates.

The results of the associates are included in the Bank's income statement to the extent of dividends received and receivable. The Bank's investments in associates are stated at cost less any impairment losses.

The reporting periods of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

(4) Foreign currency translation

The consolidated financial statements are presented in RMB, being the functional and presentation currency of the Bank's operations in Mainland China. Each entity in the Group determines its own functional currency and the financial statements of each entity are presented using that functional currency.

Foreign currency transactions are initially recorded at the functional currency using the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the applicable exchange rates ruling at the end of the reporting period. Exchange differences arising on the settlement of monetary items or on translating monetary items at period end rates are recognised in the income statement, with the exception that they are taken directly to other comprehensive income when the monetary items are designated as part of the hedge of the Bank's net investment of a foreign entity, and the aggregate exchange differences are not recognised in the income statement until the disposal of such net investment. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates as at the date when the fair value is determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the rates ruling at the end of the reporting period. The exchange differences are recognised in the income statement or in other comprehensive income, depending on the nature of non-monetary items.

As at the end of the reporting period, the assets and liabilities of foreign operations are translated into the presentation currency of the Bank at the exchange rates ruling at the end of the reporting period. All items within equity except for retained profits are translated at the exchange rates ruling at the dates of the initial transactions. Their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the above translation are taken directly to other comprehensive income. On disposal of a foreign operation, the deferred cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(4) Foreign currency translation (continued)

Cash flows arising from transactions in foreign currencies and cash flows of overseas subsidiaries are translated using the weighted average exchange rates for the year. The effect of exchange rate movements on cash is presented separately in statement of cash flows as a reconciling item.

(5) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Initial recognition of financial instruments

At initial recognition, financial assets are classified into four categories: financial assets at fair value through profit or loss, held-to-maturity financial investments, loans and receivables and available-for-sale financial assets.

At initial recognition, financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities.

A financial asset or financial liability is measured initially at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Measurement of fair value

The fair value of a financial asset or financial liability traded in active markets is based on its quoted market price.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include making reference to the prices from recent arm's length market transactions between knowledgeable and willing parties, if available, current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

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

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

Financial assets or financial liabilities held for trading

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

(i) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;

(ii) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking; or

(iii) it is a derivative.

Financial assets held for trading mainly include debt securities, equity investments and derivatives that are not designated as effective hedging instruments.

Financial assets or financial liabilities held for trading are measured at fair value after initial recognition. Realised or unrealised income or expenses are recognised in the income statement. Derivatives are separately presented and disclosed in the financial statements, and accounting policies of derivatives are shown in note 3(10).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(5) Financial instruments (continued)

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

A financial instrument may be designated as a financial asset or financial liability at fair value through profit or loss upon initial recognition, if it meets any of the criteria set out below.

(i) It eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial asset or financial liability or from recognising the gains and losses on them on different bases;

(ii) It applies to a group of financial assets, financial liabilities or both which is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and where information about that group of financial instruments is provided internally on that basis to key management personnel; or

(iii) The financial instrument contains one or more embedded derivatives, unless the embedded derivative(s) does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

In the case of an equity investment, if neither a quoted market price in an active market exists nor its fair value can be reliably measured, it cannot be designated as a financial asset at fair value through profit or loss.

Financial assets designated at fair value through profit or loss mainly include debt securities and other debt instruments. Financial liabilities designated at fair value through profit or loss mainly include wealth management products, structured deposits, notes payable, certificates of deposit, and financial liabilities related to precious metals. These assets and liabilities are measured at fair value after initial recognition. Realised and unrealised income or expenses are recognised in the income statement.

Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity and which the Group has the positive intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Gains and losses are recognised in the income statement when the held-to-maturity financial investments are derecognised or impaired, as well as through the amortisation process. All the held-to-maturity financial investments are bond investments.

The Group shall reclassify any remaining held-to-maturity investments as available for sale and shall not classify any financial assets as held to maturity during the current financial year or during the two preceding financial years, if the Group has sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) except for sale or reclassification that:

(i) is so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;

(ii) occurs after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or

(iii) is attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(5) Financial instruments (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group has no intention of trading the assets immediately or in the near term. After initial measurement, such assets are subsequently carried at amortised cost using the effective interest rate method, less any allowance for impairment losses. Gains and losses are recognised in the income statement when such assets are derecognised or impaired, as well as through the amortisation process. Loans and receivables mainly include loans and advances to customers, receivables and discounted bills.

Discounted bills are granted by the Group to its customers based on the bank acceptance held which has not matured. Discounted bills are carried at face value less unrealised interest income and the interest income of the discounted bills is recognised using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets which are designated as such or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Premiums and discounts on available-for-sale financial assets are amortised using the effective interest rate method and are taken to the income statement as interest income. Changes in fair value of available-for-sale financial assets are recognised as a separate component of other comprehensive income until the financial asset is derecognised or determined to be impaired at which time the cumulative gains or losses previously recorded in other comprehensive income are transferred to the income statement. Dividend and interest income on available-for-sale financial assets are recorded in the income statement.

In the case of an equity investment classified as available for sale, if neither a quoted market price in an active market exists nor its fair value can be reliably measured, it will be measured at cost less any impairment loss.

Other financial liabilities

Other financial liabilities are carried at amortised cost using the effective interest rate method.

(6) Impairment of financial assets

An assessment on carrying amount of financial assets is made at the end of each reporting period. Impairment is recognised if there is objective evidence of impairment of financial assets, i.e., one or more events that occur after the initial recognition of those assets and have an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, they would probably enter into bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows.

Financial assets carried at amortised cost

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(6) Impairment of financial assets (continued)

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

Future cash flows of 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 impact of current conditions that did not affect the period on which the historical loss experience is based and to eliminate the impact of historical conditions that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be attributed objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the assets does not exceed its amortised cost at the reversal date.

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

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on the financial asset, the amount of impairment loss, measured as the difference between the carrying amount of that financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset, is recognised in the income statement. In the case of an equity investment, if neither a quoted market price in an active market exists nor its fair value can be reliably measured, the amount of impairment loss is recognised in the income statement. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If there is objective evidence that the financial asset is impaired, the cumulative loss, 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, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised as other comprehensive income.

In the case of debt instruments classified as available for sale, if, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impaired loss is reversed through the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(7) Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(8) Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset; or has retained its rights to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and either the Group has transferred substantially all the risks and rewards of ownership of the financial asset; or the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has retained its rights to receive cash flows from the asset but has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Securitisation

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to SPEs which issue securities to investors. The transferred assets may qualify for derecognition in full or in part. Further details on prerequisites for derecognition of financial assets are set out above. Interests in the securitised financial assets may be partially retained by the Group and are primarily classified as available-for-sale financial assets. The book value of the transferred asset should be recognised between the derecognised portion and the retained portion based on their respective relative fair values, and the difference between the book value of the derecognised portion and the total consideration paid for the derecognised portion shall be recorded in profit or loss.

Sales of assets on condition of repurchase

The derecognition of financial assets sold on condition of repurchase is determined by the economic substance of the transaction. If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price or at the sale price plus a reasonable return, the Group will not derecognise the asset. If a financial asset is sold together with an option to repurchase the financial asset at its fair value at the time of repurchase (in case of transferor sells such financial asset), the Group will derecognise the financial asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(8) Derecognition of financial assets and liabilities (continued)

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

(9) Convertible bonds

Convertible bonds which contain both a liability and an equity component are separated at the issue date. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond. The equity component is assigned the residual amount after deducting from the fair value of the convertible bonds as a whole the amount separately determined for the liability component. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the convertible bonds are first recognised. The liability component is carried as a liability on the amortised cost basis until extinguished on cancellation, conversion or redemption. The equity component is included in shareholders' equity, and not remeasured in subsequent years.

On conversion of the convertible bonds, the Group derecognises the liability component and recognises it as equity.

(10) Derivatives and hedge accounting

Derivatives

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the hybrid instrument is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognised in the income statement.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

For less complex derivative products, the fair values are principally determined by valuation models which are commonly used by market participants. Inputs to valuation models are determined from observable market data wherever possible, including foreign exchange spot and forward rates and interest rate yield curves. For more complex derivative products, the fair values are mainly determined by quoted prices from dealers.

Hedge accounting

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they have actually been highly effective throughout the financial reporting periods for which they were designated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(10) Derivatives and hedge accounting (continued)

Certain derivative transactions, while providing effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under IAS 39 and are therefore treated as derivatives held for trading with fair value gains or losses recognised in the income statement. Hedges which meet the strict criteria for hedge accounting are accounted for in accordance with the Group's accounting policy as set out below.

Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or unrecognised firm commitment, that is attributable to a particular risk and could affect the profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and the gains and losses from both are taken to the income statement.

For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item and the face value is amortised over the remaining term of the original hedge using the effective interest rate method.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the income statement. The changes in the fair value of the hedging instrument are also recognised in the income statement.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. If the hedged items are derecognised, the unamortised fair value is recorded in the income statement.

Cash flow hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised directly in other comprehensive income. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the income statement.

When the hedged cash flow affects the income statement, the gain or loss on the hedging instrument recognised directly in other comprehensive income is recycled in the corresponding income or expense line of the income statement. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income until the hedged forecast transaction ultimately occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

(11) Trade date accounting

All regular way purchases and sales of financial assets are recognised at the trade date, which is the date that the Group commits to purchase or sell the assets. A regular way purchase or sale is the purchase or sale of financial assets that requires delivery of assets within the time frame generally established by regulation or convention in the marketplace.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(12) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position if, and only if, the Group has a legally enforceable right to offset such amounts with the same counterparty and an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(13) Repurchase and reverse repurchase transactions (including securities borrowing and lending)

Assets sold under agreements to repurchase at a specified future date ("repos") are not derecognised from the statement of financial position. The corresponding cash received, including accrued interest, is recognised on the statement of financial position as a "repurchase agreement", reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as an interest expense and is accrued over the life of the agreement using the effective interest rate method.

Conversely, assets purchased under agreements to resell at a specified future date ("reverse repos") are not recognised on the statement of financial position. The corresponding cash paid, including accrued interest, is recognised on the statement of financial position as a "reverse repurchase agreement". The difference between the purchase and resale prices is treated as an interest income and is accrued over the life of the agreement using the effective interest rate method.

Securities borrowing and lending transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognised on the statement of financial position, unless they are then sold to third parties, in which case the obligation to return the securities is recorded as a financial liability held for trading and measured at fair value with any gains or losses included in the income statement.

(14) Precious metals

Precious metals comprise gold, silver and other precious metals. Precious metals that are not related to the Group's precious metals trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals acquired by the Group for trading purposes are initially measured at fair value and subsequent changes in fair value are recorded in income statement.

The Group records the precious metals received as an asset. A liability to return the amount of precious metals deposited is also recognised. The precious metals deposited in the Group are measured at fair value both on initial recognition and in subsequent measurement.

(15) Property and equipment

Property and equipment, other than construction in progress were stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price, tax and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement.

(In RMB millions, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(15) Property and equipment (continued)

Construction in progress comprises the direct costs of construction during the period of construction and is not depreciated. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for use.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment, less any estimated residual value, over the estimated useful life. The estimated useful life, estimated residual value and the annual depreciation rate of each item of property and equipment (excluding aircraft and vessels) are as follows:

	Estimated useful life	Estimated residual value	Annual depreciation rate
Properties and buildings	5–35 years	3%	2.77%–19.40%
Office equipment and motor vehicles (excluding aircraft and vessels)	3–6 years	—	16.67%–33.33%
Leasehold improvements	Over the shorter of the economic useful lives and remaining lease terms		

Equipment under operating leases where the Group is the lessor are aircraft, aircraft engines and vessels. The estimated useful lives and depreciation methods are determined according to the real conditions of each individual aircraft and vessels. The residual values are assessed by an independent valuer based on historical data. The estimated useful lives range from 15 to 25 years.

For an item of impaired fixed assets, the depreciation is calculated based on the carrying value less the cumulative impairment losses.

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

(16) Land use rights

Land use rights are recognised at cost, being the fair value at the time of injection from the central government of the PRC (the "Government") or the consideration paid. The rights are amortised using the straight-line basis over the period of the leases. When the prepaid land lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of properties and buildings as finance leases in property and equipment.

(17) Repossessed assets

Repossessed assets are initially recognised at fair value, and are subsequently measured at the lower of the carrying value and net recoverable amount. If the recoverable amount is lower than the carrying value of the repossessed assets, the assets are written down to the recoverable amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(18) Business combination and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition costs incurred are expensed.

For each business combination, the Group measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either: (a) fair value; or (b) the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair values, unless another measurement basis is required by IFRSs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, is recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units ("CGU"), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the CGU (group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (group of CGUs) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a CGU (group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

(19) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(20) Asset impairment

Impairment losses on assets except for deferred tax assets, financial assets and goodwill are determined based on the following:

The Group assesses at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, or when impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined on an individual basis, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the CGU to which the asset belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount. In assessing value in use of an asset, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of any depreciation/amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement. After such a reversal, the depreciation/amortisation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(21) Cash and cash equivalents

Cash and cash equivalents refer to short term highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents comprise cash, unrestricted balances with central banks, amounts due from banks and other financial institutions and reverse repurchase agreements with original maturity of less than three months.

(22) Employee benefits

Employee benefits refer to all forms of consideration and other related expenditure given by the Group in exchange for services rendered by employees. The benefits payable are recognised as liabilities during the period in which the employees have rendered services to the Group. If the effect of discounting the benefits payable which are payable after one year from the end of the reporting period is significant, the Group will present them at their present value.

Statutory defined contribution plans

In accordance with the relevant laws and regulations, domestic employees of the Group participate in various social insurance schemes like basic pension insurance, medical insurance, unemployment insurance and housing fund schemes administered by the local government authorities. The Group calculates and contributes to the local government agencies the above pension and insurance schemes using applicable contribution basis and rates stipulated in the relevant local regulations in the period the employees providing their services to the Group. Contributions to these plans are recognised in the income statement as incurred.

All eligible employees outside Mainland China participate in local defined contribution schemes. The Group contributes to these defined contribution schemes based on the requirements of the local regulatory bodies.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(22) Employee benefits (continued)

Retirement benefit annuity plan

In addition, employees in Mainland China also participate in a defined contribution retirement benefit plan established by the Group (the "Annuity Plan"). The Group and its employees are required to contribute a certain percentage of the employees' previous year basic salaries to the Annuity Plan. The contribution is charged to the income statement when it incurs. The Group pays a fixed contribution into the Annuity Plan and has no obligation to pay further contributions if the Annuity Plan does not hold sufficient assets to pay all employees benefits.

Termination benefits

Termination benefits are payable whenever an employee's employment is voluntarily terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises retirement benefits in the income statement when it is demonstrably committed to terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal.

Early retirement benefits

According to the Bank's policy on early retirement benefits, certain employees are entitled to take leave of absence and in return receive a certain level of staff salaries and related benefits from the Bank. The salaries and benefit payments are made from the date of early retirement to the normal retirement date. The amounts of retirement benefit expense and present value of these liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, retirement benefit growth rates and other factors. Gains and losses arising from the changes in assumptions and amendments to pension plans are recognised in the income statement as incurred.

(23) Fiduciary activities

Where the Group acts in a fiduciary capacity such as custodian or agent, assets arising thereon together with related undertakings to return such assets to customers are excluded from the statement of financial position.

The asset custody services of the Group refer to the business that the Group as trustee approved by regulatory authorities, signs custody agreement with clients and takes the responsibility of trustee in accordance with relevant laws and regulations. The assets under custody are recorded as off-balance sheet items as the Group merely fulfils the responsibility as trustee and charges fees in accordance with these agreements without retaining any risks or rewards of the assets under custody.

The Group grants entrusted loans on behalf of trustors, which are recorded off-balance sheet. The Group, as a trustee, grants such entrusted loans to borrowers under the direction of those trustors who fund these loans. The Group has been contracted by those trustors to manage the administration and collection of these loans on their behalf. Those trustors determine both the underwriting criteria for and the terms of all entrusted loans including their purposes, amounts, interest rates, and repayment schedules. The Group charges a commission related to its activities in connection with entrusted loans which are recognised ratably over the period in which the service is provided. The risk of loss is borne by those trustors.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(24) Recognition of income and expense

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and when the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest income and expense

For all financial instruments measured at amortised cost and interest-generating financial instruments classified as available-for-sale financial assets, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded in profit or loss.

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.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(i) Fee income on transactions conducted or from services provided over a period of time

Fee income is recognised on the basis of when the transaction is completed or on an accrual basis when the service is provided over a period of time. These fees mainly include fee income on settlement and clearing business, commission income and fee income on asset management, custody and other management advisory services.

(ii) Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

The fair value of the award credits granted to the bank card holders is deferred and recognised as fee and commission income when the award credits are redeemed or expire.

Dividend income

Dividend income is recognised when the Group’s right to receive payment is established.

Net trading income

Results arising from trading activities include all gains and losses from changes in fair value for financial assets and financial liabilities that are held for trading. This includes gains and losses from changes in fair value relating to the ineffective portion of the hedging arrangements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(25) Income tax

Income tax comprises current and deferred income tax. Income tax is recognised in the income statement except that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of each reporting period.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

(i) Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and

(ii) In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

(i) Where the deferred income tax asset relating to the deductible temporary differences 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 the accounting profit nor taxable income or deductible expenses; and

(ii) In respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period and reflect the corresponding tax effect.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilised. When it is virtually probable that sufficient taxable income will be available, the reduced amount can be reversed accordingly.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(26) Leases

Leases which transfer substantially all the risks and rewards of ownership of the assets to the lessees are classified as finance leases. Leases where substantially all the rewards and risks of the assets remain with the lessor are accounted for as operating leases.

Finance leases

When the Group is a lessor under finance leases, an amount representing the minimum lease payment receivables and initial direct costs is included in the statement of financial position as loans and advances to customers. Any unguaranteed residual value is also recognised at the inception of the lease. The difference between the sum of the minimum lease payment receivables, initial direct costs, the unguaranteed residual value and their present value is recognised as unearned finance income. Unearned finance income is recognised over the period of the lease using the effective interest rate method.

Operating leases

Rental payments applicable to operating leases are charged to the income statement on the straight-line basis over the lease terms.

When the Group is the lessor under operating leases, the assets subject to operating leases are accounted for as the Group's assets. Rental income is recognised as "other operating income" in the income statement on the straight-line basis over the lease term.

(27) Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person,

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group;
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(28) Financial guarantee contracts

The Group issues financial guarantee contracts, including letters of credit, letters of guarantee and acceptance. These financial guarantee contracts provide for specified payments to be made to reimburse the holders for the losses they incur when a guaranteed party defaults under the original or modified terms of a debt instrument, loan or any other obligation.

The Group initially measures all financial contracts at fair value, in other liabilities, being the premium received. This amount is recognised ratably over the period of the contract as fee and commission income. Subsequently, the liabilities are measured at the higher of the initial fair value less cumulative amortisation and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to a financial guarantee is taken to the income statement.

(29) 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. Contingent liabilities are disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and can be reliably estimated, it will then be recognised as a provision.

(30) Dividends

Dividends are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders in general meetings and declared. Interim dividends are deducted from equity when they are approved and declared, and no longer at the discretion of the Bank. Dividend for the year that is approved after the end of the reporting period is disclosed as an event after the reporting period.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, management has used its judgements and made assumptions of the effects of uncertain future events on the financial statements. The most significant use of judgements and key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, are described below.

Designation of held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments when the Group has the positive intention and ability to hold the investments to maturity. Accordingly, in evaluating whether a financial asset shall be classified as a held-to-maturity investment, significant management judgement is required. If the Group fails to correctly assess its intention and ability to hold the investments to maturity and the Group sells or reclassifies more than an insignificant amount of held-to-maturity investments before maturity, the Group shall reclassify the whole held-to-maturity investment portfolio as available for sale.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Impairment losses of loans and advances and amounts due from banks and other financial institutions

The Group determines periodically whether there is any objective evidence that impairment losses have occurred on loans and advances and amounts due from banks and other financial institutions. If any such evidence exists, the Group assesses the amount of impairment losses. The amount of impairment losses is measured as the difference between the carrying amount and the present value of estimated future cash flows. Assessing the amount of impairment losses requires significant judgement on whether the objective evidence for impairment exists and also significant estimates when determining the present value of the expected future cash flows.

Impairment losses of available-for-sale and held-to-maturity investments

In determining whether there is any objective evidence that impairment losses have occurred on available-for-sale and held-to-maturity investments, the Group assesses periodically whether there has been a significant or prolonged decline in the fair value below its cost or carrying amount, or whether other objective evidence of impairment exists based on the investee's financial conditions and business prospects, including industry environment, change of technology as well as operating and financing cash flows. This requires a significant level of judgement of management, which would affect the amount of impairment losses.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis and when circumstances indicate that the carrying value may be impaired. This requires an estimation of the recoverable amount of the CGU or groups of CGUs to which the goodwill is allocated. Estimating the recoverable amount requires the Group to make an estimate of the expected future cash flows from the CGU or groups of CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Income tax

Determining income tax provisions requires the Group to estimate the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant estimation on the tax treatments of certain transactions and also significant assessment on the probability that adequate future taxable profits will be available for the deferred income tax assets to be recovered.

Fair value of financial instruments

If the market for a financial instrument is not active, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable and willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. To the extent practicable, valuation technique makes maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on such unobservable market inputs.

(In RMB millions, unless otherwise stated)

5. IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective, in these financial statements.

IFRS 1 Amendment	Amendments to IFRS 1 *First-time adoption of International Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
IFRS 7 Amendment	Amendments to IFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*[1]
IFRS 9	*Financial Instruments*[5]
IFRS 10	*Consolidated Financial Statements*[4]
IFRS 11	*Joint Arrangements*[4]
IFRS 12	*Disclosure of Interests in Other Entities*[4]
IFRS 13	*Fair Value Measurement*[4]
IAS 1 Amendment	Amendments to IAS1 *Financial Statement Presentation — Presentation of Items of Other Comprehensive Income*[3]
IAS 12 Amendment	Amendments to IAS 12 *Income Tax — Deferred Tax: Recovery of Underlying Assets*[2]
IAS 19 Amendment	Amendments to *Employee Benefits*[4]
IAS 27 (Revised)	*Separate Financial Statements*[4]
IAS 28 (Revised)	*Investments in Associates and Joint Ventures*[4]

1 Effective for annual periods beginning on or after 1 July 2011

2 Effective for annual periods beginning on or after 1 January 2012

3 Effective for annual periods beginning on or after 1 July 2012

4 Effective for annual periods beginning on or after 1 January 2013

5 Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment on the impact of these new and revised IFRSs upon initial application. Further information about those changes that are expected to affect the Group is as follows:

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements (Amendment)

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

5. IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

IFRS 9 Financial Instruments: Classification and Measurement (Amendment)

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12 *Consolidation — Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The Group is currently assessing the impact of this standard on its financial position or performance.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly-Controlled Entities — Non-Monetary Contributions by Ventures*. IFRS 11 removes the option to account for jointly-controlled entities using proportionate consolidation. Instead, jointly-controlled entities that meet the definition of a joint venture must be accounted for using the equity method.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact of this standard on its financial position or performance.

IAS 1 Financial Statement Presentation — Presentation of Items of Other Comprehensive Income (Amendment)

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The Group is currently assessing the impact of this standard on its financial position or performance.

(In RMB millions, unless otherwise stated)

5. IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

IAS 12 Income Tax: Deferred Tax — Recovery of Underlying Assets (Amendment)

The amendment clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis of the asset. The amendments will have no impact on the financial statements of the Group.

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is currently assessing the impact of this standard on its financial position or performance.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly-controlled entities, and associates in separate financial statements.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The Group is currently assessing the impact of this standard on its financial position or performance.

6. NET INTEREST INCOME

	2011	2010
Interest income on:		
Loans and advances to customers (i)		
— Corporate loans and advances	309,083	239,304
— Personal loans	96,954	69,364
— Discounted bills	10,351	7,458
Financial investments (ii)	121,077	106,611
Due from central banks	38,332	28,718
Due from banks and other financial institutions	13,783	11,307
	589,580	462,762
Interest expense on:		
Due to customers	(188,650)	(140,518)
Due to banks and other financial institutions	(32,809)	(15,503)
Debt securities issued	(5,357)	(2,992)
	(226,816)	(159,013)
Net interest income	362,764	303,749

(In RMB millions, unless otherwise stated)

6. NET INTEREST INCOME (CONTINUED)

The above interest income and expense were related to financial instruments which are not at fair value through profit or loss.

(i) Included in interest income on loans and advances to customers for the year is an amount of RMB602 million (2010: RMB754 million) with respect to the accreted interest on impaired loans.

(ii) Included in interest income on financial investments for the year is an amount of RMB81 million (2010: RMB333 million) with respect to interest income on impaired debt securities.

7. NET FEE AND COMMISSION INCOME

	2011	2010
Settlement, clearing business and cash management	25,410	19,160
Investment banking business	22,592	15,506
Personal wealth management and private banking services (i)	21,264	14,858
Bank card business	17,268	13,687
Corporate wealth management services (i)	9,269	6,886
Asset custody business (i)	5,892	3,385
Guarantee and commitment business	5,101	3,029
Trust and agency services (i)	1,376	979
Others	905	518
Fee and commission income	109,077	78,008
Fee and commission expense	(7,527)	(5,168)
Net fee and commission income	101,550	72,840

(i) Included in personal wealth management and private banking services, corporate wealth management services, asset custody business and trust and agency services above is an amount of RMB10,837 million (2010: RMB8,054 million) with respect to trust and other fiduciary activities.

8. NET TRADING INCOME/(EXPENSE)

	2011	2010
Debt securities	1,236	352
Equity investments	3	21
Derivatives	(795)	(849)
	444	(476)

The above amounts include gains and losses arising from the buying and selling of, interest income and expense on, and changes in the fair value of financial assets and liabilities held for trading as well as changes in the fair value relating to the ineffective portion of the hedging arrangements.

(In RMB millions, unless otherwise stated)

9. NET LOSS ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011	2010
Financial assets	4,442	61
Financial liabilities	(4,713)	(278)
	(271)	(217)

The above amounts represent gains and losses arising from the buying and selling of, interest income and expense on, and changes in the fair value of financial assets and liabilities designated at fair value through profit or loss upon initial recognition.

10. NET GAIN ON FINANCIAL INVESTMENTS

	2011	2010
Dividend income from unlisted investments	33	80
Dividend income from listed investments	8	4
Dividend income	41	84
Gain on disposal of available-for-sale financial assets, net	178	925
	219	1,009

11. OTHER OPERATING INCOME, NET

	2011	2010
Gain from foreign exchange and foreign exchange products, net	1,400	735
Leasing income	1,433	320
Net gain on disposal of property and equipment, repossessed assets and others	1,273	784
Sundry bank charge income	368	329
Others	1,421	1,675
	5,895	3,843

(In RMB millions, unless otherwise stated)

12. OPERATING EXPENSES

	2011	2010
Staff costs (i):		
Salaries and bonuses (ii)	57,943	49,651
Staff benefits	21,399	14,005
Contributions to defined contribution schemes (iii)	8,539	7,332
	87,881	70,988
Premises and equipment expenses:		
Depreciation (note 30)	12,027	10,844
Minimum lease payments under operating leases in respect of land and buildings	4,116	3,509
Repairs and maintenance charges	2,715	2,412
Utility expenses	2,263	2,084
	21,121	18,849
Amortisation	1,426	1,314
Other administrative expenses (iv)	23,253	20,236
Business tax and surcharges	28,875	21,484
Others	7,057	6,609
	169,613	139,480

(i) Includes accrued early retirement benefits of RMB5,900 million (2010: RMB1,231 million). The staff costs excluding early retirement benefits increased by 17.5%.

(ii) In accordance with relevant regulations issued by the Ministry of Finance (the "MOF"), five types of allowances previously included in staff benefits and other operating expenses were reclassified to salaries and bonuses. Before this reclassification, the salaries and bonuses increased by 15.2%.

(iii) Contributions to defined contribution schemes mainly include contributions to the state pension and the Bank's Annuity Plan. During the year and as at the end of the reporting period, the Group's forfeited contributions available to reduce its contributions to the pension schemes in future years were not material.

(iv) Included in other administrative expenses is auditors' remuneration (including related assurance services for the Group and its subsidiaries and overseas branches) of RMB176 million for the year (2010: RMB178 million).

13. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Details of the directors' and supervisors' emoluments before tax, as disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, are as follows:

		Year ended 31 December 2011			
Name	Position	Remuneration paid (before tax) RMB'000 (1)	Contributions to defined contribution schemes RMB'000 (2)	Fees RMB'000 (3)	Total emoluments before tax RMB'000 (4)=(1)+(2)+(3)
JIANG Jianqing (i)	Chairman of the Board of Directors, Executive Director	876	241	—	1,117
YANG Kaisheng (i)	Vice Chairman of the Board of Directors, Executive Director, President	808	220	—	1,028
ZHAO Lin (iii)	Chairman of the Board of Supervisors	786	218	—	1,004
WANG Lili	Executive Director, Vice President	750	212	—	962
LI Xiaopeng	Executive Director, Vice President	750	212	—	962
HUAN Huiwu (i)	Non-executive Director	—	—	—	—
GAO Jianhong (ii)	Non-executive Director	—	—	—	—
LI Chunxiang (ii)	Non-executive Director	—	—	—	—
LI Jun (i)	Non-executive Director	—	—	—	—
LI Xiwen (ii)	Non-executive Director	—	—	—	—
WEI Fusheng (ii)	Non-executive Director	—	—	—	—
LEUNG Kam Chung, Antony	Independent Non-executive Director	—	—	500	500
QIAN Yingyi	Independent Non-executive Director	—	—	490	490
XU Shanda	Independent Non-executive Director	—	—	—	—
WONG Kwong Shing, Frank (i)	Independent Non-executive Director	—	—	470	470
M.C. McCarthy	Independent Non-executive Director	—	—	400	400
Kenneth Patrick CHUNG	Independent Non-executive Director	—	—	390	390
WANG Chixi (iv)	Shareholder Representative Supervisor	703	167	—	870
DONG Juan	External Supervisor	—	—	300	300
MENG Yan	External Supervisor	—	—	280	280
ZHANG Wei	Employee Representative Supervisor	—	—	50	50
ZHU Lifei	Employee Representative Supervisor	—	—	50	50
		4,673	1,270	2,930	8,873

Note: The total compensation packages for the Chairman of the Board of Directors, President, Chairman of the Board of Supervisors, Executive Directors, and Supervisors of the Bank have not been finalised in accordance with the regulations of the PRC relevant authorities. The remuneration not yet accrued is not expected to have a significant impact on the Group's and the Bank's 2011 financial statements. The total compensation packages will be further disclosed when determined by the relevant authorities.

(i) At the First Extraordinary General Meeting of 2011 held on 29 November 2011, Mr. Jiang Jianqing and Mr. Yang Kaisheng were re-appointed as Executive Directors of the Bank; Mr. Wong Kwong Shing, Frank was re-appointed as Independent Non-executive Director of the Bank; Mr. Huan Huiwu and Mr. Li Jun were re-appointed as Non-executive Directors of the Bank.

(ii) Mr. Gao Jianhong, Ms. Li Chunxiang, Mr. Li Xiwen and Mr. Wei Fusheng ceased to act as Directors of the Bank with effect from 9 January 2012.

(iii) After the review and approval by the Annual General Meeting for the Year 2010 held on 31 May 2011, Mr. Zhao Lin was re-appointed to be Shareholder Representative Supervisor of the Bank, and the appointment took effect from the date of approval by the meeting.

(iv) After the review and approval by the First Extraordinary General Meeting of 2011 held on 29 November 2011, Ms. Wang Chixi was re-appointed to be Shareholder Representative Supervisor of the Bank, and the appointment took effect from the date of approval by the meeting.

13. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

		Year ended 31 December 2010						
Name	Position	Fees RMB'000 (1)	Remuneration paid RMB'000 (2)	Discretionary bonuses RMB'000 (3)	Contributions to defined contribution schemes RMB'000 (4)	Total emoluments before tax RMB'000 (5)=(1)+(2)+(3)+(4)	Of which: deferred payment RMB'000 (6)	Actual amount of remuneration paid (pre-tax) for 2010 RMB'000 (7)=(5)-(6)
JIANG Jianqing	Chairman of the Board of Directors, Executive Director	—	428	1,214	319	1,961	608	1,353
YANG Kaisheng	Vice Chairman of the Board of Directors, Executive Director, President	—	385	1,093	416	1,894	548	1,346
ZHAO Lin	Chairman of the Board of Supervisors	—	376	1,068	321	1,765	535	1,230
ZHANG Furong	Former Executive Director and Vice President	—	212	602	139	953	302	651
WANG Lili	Executive Director, Vice President	—	363	1,028	287	1,678	515	1,163
LI Xiaopeng	Executive Director, Vice President	—	363	1,028	287	1,678	515	1,163
HUAN Huiwu	Non-executive Director	—	—	—	—	—	—	—
GAO Jianhong	Non-executive Director	—	—	—	—	—	—	—
LI Chunxiang	Non-executive Director	—	—	—	—	—	—	—
LI Jun	Non-executive Director	—	—	—	—	—	—	—
LI Xiwen	Non-executive Director	—	—	—	—	—	—	—
WEI Fusheng	Non-executive Director	—	—	—	—	—	—	—
LEUNG Kam Chung, Antony	Independent Non-executive Director	500	—	—	—	500	—	500
QIAN Yingyi	Independent Non-executive Director	490	—	—	—	490	—	490
XU Shanda	Independent Non-executive Director	—	—	—	—	—	—	—
WONG Kwong Shing, Frank	Independent Non-executive Director	470	—	—	—	470	—	470
M.C. McCarthy	Independent Non-executive Director	392	—	—	—	392	—	392
Kenneth Patrick CHUNG	Independent Non-executive Director	383	—	—	—	383	—	383
WANG Chixi	Shareholder Representative Supervisor	—	265	753	209	1,227	—	1,227
DONG Juan	External Supervisor	300	—	—	—	300	—	300
MENG Yan	External Supervisor	280	—	—	—	280	—	280
ZHANG Wei	Employee Representative Supervisor	50	—	—	—	50	—	50
ZHU Lifei	Employee Representative Supervisor	13	—	—	—	13	—	13
CHANG Ruiming	Former Employee Representative Supervisor	38	—	—	—	38	—	38
		2,916	2,392	6,786	1,978	14,072	3,023	11,049

Note 1: The above directors' and supervisors' emoluments for the year ended 31 December 2010 were restated in accordance with the supplemental announcement for the 2010 annual report released by the Bank on 17 May 2011. The remuneration before tax payable to the Chairman of the Board of Directors, the President, the Chairman of the Board of Supervisors and other senior management members for 2010 set out in the table above represents the total amount of annual remuneration for each of these individuals, which includes the amount of "remuneration paid" as disclosed in the 2010 Annual Report.

Note 2: Pursuant to the PRC relevant regulations, a portion of the discretionary bonus payments for the Chairman of the Board of Directors, the President, the Chairman of the Board of Supervisors, Executive Directors and other senior management members are deferred based on the future performance.

13. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

The non-executive directors of the Bank received emoluments from the Bank's shareholders or its affiliates in respect of their services during the year.

During the year ended 31 December 2011, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration (2010: three of the Bank's executive directors, who are also directors of a subsidiary of the Bank, waived emoluments amounting to RMB0.77 million, which were related to discretionary bonuses for employees who contributed to the success of operations of the Bank's subsidiary. Therefore, those emoluments were not included in the directors' emoluments disclosed above. Except for the above, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the year ended 31 December 2010).

During the year, no emoluments were paid by the Group to any of the persons who are directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office (2010: Nil).

14. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group are employees of the Bank's subsidiaries. Their emoluments were determined based on the prevailing market rates in the respective countries/regions where the subsidiaries are operating. None of them are directors, supervisors or key management personnel of the Bank whose emoluments are disclosed in note 13 and 49(e) to the financial statements. Details of the emoluments in respect of the five highest paid individuals are as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Salaries and allowances	13,558	12,288
Discretionary bonuses	21,752	18,692
Contributions to defined contribution schemes	701	585
	36,011	31,565

The number of these individuals whose emoluments fell within the following bands is set out below.

	Number of employees	
	2011	2010
RMB4,000,001 to RMB4,500,000	—	1
RMB5,000,001 to RMB5,500,000	—	1
RMB5,500,001 to RMB6,000,000	—	1
RMB6,000,001 to RMB6,500,000	—	1
RMB6,500,001 to RMB7,000,000	1	—
RMB7,000,001 to RMB7,500,000	2	—
RMB7,500,001 to RMB8,000,000	1	—
RMB10,000,001 to RMB10,500,000	—	1
RMB10,500,001 to RMB11,000,000	1	—
	5	5

During the year, no emoluments were paid by the Group to any of these non-director and non-supervisor individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2010: Nil).

(In RMB millions, unless otherwise stated)

15. IMPAIRMENT LOSSES ON ASSETS OTHER THAN LOANS AND ADVANCES TO CUSTOMERS

	Note	2011	2010
Charge/(reversal) of impairment losses on:			
Due from banks and other financial institutions	21	38	3
Financial investments:			
Held-to-maturity investments	27(d)	(417)	(203)
Available-for-sale financial assets	27(c)(i),(d)	(469)	(387)
Investments in associates and jointly-controlled entities		348	—
Other assets		(211)	687
		(711)	100

16. INCOME TAX EXPENSE

(a) Income tax

	2011	2010
Current income tax expense:		
Mainland China	66,829	48,623
Hong Kong and Macau	891	730
Overseas	534	362
	68,254	49,715
Adjustments in respect of current income tax of prior years	(2,666)	571
Deferred income tax expense	(1,722)	(885)
	63,866	49,401

(b) Reconciliation between income tax and accounting profit

The PRC income tax has been provided at the statutory rate of 25% in accordance with the relevant tax laws in Mainland China during the year. Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the countries/regions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. A reconciliation of the income tax expense applicable to profit before tax at the PRC statutory income tax rate to income tax expense at the Group's effective income tax rate is as follows:

	2011	2010
Profit before tax	272,311	215,426
Tax at the PRC statutory income tax rate	68,078	53,857
Effects of different applicable rates of tax prevailing in other countries/regions	(10)	(88)
Non-deductible expenses (i)	2,587	1,124
Non-taxable income (ii)	(7,024)	(5,572)
Profits and losses attributable to associates and jointly-controlled entities	(596)	(572)
Adjustment in respect of current and deferred income tax of prior years	670	571
Others	161	81
Tax expense at the Group's effective income tax rate	63,866	49,401

(i) The non-deductible expenses mainly represent non-deductible impairment provision and write-offs.

(ii) The non-taxable income mainly represents interest income arising from the PRC government bonds, which is exempted from income tax.

17. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

The consolidated profit attributable to equity holders of the parent company for the year ended 31 December 2011 includes a profit of RMB202,295 million (2010: RMB160,490 million) which has been dealt with in the financial statements of the Bank (note 41).

18. DIVIDENDS

	2011	2010
Dividends on ordinary shares declared and paid:		
Final dividend for 2010: RMB0.184 per share (2009: RMB0.17 per share)	64,220	56,783

	2011	2010
Dividends on ordinary shares proposed for approval (not recognised as at 31 December):		
Final dividend for 2011: RMB0.203 per share (2010: RMB0.184 per share)	70,864	64,220

19. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the following:

	2011	2010
Earnings:		
Profit for the year attributable to ordinary equity holders of the parent company	208,265	165,156
Shares:		
Weighted average number of ordinary shares in issue (in million shares)	349,024	340,599
Basic earnings per share (RMB yuan)	0.60	0.48

Basic earnings per share was calculated as the profit for the year attributable to ordinary equity holders of the Bank divided by the weighted average number of ordinary shares in issue.

The calculation of diluted earnings per share is based on the following:

	2011	2010
Earnings:		
Profit for the year attributable to ordinary equity holders of the parent company	208,265	165,156
Add: Interest expense on convertible bonds (net of tax)	644	210
Profit used to determine diluted earnings per share	208,909	165,366
Shares:		
Weighted average number of ordinary shares outstanding (in million shares)	349,024	340,599
Add: Weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	6,233	2,008
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	355,257	342,607
Diluted earnings per share (RMB yuan)	0.59	0.48

Diluted earnings per share was computed from dividing the profit attributable to ordinary equity holders of the parent company (after adjusting for interest expense on the convertible bonds) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

(In RMB millions, unless otherwise stated)

20. CASH AND BALANCES WITH CENTRAL BANKS

	Group		Bank	
	2011	2010	2011	2010
Cash and unrestricted balances with central banks:				
Cash on hand	60,145	48,924	58,694	47,748
Surplus reserves with central banks (i)	86,529	69,222	83,417	68,315
Unrestricted balances with central banks of overseas countries or regions	19,595	6,823	4,464	851
	166,269	124,969	146,575	116,914
Restricted balances with central banks:				
Mandatory reserves with central banks (ii)	2,403,325	1,982,575	2,399,041	1,980,686
Fiscal deposits with the PBOC	190,781	173,843	190,781	173,843
Mandatory reserves with central banks of overseas countries or regions (ii)	1,677	1,520	737	730
Other restricted balances with the PBOC (ii)	104	92	104	92
	2,595,887	2,158,030	2,590,663	2,155,351
	2,762,156	2,282,999	2,737,238	2,272,265

(i) Surplus reserves with the PBOC include funds for the purpose of cash settlement and other kinds of unrestricted deposits.

(ii) The Group is required to place mandatory reserve deposits and other restricted deposits with the PBOC and certain central banks of overseas countries or regions where it has operations. Mandatory reserve deposits with central banks and other restricted deposits are not available for use in the Group's daily operations. Mandatory reserve deposits mainly consist of deposits placed with the PBOC. As at 31 December 2011, the mandatory deposit reserve ratios of the domestic branches of the Bank in respect of customer deposits denominated in RMB and foreign currencies were consistent with the requirement of the PBOC. The amounts of mandatory reserve deposits placed with the central banks of those countries or regions outside Mainland China are determined by local jurisdictions.

21. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2011	2010	2011	2010
Nostro accounts:				
Banks operating in Mainland China	206,342	139,915	201,572	139,113
Other financial institutions operating in Mainland China	1,082	2,036	1,082	2,036
Banks and other financial institutions operating outside Mainland China	110,096	42,025	94,683	38,667
	317,520	183,976	297,337	179,816
Less: Allowance for impairment losses	(34)	(34)	(33)	(33)
	317,486	183,942	297,304	179,783
Placements with banks and other financial institutions:				
Banks operating in Mainland China	46,798	11,775	44,454	12,005
Other financial institutions operating in Mainland China	55,027	24,066	49,771	23,165
Banks and other financial institutions operating outside Mainland China	58,752	29,108	82,812	44,712
	160,577	64,949	177,037	79,882
Less: Allowance for impairment losses	(61)	(31)	(54)	(27)
	160,516	64,918	176,983	79,855
	478,002	248,860	474,287	259,638

(In RMB millions, unless otherwise stated)

21. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

Movements of the allowance for impairment losses during the year are as follows:

Group	Nostro accounts	Placements with banks and other financial institutions	Total
At 1 January 2010	34	28	62
Charge for the year	—	3	3
At 31 December 2010 and 1 January 2011	34	31	65
Charge for the year	—	38	38
Write off for the year	—	(8)	(8)
At 31 December 2011	34	61	95

Bank	Nostro accounts	Placements with banks and other financial institutions	Total
At 1 January 2010	33	28	61
Reversal for the year	—	(1)	(1)
At 31 December 2010 and 1 January 2011	33	27	60
Charge for the year	—	34	34
Write off for the year	—	(7)	(7)
At 31 December 2011	33	54	87

22. FINANCIAL ASSETS HELD FOR TRADING

	Group		Bank	
	2011	2010	2011	2010
Debt securities	30,675	10,051	29,849	6,959
Equity investments	147	137	—	—
	30,822	10,188	29,849	6,959
Debt securities analysed into:				
Listed in Hong Kong	96	72	68	72
Listed outside Hong Kong	928	1,958	627	139
Unlisted	29,651	8,021	29,154	6,748
	30,675	10,051	29,849	6,959

(In RMB millions, unless otherwise stated)

23. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2011	2010	2011	2010
Debt securities	10,544	948	9,969	138
Other debt instruments				
Banks and other financial institutions	59,620	—	59,620	—
Corporate entities	51,222	1,850	51,222	1,850
	121,386	2,798	120,811	1,988
Analysed into:				
Listed in Hong Kong	65	—	—	—
Listed outside Hong Kong	359	138	—	138
Unlisted	120,962	2,660	120,811	1,850
	121,386	2,798	120,811	1,988

24. DERIVATIVE FINANCIAL INSTRUMENTS

A derivative is a financial instrument, the value of which changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other similar variables. The Group uses derivative financial instruments including forwards, swaps and options.

The notional amount of a derivative represents the amount of an underlying asset upon which the value of the derivative is based. It indicates the volume of business transacted by the Group but does not reflect the risk.

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

(In RMB millions, unless otherwise stated)

24. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

At the end of the reporting period, the Group and the Bank had derivative financial instruments as follows:

Group

	2011						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Exchange rate contracts:							
Forward and swap contracts	524,925	363,218	27,207	5,768	921,118	11,968	(6,728)
Option contracts purchased	1,673	18,135	1,182	—	20,990	175	—
Option contracts written	1,787	1,753	1,182	—	4,722	—	(30)
	528,385	383,106	29,571	5,768	946,830	12,143	(6,758)
Interest rate contracts:							
Swap contracts	79,186	153,760	226,366	32,654	491,966	4,635	(5,726)
Forward contracts	2,823	1,714	5,129	—	9,666	131	(131)
	82,009	155,474	231,495	32,654	501,632	4,766	(5,857)
Other derivative contracts	26,800	879	—	—	27,679	551	(2)
	637,194	539,459	261,066	38,422	1,476,141	17,460	(12,617)

	2010						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Exchange rate contracts:							
Forward and swap contracts	427,922	422,225	33,400	6,179	889,726	9,551	(6,194)
Option contracts purchased	2,739	10,326	698	—	13,763	186	—
Option contracts written	1,989	2,242	698	—	4,929	—	(102)
	432,650	434,793	34,796	6,179	908,418	9,737	(6,296)
Interest rate contracts:							
Swap contracts	16,321	83,121	185,975	37,197	322,614	2,695	(4,089)
Forward contracts	3,559	1,470	5,364	—	10,393	178	(178)
Option contracts purchased	—	—	430	—	430	—	—
Option contracts written	—	—	430	—	430	—	—
	19,880	84,591	192,199	37,197	333,867	2,873	(4,267)
Other derivative contracts	226	526	1,386	—	2,138	722	(1)
	452,756	519,910	228,381	43,376	1,244,423	13,332	(10,564)

(In RMB millions, unless otherwise stated)

24. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Bank

	2011						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Exchange rate contracts:							
Forward and swap contracts	411,760	292,968	21,567	5,768	732,063	11,158	(5,799)
Option contracts purchased	—	16,382	—	—	16,382	143	—
Option contracts written	132	—	—	—	132	—	(4)
	411,892	309,350	21,567	5,768	748,577	11,301	(5,803)
Interest rate contracts:							
Swap contracts	74,794	142,177	200,889	20,642	438,502	4,043	(4,909)
Forward contracts	2,823	1,714	5,129	—	9,666	131	(131)
	77,617	143,891	206,018	20,642	448,168	4,174	(5,040)
Other derivative contracts	26,297	—	—	—	26,297	1	(2)
	515,806	453,241	227,585	26,410	1,223,042	15,476	(10,845)

	2010						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Exchange rate contracts:							
Forward and swap contracts	350,389	328,562	27,395	6,105	712,451	8,162	(4,922)
Option contracts purchased	—	7,947	—	—	7,947	92	—
	350,389	336,509	27,395	6,105	720,398	8,254	(4,922)
Interest rate contracts:							
Swap contracts	15,698	76,482	165,954	25,580	283,714	2,445	(3,187)
Forward contracts	3,470	1,470	5,364	—	10,304	178	(178)
	19,168	77,952	171,318	25,580	294,018	2,623	(3,365)
Other derivative contracts	51	467	—	—	518	2	—
	369,608	414,928	198,713	31,685	1,014,934	10,879	(8,287)

Cash flow hedges

The Group's cash flow hedges consist of currency swap contracts and interest rate swap contracts that are used to protect against exposures to variability of future cash flows arising from floating rate foreign currency denominated assets and floating rate foreign currency denominated liabilities during the year.

(In RMB millions, unless otherwise stated)

24. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Cash flow hedges (continued)

Among the above derivative financial instruments, those designated as hedging instruments in cash flow hedges are set out below.

Group

	2011						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Currency swap contracts	328	—	—	—	328	—	—
Interest rate swap contracts	734	93	3,716	3,339	7,882	286	(126)
	1,062	93	3,716	3,339	8,210	286	(126)

	2010						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Currency swap contracts	—	—	344	—	344	1	—
Interest rate swap contracts	—	661	3,874	3,311	7,846	—	(247)
	—	661	4,218	3,311	8,190	1	(247)

Bank (31 December 2011: Nil)

	2010						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Interest rate swap contracts	—	661	—	—	661	—	(1)

There is no ineffectiveness recognised in the income statement that arises from the cash flow hedge for the current year (2010: Nil).

Fair value hedges

Fair value hedges are used by the Group to protect against changes in the fair value of financial assets due to movements in market interest rates and exchange rates. Interest rate swaps and currency swaps are used as hedging instruments to hedge the interest risk and currency risk of financial assets, respectively.

(In RMB millions, unless otherwise stated)

24. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hedges (continued)

The effectiveness of hedges based on changes in fair value of the derivatives and the hedged items attributable to the hedged risk recognised in the income statement during the year is presented as follows:

	Group	
	2011	2010
Gain/(loss) arising from fair value hedges, net:		
— Hedging instruments	(86)	(172)
— Hedged items attributable to the hedged risk	89	187
	3	15

Among the above derivative financial instruments, those designated as hedging instruments in fair value hedges are set out below:

Group

	2011						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Currency swap contracts	—	181	596	—	777	4	(61)
Interest rate swap contracts	508	1,700	8,520	4,311	15,039	—	(882)
	508	1,881	9,116	4,311	15,816	4	(943)

	2010						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Currency swap contracts	—	53	817	—	870	1	(83)
Interest rate swap contracts	377	2,922	10,711	1,628	15,638	8	(716)
	377	2,975	11,528	1,628	16,508	9	(799)

Bank

	2011						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Interest rate swap contracts	363	1,071	3,857	3,082	8,373	—	(475)

(In RMB millions, unless otherwise stated)

24. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hedges (continued)

	2010						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Currency swap contracts	—	53	—	—	53	—	(11)
Interest rate swap contracts	377	2,588	5,688	249	8,902	8	(420)
	377	2,641	5,688	249	8,955	8	(431)

The credit risk weighted amounts in respect of the above derivatives of the Group and of the Bank as at the end of the reporting period are as follows:

	Group		Bank	
	2011	2010	2011	2010
Currency derivatives	7,717	8,267	5,681	6,143
Interest rate derivatives	3,406	2,066	2,793	1,757
Other derivatives	938	858	316	33
	12,061	11,191	8,790	7,933

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. The amounts calculated are dependent on, among other factors, the creditworthiness of the customers and the maturity characteristics of each type of contracts. The amounts differ from the carrying amount or the maximum exposure to credit risk.

25. REVERSE REPURCHASE AGREEMENTS

Reverse repurchase agreements comprise reverse repurchase of securities, bills, loans, and cash advanced as collateral on securities borrowing.

	Group		Bank	
	2011	2010	2011	2010
Reverse repurchase	335,285	262,227	229,769	228,501
Cash advanced as collateral on securities borrowing	14,152	—	—	—
	349,437	262,227	229,769	228,501
Reverse repurchase analysed by counterparty:				
Banks	49,836	117,045	46,318	116,562
Other financial institutions	285,449	145,182	183,451	111,939
	335,285	262,227	229,769	228,501
Reverse repurchase analysed by collateral:				
Securities	317,686	199,443	213,670	167,632
Bills	15,759	54,346	15,759	54,346
Loans	1,840	8,438	340	6,523
	335,285	262,227	229,769	228,501

(In RMB millions, unless otherwise stated)

25. REVERSE REPURCHASE AGREEMENTS (CONTINUED)

As part of the reverse repurchase agreements, the Group has received securities that it is allowed to sell or repledge in the absence of default by their owners. At 31 December 2011, the Group had received securities with a fair value of approximately RMB230,633 million on such terms (31 December 2010: RMB82,076 million). Of these, securities with a fair value of approximately RMB229,470 million have been repledged under repurchase agreements (31 December 2010: RMB81,204 million). The Group has an obligation to return the securities to its counterparties. If the collateral received declines in value, the Group may, in certain circumstances, require additional collateral.

26. LOANS AND ADVANCES TO CUSTOMERS

	Group		Bank	
	2011	**2010**	**2011**	**2010**
Corporate loans and advances	5,666,511	5,017,281	5,341,017	4,770,696
Personal loans	2,014,926	1,655,719	1,991,272	1,633,192
Discounted bills	107,460	117,506	106,560	117,135
	7,788,897	6,790,506	7,438,849	6,521,023
Less: Allowance for impairment losses	(194,878)	(167,134)	(192,222)	(165,183)
	7,594,019	6,623,372	7,246,627	6,355,840

Movements of allowance for impairment losses during the year are as follows:

Group

	Individually assessed	Collectively assessed	Total
At 1 January 2010	45,500	99,952	145,452
Impairment loss:	1,807	26,081	27,888
— impairment allowances charged	13,481	69,971	83,452
— impairment allowances transferred	12	(12)	—
— reversal of impairment allowances	(11,686)	(43,878)	(55,564)
Accreted interest on impaired loans (note 6)	(754)	—	(754)
Write-offs	(6,394)	(510)	(6,904)
Recoveries of loans and advances previously written off	913	176	1,089
Others	228	135	363
At 31 December 2010 and 1 January 2011	41,300	125,834	167,134
Impairment loss:	(2,174)	34,006	31,832
— impairment allowances charged	9,310	85,970	95,280
— impairment allowances transferred	375	(375)	—
— reversal of impairment allowances	(11,859)	(51,589)	(63,448)
Accreted interest on impaired loans (note 6)	(602)	—	(602)
Write-offs	(4,057)	(489)	(4,546)
Recoveries of loans and advances previously written off	942	118	1,060
At 31 December 2011	35,409	159,469	194,878

(In RMB millions, unless otherwise stated)

26. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Bank

	Individually assessed	Collectively assessed	Total
At 1 January 2010	44,945	99,238	144,183
Impairment loss:	1,582	25,556	27,138
— impairment allowances charged	13,199	69,024	82,223
— impairment allowances transferred	11	(11)	—
— reversal of impairment allowances	(11,628)	(43,457)	(55,085)
Accreted interest on impaired loans	(736)	—	(736)
Write-offs	(5,981)	(502)	(6,483)
Recoveries of loans and advances previously written off	906	175	1,081
At 31 December 2010 and 1 January 2011	40,716	124,467	165,183
Impairment loss:	(2,757)	33,706	30,949
— impairment allowances charged	8,661	85,164	93,825
— impairment allowances transferred	370	(370)	—
— reversal of impairment allowances	(11,788)	(51,088)	(62,876)
Accreted interest on impaired loans	(564)	—	(564)
Write-offs	(3,829)	(480)	(4,309)
Recoveries of loans and advances previously written off	845	118	963
At 31 December 2011	34,411	157,811	192,222

Movements of allowance for impairment losses during the year analysed into those attributable to corporate loans and advances and discounted bills and personal loans are as follows:

Group

	Corporate loans and advances and discounted bills	Personal loans	Total
At 1 January 2010	120,793	24,659	145,452
Impairment loss:	17,654	10,234	27,888
— impairment allowances charged	66,416	17,036	83,452
— reversal of impairment allowances	(48,762)	(6,802)	(55,564)
Accreted interest on impaired loans (note 6)	(754)	—	(754)
Write-offs	(6,394)	(510)	(6,904)
Recoveries of loans and advances previously written off	913	176	1,089
Others	353	10	363
At 31 December 2010 and 1 January 2011	132,565	34,569	167,134
Impairment loss:	18,489	13,343	31,832
— impairment allowances charged	72,015	23,265	95,280
— reversal of impairment allowances	(53,526)	(9,922)	(63,448)
Accreted interest on impaired loans (note 6)	(602)	—	(602)
Write-offs	(4,057)	(489)	(4,546)
Recoveries of loans and advances previously written off	942	118	1,060
At 31 December 2011	147,337	47,541	194,878

(In RMB millions, unless otherwise stated)

26. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Bank

	Corporate loans and advances and discounted bills	Personal loans	Total
At 1 January 2010	119,593	24,590	144,183
Impairment loss:	16,912	10,226	27,138
— impairment allowances charged	65,207	17,016	82,223
— reversal of impairment allowances	(48,295)	(6,790)	(55,085)
Accreted interest on impaired loans	(736)	—	(736)
Write-offs	(5,981)	(502)	(6,483)
Recoveries of loans and advances previously written off	906	175	1,081
At 31 December 2010 and 1 January 2011	130,694	34,489	165,183
Impairment loss:	17,612	13,337	30,949
— impairment allowances charged	70,711	23,114	93,825
— reversal of impairment allowances	(53,099)	(9,777)	(62,876)
Accreted interest on impaired loans	(564)	—	(564)
Write-offs	(3,829)	(480)	(4,309)
Recoveries of loans and advances previously written off	845	118	963
At 31 December 2011	144,758	47,464	192,222

	Group		Bank	
	2011	2010	2011	2010
Loans and advances for which allowance for impairment losses are:				
Individually assessed	62,263	63,500	59,995	61,858
Collectively assessed	7,726,634	6,727,006	7,378,854	6,459,165
	7,788,897	6,790,506	7,438,849	6,521,023
Less: Allowance for impairment losses:				
Individually assessed	35,409	41,300	34,411	40,716
Collectively assessed	159,469	125,834	157,811	124,467
	194,878	167,134	192,222	165,183
Net loans and advances for which allowance for impairment losses are:				
Individually assessed	26,854	22,200	25,584	21,142
Collectively assessed	7,567,165	6,601,172	7,221,043	6,334,698
	7,594,019	6,623,372	7,246,627	6,355,840
Identified impaired loans and advances	73,011	73,241	70,681	71,514
Percentage of impaired loans and advances	0.94%	1.08%	0.95%	1.10%

(In RMB millions, unless otherwise stated)

26. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Securitisation business

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to SPEs which issue asset-backed securities to investors. The Group may retain interests in the form of subordinated tranches which would give rise to the Group's continuing involvement in the transferred assets. Those financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets.

As at 31 December 2011, loans with an original carrying amount of RMB8,011 million (31 December 2010: RMB12,032 million) have been securitised by the Group under arrangements in which the Group retains a continuing involvement in such assets. As at 31 December 2011, the amount of assets that the Group continues to recognise was RMB383 million (31 December 2010: RMB395 million), and the assets were classified as available-for-sale financial assets.

27. FINANCIAL INVESTMENTS

		Group		Bank	
	Notes	2011	2010	2011	2010
Receivables	(a)	498,804	501,706	498,804	501,706
Held-to-maturity investments	(b)	2,424,785	2,312,781	2,434,135	2,316,159
Available-for-sale financial assets	(c)	840,105	904,795	797,415	864,393
		3,763,694	3,719,282	3,730,354	3,682,258

(a) Receivables

The receivables are unlisted and stated at amortised cost and comprise the following:

		Group and Bank	
	Notes	2011	2010
Huarong bonds	(i)	312,996	312,996
Special government bond	(ii)	85,000	85,000
Special PBOC bill	(iii)	—	4,325
Other bills and bonds	(iv)	100,808	99,385
		498,804	501,706

(i) The Huarong bonds are a series of long term bonds issued by China Huarong Asset Management Corporation ("Huarong") in 2000 to 2001 to the Bank, with an aggregate amount of RMB312,996 million. The proceeds from the issuance of the bonds were used to purchase non-performing loans of the Bank. The bonds are non-negotiable, with a tenure of 10 years and bear interest at a fixed rate of 2.25% per annum. In 2010, the Bank received a notice from the Ministry of Finance of the People's Republic of China (the "MOF") that the maturity dates of the Huarong bonds are extended for another ten years and the interest rate remains unchanged. Besides, the MOF will continue providing funding in support of the repayment of the principal and interest of the bonds.

(ii) The special government bond represents a non-negotiable bond with a nominal value of RMB85,000 million issued by the MOF to the Bank in 1998. The bond will mature in 2028 and bears interest at a fixed rate of 2.25% per annum.

(iii) Special PBOC bill is a non-transferable bill issued by the PBOC with a nominal value of RMB4,325 million as at 31 December 2010, which matured in the year of 2011.

(In RMB millions, unless otherwise stated)

27. FINANCIAL INVESTMENTS (CONTINUED)

(a) Receivables (continued)

(iv) Other bills and bonds include PBOC bills, government financial and corporate bonds. The balance represents non-transferable debt securities with fixed or determinable payments, which will mature from June 2012 to December 2021 and bear interest rates ranging from 3.26% to 6.50% per annum.

(b) Held-to-maturity investments

Held-to-maturity investments are stated at amortised cost and comprise the following:

	Group		Bank	
	2011	**2010**	**2011**	**2010**
Debt securities	2,425,279	2,314,255	2,434,522	2,317,472
Less: Allowance for impairment losses	(494)	(1,474)	(387)	(1,313)
	2,424,785	2,312,781	2,434,135	2,316,159

	Group		Bank	
	2011	**2010**	**2011**	**2010**
Analysed into:				
Listed in Hong Kong	415	432	91	195
Listed outside Hong Kong	679,890	379,760	677,968	377,298
Unlisted	1,744,480	1,932,589	1,756,076	1,938,666
	2,424,785	2,312,781	2,434,135	2,316,159
Market value of listed debt securities	687,521	372,725	685,285	370,009

(In RMB millions, unless otherwise stated)

27. FINANCIAL INVESTMENTS (CONTINUED)

(c) Available-for-sale financial assets

Available-for-sale financial assets comprise the following:

	Group		Bank	
	2011	2010	2011	2010
Debt securities, at fair value (i)	835,983	899,750	795,380	861,613
Equity investments:				
At fair value (i)	2,959	2,986	910	818
At cost (ii)				
Debt for equity swaps	1,619	1,627	1,619	1,627
Others	502	1,468	319	1,148
Less: Allowance for impairment losses of equity investments	(958)	(1,036)	(813)	(813)
	1,163	2,059	1,125	1,962
Subtotal for equity investments	4,122	5,045	2,035	2,780
	840,105	904,795	797,415	864,393
Debt securities analysed into:				
Listed in Hong Kong	6,520	3,645	2,483	1,536
Listed outside Hong Kong	119,903	99,845	96,408	85,601
Unlisted	709,560	796,260	696,489	774,476
	835,983	899,750	795,380	861,613
Equity investments analysed into:				
Listed in Hong Kong	594	940	—	—
Listed outside Hong Kong	307	1,004	139	156
Unlisted	3,221	3,101	1,896	2,624
	4,122	5,045	2,035	2,780
Market value of listed securities:				
Debt securities	126,423	103,490	98,891	87,137
Equity investments	901	1,944	139	156
	127,324	105,434	99,030	87,293

(i) When impairment of an available-for-sale investment measured at fair value occurs, any impairment loss recognised is recorded in the carrying amount directly. As at 31 December 2011, the available-for-sale financial assets measured at fair value include impaired debt securities whose carrying amount is RMB52 million (31 December 2010: RMB4,296 million), with the reversal of impairment loss recognised in the income statement for the year of RMB469 million (2010: the reversal of impairment loss of RMB394 million) on available-for-sale financial assets.

(ii) Certain available-for-sale unlisted equity investments which do not have any quoted market prices and whose fair values cannot be measured reliably are stated at cost less any impairment losses. There is no active market for these investments and it is the Group's intention to dispose of them as opportunities arise. During the year, the carrying amount of these equity investments decreased by RMB907 million (2010: RMB402 million). There was no gain or loss recognised for such a disposal during the year (2010: RMB2 million gain).

(In RMB millions, unless otherwise stated)

27. FINANCIAL INVESTMENTS (CONTINUED)

(d) Movements of allowance for impairment losses of held-to-maturity investments and available-for-sale equity investments measured at cost during the year are as follows:

	Group			Bank		
	Held-to-maturity investments	Available-for-sale equity investments	Total	Held-to-maturity investments	Available-for-sale equity investments	Total
At 1 January 2010	1,846	962	2,808	1,730	813	2,543
Charge for the year	4	7	11	4	—	4
Reversal	(207)	—	(207)	(207)	—	(207)
Others	48	84	132	—	—	—
Disposals	(217)	(17)	(234)	(214)	—	(214)
At 31 December 2010 and 1 January 2011	1,474	1,036	2,510	1,313	813	2,126
Charge for the year	44	—	44	44	—	44
Reversal	(461)	—	(461)	(461)	—	(461)
Disposals	(563)	(78)	(641)	(509)	—	(509)
At 31 December 2011	494	958	1,452	387	813	1,200

28. INVESTMENTS IN SUBSIDIARIES

	Bank	
	2011	2010
Unlisted investments, at cost	53,907	45,057

(In RMB millions, unless otherwise stated)

28. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Particulars of the Bank's principal subsidiaries as at the end of the reporting period are as follows:

Name	Percentage of equity interest 2011 %	Percentage of equity interest 2010 %	Voting rights 2011 %	Nominal value of issued share/ paid-up capital 2011	Amount invested by the Bank	Place of incorporation/ registration and operations	Principal activities
Industrial and Commercial Bank of China (Asia) Limited ("ICBC Asia") (i)	100	100	100	HK$3,463 million	HK$28,542 million	Hong Kong, the PRC	Commercial banking
ICBC International Holdings Limited ("ICBC International") (ii)	100	100	100	HK$4,839 million	HK$4,882 million	Hong Kong, the PRC	Investment banking
Industrial and Commercial Bank of China (Almaty) Joint Stock Company (iii)	100	100	100	USD60.89 million	USD60.89 million	Almaty, Kazakhstan	Commercial banking
ICBC (London) PLC ("ICBC London")(iv)	100	100	100	USD200 million	USD200 million	London, United Kingdom	Commercial banking
ICBC Credit Suisse Asset Management Co., Ltd. * (v)	80	55	80	RMB200 million	RMB433 million	Beijing, the PRC	Fund management
Industrial and Commercial Bank of China (Europe) S.A.	100	100	100	EUR115 million	EUR115 million	Luxembourg	Commercial banking
PT. Bank ICBC Indonesia	97.50	97.50	97.50	IDR1,500 billion	USD176 million	Jakarta, Indonesia	Commercial banking
ZAO Industrial and Commercial Bank of China (Moscow)	100	100	100	RUB1,000 million	RUB1,000 million	Moscow, Russia	Commercial banking
ICBC Financial Leasing Co., Ltd. *	100	100	100	RMB5,000 million	RMB5,000 million	Tianjin, the PRC	Leasing
Industrial and Commercial Bank of China (Macau) Limited ("ICBC Macau")	89.33	89.33	89.33	MOP461 million	MOP9,188 million	Macau, the PRC	Commercial banking
Industrial and Commercial Bank of China (Middle East) Limited	100	100	100	USD50 million	USD50 million	Dubai, United Arab Emirates	Commercial and investment banking
Zhejiang Pinghu ICBC Rural Bank Co., Ltd. *	60	60	60	RMB200 million	RMB120 million	Zhejiang, the PRC	Commercial banking
Chongqing Bishan ICBC Rural Bank Co., Ltd. *	100	100	100	RMB100 million	RMB100 million	Chongqing, the PRC	Commercial banking
Industrial and Commercial Bank of China (Canada) ("ICBC Canada") (vi)	80	70	80	CA$83 million	CA$118.66 million	Toronto, Canada	Commercial banking
Industrial and Commercial Bank of China (Malaysia) Berhad	100	100	100	MYR331 million	MYR331 million	Kuala Lumpur, Malaysia	Commercial banking
Industrial and Commercial Bank of China (Thai) Public Company Limited ("ICBC Thai") (vii)	97.70	97.24	97.70	THB15,905 million	THB17,871 million	Bangkok, Thailand	Commercial banking
Industrial and Commercial Bank of China Financial Services LLC	100	100	100	USD50 million	USD50.25 million	Delaware and New York, United States	Broker dealer

* These subsidiaries incorporated in Mainland China are all limited liability companies.

(In RMB millions, unless otherwise stated)

28. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The above table lists the principal subsidiaries of the Bank. To give details of other subsidiaries would, in the opinion of the management, result in particulars of excessive length.

(i) On 1 September 2011, the Bank made an additional capital injection of HK$6.1 billion into ICBC Asia and its total registered and paid-in capital increased to HK$3.463 billion.

(ii) On 25 August 2011, the Bank made an additional capital injection of HK$3.9 billion into ICBC International and its total registered and paid-in capital increased to HK$4.839 billion.

(iii) On 30 June 2011, the Bank completed an additional capital injection of USD34.20 million into Industrial and Commercial Bank of China (Almaty) Joint Stock Company and its total registered and paid-in capital increased to USD60.89 million.

(iv) On 26 May 2011, Industrial and Commercial Bank of China, (London) Limited officially changed its name to ICBC (London) PLC.

(v) On 16 November 2011, the Bank acquired 20% and 5% of shares of ICBC Credit Suisse Asset Management Co., Ltd. from China Ocean Shipping (Group) Company and Credit Suisse, for a consideration of RMB258 million and RMB65 million, respectively. Subsequent to the above, the equity interests held by the Bank in ICBC Credit Suisse Asset Management Co., Ltd. increased to 80%.

(vi) Pursuant to the shareholders agreement entered into between the Bank, The Bank of East Asia, Limited and ICBC Canada, the acquisition by the Bank of a further 10% interest in ICBC Canada was completed on 26 August 2011, for a consideration of CAD15.71 million (equivalent to RMB102 million). Subsequent to the above, the equity interests held by the Bank in ICBC Canada increased to 80%. On 1 December 2011, the Bank made an additional capital injection of CAD20 million into ICBC Canada and its total registered and paid-in capital increased to CAD83 million.

(vii) On 8 March 2011, the Bank completed the voluntary delisting tender offer, which was made for ICBC Thai on 27 December 2010. The Bank held approximately 97.70% of the total issued shares of ICBC Thai.

Apart from the above, the Bank has consolidated SPEs which are controlled by the Bank.

29. INVESTMENTS IN ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES

	Group	
	2011	**2010**
Share of net assets	16,996	19,417
Goodwill	16,102	20,908
Less: Allowance for impairment losses	(348)	—
	32,750	40,325

	Bank	
	2011	**2010**
Shares listed outside Hong Kong, at cost	33,369	33,717

(In RMB millions, unless otherwise stated)

29. INVESTMENTS IN ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES (CONTINUED)

The following table illustrates the summarised financial information of the Group's associates and jointly-controlled entities:

	2011	2010
Assets	1,154,338	1,341,448
Liabilities	(1,061,245)	(1,235,634)
Net assets	93,093	105,814

	2011	2010
Revenue	92,188	110,382
Profit for the year	13,732	13,116

The financial information above was extracted from the financial statements of the associates and jointly-controlled entities.

The following table illustrates the market value of the Group's listed investments in associates and jointly-controlled entities:

	2011	2010
Market value of listed investments	23,981	28,503

(In RMB millions, unless otherwise stated)

29. INVESTMENTS IN ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES (CONTINUED)

Particulars of the Group's principal associates and jointly-controlled entities are as follows:

Name	Percentage of equity interest 2011 %	Percentage of equity interest 2010 %	Voting rights 2011 %	Place of incorporation/ registration	Principal activities
Associates:					
Listed investment directly held:					
Standard Bank Group Limited ("Standard Bank")	20.05	20.06	20.05	Johannesburg, Republic of South Africa	Commercial banking
Listed investment indirectly held:					
Finansia Syrus Securities Public Company Limited (i)	23.83	23.83	24.39	Bangkok, Thailand	Securities
Unlisted investment indirectly held:					
IEC Investments Limited (ii)	40.00	40.00	40.00	Hong Kong, the PRC	Investment
All Winwin Holdings Limited (iii)	20.00	20.00	20.00	British Virgin Islands	Investment
Tianjin ICBCI IHG Equity Investment Fund Management Limited ("ICBC IHG") (iv)	30.00	—	30.00	Tianjin, the PRC	Fund management
Jointly-controlled entities:					
Unlisted investment indirectly held:					
Jiangxi Poyanghu Industry Investment Management Company Limited (v)	50.00	50.00	50.00	Jiangxi,the PRC	Investment management
COLI ICBCI China Investment Management (Cayman Islands) Limited (vi)	45.00	45.00	Note 1	Cayman Islands	Investment management
Harmony China Real Estate Fund L.P. (vii)	27.91	27.91	Note 2	Cayman Islands	Fund
ICBC HNA (Tianjin) Equity Investment Fund Management Limited ("ICBC HNA") (viii)	50.00	50.00	50.00	Tianjin, the PRC	Fund management
Tianjin ICBC International Advisory LLP (ix)	50.00	—	Note 3	Tianjin, the PRC	Investment advisor

Note 1: According to the articles of association, the Group and other shareholders jointly control the entity.

Note 2: The fund is a limited partnership; under the partnership agreement, the Group and other partners jointly control the fund.

Note 3: The enterprise is a limited partnership; under the partnership agreement, the Group and other partners jointly control the enterprise.

29. INVESTMENTS IN ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES (CONTINUED)

(i) The shareholding of a 24.39% equity interest in this associate is held by a non-wholly-owned subsidiary, ICBC Thai. The percentage of equity interest disclosed represents the effective percentage of equity held by the Group.

(ii) The shareholding of a 40% equity interest in this associate is held by a wholly-owned subsidiary, ICBC Asia. The percentage of equity interest disclosed represents the effective percentage of equity held by the Group.

(iii) The shareholding of a 20% equity interest in this associate is held by a wholly-owned subsidiary, ICBC International. The percentage of equity interest disclosed represents the effective percentage of equity held by the Group.

(iv) The shareholding of a 30% equity interest in this associate is held by a wholly-owned subsidiary, ICBC International. The percentage of equity interest disclosed represents the effective percentage of equity held by the Group.

(v) Jiangxi Poyanghu Industry Investment Management Company Limited is a jointly-controlled entity of a wholly-owned subsidiary, ICBC International. The percentage of equity interest disclosed represents the effective percentage held by the Group.

(vi) COLI ICBCI China Investment Management (Cayman Islands) Limited is a jointly-controlled entity of a wholly-owned subsidiary, ICBC International. The percentage of equity interest disclosed represents the effective percentage held by the Group.

(vii) Harmony China Real Estate Fund L.P. is a jointly-controlled limited partnership of a wholly-owned subsidiary, ICBC International. The percentage of equity interest disclosed represents the effective percentage held by the Group.

(viii) ICBC HNA is a jointly-controlled entity of a wholly-owned subsidiary, ICBC International. The percentage of equity interest disclosed represents the effective percentage held by the Group.

(ix) Tianjin ICBC International Advisory LLP is a jointly-controlled entity of a wholly-owned subsidiary, ICBC International. The percentage of equity interest disclosed represents the effective percentage held by the Group.

(In RMB millions, unless otherwise stated)

30. PROPERTY AND EQUIPMENT

Group

	Properties and buildings	Construction in progress	Leasehold improve-ments	Office equipment and motor vehicles	Aircraft and vessels	Total
Cost:						
1 January 2010	84,728	8,801	3,928	34,281	1,323	133,061
Additions	2,363	6,759	1,013	6,194	2,538	18,867
CIP transfer in/(out)	4,625	(5,098)	—	473	—	—
Acquisition of subsidiaries	4	—	—	56	—	60
Other transfer in/(out)	153	(52)	—	—	—	101
Disposals	(390)	(86)	(95)	(1,272)	—	(1,843)
At 31 December 2010 and 1 January 2011	91,483	10,324	4,846	39,732	3,861	150,246
Additions	2,054	11,712	984	6,840	6,449	28,039
CIP transfer in/(out)	4,687	(5,703)	—	1,016	—	—
Disposals	(193)	(221)	(302)	(1,676)	—	(2,392)
At 31 December 2011	98,031	16,112	5,528	45,912	10,310	175,893
Accumulated depreciation and impairment:						
At 1 January 2010	15,945	108	1,563	19,761	—	37,377
Depreciation charge for the year (note 12)	4,588	—	749	5,395	112	10,844
Impairment allowance charge for the year	—	—	—	—	61	61
Disposals	(147)	(54)	(39)	(1,208)	—	(1,448)
At 31 December 2010 and 1 January 2011	20,386	54	2,273	23,948	173	46,834
Depreciation charge for the year (note 12)	4,862	—	809	6,082	274	12,027
Impairment allowance charge for the year	—	4	—	—	27	31
Disposals	(148)	—	(282)	(1,597)	—	(2,027)
At 31 December 2011	25,100	58	2,800	28,433	474	56,865
Net carrying amount:						
At 31 December 2010	71,097	10,270	2,573	15,784	3,688	103,412
At 31 December 2011	72,931	16,054	2,728	17,479	9,836	119,028

(In RMB millions, unless otherwise stated)

30. PROPERTY AND EQUIPMENT (CONTINUED)

Bank

	Properties and buildings	Construction in progress	Leasehold improve-ments	Office equipment and motor vehicles	Total
Cost:					
1 January 2010	84,334	8,801	3,643	34,049	130,827
Additions	1,830	6,757	969	6,032	15,588
CIP transfer in/(out)	4,625	(5,096)	—	471	—
Other transfer in/(out)	153	(52)	—	—	101
Disposals	(387)	(86)	(95)	(1,186)	(1,754)
At 31 December 2010 and 1 January 2011	90,555	10,324	4,517	39,366	144,762
Additions	2,007	9,793	898	6,669	19,367
CIP transfer in/(out)	4,687	(5,703)	—	1,016	—
Disposals	(192)	(221)	(275)	(1,598)	(2,286)
At 31 December 2011	97,057	14,193	5,140	45,453	161,843
Accumulated depreciation and impairment:					
At 1 January 2010	15,914	108	1,425	19,702	37,149
Depreciation charge for the year	4,563	—	718	5,333	10,614
Disposals	(146)	(54)	(38)	(1,181)	(1,419)
At 31 December 2010 and 1 January 2011	20,331	54	2,105	23,854	46,344
Depreciation charge for the year	4,816	4	773	5,903	11,496
Disposals	(144)	—	(266)	(1,558)	(1,968)
At 31 December 2011	25,003	58	2,612	28,199	55,872
Net carrying amount:					
At 31 December 2010	70,224	10,270	2,412	15,512	98,418
At 31 December 2011	72,054	14,135	2,528	17,254	105,971

(In RMB millions, unless otherwise stated)

30. PROPERTY AND EQUIPMENT (CONTINUED)

The carrying value of the Group's and the Bank's properties and buildings is analysed based on the remaining terms of the land leases as follows:

	Group		Bank	
	2011	2010	2011	2010
Long term leases (over 50 years)				
Held in the PRC (other than Hong Kong)	8,650	5,710	8,650	5,710
Held in Hong Kong	330	166	152	166
Held overseas	78	203	53	57
	9,058	6,079	8,855	5,933
Medium term leases (10 to 50 years)				
Held in the PRC (other than Hong Kong)	60,543	60,549	60,461	60,537
Held in Hong Kong	160	89	39	41
Held overseas	314	363	—	—
	61,017	61,001	60,500	60,578
Short term leases (less than 10 years)				
Held in the PRC (other than Hong Kong)	2,699	3,928	2,699	3,711
Held in Hong Kong	24	82	—	—
Held overseas	133	7	—	2
	2,856	4,017	2,699	3,713
	72,931	71,097	72,054	70,224

As at 31 December 2011, the process of obtaining the titleship for the Group's properties and buildings with an aggregate net carrying value of RMB8,125 million (31 December 2010: RMB6,520 million) was still in progress. Management is of the view that the aforesaid matter would not affect the rights of the Group to these assets nor have any significant impact on the business operation of the Group.

As at 31 December 2011, the net carrying value of aircraft and vessels leased out by the Group under operating leases was RMB9,836 million (31 December 2010: RMB3,688 million).

31. DEFERRED INCOME TAX ASSETS AND LIABILITIES

(a) Analysed by nature

Group

	2011		2010	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets:				
Allowance for impairment losses	77,573	19,378	57,279	14,297
Change in fair value of available-for-sale financial assets	5,690	1,446	11,489	2,885
Change in fair value of financial instruments at fair value through profit or loss	(4,980)	(1,247)	(2,979)	(745)
Accrued staff costs	23,057	5,764	19,709	4,927
Others	(13,577)	(3,403)	1,366	348
	87,763	21,938	86,864	21,712

(In RMB millions, unless otherwise stated)

31. DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

	2011		2010	
	Taxable/ (deductible) temporary differences	Deferred income tax liabilities/ (assets)	Taxable/ (deductible) temporary differences	Deferred income tax liabilities/ (assets)
Deferred income tax liabilities:				
Allowance for impairment losses	(308)	(51)	(338)	(56)
Change in fair value of available-for-sale financial assets	469	78	1,872	309
Change in fair value of financial instruments at fair value through profit or loss	—	—	227	37
Others	327	76	40	28
	488	103	1,801	318

Bank

	2011		2010	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets:				
Allowance for impairment losses	77,175	19,294	56,855	14,212
Change in fair value of available-for-sale financial assets	5,685	1,445	11,479	2,882
Change in fair value of financial instruments at fair value through profit or loss	(4,980)	(1,247)	(2,979)	(745)
Accrued staff costs	23,057	5,764	19,709	4,927
Others	(13,812)	(3,460)	1,146	292
	87,125	21,796	86,210	21,568

(b) Movements of deferred income tax

Group

	At 1 January 2011	Total gains/(losses) recorded in profit or loss	Total gains/(losses) recorded in other comprehensive income	At 31 December 2011
Deferred income tax assets:				
Allowance for impairment losses	14,297	5,081	—	19,378
Change in fair value of available-for-sale financial assets	2,885	—	(1,439)	1,446
Change in fair value of financial instruments at fair value through profit or loss	(745)	(502)	—	(1,247)
Accrued staff costs	4,927	837	—	5,764
Others	348	(3,754)	3	(3,403)
	21,712	1,662	(1,436)	21,938

(In RMB millions, unless otherwise stated)

31. DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

	At 1 January 2010	Total gains/(losses) recorded in profit or loss	Total gains recorded in other comprehensive income	At 31 December 2010
Deferred income tax assets:				
Allowance for impairment losses	12,290	2,007	—	14,297
Change in fair value of available-for-sale financial assets	776	—	2,109	2,885
Change in fair value of financial instruments at fair value through profit or loss	368	(1,113)	—	(745)
Accrued staff costs	5,127	(200)	—	4,927
Others	135	213	—	348
	18,696	907	2,109	21,712

Group

	At 1 January 2011	Total (gains)/losses recorded in profit or loss	Total (gains)/losses recorded in other comprehensive income	At 31 December 2011
Deferred income tax liabilities:				
Allowance for impairment losses	(56)	5	—	(51)
Change in fair value of available-for-sale financial assets	309	—	(231)	78
Change in fair value of financial instruments at fair value through profit or loss	37	(37)	—	—
Others	28	(28)	76	76
	318	(60)	(155)	103

	At 1 January 2010	Total (gains)/losses recorded in profit or loss	Total (gains)/losses recorded in other comprehensive income	At 31 December 2010
Deferred income tax liabilities:				
Allowance for impairment losses	(43)	(13)	—	(56)
Change in fair value of available-for-sale financial assets	185	—	124	309
Change in fair value of financial instruments at fair value through profit or loss	36	1	—	37
Others	—	34	(6)	28
	178	22	118	318

(In RMB millions, unless otherwise stated)

31. DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

Bank

	At 1 January 2011	Total gains/(losses) recorded in profit or loss	Total losses recorded in other comprehensive income	At 31 December 2011
Deferred income tax assets:				
Allowance for impairment losses	14,212	5,082	—	19,294
Change in fair value of available-for-sale financial assets	2,882	—	(1,437)	1,445
Change in fair value of financial instruments at fair value through profit or loss	(745)	(502)	—	(1,247)
Accrued staff costs	4,927	837	—	5,764
Others	292	(3,751)	(1)	(3,460)
	21,568	1,666	(1,438)	21,796

	At 1 January 2010	Total gains/(losses) recorded in profit or loss	Total gains recorded in other comprehensive income	At 31 December 2010
Deferred income tax assets:				
Allowance for impairment losses	12,267	1,945	—	14,212
Change in fair value of available-for-sale financial assets	776	—	2,106	2,882
Change in fair value of financial instruments at fair value through profit or loss	368	(1,113)	—	(745)
Accrued staff costs	5,127	(200)	—	4,927
Others	97	195	—	292
	18,635	827	2,106	21,568

The Group and the Bank did not have significant unrecognised deferred income tax assets and liabilities at the end of the reporting period.

32. OTHER ASSETS

	Group		Bank	
	2011	2010	2011	2010
Interest receivable	74,097	58,616	71,929	57,394
Precious metals	38,971	10,226	38,951	10,224
Land use rights	21,407	22,090	21,407	22,090
Advance payments	18,074	8,720	2,105	1,163
Settlement accounts	14,501	11,037	10,385	8,147
Goodwill(i)	6,121	6,461	—	—
Repossessed assets	1,646	2,317	1,391	2,050
Others	11,359	10,648	9,797	9,508
	186,176	130,115	155,965	110,576

(In RMB millions, unless otherwise stated)

32. OTHER ASSETS (CONTINUED)

(i) Goodwill arising from business combinations has been allocated to the Group's CGU, which is not larger than the reportable segment of the Group, for impairment testing.

The recoverable amount of the CGU is determined based on the discounted future cash flows of the CGU. The cash flow projections based on financial forecasts approved by management of the subsidiaries cover a three to five year period. Cash flows beyond the three to five year period are extrapolated using the estimated rates which do not exceed the long term average growth rate for the business in which the CGU operates. The discount rate is the pre-tax rate and reflects the specific risk associated with the CGU.

As indicated by the impairment tests, goodwill arising from business combinations are not impaired and thus, no impairment loss is recognised.

33. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

		Group		Bank	
	Notes	2011	2010	2011	2010
Wealth management products	(i)	121,191	1,862	121,191	1,862
Structured deposits	(ii)	44,376	3,961	44,411	3,961
Financial liabilities related to precious metals	(iii)	6,343	—	6,343	—
Certificates of deposit	(iv)	63	754	—	—
Notes Payable		—	93	—	—
		171,973	6,670	171,945	5,823

(i) The principal guaranteed wealth management products issued by the Group and the financial assets invested by the aforesaid product form part of a group of financial instruments that together are managed on a fair value basis, and are classified as financial liabilities and financial assets designated at fair value through profit or loss, respectively. The fair value of the wealth management products was RMB129.60 million higher than the amount that the Group would be contractually required to pay to the holders of the wealth management products upon maturity as at 31 December 2011 (31 December 2010: Similar amount).

(ii) The fair value of structured deposits lower than the amount that the Group would be contractually required to pay to the holders of these structured deposits upon maturity as at 31 December 2011 was RMB23.99 million (31 December 2010: RMB6.60 million above).

(iii) The financial liabilities related to precious metals were measured at fair value. As at 31 December 2011, the fair value of the financial liabilities related to precious metals was similar to the amount that the Group would be contractually required to pay to the holders.

(iv) The certificates of deposit were all issued by ICBC Asia to financial institutions and retail customers at fixed rates and were classified as financial liabilities designated at fair value through profit or loss. The fair value of the certificates of deposit in excess of the amount that the Group would be contractually required to pay to the holders of these certificates of deposit upon maturity as at 31 December 2011 was RMB0.10 million (31 December 2010: RMB6.01 million above).

There were no significant changes in the credit spread of the Bank and ICBC Asia and therefore the amounts of changes in fair value of the financial liabilities that were attributable to changes in credit risk were considered not significant during the years presented and cumulatively as at 31 December 2011 and 31 December 2010. The changes in fair value of the financial liabilities were mainly attributable to changes in other market factors.

Certain structured deposits, certificates of deposit, notes payable and financial liabilities related to precious metals have been matched with derivatives or precious metals as part of a documented risk management strategy to mitigate market risk, such as interest rate risk. An accounting mismatch would arise if these financial liabilities were accounted for at amortised cost, whereas the related derivatives or precious metals were measured at fair value with movements in the fair value taken through the income statement. By designating these financial liabilities at fair value through profit or loss, the movement in their fair values is recorded in the income statement.

(In RMB millions, unless otherwise stated)

34. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2011	2010	2011	2010
Deposits				
Banks and other financial institutions operating in Mainland China	1,075,301	907,686	1,079,767	909,619
Banks and other financial institutions operating outside Mainland China	16,193	14,683	18,424	14,471
	1,091,494	922,369	1,098,191	924,090
Money market takings				
Banks and other financial institutions operating in Mainland China	110,861	55,211	51,026	11,174
Banks and other financial institutions operating outside Mainland China	138,935	70,422	148,730	75,015
	249,796	125,633	199,756	86,189
	1,341,290	1,048,002	1,297,947	1,010,279

35. REPURCHASE AGREEMENTS

Repurchase agreements comprise repurchase of securities, bills, loans, and cash received as collateral on securities lending.

	Group		Bank	
	2011	2010	2011	2010
Repurchase	196,986	84,888	78,551	52,111
Cash received as collateral on securities lending	9,268	—	—	—
	206,254	84,888	78,551	52,111
Repurchase analysed by counterparty:				
Banks	85,753	52,495	75,233	50,770
Other financial institutions	111,233	32,393	3,318	1,341
	196,986	84,888	78,551	52,111
Repurchase analysed by collateral:				
Securities	186,546	83,163	77,233	52,111
Bills	1,318	—	1,318	—
Loans	9,122	1,725	—	—
	196,986	84,888	78,551	52,111

36. CERTIFICATES OF DEPOSIT

Certificates of deposit were mainly issued by Hong Kong Branch, Tokyo Branch, Luxembourg Branch, New York Branch, Sydney Branch, ICBC Asia, ICBC Macau and ICBC London, and were recognised at amortised cost.

(In RMB millions, unless otherwise stated)

37. DUE TO CUSTOMERS

	Group		Bank	
	2011	2010	2011	2010
Demand deposits:				
Corporate customers	3,817,387	3,582,149	3,762,461	3,547,282
Personal customers	2,565,696	2,273,322	2,547,789	2,252,794
Time deposits:				
Corporate customers	2,364,558	2,070,994	2,179,310	1,929,355
Personal customers	3,335,741	3,026,122	3,296,519	2,991,317
Others	177,837	192,970	177,736	192,948
	12,261,219	11,145,557	11,963,815	10,913,696

38. DEBT SECURITIES ISSUED

		Group		Bank	
	Notes	2011	2010	2011	2010
Subordinated bonds issued by:					
The Bank	(1)(a)	163,000	75,000	163,000	75,000
A subsidiary	(1)(b)	4,619	3,286	—	—
		167,619	78,286	163,000	75,000
Convertible bonds	(2)	22,608	22,124	22,608	22,124
Other debt securities issued	(3)	13,934	1,854	6,831	1,762
		204,161	102,264	192,439	98,886

(1) Subordinated bonds

(a) As approved by the PBOC and the CBRC, the Bank issued callable subordinated bonds through open market bidding in 2005, 2009, 2010 and 2011. These subordinated bonds were traded in the bond market among banks. The Bank has not had any defaults of principal or interest or other breaches with respect to the subordinated bonds during the year (2010: None). The relevant information on these subordinated bonds is set out below:

Name	Issue date	Issue price (RMB)	Coupon rate	Value date	Maturity date	Circulation date	Issue amount (RMB)	Notes
05 ICBC 02 Bond	2005-8-19	100	3.77%	2005-9-6	2020-9-6	2005-10-11	13,000 million	(i)
09 ICBC 01 Bond	2009-7-16	100	3.28%	2009-7-20	2019-7-20	2009-8-20	10,500 million	(ii)
09 ICBC 02 Bond	2009-7-16	100	4.00%	2009-7-20	2024-7-20	2009-8-20	24,000 million	(iii)
09 ICBC 03 Bond	2009-7-16	100	Base rate +0.58%	2009-7-20	2019-7-20	2009-8-20	5,500 million	(iv)
10 ICBC 01 Bond	2010-9-10	100	3.90%	2010-9-14	2020-9-14	2010-11-03	5,800 million	(v)
10 ICBC 02 Bond	2010-9-10	100	4.10%	2010-9-14	2025-9-14	2010-11-03	16,200 million	(vi)
11 ICBC 01 Bond	2011-6-29	100	5.56%	2011-6-30	2031-6-30	2011-8-30	38,000 million	(vii)
11 ICBC 02 Bond	2011-12-29	100	5.50%	2011-12-30	2026-12-30	2012-1-17	50,000 million	(viii)

(i) The Bank has the option to redeem all or part of the bonds at face value on 6 September 2015. If the Bank does not exercise this option, the annual coupon rate will increase by 300 basis points ("bps") thereafter.

(ii) The Bank has the option to redeem all or part of the bonds at face value on 20 July 2014. If the Bank does not exercise this option, the annual coupon rate will increase by 300 bps thereafter.

(iii) The Bank has the option to redeem all or part of the bonds at face value on 20 July 2019. If the Bank does not exercise this option, the annual coupon rate will increase by 300 bps thereafter.

(In RMB millions, unless otherwise stated)

38. DEBT SECURITIES ISSUED (CONTINUED)

(1) Subordinated bonds (continued)

(iv) The base rate for the bonds is the one-year lump-sum deposit and withdrawal time deposit rate published by the PBOC which is applicable on the date of issue or the first value date in each interest-bearing year. The spread in the first five interest-bearing years (i.e., initial spread) is 0.58%. The Bank has the option to redeem all or part of the bonds at face value on 20 July 2014. If the Bank does not exercise this option, the interest margin will increase by 300 bps thereafter.

(v) The Bank has the option to redeem all of the bonds on 14 September 2015 upon the approval of the relevant regulatory authorities.

(vi) The Bank has the option to redeem all of the bonds on 14 September 2020 upon the approval of the relevant regulatory authorities.

(vii) The Bank has the option to redeem all of the bonds on 30 June 2026 upon the approval of the relevant regulatory authorities.

(viii) The Bank has the option to redeem all of the bonds on 30 December 2021 upon the approval of the relevant regulatory authorities.

(b) On 30 November 2010, ICBC Asia, a subsidiary of the Bank, issued a subordinated bond with aggregate nominal amount of USD500 million, bearing a fixed interest rate of 5.125% per annum. The bond was issued at the price fixed at 99.737% of the nominal amount with maturity due on 30 November 2020. On 4 November 2011, ICBC Asia, a subsidiary of the Bank, issued subordinated notes in an aggregate nominal amount of RMB1,500 million, with a fixed interest rate of 6% per annum. The subordinated notes were issued at the price fixed at 100% of the nominal amount maturing on 4 November 2021. The above subordinated bonds and notes are both listed on the Singapore Exchange Securities Trading Limited. ICBC Asia has not had any defaults of principal or interest or other breaches with respect to the subordinated bonds and notes during the year (2010: None).

(2) Convertible bonds

As approved by the CBRC and the China Securities Regulatory Commission, the Bank issued RMB25 billion A share convertible bonds on 31 August 2010.

Name	Issue date	Issue price	Coupon rate	Value date	Maturity date	Circulation date	Issue amount
ICBC convertible bonds	31 August 2010	RMB100	Step-up interest rate	31 August 2010	31 August 2016	10 September 2010	RMB 25 billion

The convertible bonds have a term of six years. From the first year to the sixth year, the bonds are paying annual coupon at the rates of 0.5%, 0.7%, 0.9%, 1.1%, 1.4% and 1.8%, respectively. The conversion period of the bonds commences on 1 March 2011, which is the first trading day immediately following the expiry of the six-month period after the date of issuance of the convertible bonds, and ends on 31 August 2016, which is the maturity date of the bonds. Within five trading days after the maturity of the bonds, the Bank shall redeem all the outstanding convertible bonds which have not been converted into shares by then at 105% of the nominal value of these convertible bonds (including the interest last accrued). RMB257 million convertible bonds have been converted into shares from 1 March 2011 to 31 December 2011.

During the conversion period of the convertible bonds, if the closing prices of the A Shares of the Bank in at least 15 trading days out of 30 consecutive trading days are equal to or higher than 130% of the prevailing conversion price, the Bank shall have the right to redeem all or any part of the outstanding convertible bonds which have not been converted into the shares, at a price equal to the nominal value of the convertible bonds plus the interest accrued. When the nominal value of the balance of the outstanding convertible bonds is less than RMB30 million, the board of the Bank shall have the right to decide whether to redeem all the outstanding convertible bonds at a price equal to the nominal value plus the interest accrued.

(In RMB millions, unless otherwise stated)

38. DEBT SECURITIES ISSUED (CONTINUED)

(2) Convertible bonds (continued)

If, during the term of the convertible bonds, the closing prices of the A Shares of the Bank in any 15 trading days out of any 30 consecutive trading days are lower than 80% of the prevailing conversion price, the board of the Bank may propose a downward adjustment to the conversion price to the shareholders for their consideration and approval at a shareholders' general meeting.

The initial conversion price was RMB4.20 per share. The conversion price is subject to adjustment, upon the occurrence of certain events which affect the share capital of the Bank, such as distribution of share dividend, capitalisation, issuance of new shares, rights issue or distribution of cash dividend. As at 31 December 2011, the conversion price was RMB3.97 per share due to the occurrence of certain abovementioned events.

The convertible bonds issued have been split into the liability and equity components, as follows:

	Liability component	Equity component	Total
Nominal value of convertible bonds	21,998	3,002	25,000
Direct transaction costs	(113)	(17)	(130)
Balance as at the issuance date	21,885	2,985	24,870
Accretion of interest	239	—	239
Balance as at 31 December 2010	22,124	2,985	25,109
Conversion	(234)	(31)	(265)
Accretion of interest	718	—	718
Balance as at 31 December 2011	22,608	2,954	25,562

(3) Other debt securities issued

On 7 December 2011, Skysea International Capital Management Limited, which is an SPE of the Group, issued guaranteed notes of USD750 million with a fixed interest rate of 4.875%. The notes were guaranteed by Hong Kong Branch and were issued at the price fixed at 97.708% of the nominal amount with maturity due on 7 December 2021. By satisfying certain conditions, the SPE has the option to redeem all of the notes at any time. The notes were listed on the Stock Exchange of Hong Kong Limited.

In 2011, Sydney Branch issued debt securities amounted to RMB5,094 million denominated in USD, AUD and RMB. These securities were issued at par value with maturities between 2012 and 2016 at fixed or floating interest rates.

Other debt securities were mainly issued by Singapore Branch and ICBC Asia in 2011 with maturities between 2012 and 2016 at fixed or floating interest rates.

39. OTHER LIABILITIES

	Group		Bank	
	2011	2010	2011	2010
Interest payable	113,346	95,103	111,283	94,240
Settlement accounts	50,286	47,884	48,503	45,759
Salaries, bonuses, allowances and subsidies payables(i)	13,949	12,572	13,293	12,015
Early retirement benefits	9,647	7,462	9,647	7,462
Sundry tax payables	9,511	7,158	9,410	7,088
Bank drafts	3,225	3,180	3,090	3,065
Others	28,403	22,219	22,990	18,453
	228,367	195,578	218,216	188,082

39. OTHER LIABILITIES (CONTINUED)

(i) Except for the deferred discretionary bonuses for those employees under the deferred performance-based salary scheme pursuant to regulations of the PRC relevant authorities, the salaries, bonuses, allowances and subsidies payables were scheduled to be paid before 30 June 2012. There was no overdue payment for staff salaries, bonuses, allowances, subsidies payables as at 31 December 2011 (31 December 2010: None).

40. SHARE CAPITAL

	2011		2010	
	Number of shares (millions)	Nominal value	Number of shares (millions)	Nominal value
Issued and fully paid:				
H shares of RMB1 each	86,795	86,795	86,795	86,795
A shares of RMB1 each(i)	262,289	262,289	262,224	262,224
	349,084	349,084	349,019	349,019

Except for the dividends for H shares which are payable in Hong Kong dollars ("HK$"), all of the H shares and A shares rank pari passu with each other in respect of dividends.

(i) According to the "Announcement in relation to the Conversion of ICBC Convertible Bonds", the 250 million convertible bonds (with a nominal value of RMB100 each and an aggregate amount of RMB25 billion) issued by the Bank on 31 August 2010, can be converted into the Bank's A Shares from 1 March 2011. As of 31 December 2011, a total of 2,570,380 convertible bonds were converted into A Shares of the Bank, resulting in an increase of 64,706,964 A Shares. The number of the Bank's A Shares amounted to 262,289,208,241 at the end of the year.

41. RESERVES

(a) Capital reserve

Capital reserve mainly includes share premium arising from the issuance of new shares at prices in excess of par value.

(b) Surplus reserves

(i) Statutory surplus reserve

The Bank is required to appropriate 10% of its profit for the year pursuant to the Company Law of the People's Republic of China and the Articles to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses of the Bank, if any, and may also be converted into capital of the Bank, provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before capitalisation.

Pursuant to the resolution of the board of directors' meeting held on 29 March 2012, an appropriation of 10% of the profit for the year determined under the generally accepted accounting principles of PRC ("PRC GAAP") to the statutory surplus reserve, in the amount of RMB20,347 million (2010: RMB16,165 million) was approved.

41. RESERVES (CONTINUED)

(b) Surplus reserves (continued)

(ii) Discretionary surplus reserve

After making the appropriation to the statutory surplus reserve, the Bank may also appropriate its profit for the year determined under PRC GAAP to the discretionary surplus reserve upon approval by the shareholders in general meeting. Subject to the approval by the shareholders, the discretionary surplus reserve may be used to offset accumulated losses of the Bank, if any, and may be converted into capital.

(iii) Other surplus reserve

The Bank's overseas entities appropriate their profits to the surplus reserves in accordance with the relevant regulations promulgated by the local regulatory bodies.

(c) General reserve

The Bank is required to maintain a general reserve within equity, through the appropriation of profit, which should not be less than 1% of the year end balance of its risk assets.

The Bank's subsidiaries appropriate their profits to the general reserve according to the applicable local regulations.

Pursuant to the resolution of the board of directors' meeting held on 29 March 2012, an appropriation to the general reserve amounting to RMB11,003 million (2010: RMB8,740 million) was approved. The general reserve balance of the Bank as at 31 December 2011 amounted to RMB103,731 million, which has reached 1% of the year end balance of the Bank's risk assets.

(d) Investment revaluation reserve

The investment revaluation reserve records the fair value changes of available-for-sale financial assets.

(e) Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of the subsidiaries and branches incorporated outside Mainland China.

(f) Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the gain or loss on the hedging instrument.

(g) Other reserves

Other reserves represent reserves of subsidiaries and share of reserves of associates and jointly-controlled entities other than the items listed above.

(h) Distributable profits

The Bank's distributable profits are based on the retained profits of the Bank as determined under PRC GAAP and IFRSs, whichever is lower. The amount that the Bank's subsidiaries can legally distribute is determined by reference to their profits as reflected in their financial statements prepared in accordance with the accounting regulations and principles promulgated by the local regulatory bodies of the respective countries/regions. These profits may differ from those dealt with in these financial statements, which are prepared in accordance with IFRSs.

(In RMB millions, unless otherwise stated)

41. RESERVES (CONTINUED)

The movements in reserves and retained profits of the Bank during the year are set out below.

	Reserves							
	Capital reserve	Surplus reserves	General reserve	Investment revaluation reserve	Foreign currency translation reserve	Cash flow hedge reserve	Total	Retained profits
Balance as at 1 January 2010	106,398	37,398	83,988	(1,702)	(235)	(4,080)	221,767	113,312
Profit for the year	—	—	—	—	—	—	—	160,490
Rights issue	29,621	—	—	—	—	—	29,621	—
Change in fair value of available-for-sale investments	—	—	—	(6,487)	—	—	(6,487)	—
Cash flow hedges, net of tax	—	—	—	—	—	(2)	(2)	—
Foreign currency translation	—	—	—	—	(31)	—	(31)	—
Dividend — 2009 final (note 18)	—	—	—	—	—	—	—	(56,783)
Appropriation to surplus reserves (i)	—	16,165	—	—	—	—	16,165	(16,165)
Appropriation to general reserve	—	—	8,740	—	—	—	8,740	(8,740)
Balance as at 31 December 2010 and 1 January 2011	**136,019**	**53,563**	**92,728**	**(8,189)**	**(266)**	**(4,082)**	**269,773**	**192,114**
Profit for the year	—	—	—	—	—	—	—	202,295
Conversion of convertible bonds	200	—	—	—	—	—	200	—
Change in fair value of available-for-sale investments	—	—	—	4,321	—	—	4,321	—
Cash flow hedges, net of tax	—	—	—	—	—	2	2	—
Foreign currency translation	—	—	—	—	(114)	—	(114)	—
Dividend — 2010 final (note 18)	—	—	—	—	—	—	—	(64,220)
Appropriation to surplus reserves (i)	—	20,388	—	—	—	—	20,388	(20,388)
Appropriation to general reserve	—	—	11,003	—	—	—	11,003	(11,003)
Balance as at 31 December 2011	**136,219**	**73,951**	**103,731**	**(3,868)**	**(380)**	**(4,080)**	**305,573**	**298,798**

(i) Includes the appropriation made by overseas branches in the amount of RMB41.00 million (2010: Nil).

42. COMPONENTS OF OTHER COMPREHENSIVE INCOME

	2011	**2010**
Available-for-sale financial assets:		
Changes in fair value recorded in other comprehensive income/(loss)	2,919	(6,170)
Less: Transfer to the income statement arising from disposal/impairment	582	(1,325)
Income tax effect	(1,208)	1,985
	2,293	(5,510)
Cash flow hedges:		
Gain/(loss) during the year	418	(244)
Less: Income tax effect	(63)	33
	355	(211)
Share of other comprehensive income of associates and jointly-controlled entities	774	(882)
Foreign currency translation differences	(11,416)	2,329
Less: Transfer to the income statement	—	45
	(11,416)	2,374
Others	53	184
Less: Income tax effect	(10)	(27)
	43	157
	(7,951)	(4,072)

(In RMB millions, unless otherwise stated)

43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Analysis of balances of cash and cash equivalents

	Note	2011	2010
Cash on hand	20	60,145	48,924
Balances with central banks other than restricted deposits	20	106,124	76,045
Nostro accounts with banks and other financial institutions with original maturity of three months or less		236,694	122,651
Placements with banks and other financial institutions with original maturity of three months or less		115,085	36,957
Reverse repurchase agreements with original maturity of three months or less		330,260	244,394
		848,308	528,971

44. SHARE APPRECIATION RIGHTS PLAN

The Bank's share appreciation rights plan was approved in 2006, which allows share appreciation rights to be granted to eligible participants including directors, supervisors, senior management and other key personnel designated by the board of directors. The share appreciation rights will be granted and exercised based on the price of the Bank's H shares and will be valid for 10 years. As at the approval date of these financial statements, no share appreciation rights have been granted.

45. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

At the end of the reporting period, the Group and the Bank had capital commitments as follows:

	Group		Bank	
	2011	2010	2011	2010
Authorised, but not contracted for	2,297	1,507	2,297	1,507
Contracted, but not provided for	13,696	6,730	8,003	6,687
	15,993	8,237	10,300	8,194

(b) Operating lease commitments

Operating lease commitments — Lessee

At the end of the reporting period, the Group and the Bank lease certain of its office properties under operating lease arrangements, and the total future minimum lease payments in respect of non-cancellable operating leases are as follows:

	Group		Bank	
	2011	2010	2011	2010
Within one year	3,617	2,859	3,238	2,602
After one year but not more than five years	8,457	6,606	7,826	6,184
After five years	1,528	1,700	1,469	1,655
	13,602	11,165	12,533	10,441

(In RMB millions, unless otherwise stated)

45. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(b) Operating lease commitments (continued)

Operating lease commitments – Lessor

At the end of the reporting period, the Group leases certain aircraft and vessels to third parties under operating lease arrangements, and the total future minimum lease receivables in respect of non-cancellable operating leases with its tenants are as follows:

	Group	
	2011	2010
Within one year	686	366
In the second to fifth years, inclusive	2,691	1,857
After five years	2,873	1,211
	6,250	3,434

(c) Credit commitments

At any given time, the Group has outstanding commitments to extend credit. These commitments are in the form of approved loans and undrawn credit card limits.

The Group provides letters of credit and financial guarantees to guarantee the performance of customers to third parties.

Bank acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of credit commitments by category are set out below. The amounts disclosed in respect of loan commitments and undrawn credit card limit are under the assumption that the amounts will be fully advanced. The amounts for bank acceptances, letters of credit and guarantees represent the maximum potential losses that would be recognised at the end of the reporting period had the counterparties failed to perform as contracted.

	Group		Bank	
	2011	2010	2011	2010
Bank acceptances	300,437	249,522	297,983	247,897
Guarantees issued				
Financing letters of guarantees	46,299	67,035	86,196	62,389
Non-financing letters of guarantees	179,439	172,179	209,666	169,030
Sight letters of credit	70,258	60,513	67,201	58,598
Usance letters of credit and other commitments	326,626	207,117	349,917	221,832
Loan commitments				
With an original maturity of under one year	150,685	179,087	76,813	114,926
With an original maturity of one year or more	519,112	469,675	494,615	446,535
Undrawn credit card limit	383,736	244,029	382,635	243,465
	1,976,592	1,649,157	1,965,026	1,564,672

	Group		Bank	
	2011	2010	2011	2010
Credit risk weighted amount of credit commitments	801,639	677,500	776,565	662,398

(In RMB millions, unless otherwise stated)

45. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(c) Credit commitments (continued)

The credit risk weighted amount refers to the amount computed in accordance with the rules promulgated by the CBRC. The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights ranged from 0% to 100% for credit commitments.

(d) Legal proceedings

As at 31 December 2011, there were a number of legal proceedings outstanding against the Bank and/or its subsidiaries with a claimed amount of RMB1,978 million (31 December 2010: RMB2,048 million).

In the opinion of management, the Group and the Bank have made adequate allowance for any probable losses based on the current facts and circumstances, and the ultimate outcome of these lawsuits will not have a material impact on the financial position or operations of the Group and the Bank.

(e) Redemption commitments of government bonds

As an underwriting agent of the Government, the Bank underwrites certain PRC government bonds and sells the bonds to the general public, in which the Bank is obliged to redeem these bonds at the discretion of the holders at any time prior to maturity. The redemption price for the bonds is based on the nominal value of the bonds plus any interest accrued up to the redemption date. As at 31 December 2011, the Bank had underwritten and sold bonds with an accumulated amount of RMB156,366 million (31 December 2010: RMB167,744 million) to the general public, and these government bonds have not yet matured nor been redeemed. Management expects that the amount of redemption of these government bonds through the Bank prior to maturity will not be material.

The MOF will not provide funding for the early redemption of these government bonds on a back-to-back basis but is obliged to repay the principal and the respective interest upon maturity.

(f) Underwriting obligations

As at 31 December 2011, the Group and the Bank had no unexpired securities underwriting obligations (31 December 2010: Nil).

46. DESIGNATED FUNDS AND LOANS

	Group and Bank	
	2011	**2010**
Designated funds	641,319	395,216
Designated loans	640,650	394,407

The designated loans represent the loans granted to specific borrowers designated by the trustors on their behalf according to the entrust agreements signed by the Group and the trustors. The Group does not bear any risk.

The designated funds represent the funding that the trustors have instructed the Group to use to make loans to third parties as designated by them. The credit risk remains with the trustors.

47. ASSETS PLEDGED AS SECURITY

Financial assets of the Group including securities, bills and loans have been pledged as security for liabilities or contingent liabilities, mainly the repurchase agreements and derivative contracts. As at 31 December 2011, the carrying value of the financial assets of the Group pledged as security amounted to approximately RMB87,996 million (31 December 2010: RMB54,240 million).

(In RMB millions, unless otherwise stated)

48. FIDUCIARY ACTIVITIES

The Group provides custody, trust and asset management services to third parties. Revenue from such activities is included in "net fee and commission income" set out in note 7 above. Those assets held in a fiduciary capacity are not included in the Group's consolidated statement of financial position.

49. RELATED PARTY DISCLOSURES

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

(a) Shareholders with significant influence

(i) The MOF

The MOF is a ministry under the State Council, primarily responsible for, among others, state fiscal revenues, expenses and taxation policies. As at 31 December 2011, the MOF directly owned approximately 35.33% (31 December 2010: approximately 35.33%) of the issued share capital of the Bank. The Group enters into banking transactions with the MOF in its normal course of business, including the subscription and redemption of government bonds issued by the MOF. Details of the material transactions are as follows:

	2011	2010
Balances at end of the year:		
The PRC government bonds and the special government bond	867,847	735,716

	2011	2010
Transactions during the year:		
Subscription of the PRC government bonds	175,520	271,170
Redemption of the PRC government bonds	90,217	117,668
Interest income on the PRC government bonds	28,020	21,585
Repayment of the MOF receivable	—	62,520
Interest income on the MOF receivable	—	153
Interest rate ranges during the year are as follows:	%	%
The MOF receivable	N/A	3.00
Bond investments	1.00 to 6.43	1.00 to 6.80

As of 31 December 2011, the Group holds a series of long term bonds issued by Huarong, which is under the control of the MOF, with an aggregate amount of RMB312,996 million (31 December 2010: RMB312,996 million). The details of Huarong bonds are included in note 27.

Other related party transactions between the Group and enterprises under the control or joint control of the MOF are disclosed in note 49(g) "transactions with state-owned entities in the PRC".

(In RMB millions, unless otherwise stated)

49. RELATED PARTY DISCLOSURES (CONTINUED)

(a) Shareholders with significant influence (continued)

(ii) Huijin

As at 31 December 2011, Central Huijin Investment Ltd ("Huijin") directly owned approximately 35.43% (31 December 2010: approximately 35.43%) of the issued share capital of the Bank. Huijin is a state-owned investment company established on 16 December 2003 under the Company Law of the PRC. Huijin has a total registered and paid-in capital of RMB828,209 million, and its legal representative is Mr. Lou Jiwei. Huijin is a wholly-owned subsidiary of China Investment Corporation, and in accordance with the authorisation by the State, Huijin makes equity investments in the key state-owned financial institutions, and shall, to the extent of its capital contribution, exercise the rights and perform the obligations as an investor on behalf of the State in accordance with applicable laws, to achieve the goal of preserving and enhancing the value of state-owned financial assets. Huijin does not engage in other business activities, and does not intervene in the day-to-day business operations of the key state-owned financial institutions it controls.

As at 31 December 2011, the Huijin Bonds held by the Bank are of an aggregate face value of RMB21.63 billion (31 December 2010: RMB21.43 billion), with the terms ranging from 5 to 30 years and coupon rate ranging from 3.14% to 4.20% per annum. The Huijin Bonds are government-backed and the Bank's subscription of the Huijin Bonds was conducted in the ordinary course of business, in compliance with relevant regulatory requirements and the corporate governance of the Bank.

The Group entered into banking transactions with Huijin in the ordinary course of business under normal commercial terms and at the market rates. Details of the material transactions are as follows:

	2011	2010
Balances at end of the year:		
Debt securities purchased	20,926	20,407
Interest receivable	239	238
Deposits	1	3,642
Interest payable	—	1

	2011	2010
Transactions during the year:		
Debt securities purchased	200	21,430
Interest income on debt securities purchased	765	235
Interest expense on deposits	20	59
Interest rate ranges during the year are as follows:	%	%
Debt securities purchased	3.14 to 4.20	3.14 to 4.20
Deposits	0.02 to 1.49	0.02 to 1.98

(In RMB millions, unless otherwise stated)

49. RELATED PARTY DISCLOSURES (CONTINUED)

(a) Shareholders with significant influence (continued)

Huijin has equity interests in certain other banks and financial institutions under the direction of the Government. The Group enters into transactions with these banks and financial institutions in the ordinary course of business under normal commercial terms. Management considers that these banks and financial institutions are competitors of the Group. Significant transactions during the year conducted with these banks and financial institutions, and the corresponding balances as at 31 December 2011 are as follows:

	2011	2010
Balances at end of the year:		
Debt securities purchased	828,155	659,589
Due from these banks and financial institutions	48,149	18,955
Derivative financial assets	1,144	1,213
Due to these banks and financial institutions	91,868	76,955
Derivative financial liabilities	953	1,101

	2011	2010
Transactions during the year:		
Interest income on debt securities purchased	25,974	18,851
Interest income on amounts due from these banks and financial institutions	359	323
Interest expense on amounts due to these banks and financial institutions	984	715
Interest rate ranges during the year are as follows:	%	%
Debt securities purchased	0 to 8.25	0 to 5.50
Due from these banks and financial institutions	0.0001 to 7.60	0.0001 to 8.01
Due to these banks and financial institutions	0.0001 to 8.00	0.0001 to 9.40

The interest rates disclosed above vary across product groups and transactions depending on the maturity date, credit risk of counterparty and currency. In particular, given local market conditions, the spread of certain significant or long dated transactions can vary across the market.

(b) Subsidiaries

	2011	2010
Balances at end of the year:		
Debt securities purchased	14,621	9,765
Due from banks and other financial institutions	66,463	36,682
Derivative financial assets	209	153
Due to banks and other financial institutions	33,276	16,824
Derivative financial liabilities	239	65
Commitments	120,246	62,189

	2011	2010
Transactions during the year:		
Interest income on debt securities purchased	124	89
Interest income on amounts due from banks and other financial institutions	669	296
Interest expense on amounts due to banks and other financial institutions	280	260
Net trading expense	33	12
Net fee and commission income	209	211
Interest rate ranges during the year are as follows:	%	%
Debt securities purchased	0.35 to 1.56	0.28 to 1.85
Due from banks and other financial institutions	0 to 8.72	0 to 4.88
Due to banks and other financial institutions	0 to 8.74	0 to 5.60

The material balances and transactions with subsidiaries have been eliminated in full in the consolidated financial statements.

(In RMB millions, unless otherwise stated)

49. RELATED PARTY DISCLOSURES (CONTINUED)

(c) Associates and affiliates

	2011	2010
Balances at end of the year:		
Due from banks	984	404
Loans to associates	1,693	1,467
Other receivables	464	552
Due to banks	2,855	927
Deposits	28	6

	2011	2010
Transactions during the year:		
Interest income on amounts due from banks	3	18
Interest income on loans to associates	41	34
Interest expense on amounts due to banks	15	8
Interest rates ranges during the year are as follows:	%	%
Due from banks	5.55 to 9.50	6.15 to 14.50
Loans to associates	2.25 to 7.00	2.87 to 6.77
Due to banks	0.72 to 1.72	1.05 to 1.45
Deposits	0 to 3.05	0 to 0.51

The major transactions between the Group and the associates and their affiliates mainly comprised taking and placing interbank balances, lending and deposit taking and the corresponding interest income and interest expense. In the opinion of the management, the transactions between the Group and the associates and their affiliates were conducted under normal commercial terms and conditions.

(d) Jointly-controlled entities and affiliates

	2011	2010
Balances at end of the year:		
Deposits	336	212

	2011	2010
Transactions during the year:		
Interest expense on deposits	1	1
Interest rates during the year are as follows:	%	%
Deposits	0 to 0.80	0.196 to 0.89

In the opinion of the management, the transactions between the Group and the aforementioned parties were conducted in the ordinary course of business under normal terms and conditions and at market rates.

49. RELATED PARTY DISCLOSURES (CONTINUED)

(e) Key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group, directly or indirectly, including members of the board of directors, the supervisory board and executive officers.

The aggregate compensation for the year, other than those for the personnel disclosed in note 13 above, is as follows:

	2011 RMB'000	2010 RMB'000
Short term employment benefits	7,264	9,341
Post-employment benefits	210	1,119
	7,474	10,460

Note: The above compensation for the year ended 31 December 2010 was restated in accordance with the supplemental announcement for the 2010 annual report released by the Bank on 17 May 2011.

The total compensation packages for senior management of the Bank for the year ended 31 December 2011 have not been finalised in accordance with the regulations of the PRC relevant authorities. The remuneration not yet accrued is not expected to have a significant impact on the Group's and the Bank's 2011 financial statements. The total compensation packages will be further disclosed when determined by the relevant authorities.

Companies or corporations, in which the key management of the Group or their close relatives are shareholders or key management personnel who are able to exercise control directly or indirectly are also considered as related parties of the Group.

The transactions between the Group and the aforementioned parties for the year are as follows:

	2011	2010
Loans	254	114
Deposits	—	395

In the opinion of the management, the transactions between the Group and the aforementioned parties were conducted in the ordinary course of business under normal terms and conditions and at market rates.

(f) Annuity Fund

Apart from the obligations for defined contributions to the Annuity Fund, no transactions were conducted between the Group and the Annuity Fund during the year (2010: Nil).

(g) Transactions with state-owned entities in the PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the Government through its authorities, affiliates or other organisations (collectively the "state-owned entities"). During the year, the Group entered into extensive banking transactions with these state-owned entities including, but not limited to, lending and deposit taking, taking and placing of interbank balances, entrusted lending and the provision of intermediary services, the sale, purchase, underwriting and redemption of bonds issued by other state-owned entities, and the sale, purchase, and leasing of properties and other assets.

49. RELATED PARTY DISCLOSURES (CONTINUED)

(g) Transactions with state-owned entities in the PRC (continued)

Management considers that transactions with state-owned entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those state-owned entities are ultimately controlled or owned by the Government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are state-owned entities.

50. SEGMENT INFORMATION

(a) Operating segments

For management purposes, the Group is organised into different operating segments, namely corporate banking, personal banking and treasury operations, based on internal organisational structure, management requirement and internal reporting system.

Corporate banking

The corporate banking segment covers the provision of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, trade financing, deposit-taking activities, corporate wealth management services, custody activities and various types of corporate intermediary services.

Personal banking

The personal banking segment covers the provision of financial products and services to individual customers. The products and services include personal loans, deposit-taking activities, card business, personal wealth management services and various types of personal intermediary services.

Treasury operations

The treasury operations segment covers the Group's treasury operations which include money market transactions, investment securities, foreign exchange transactions and the holding of derivative positions, for its own accounts or on behalf of customers.

Others

This represents the assets, liabilities, income and expenses that are not directly attributable or cannot be allocated to a segment on a reasonable basis.

Management monitors the operating results of the Group's business units separately for the purpose of making decisions about resources allocation and performance assessment. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Group.

Transactions between segments mainly represent the provision of funding to and from individual segments. These transactions are conducted on terms determined with reference to the average cost of funding and have been reflected in the performance of each segment. Net interest income and expense arising on internal fund transfer are referred to as "internal net interest income/expense". Net interest income and expense relating to third parties are referred to as "external net interest income/expense".

(In RMB millions, unless otherwise stated)

50. SEGMENT INFORMATION (CONTINUED)

Segment revenues, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The basis for allocation is mainly based on occupation of or contribution to resources. Income taxes are managed on a group basis and are not allocated to operating segments.

	Corporate banking	Personal banking	Treasury operations	Others	Total
Year ended 31 December 2011					
External net interest income/(expense)	230,891	(4,349)	136,222	—	362,764
Internal net interest income/(expense)	(44,679)	109,303	(64,624)	—	—
Net fee and commission income	62,330	38,821	399	—	101,550
Other income, net(i)	1,142	19	284	4,842	6,287
Operating income	249,684	143,794	72,281	4,842	470,601
Operating expenses	(78,221)	(70,761)	(15,603)	(5,028)	(169,613)
Impairment losses on:					
Loans and advances to customers	(18,489)	(13,343)	—	—	(31,832)
Others	(73)	9	840	(65)	711
Operating profit/(loss)	152,901	59,699	57,518	(251)	269,867
Share of profits and losses of associates and jointly-controlled entities	—	—	—	2,444	2,444
Profit before tax	152,901	59,699	57,518	2,193	272,311
Income tax expense					(63,866)
Profit for the year					208,445
Other segment information:					
Depreciation	5,165	4,251	2,377	234	12,027
Amortisation	664	472	264	26	1,426
Capital expenditure	12,545	10,288	5,723	561	29,117
As at 31 December 2011					
Segment assets	5,742,727	2,046,297	7,581,726	106,118	15,476,868
Including: Investments in associates and jointly-controlled entities	—	—	—	32,750	32,750
Property and equipment	44,316	36,486	20,200	18,026	119,028
Other non-current assets (ii)	12,746	7,829	4,276	6,749	31,600
Segment liabilities	6,519,080	6,013,448	1,953,920	32,597	14,519,045
Other segment information:					
Credit commitments	1,592,856	383,736	—	—	1,976,592

(i) Including net trading income/(expense), net loss on financial assets and liabilities designated at fair value through profit or loss, net gain on financial investments and other operating income, (net).

(ii) Including long term receivables, intangible assets, goodwill, long term deferred expenses and other non-current assets.

(In RMB millions, unless otherwise stated)

50. SEGMENT INFORMATION (CONTINUED)

	Corporate banking	Personal banking	Treasury operations	Others	Total
Year ended 31 December 2010					
External net interest income/(expense)	183,088	(8,376)	129,037	—	303,749
Internal net interest income/(expense)	(22,163)	90,350	(68,187)	—	—
Net fee and commission income	42,881	29,629	330	—	72,840
Other income/(expense), net (i)	955	17	(77)	3,264	4,159
Operating income	204,761	111,620	61,103	3,264	380,748
Operating expenses	(66,523)	(55,947)	(13,315)	(3,695)	(139,480)
Impairment losses on:					
Loans and advances to customers	(17,654)	(10,234)	—	—	(27,888)
Others	(428)	(23)	577	(226)	(100)
Operating profit/(loss)	120,156	45,416	48,365	(657)	213,280
Share of profits and losses of associates and jointly-controlled entities	—	—	—	2,146	2,146
Profit before tax	120,156	45,416	48,365	1,489	215,426
Income tax expense					(49,401)
Profit for the year					166,025
Other segment information:					
Depreciation	4,878	4,108	1,760	98	10,844
Amortisation	599	421	270	24	1,314
Capital expenditure	9,080	7,577	3,335	193	20,185
As at 31 December 2010					
Segment assets	5,103,058	1,690,881	6,567,786	96,897	13,458,622
Including: Investments in associates and jointly-controlled entities	—	—	—	40,325	40,325
Property and equipment	41,773	35,246	15,309	11,084	103,412
Other non-current assets (ii)	13,175	7,577	5,229	7,132	33,113
Segment liabilities	5,970,540	5,393,918	1,262,381	10,126	12,636,965
Other segment information:					
Credit commitments	1,405,128	244,029	—	—	1,649,157

(i) Including net trading expense, net loss on financial assets and liabilities designated at fair value through profit or loss, net gain on financial investments and other operating income (net).

(ii) Including long term receivables, intangible assets, goodwill, long term deferred expenses and other non-current assets.

(In RMB millions, unless otherwise stated)

50. SEGMENT INFORMATION (CONTINUED)

(b) Geographical information

The Group operates principally in Mainland China, and also has branches and subsidiaries operating outside Mainland China (including: Hong Kong, Macau, Singapore, Frankfurt, Luxembourg, Seoul, Busan, Tokyo, London, Almaty, Jakarta, Moscow, Doha, Dubai, Abu Dhabi, Sydney, Toronto, Kuala Lumpur, Hanoi, Bangkok, New York, Karachi, Mumbai, Phnom Penh, Vientiane and Islamabad).

The distribution of the geographical areas is as follows:

Mainland China (Head Office and domestic branches):

Head Office ("HO"): the HO business division (including institutions directly controlled by the HO and their offices);

Yangtze River Delta: including Shanghai, Jiangsu, Zhejiang, Ningbo and Suzhou;

Pearl River Delta: including Guangdong, Shenzhen, Fujian and Xiamen;

Bohai Rim: including Beijing, Tianjin, Hebei, Shandong and Qingdao;

Central China: including Shanxi, Henan, Hubei, Hunan, Anhui, Jiangxi and Hainan;

Western China: including Chongqing, Sichuan, Guizhou, Yunnan, Guangxi, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang, Inner Mongolia and Tibet; and

Northeastern China: including Liaoning, Heilongjiang, Jilin and Dalian.

Overseas and others: branches located outside Mainland China, domestic and overseas subsidiaries, and investments in associates and jointly-controlled entities.

	Mainland China (HO and domestic branches)									
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and others	Eliminations	Total
Year ended 31 December 2011										
External net interest income	143,397	56,644	33,077	29,509	31,597	44,668	14,452	9,420	—	362,764
Internal net interest income/(expense)	(114,350)	16,746	14,039	47,020	15,605	12,986	8,059	(105)	—	—
Net fee and commission income	2,284	25,472	17,733	18,907	14,449	14,529	4,809	3,511	(144)	101,550
Other income, net(i)	2,993	275	172	460	336	503	162	1,390	(4)	6,287
Operating income	34,324	99,137	65,021	95,896	61,987	72,686	27,482	14,216	(148)	470,601
Operating expenses	(10,849)	(30,399)	(21,946)	(30,419)	(27,712)	(30,468)	(12,838)	(5,130)	148	(169,613)
Impairment losses on:										
Loans and advances to customers	(4,206)	(5,988)	(4,003)	(5,493)	(5,415)	(5,291)	(521)	(915)	—	(31,832)
Others	778	64	(4)	149	69	129	(90)	(384)	—	711
Operating profit	20,047	62,814	39,068	60,133	28,929	37,056	14,033	7,787	—	269,867
Share of profits and losses of associates and jointly-controlled entities	—	—	—	—	—	—	—	2,444	—	2,444
Profit before tax	20,047	62,814	39,068	60,133	28,929	37,056	14,033	10,231	—	272,311
Income tax expense										(63,866)
Profit for the year										208,445
Other segment information:										
Depreciation	1,343	1,931	1,341	1,754	1,974	2,182	957	545	—	12,027
Amortisation	514	209	100	115	203	195	54	36	—	1,426
Capital expenditure	1,989	4,917	2,075	2,867	3,347	3,872	1,234	8,816	—	29,117

(i) Including net trading income/(expense), net loss on financial assets and liabilities designated at fair value through profit or loss, net gain on financial investments and other operating income, (net).

(In RMB millions, unless otherwise stated)

50. SEGMENT INFORMATION (CONTINUED)

(b) Geographical information (continued)

	Mainland China (HO and domestic branches)									
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and others	Eliminations	Total
As at 31 December 2011										
Assets by geographical areas	7,363,929	2,960,832	2,037,404	3,499,724	1,865,008	2,150,030	845,818	926,709	(6,194,524)	15,454,930
Including: Investments in associates and jointly-controlled entities	—	—	—	—	—	—	—	32,750	—	32,750
Property and equipment	9,218	22,004	11,828	17,063	17,370	18,941	9,393	13,211	—	119,028
Other non-current assets(i)	7,396	5,820	2,224	3,934	5,009	4,277	1,644	1,296	—	31,600
Unallocated assets										21,938
Total assets										15,476,868
Liabilities by geographical areas	6,698,446	2,901,326	1,999,210	3,440,828	1,837,114	2,113,992	831,310	839,705	(6,194,524)	14,467,407
Unallocated liabilities										51,638
Total liabilities										14,519,045
Other segment information:										
Credit commitments	394,265	434,989	343,562	311,307	118,215	142,619	56,967	174,668	—	1,976,592

(i) Including long term receivables, intangible assets, goodwill, long term deferred expenses and other non-current assets.

	Mainland China (HO and domestic branches)									
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and others	Eliminations	Total
2010										
External net interest income	126,065	48,154	27,283	23,656	25,354	36,031	9,946	7,260	—	303,749
Internal net interest income/(expense)	(113,757)	17,993	14,897	43,152	16,269	12,813	8,795	(162)	—	—
Net fee and commission income	2,320	18,666	12,626	13,589	9,692	9,468	3,447	3,187	(155)	72,840
Other income/(expense), net (i)	1,344	355	112	(361)	242	416	966	1,085	—	4,159
Operating income	15,972	85,168	54,918	80,036	51,557	58,728	23,154	11,370	(155)	380,748
Operating expenses	(8,574)	(25,738)	(18,312)	(24,890)	(22,498)	(24,760)	(11,042)	(3,821)	155	(139,480)
Impairment losses on:										
Loans and advances to customers	(2,146)	(4,665)	(2,717)	(5,533)	(5,257)	(4,893)	(1,903)	(774)	—	(27,888)
Others	579	4	22	(283)	(73)	(178)	(89)	(82)	—	(100)
Operating profit	5,831	54,769	33,911	49,330	23,729	28,897	10,120	6,693	—	213,280
Share of profits and losses of associates and jointly-controlled entities	—	—	—	—	—	—	—	2,146	—	2,146
Profit before tax	5,831	54,769	33,911	49,330	23,729	28,897	10,120	8,839	—	215,426
Income tax expense										(49,401)
Profit for the year										166,025
Other segment information:										
Depreciation	1,156	1,854	1,265	1,646	1,763	1,985	935	240	—	10,844
Amortisation	427	221	93	110	186	192	54	31	—	1,314
Capital expenditure	2,871	2,782	1,805	2,190	3,102	2,966	1,031	3,438	—	20,185

(i) Including net trading expense, net loss on financial assets and liabilities designated at fair value through profit or loss, net gain on financial investments, and other operating income (net).

(In RMB millions, unless otherwise stated)

50. SEGMENT INFORMATION (CONTINUED)

(b) Geographical information (continued)

	Mainland China (HO and domestic branches)									
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and others	Eliminations	Total
As at 31 December 2010										
Assets by geographical areas	6,416,616	2,647,319	1,816,317	3,204,012	1,687,592	1,861,269	767,301	588,788	(5,552,304)	13,436,910
Including: Investments in associates and jointly-controlled entities	—	—	—	—	—	—	—	40,325	—	40,325
Property and equipment	9,059	19,197	11,172	16,059	16,179	17,513	9,135	5,098	—	103,412
Other non-current assets (i)	7,763	6,230	2,228	4,044	5,312	4,270	1,932	1,334	—	33,113
Unallocated assets										21,712
Total assets										13,458,622
Liabilities by geographical areas	5,792,020	2,608,612	1,794,891	3,173,023	1,674,977	1,845,875	760,387	505,407	(5,552,304)	12,602,888
Unallocated liabilities										34,077
Total liabilities										12,636,965
Other segment information:										
Credit commitments	253,436	369,051	323,712	319,667	94,448	107,885	46,026	134,932	—	1,649,157

(i) Including long term receivables, intangible assets, goodwill, long term deferred expenses and other non-current assets.

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT

A description and an analysis of the major risks faced by the Group are as follows:

The board of directors (the "Board") has the ultimate responsibility for the risk management and oversees the Group's risk management functions through the Risk Management Committee and the Audit Committee of the Board.

The President supervises the risk management strategies and reports directly to the Board. He chairs two management committees including the Risk Management Committee and the Asset and Liability Management Committee. These two committees formulate and make recommendations in respect of risk management strategies and policies through the President to the Risk Management Committee of the Board. The Chief Risk Officer assists the President to supervise and manage various risks.

The Group has also assigned departments monitoring financial risks within the Group, including the Credit Management Department to monitor credit risk, the Risk Management Department together with the Asset and Liability Management Department to monitor market and liquidity risks, and the Internal Control and Compliance Department to monitor operational risk. The Risk Management Department is primarily responsible for coordinating and establishing a comprehensive risk management framework, preparing consolidated reports on credit risk, market risk and operational risk and reporting directly to the Chief Risk Officer.

The Bank maintains a dual-reporting line structure at the branch level for risk management purposes. Under this structure, the risk management departments of the branches report to both the corresponding risk management departments at the head office and management of the relevant branches.

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(a) Credit risk

Credit risk is the risk of loss arising from a borrower's or counterparty's inability to meet its obligations. Credit risk can also arise from operational failures that result in an unauthorised or inappropriate guarantee, commitment or investment of funds. The Group is exposed to credit risk primarily due to loans, guarantees and other credit related commitments.

The principal features of the Group's credit risk management function include:

- Centralised credit management procedures;
- Risk management rules and procedures that focus on risk control throughout the entire credit business process, including customer investigation and credit rating, granting of credit limits, loan evaluation, loan review and approval, granting of loan and post-disbursement loan monitoring;
- Stringent qualification system for the loan approval officers; and
- Information management systems designed to enable a real time risk monitoring.

To enhance the credit risk management practices, the Group also launches training programs periodically for credit officers at different levels.

In addition to the credit risk exposures on credit-related assets and amounts due from or lending to banks and other financial institutions, credit risk also arises in other areas. For instance, credit risk exposure also arises from derivative financial instruments which is, however, limited to those with positive fair values, as recorded in the statement of financial position. In addition, the Group also makes available to its customers' guarantees which may require the Group to make payments on their behalf. Such payments are collected from customers based on the terms of the agreements signed. They expose the Group to similar risks as loans and these are mitigated by the same control processes and policies.

The Group will normally sign an ISDA Master Agreement, a China Interbank Market Financial Derivatives Master Agreement ("NAFMII master agreement") with its counterparties for documenting over-the-counter derivatives activities. Each of these master agreements provides the contractual framework within which derivatives dealing activities are conducted. Under each of these master agreements, close-out netting shall be applied across all outstanding transactions covered by the agreement if either party defaults.

Risk concentration

Credit risk is often greater when counterparties are concentrated in one single industry or geographical location or have comparable economic characteristics.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or whether there are any liquidity problems of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed impairment and collectively assessed impairment.

Individually assessed loans

All corporate loans and discounted bills are individually reviewed for objective evidence of impairment and classified based on a five-tier classification system. Corporate loans and discounted bills that are classified as substandard, doubtful or loss are assessed individually for impairment.

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

If there is objective evidence that an impairment loss on a loan or advance has been incurred on an individual basis, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The allowance for impairment loss is deducted in the carrying amount. The impairment loss is recognised in the income statement. In determining allowances on an individual basis, the following factors are considered:

- The sustainability of the counterparty's business plan;
- The borrower's ability to improve performance once a financial difficulty has arisen;
- Projected receipts and the expected payout should bankruptcy ensue;
- The availability of other financial support and the realisable value of collateral; and
- The timing of the expected cash flows.

It may not be possible to identify a single, discrete event that caused the impairment, but it may be possible to identify impairment through the combined effect of several events. The impairment losses are evaluated at the end of each reporting period, unless unforeseen circumstances require more careful attention.

Collectively assessed loans

Loans that are assessed for impairment losses on a collective basis include the following:

- Homogeneous groups of loans, including all personal loans; and
- All loans for which no impairment can be identified individually, either due to the absence of any loss events or due to an inability to measure reliably the impact of potential loss events on future cash flows.

For the purpose of collective assessment, assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

Objective evidence of impairment losses on a collective basis consists of observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans since the initial recognition of those loans, including:

- Adverse changes in the payment status of borrowers in the group of loans; and
- National or local economic conditions that correlate with defaults on assets in the portfolio of loans.

Homogenous groups of loans not considered individually significant

For homogeneous groups of loans, the Group uses a collective assessment approach for impairment losses. The approach analyses historical trends of probability of default and the amount of the consequential loss, as well as evaluates current economic conditions that may have a consequential impact on inherent losses in the portfolio.

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Individually assessed loans with no objective evidence of impairment

When no impairment can be identified for individual loans, either due to the absence of any loss events or due to an inability to measure reliably the impact of potential loss events on future cash flows, these loans are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. This loss covers those loans that were impaired at the end of the reporting period but which would not be individually identified as impaired until some time in the future. The collective impairment loss is assessed after taking into account:

- Historical loss experience in portfolios of similar risk characteristics; and
- The current economic and credit environment and, whether these, in management's experience, indicate that the actual level of incurred but not yet identified losses is likely to be greater or less than that suggested by historical experience.

As soon as information that specifically identifies objective evidence of impairment on individual assets in a pool is available, those assets are excluded and individually assessed. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment for impairment.

Collateral

The amount and type of collateral required depend on the assessment of the credit risk of the counterparty. Guidelines are in place specifying the types of collateral and valuation parameters which can be accepted.

Reverse repurchase business is mainly collateralised by bills, loans or investment securities. As part of the reverse repurchase agreements, the Group has received securities that it is allowed to sell or repledge in the absence of default by their owners. Fair value of collateral are shown in note 25.

Corporate loans are mainly collateralised by properties or other assets. As at 31 December 2011, the carrying value of corporate loans covered by collateral amounted to RMB2,306,381 million (31 December 2010: RMB1,959,252 million).

Retail loans are mainly collateralised by residential properties. As at 31 December 2011, the carrying value of retail loans covered by collateral amounted to RMB1,740,603 million (31 December 2010: RMB1,483,411 million).

The Group prefers more liquid collateral with relatively stable market value and does not accept the collateral that is illiquid, with difficulties in registration or high fluctuations in market value. The value of collateral should be assessed and confirmed by the Group or valuation agents identified by the Group. The value of collateral should adequately cover the outstanding balance of loan. The loan-to-value ratio depends on types of collateral, usage condition, liquidity, price volatility and realisation cost. All collateral has to be registered in accordance with the relevant laws and regulations. The credit officers inspect the collateral and assess the changes in the value of collateral regularly.

Although collateral can be an important mitigation of credit risk, the Group grants loans based on the assessment of the borrowers' ability to meet obligations out of their cash flow, instead of the value of collateral. The necessity of a collateral is dependent on the nature of the loan. In the event of default, the Group might sell the collateral for repayment. The fair value of collateral of past due but not impaired loans and impaired loans are disclosed in note 51(a)(iii).

(In RMB millions, unless otherwise stated)

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Management monitors the market value of collateral periodically and requests additional collateral in accordance with the underlying agreement when it is considered necessary.

It is the Group's policy to dispose of repossessed assets in an orderly manner. In general, the Group does not occupy repossessed assets for business use.

(i) Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

As at the end of the reporting period, the maximum credit risk exposure of the Group and of the Bank without taking account of any collateral and other credit enhancements is set out below:

	Group		Bank	
	2011	2010	2011	2010
Balances with central banks	2,702,011	2,234,075	2,678,544	2,224,517
Due from banks and other financial institutions	478,002	248,860	474,287	259,638
Financial assets held for trading	30,675	10,051	29,849	6,959
Financial assets designated at fair value through profit or loss	121,386	2,798	120,811	1,988
Derivative financial assets	17,460	13,332	15,476	10,879
Reverse repurchase agreements	349,437	262,227	229,769	228,501
Loans and advances to customers	7,594,019	6,623,372	7,246,627	6,355,840
Financial investments				
— Receivables	498,804	501,706	498,804	501,706
— Held-to-maturity investments	2,424,785	2,312,781	2,434,135	2,316,159
— Available-for-sale financial assets	835,983	899,750	795,380	861,613
Others	114,909	86,256	91,403	73,735
	15,167,471	13,195,208	14,615,085	12,841,535
Credit commitments	1,976,592	1,649,157	1,965,026	1,564,672
Total maximum credit risk exposure	17,144,063	14,844,365	16,580,111	14,406,207

(ii) Risk concentrations

Credit risk is often greater when counterparties are concentrated in one single industry or geographic location or have comparable economic features. In addition, different geographic areas and industrial sectors have their unique characteristics in terms of economic development, and could present a different credit risk.

(In RMB millions, unless otherwise stated)

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

By geographical distribution

The following tables set out the breakdown of the Group's and the Bank's maximum credit risk exposure without taking account of any collateral and other credit enhancements, as categorised by geographical distribution.

Group

31 December 2011

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Overseas and others	Total
Balances with central banks	2,438,416	46,875	28,657	103,321	18,484	27,191	9,817	29,250	2,702,011
Due from banks and other financial institutions	238,762	29,940	62,048	39,783	8,550	4,837	14,838	79,244	478,002
Financial assets held for trading	29,849	—	—	—	—	—	—	826	30,675
Financial assets designated at fair value through profit or loss	120,811	—	—	—	—	—	—	575	121,386
Derivative financial assets	11,681	487	646	973	136	261	559	2,717	17,460
Reverse repurchase agreements	188,937	3,244	4,219	29,166	3,511	—	692	119,668	349,437
Loans and advances to customers	241,393	1,701,446	1,062,254	1,372,315	1,018,435	1,276,320	449,556	472,300	7,594,019
Financial investments									
— Receivables	497,504	—	—	1,120	—	180	—	—	498,804
— Held-to-maturity investments	2,348,867	31,782	23,423	11,235	—	—	1,000	8,478	2,424,785
— Available-for-sale financial assets	462,216	56,726	26,225	207,643	13,833	11,977	4,464	52,899	835,983
Others	49,373	10,210	5,001	9,770	6,369	7,144	2,035	25,007	114,909
	6,627,809	1,880,710	1,212,473	1,775,326	1,069,318	1,327,910	482,961	790,964	15,167,471
Credit commitments	394,265	434,989	343,562	311,307	118,215	142,619	56,967	174,668	1,976,592
Total maximum credit risk exposure	7,022,074	2,315,699	1,556,035	2,086,633	1,187,533	1,470,529	539,928	965,632	17,144,063

The compositions of each geographical distribution above are set out in note 50(b).

31 December 2010

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Overseas and others	Total
Balances with central banks	2,010,309	50,589	26,648	81,346	14,514	28,265	11,265	11,139	2,234,075
Due from banks and other financial institutions	108,249	24,159	6,156	26,787	18,731	8,608	24,742	31,428	248,860
Financial assets held for trading	6,959	—	—	—	—	—	—	3,092	10,051
Financial assets designated at fair value through profit or loss	1,850	—	—	—	—	—	—	948	2,798
Derivative financial assets	7,433	634	865	699	71	258	691	2,681	13,332
Reverse repurchase agreements	165,691	25,600	1,806	13,734	2,361	1,702	17,607	33,726	262,227
Loans and advances to customers	160,032	1,547,691	955,623	1,221,346	894,731	1,111,895	394,666	337,388	6,623,372
Financial investments									
— Receivables	495,706	—	—	—	—	—	6,000	—	501,706
— Held-to-maturity investments	2,184,996	61,403	35,337	20,372	—	—	1,000	9,673	2,312,781
— Available-for-sale financial assets	550,264	43,016	21,419	205,465	9,066	11,819	3,657	55,044	899,750
Others	40,251	8,272	3,943	7,265	5,279	6,000	1,684	13,562	86,256
	5,731,740	1,761,364	1,051,797	1,577,014	944,753	1,168,547	461,312	498,681	13,195,208
Credit commitments	253,436	369,051	323,712	319,667	94,448	107,885	46,026	134,932	1,649,157
Total maximum credit risk exposure	5,985,176	2,130,415	1,375,509	1,896,681	1,039,201	1,276,432	507,338	633,613	14,844,365

The compositions of each geographical distribution above are set out in note 50(b).

(In RMB millions, unless otherwise stated)

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Bank

31 December 2011

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Overseas and others	Total
Balances with central banks	2,438,416	46,875	28,657	103,321	18,484	27,191	9,817	5,783	2,678,544
Due from banks and other financial institutions	265,768	30,119	63,297	40,055	8,809	4,891	14,843	46,505	474,287
Financial assets held for trading	29,849	—	—	—	—	—	—	—	29,849
Financial assets designated at fair value through profit or loss	120,811	—	—	—	—	—	—	—	120,811
Derivative financial assets	11,696	487	646	973	136	261	559	718	15,476
Reverse repurchase agreements	188,937	3,244	4,219	29,166	3,511	—	692	—	229,769
Loans and advances to customers	241,393	1,701,639	1,062,254	1,374,727	1,018,435	1,276,623	452,063	119,493	7,246,627
Financial investments									
— Receivables	497,504	—	—	1,120	—	180	—	—	498,804
— Held-to-maturity investments	2,355,034	31,782	23,423	11,235	—	—	1,000	11,661	2,434,135
— Available-for-sale financial assets	462,216	56,726	26,225	207,643	13,833	11,977	4,464	12,296	795,380
Others	49,541	10,210	5,001	9,770	6,369	7,144	2,035	1,333	91,403
	6,661,165	1,881,082	1,213,722	1,778,010	1,069,577	1,328,267	485,473	197,789	14,615,085
Credit commitments	394,265	465,608	369,203	319,876	121,876	145,641	57,971	90,586	1,965,026
Total maximum credit risk exposure	7,055,430	2,346,690	1,582,925	2,097,886	1,191,453	1,473,908	543,444	288,375	16,580,111

The compositions of each geographical distribution above are set out in note 50(b), except that "overseas and others" does not include domestic and overseas subsidiaries.

31 December 2010

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Overseas and others	Total
Balances with central banks	2,010,309	50,589	26,648	81,346	14,514	28,265	11,265	1,581	2,224,517
Due from banks and other financial institutions	128,702	24,199	7,747	26,841	18,754	8,638	24,761	19,996	259,638
Financial assets held for trading	6,959	—	—	—	—	—	—	—	6,959
Financial assets designated at fair value through profit or loss	1,850	—	—	—	—	—	—	138	1,988
Derivative financial assets	7,441	634	865	699	71	258	691	220	10,879
Reverse repurchase agreements	165,691	25,600	1,806	13,734	2,361	1,702	17,607	—	228,501
Loans and advances to customers	160,032	1,547,691	955,623	1,224,165	894,731	1,112,185	395,140	66,273	6,355,840
Financial investments									
— Receivables	495,706	—	—	—	—	—	6,000	—	501,706
— Held-to-maturity investments	2,191,473	61,403	35,337	20,372	—	—	1,000	6,574	2,316,159
— Available-for-sale financial assets	550,264	43,016	21,419	205,465	9,066	11,819	3,657	16,907	861,613
Others	40,265	8,272	3,943	7,265	5,279	6,000	1,684	1,027	73,735
	5,758,692	1,761,404	1,053,388	1,579,887	944,776	1,168,867	461,805	112,716	12,841,535
Credit commitments	253,436	370,947	333,850	323,341	95,395	107,896	46,121	33,686	1,564,672
Total maximum credit risk exposure	6,012,128	2,132,351	1,387,238	1,903,228	1,040,171	1,276,763	507,926	146,402	14,406,207

The compositions of each geographical distribution above are set out in note 50(b), except that "overseas and others" does not include domestic and overseas subsidiaries.

(In RMB millions, unless otherwise stated)

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

By industry distribution

The credit risk exposures of the Group mainly comprise loans and advances to customers and investments in securities. Details of the composition of the Group's investments in debt securities are set out in note 51(a)(iv) to the financial statements. The composition of the Group's and of the Bank's gross loans and advances to customers by industry is analysed as follows:

	Group		Bank	
	2011	2010	2011	2010
Manufacturing	1,163,275	970,184	1,129,781	947,084
Transportation, storage and postal services	1,114,765	1,039,929	1,066,027	1,002,646
Wholesale, retail and lodging	708,962	430,954	630,986	399,128
Production and supply of electricity, gas and water	613,140	597,189	595,101	579,740
Real estate	577,563	586,654	515,240	518,419
Water, environment and public utility management	507,112	552,886	503,015	549,326
Leasing and commercial services	362,011	378,568	352,400	360,724
Mining	190,180	133,358	185,582	131,301
Construction	121,432	89,188	115,490	84,252
Science, education, culture and sanitation	70,069	69,265	67,674	68,202
Others	238,002	169,106	179,721	129,874
Subtotal for corporate loans and advances	5,666,511	5,017,281	5,341,017	4,770,696
Personal mortgage and business loans	1,455,670	1,288,683	1,440,103	1,274,066
Others	559,256	367,036	551,169	359,126
Subtotal for personal loans	2,014,926	1,655,719	1,991,272	1,633,192
Discounted bills	107,460	117,506	106,560	117,135
Total for loans and advances to customers	7,788,897	6,790,506	7,438,849	6,521,023

(iii) Loans and advances to customers

The total credit risk exposures of loans and advances to customers are summarised as follows:

	Group		Bank	
	2011	2010	2011	2010
Neither past due nor impaired	7,670,928	6,680,206	7,326,564	6,415,279
Past due but not impaired	44,958	37,059	41,604	34,230
Impaired	73,011	73,241	70,681	71,514
	7,788,897	6,790,506	7,438,849	6,521,023
Allowance for impairment losses	(194,878)	(167,134)	(192,222)	(165,183)
	7,594,019	6,623,372	7,246,627	6,355,840

(In RMB millions, unless otherwise stated)

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Neither past due nor impaired

The loans and advances to customers of the Group that are neither past due nor impaired are classified as "Pass" or "Special mention" under the five-tier loan classification system maintained by the Group. Management of the Group considers that these loans are exposed to normal business risk and there was no identifiable objective evidence of impairment for these loans which may incur losses to the Group at the end of the reporting period.

The following table presents the types of loans and advances to customers which are neither past due nor impaired as at the end of the reporting period:

Group

	2011			2010		
	Pass	Special mention	Total	Pass	Special mention	Total
Unsecured loans	2,484,037	62,741	2,546,778	2,208,160	58,018	2,266,178
Guaranteed loans	1,126,494	50,018	1,176,512	986,943	54,996	1,041,939
Loans secured by mortgages	3,098,165	65,880	3,164,045	2,647,311	66,646	2,713,957
Pledged loans	761,016	22,577	783,593	633,469	24,663	658,132
	7,469,712	201,216	7,670,928	6,475,883	204,323	6,680,206

Bank

	2011			2010		
	Pass	Special mention	Total	Pass	Special mention	Total
Unsecured loans	2,371,749	61,560	2,433,309	2,134,575	56,787	2,191,362
Guaranteed loans	1,046,953	49,412	1,096,365	934,950	54,492	989,442
Loans secured by mortgages	2,957,563	61,867	3,019,430	2,526,592	58,773	2,585,365
Pledged loans	754,935	22,525	777,460	624,486	24,624	649,110
	7,131,200	195,364	7,326,564	6,220,603	194,676	6,415,279

Past due but not impaired

The following tables present the ageing analysis of each type of loans and advances to customers of the Group and the Bank that are subject to credit risk which are past due but not impaired as at the end of the reporting period:

Group

	2011			2010		
	Corporate loans and advances	Personal loans	Total	Corporate loans and advances	Personal loans	Total
Past due for:						
Less than one month	3,819	30,882	34,701	3,365	24,720	28,085
One to two months	376	5,717	6,093	250	4,647	4,897
Two to three months	353	3,770	4,123	95	3,548	3,643
Over three months	37	4	41	426	8	434
Total	4,585	40,373	44,958	4,136	32,923	37,059
Fair value of collateral held	3,541	87,258	90,799	5,263	73,598	78,861

(In RMB millions, unless otherwise stated)

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Bank

	2011			2010		
	Corporate loans and advances	Personal loans	Total	Corporate loans and advances	Personal loans	Total
Past due for:						
Less than one month	1,581	30,544	32,125	1,687	24,405	26,092
One to two months	2	5,675	5,677	6	4,577	4,583
Two to three months	37	3,765	3,802	13	3,542	3,555
Over three months	—	—	—	—	—	—
Total	1,620	39,984	41,604	1,706	32,524	34,230
Fair value of collateral held	654	85,592	86,246	2,799	72,925	75,724

Impaired

Impaired loans and advances are defined as those loans and advances having objective evidence of impairment as a result of one or more events that occur after initial recognition and that event has an impact on the estimated future cash flows of loans and advances that can be reliably estimated. These loans and advances include corporate loans and personal loans which are graded as "Substandard", "Doubtful" or "Loss".

The fair values of collateral that the Group and the Bank hold relating to loans individually determined to be impaired as at 31 December 2011 amounted to RMB14,599 million (31 December 2010: RMB13,408 million) and RMB13,096 million (31 December 2010: RMB12,435 million), respectively. The collateral mainly consists of land and buildings, equipment and also others.

Renegotiated loans and advances to customers

The Group has formulated a set of loan restructuring policies to renegotiate the contractual terms with customers, to maximise the collectability of loans and to manage customer relationships.

The carrying amount of renegotiated loans and advances to customers is as follows:

	Group		Bank	
	2011	2010	2011	2010
Renegotiated loans and advances to customers	8,312	10,716	8,093	10,456
Impaired loans and advances to customers included in above	6,622	9,047	6,554	8,885

Collateral repossessed

During the year, the Group took possession of collateral held as security with a carrying amount of RMB661 million (2010: RMB1,067 million). Such collateral mainly comprises land and buildings, equipment and also others.

(In RMB millions, unless otherwise stated)

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iv) Debt securities

The credit risk of debt securities mainly arises from the risk that the issuer might default on a payment or go into liquidation. Debt securities by different types of issuers are generally subject to different degrees of credit risk.

The following tables present an analysis of the Group's total credit risk exposures of debt securities by types of issuers and investments:

Group

31 December 2011

	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets held-for-trading	Financial assets designated at fair value through profit or loss	Total
Neither past due nor impaired						
Governments and central banks	119,808	1,315,218	189,320	723	801	1,625,870
Policy banks	35,090	1,052,666	221,214	444	9,168	1,318,582
Public sector entities	2,500	21,688	68,259	1,008	100	93,555
Banks and other financial institutions	332,756	23,968	78,829	463	212	436,228
Corporate entities	8,650	10,967	278,309	28,037	263	326,226
Subtotal	498,804	2,424,507	835,931	30,675	10,544	3,800,461
Impaired (i)						
Banks and other financial institutions	—	742	4	—	—	746
Corporate entities	—	30	48	—	—	78
	—	772	52	—	—	824
Less: Allowance for impairment losses	—	(494)	—	—	—	(494)
Subtotal	—	278	52	—	—	330
Total	498,804	2,424,785	835,983	30,675	10,544	3,800,791

31 December 2010

	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets held-for-trading	Financial assets designated at fair value through profit or loss	Total
Neither past due nor impaired						
Governments and central banks	134,850	1,501,434	364,569	1,588	—	2,002,441
Policy banks	47,000	742,532	187,130	1,241	—	977,903
Public sector entities	—	22,157	63,865	145	106	86,273
Banks and other financial institutions	319,856	28,961	72,916	1,254	299	423,286
Corporate entities	—	15,109	206,974	5,823	543	228,449
Subtotal	501,706	2,310,193	895,454	10,051	948	3,718,352
Impaired (i)						
Public sector entities	—	1,065	3,875	—	—	4,940
Banks and other financial institutions	—	2,965	420	—	—	3,385
Corporate entities	—	32	1	—	—	33
	—	4,062	4,296	—	—	8,358
Less: Allowance for impairment losses	—	(1,474)	—	—	—	(1,474)
Subtotal	—	2,588	4,296	—	—	6,884
Total	501,706	2,312,781	899,750	10,051	948	3,725,236

(i) Impaired debt securities above are all determined based on individual assessments. In determining whether a debt security is impaired, the Group considers the evidence of a loss event and the decreases in estimated future cash flows. No collateral was held by the Group as security of the impaired debt securities.

(In RMB millions, unless otherwise stated)

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Bank

31 December 2011

	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets held-for-trading	Financial assets designated at fair value through profit or loss	Total
Neither past due nor impaired						
Governments and central banks	119,808	1,313,005	186,055	470	801	1,620,139
Policy banks	35,090	1,052,561	220,592	436	9,168	1,317,847
Public sector entities	2,500	21,607	67,289	915	—	92,311
Banks and other financial institutions	332,756	35,811	54,038	20	—	422,625
Corporate entities	8,650	10,878	267,402	28,008	—	314,938
Subtotal	498,804	2,433,862	795,376	29,849	9,969	3,767,860
Impaired (i)						
Banks and other financial institutions	—	630	4	—	—	634
Corporate entities	—	30	—	—	—	30
	—	660	4	—	—	664
Less: Allowance for impairment losses	—	(387)	—	—	—	(387)
Subtotal	—	273	4	—	—	277
Total	498,804	2,434,135	795,380	29,849	9,969	3,768,137

31 December 2010

	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets held-for-trading	Financial assets designated at fair value through profit or loss	Total
Neither past due nor impaired						
Governments and central banks	134,850	1,499,122	361,313	223	—	1,995,508
Policy banks	47,000	742,421	186,373	1,233	—	977,027
Public sector entities	—	22,071	62,857	45	—	84,973
Banks and other financial institutions	319,856	35,410	46,621	453	138	402,478
Corporate entities	—	14,731	200,154	5,005	—	219,890
Subtotal	501,706	2,313,755	857,318	6,959	138	3,679,876
Impaired (i)						
Public sector entities	—	1,065	3,875	—	—	4,940
Banks and other financial institutions	—	2,620	420	—	—	3,040
Corporate entities	—	32	—	—	—	32
	—	3,717	4,295	—	—	8,012
Less: Allowance for impairment losses	—	(1,313)	—	—	—	(1,313)
Subtotal	—	2,404	4,295	—	—	6,699
Total	501,706	2,316,159	861,613	6,959	138	3,686,575

(i) Impaired debt securities above are all determined based on individual assessments. In determining whether a debt security is impaired, the Bank considers the evidence of a loss event and the decreases in estimated future cash flows. No collateral was held by the Bank as security of the impaired debt securities.

(In RMB millions, unless otherwise stated)

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk

Liquidity risk is the risk that capital will not be sufficient or funds will not be raised at a reasonable cost in a timely manner to meet the need of asset growth or repayment of debts due, although remaining solvent. This may arise from amount or maturity mismatches of assets and liabilities.

The Group manages its liquidity risk through the Asset and Liability Management Department and aims at:

- optimising the structure of assets and liabilities;
- maintaining the stability of the deposit base;
- projecting cash flows and evaluating the level of current assets; and
- in terms of liquidity of the branches, maintaining an efficient internal fund transfer mechanism.

The Group and the Bank's expected remaining maturity of its financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

(i) Analysis of the remaining maturity of the assets and liabilities is set out below:

Group

31 December 2011

	Overdue/ repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated (iii)	Total
Assets:								
Cash and balances with central banks	357,050	—	—	—	—	—	2,405,106	2,762,156
Due from banks and other financial institutions (i)	108,997	550,919	27,159	42,040	98,324	—	—	827,439
Financial assets held for trading	—	4,133	4,209	16,093	5,068	1,172	147	30,822
Financial assets designated at fair value through profit or loss	—	39,959	9,887	17,306	49,092	5,142	—	121,386
Derivative financial assets	138	1,950	5,761	4,200	2,733	2,678	—	17,460
Loans and advances to customers	11,254	483,214	673,999	1,948,716	1,811,643	2,633,077	32,116	7,594,019
Financial investments	—	22,441	66,038	480,383	1,858,304	1,332,419	4,109	3,763,694
Investments in associates and jointly-controlled entities	—	—	—	—	—	—	32,750	32,750
Property and equipment	—	—	—	—	—	—	119,028	119,028
Others	72,640	26,574	15,640	42,135	10,469	10,183	30,473	208,114
Total assets	550,079	1,129,190	802,693	2,550,873	3,835,633	3,984,671	2,623,729	15,476,868
Liabilities:								
Due to central banks	—	—	30	70	—	—	—	100
Financial liabilities designated at fair value through profit or loss	6,343	46,490	112,473	6,667	—	—	—	171,973
Derivative financial liabilities	10	3,447	1,042	1,767	3,296	3,055	—	12,617
Due to banks and other financial institutions (ii)	505,380	736,118	125,658	122,343	52,731	5,314	—	1,547,544
Certificates of deposit	—	10,396	13,529	11,364	6,137	—	—	41,426
Due to customers	6,660,720	753,224	1,143,595	2,615,102	1,071,244	17,334	—	12,261,219
Debt securities issued	—	577	1,813	2,028	62,315	137,428	—	204,161
Others	84,725	38,096	22,868	102,533	25,958	5,825	—	280,005
Total liabilities	7,257,178	1,588,348	1,421,008	2,861,874	1,221,681	168,956	—	14,519,045
Net liquidity gap	(6,707,099)	(459,158)	(618,315)	(311,001)	2,613,952	3,815,715	2,623,729	957,823

(i) Includes reverse repurchase agreements.

(ii) Includes repurchase agreements.

(iii) Includes loans and advances to customers and bond investments that are impaired or not impaired but overdue for more than one month.

(In RMB millions, unless otherwise stated)

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)
(b) Liquidity risk (continued)

31 December 2010

	Overdue/ repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated (iii)	Total
Assets:								
Cash and balances with central banks	298,812	—	—	—	—	—	1,984,187	2,282,999
Due from banks and other financial institutions (i)	55,178	348,602	14,295	36,923	56,089	—	—	511,087
Financial assets held for trading	—	95	2,477	1,732	4,025	1,722	137	10,188
Financial assets designated at fair value through profit or loss	—	—	600	1,388	649	161	—	2,798
Derivative financial assets	—	1,198	3,365	4,249	2,804	1,716	—	13,332
Loans and advances to customers	6,129	348,951	455,760	1,489,022	1,889,164	2,407,668	26,678	6,623,372
Financial investments	—	96,360	252,473	721,794	1,448,663	1,188,063	11,929	3,719,282
Investments in associates and jointly-controlled entities	—	—	—	—	—	—	40,325	40,325
Property and equipment	—	—	—	—	—	—	103,412	103,412
Others	34,267	21,532	15,241	30,816	8,615	7,732	33,624	151,827
Total assets	394,386	816,738	744,211	2,285,924	3,410,009	3,607,062	2,200,292	13,458,622
Liabilities:								
Due to central banks	—	—	1	50	—	—	—	51
Financial liabilities designated at fair value through profit or loss	—	3,476	578	2,547	69	—	—	6,670
Derivative financial liabilities	—	804	1,340	3,250	2,845	2,325	—	10,564
Due to banks and other financial institutions (ii)	765,833	222,444	54,014	51,033	36,855	2,711	—	1,132,890
Certificates of deposit	—	894	1,513	1,109	5,798	—	—	9,314
Due to customers	6,134,482	730,545	966,949	2,527,394	772,418	13,769	—	11,145,557
Debt securities issued	—	75	348	1,431	34,800	65,610	—	102,264
Others	79,374	20,933	20,587	82,478	19,585	6,698	—	229,655
Total liabilities	6,979,689	979,171	1,045,330	2,669,292	872,370	91,113	—	12,636,965
Net liquidity gap	(6,585,303)	(162,433)	(301,119)	(383,368)	2,537,639	3,515,949	2,200,292	821,657

(i) Includes reverse repurchase agreements.

(ii) Includes repurchase agreements.

(iii) Includes loans and advances to customers and bond investments that are impaired or not impaired but overdue for more than one month.

(In RMB millions, unless otherwise stated)

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

Bank

31 December 2011

	Overdue/ repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated (iii)	Total
Assets:								
Cash and balances with central banks	337,356	—	—	—	—	—	2,399,882	2,737,238
Due from banks and other financial institutions (i)	103,861	438,342	24,444	43,951	93,300	158	—	704,056
Financial assets held for trading	—	3,827	4,121	15,967	4,768	1,166	—	29,849
Financial assets designated at fair value through profit or loss	—	39,959	9,887	17,306	48,663	4,996	—	120,811
Derivative financial assets	—	1,708	5,594	3,439	2,475	2,260	—	15,476
Loans and advances to customers	4,377	446,881	630,310	1,872,672	1,720,170	2,541,403	30,814	7,246,627
Financial investments	—	20,252	65,694	476,045	1,831,371	1,334,623	2,369	3,730,354
Investments in subsidiaries and associates	—	—	—	—	—	—	87,276	87,276
Property and equipment	—	—	—	—	—	—	105,971	105,971
Others	66,580	18,900	13,571	38,587	6,244	9,919	23,960	177,761
Total assets	512,174	969,869	753,621	2,467,967	3,706,991	3,894,525	2,650,272	14,955,419
Liabilities:								
Financial liabilities designated at fair value through profit or loss	6,343	46,462	112,473	6,667	—	—	—	171,945
Derivative financial liabilities	—	3,179	817	1,415	2,648	2,786	—	10,845
Due to banks and other financial institutions (ii)	508,386	656,733	106,433	53,536	51,410	—	—	1,376,498
Certificates of deposit	—	6,484	5,955	1,432	563	—	—	14,434
Due to customers	6,588,132	654,100	1,076,448	2,560,547	1,067,254	17,334	—	11,963,815
Debt securities issued	—	568	1,332	510	61,829	128,200	—	192,439
Others	77,428	35,834	21,482	102,276	26,471	5,543	—	269,034
Total liabilities	7,180,289	1,403,360	1,324,940	2,726,383	1,210,175	153,863	—	13,999,010
Net liquidity gap	(6,668,115)	(433,491)	(571,319)	(258,416)	2,496,816	3,740,662	2,650,272	956,409

(i) Includes reverse repurchase agreements.

(ii) Includes repurchase agreements.

(iii) Includes loans and advances to customers and bond investments that are impaired or not impaired but overdue for more than one month.

(In RMB millions, unless otherwise stated)

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

31 December 2010

	Overdue/ repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated (iii)	Total
Assets:								
Cash and balances with central banks	290,757	—	—	—	—	—	1,981,508	2,272,265
Due from banks and other financial institutions (i)	52,331	308,157	23,738	48,061	55,686	166	—	488,139
Financial assets held for trading	—	10	300	1,631	3,357	1,661	—	6,959
Financial assets designated at fair value through profit or loss	—	—	600	1,388	—	—	—	1,988
Derivative financial assets	—	781	3,143	3,433	1,943	1,579	—	10,879
Loans and advances to customers	3,839	315,760	437,224	1,448,294	1,794,633	2,331,161	24,929	6,355,840
Financial investments	—	93,788	251,326	719,459	1,416,967	1,191,239	9,479	3,682,258
Investments in subsidiaries and associates	—	—	—	—	—	—	78,774	78,774
Property and equipment	—	—	—	—	—	—	98,418	98,418
Others	30,399	15,886	14,347	30,027	7,190	7,683	26,612	132,144
Total assets	377,326	734,382	730,678	2,252,293	3,279,776	3,533,489	2,219,720	13,127,664
Liabilities:								
Financial liabilities designated at fair value through profit or loss	—	3,476	485	1,862	—	—	—	5,823
Derivative financial liabilities	—	649	1,009	2,423	2,210	1,996	—	8,287
Due to banks and other financial institutions (ii)	767,171	197,935	44,694	17,490	35,100	—	—	1,062,390
Certificates of deposit	—	893	1,440	217	921	—	—	3,471
Due to customers	6,078,784	649,509	921,527	2,481,745	768,386	13,745	—	10,913,696
Debt securities issued	—	—	331	1,431	34,800	62,324	—	98,886
Others	73,793	20,831	19,997	81,610	19,361	5,628	—	221,220
Total liabilities	6,919,748	873,293	989,483	2,586,778	860,778	83,693	—	12,313,773
Net liquidity gap	(6,542,422)	(138,911)	(258,805)	(334,485)	2,418,998	3,449,796	2,219,720	813,891

(i) Includes reverse repurchase agreements.

(ii) Includes repurchase agreements.

(iii) Includes loans and advances to customers and bond investments that are impaired or not impaired but overdue for more than one month.

(In RMB millions, unless otherwise stated)

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

(ii) Maturity analysis of contractual undiscounted cash flows

The tables below summarise the maturity profile of the Group's and of the Bank's financial instruments based on the contractual undiscounted cash flows. The balances of some items in the tables below are different from the balances on the statement of financial position as the tables incorporate all cash flows relating to both principal and interest. The Group and the Bank's expected cash flows on these instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

Group

31 December 2011

	Overdue/ repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated (iii)	Total
Non-derivative cash flows:								
Financial assets:								
Cash and balances with central banks	357,050	—	1,216	—	—	—	2,405,106	2,763,372
Due from banks and other financial institutions (i)	109,000	551,821	27,615	43,798	116,719	—	—	848,953
Financial assets held for trading	—	4,158	4,270	16,377	5,900	1,317	147	32,169
Financial assets designated at fair value through profit or loss	—	40,474	10,565	20,367	56,677	6,230	—	134,313
Loans and advances to customers (ii)	13,578	550,434	802,630	2,383,145	2,937,992	3,854,456	68,661	10,610,896
Financial investments	—	26,984	81,370	584,345	2,191,951	1,581,820	5,851	4,472,321
Others	64,172	6,111	1,948	3,517	4,559	485	—	80,792
	543,800	1,179,982	929,614	3,051,549	5,313,798	5,444,308	2,479,765	18,942,816

(i) Includes reverse repurchase agreements.

(ii) The maturity profile of the renegotiated loans' contractual undiscounted cash flows is determined according to the negotiated terms.

(iii) Includes loans and advances to customers and bond investments that are impaired or not impaired but overdue for more than one month.

(In RMB millions, unless otherwise stated)

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

31 December 2011

	Overdue/ repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Non-derivative cash flows:								
Financial liabilities:								
Due to central banks	—	—	31	71	—	—	—	102
Financial liabilities designated at fair value through profit or loss	6,343	46,960	114,096	6,879	—	—	—	174,278
Due to banks and other financial institutions (i)	505,456	741,789	140,151	142,561	57,158	6,007	—	1,593,122
Certificates of deposit	—	10,462	13,685	11,514	6,210	—	—	41,871
Due to customers	6,662,545	767,519	1,173,412	2,664,733	1,091,575	17,663	—	12,377,447
Debt securities issued	—	615	1,817	10,535	93,902	178,722	—	285,591
Others	67,117	21	778	89	839	5,271	—	74,115
	7,241,461	1,567,366	1,443,970	2,836,382	1,249,684	207,663	—	14,546,526
Derivative cash flows:								
Derivative financial instruments settled on net basis	—	7	(75)	397	804	(500)	—	633
Derivative financial instruments settled on gross basis:								
— Cash inflow	16,784	243,207	257,353	348,926	25,010	136	—	891,416
— Cash outflow	(16,877)	(242,356)	(252,503)	(347,302)	(25,090)	(155)	—	(884,283)
	(93)	851	4,850	1,624	(80)	(19)	—	7,133

(i) Includes repurchase agreements.

(In RMB millions, unless otherwise stated)

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

31 December 2010

	Overdue/ repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated (iii)	Total
Non-derivative cash flows:								
Financial assets:								
Cash and balances with central banks	298,812	—	899	—	—	—	1,984,187	2,283,898
Due from banks and other financial institutions (i)	55,240	349,829	14,476	37,036	62,871	—	—	519,452
Financial assets held for trading	—	111	2,535	1,904	4,576	1,850	137	11,113
Financial assets designated at fair value through profit or loss	—	6	620	1,434	716	625	—	3,401
Loans and advances to customers (ii)	7,174	376,542	523,409	1,707,765	2,633,490	3,388,618	61,951	8,698,949
Financial investments	—	100,073	270,232	802,576	1,708,727	1,413,431	25,527	4,320,566
Others	31,492	5,121	516	684	1,538	—	—	39,351
	392,718	831,682	812,687	2,551,399	4,411,918	4,804,524	2,071,802	15,876,730

(i) Includes reverse repurchase agreements.

(ii) The maturity profile of the renegotiated loans' contractual undiscounted cash flows is determined according to the negotiated terms.

(iii) Includes loans and advances to customers and bond investments that are impaired or not impaired but overdue for more than one month.

31 December 2010

	Overdue/ repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Non-derivative cash flows:								
Financial liabilities:								
Due to central banks	—	—	1	51	—	—	—	52
Financial liabilities designated at fair value through profit or loss	—	3,479	578	2,632	87	—	—	6,776
Due to banks and other financial institutions (i)	765,839	223,061	54,545	52,387	39,721	3,232	—	1,138,785
Certificates of deposit	—	894	1,518	1,120	5,968	—	—	9,500
Due to customers	6,136,119	744,212	988,524	2,594,560	818,850	14,948	—	11,297,213
Debt securities issued	—	75	349	3,793	43,476	72,105	—	119,798
Others	61,950	10	83	88	1,144	6,393	—	69,668
	6,963,908	971,731	1,045,598	2,654,631	909,246	96,678	—	12,641,792
Derivative cash flows:								
Derivative financial instruments settled on net basis	(2)	(14)	(52)	(115)	347	(386)	—	(222)
Derivative financial instruments settled on gross basis:								
— Cash inflow	1,240	211,555	222,707	417,415	30,552	274	—	883,743
— Cash outflow	(1,243)	(211,550)	(220,605)	(415,414)	(30,751)	(272)	—	(879,835)
	(3)	5	2,102	2,001	(199)	2	—	3,908

(i) Includes repurchase agreements.

(In RMB millions, unless otherwise stated)

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

Bank

31 December 2011

	Overdue/ repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated (iii)	Total
Non-derivative cash flows:								
Financial assets:								
Cash and balances with central banks	337,356	—	1,213	—	—	—	2,399,882	2,738,451
Due from banks and other financial institutions (i)	103,861	439,173	24,899	45,655	110,787	170	—	724,545
Financial assets held for trading	—	3,851	4,179	16,243	5,590	1,311	—	31,174
Financial assets designated at fair value through profit or loss	—	40,472	10,564	20,338	56,179	5,649	—	133,202
Loans and advances to customers (ii)	6,566	511,885	755,523	2,296,273	2,810,298	3,732,687	66,331	10,179,563
Financial investments	—	24,635	80,830	579,316	2,162,765	1,585,084	3,744	4,436,374
Others	58,429	—	—	—	—	—	—	58,429
	506,212	1,020,016	877,208	2,957,825	5,145,619	5,324,901	2,469,957	18,301,738

(i) Includes reverse repurchase agreements.

(ii) The maturity profile of the renegotiated loans' contractual undiscounted cash flows is determined according to the negotiated terms.

(iii) Includes loans and advances to customers and bond investments that are impaired or not impaired but overdue for more than one month.

31 December 2011

	Overdue/ repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Non-derivative cash flows:								
Financial liabilities:								
Financial liabilities designated at fair value through profit or loss	6,343	46,917	114,096	6,879	—	—	—	174,235
Due to banks and other financial institutions (i)	508,423	662,609	121,739	71,025	55,171	—	—	1,418,967
Certificates of deposit	—	6,521	6,023	1,455	566	—	—	14,565
Due to customers	6,590,038	667,004	1,106,960	2,635,857	1,140,720	19,103	—	12,159,682
Debt securities issued	—	612	1,339	8,580	91,564	166,197	—	268,292
Others	61,403	21	13	89	839	4,972	—	67,337
	7,166,207	1,383,684	1,350,170	2,723,885	1,288,860	190,272	—	14,103,078
Derivative cash flows:								
Derivative financial instruments settled on net basis	—	(82)	(35)	89	(182)	(710)	—	(920)
Derivative financial instruments settled on gross basis:								
— Cash inflow	—	181,595	210,025	276,533	18,819	136	—	687,108
— Cash outflow	—	(182,698)	(206,857)	(274,964)	(18,796)	(155)	—	(683,470)
	—	(1,103)	3,168	1,569	23	(19)	—	3,638

(i) Includes repurchase agreements.

(In RMB millions, unless otherwise stated)

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

31 December 2010

	Overdue/ repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated (iii)	Total
Non-derivative cash flows:								
Financial assets:								
Cash and balances with central banks	290,757	—	898	—	—	—	1,981,508	2,273,163
Due from banks and other financial institutions (i)	52,393	309,213	23,942	49,108	62,410	179	—	497,245
Financial assets held for trading	—	23	352	1,786	3,867	1,784	—	7,812
Financial assets designated at fair value through profit or loss	—	6	617	1,402	—	—	—	2,025
Loans and advances to customers (ii)	4,845	341,723	503,751	1,659,236	2,511,110	3,290,922	59,599	8,371,186
Financial investments	—	97,419	268,765	799,590	1,675,975	1,417,510	22,574	4,281,833
Others	27,948	—	—	—	—	—	—	27,948
	375,943	748,384	798,325	2,511,122	4,253,362	4,710,395	2,063,681	15,461,212

(i) Includes reverse repurchase agreements.

(ii) The maturity profile of the renegotiated loans' contractual undiscounted cash flows is determined according to the negotiated terms.

(iii) Includes loans and advances to customers and bond investments that are impaired or not impaired but overdue for more than one month.

31 December 2010

	Overdue/ repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Non-derivative cash flows:								
Financial liabilities:								
Financial liabilities designated at fair value through profit or loss	—	3,479	485	1,927	—	—	—	5,891
Due to banks and other financial institutions (i)	767,177	198,274	45,004	17,718	37,823	—	—	1,065,996
Certificates of deposit	—	894	1,441	218	949	—	—	3,502
Due to customers	6,079,991	663,080	942,465	2,548,497	814,815	14,928	—	11,063,776
Debt securities issued	—	—	331	3,793	43,476	68,821	—	116,421
Others	57,375	10	83	88	1,144	5,379	—	64,079
	6,904,543	865,737	989,809	2,572,241	898,207	89,128	—	12,319,665
Derivative cash flows:								
Derivative financial instruments settled on net basis	—	(2)	—	19	(246)	(420)	—	(649)
Derivative financial instruments settled on gross basis:								
— Cash inflow	—	158,952	186,780	327,210	24,473	201	—	697,616
— Cash outflow	—	(158,762)	(184,549)	(325,290)	(24,558)	(206)	—	(693,365)
	—	190	2,231	1,920	(85)	(5)	—	4,251

(i) Includes repurchase agreements.

(In RMB millions, unless otherwise stated)

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

(iii) Analysis of credit commitments by contractual expiry date

Management expects that not all of the commitments will be drawn before the expiry of the commitments.

Group

	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Total
31 December 2011							
Credit commitments	625,080	129,611	232,590	399,221	311,409	278,681	1,976,592
31 December 2010							
Credit commitments	406,297	100,223	211,154	378,978	320,778	231,727	1,649,157

Bank

	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Total
31 December 2011							
Credit commitments	613,772	111,996	234,740	389,608	291,057	323,853	1,965,026
31 December 2010							
Credit commitments	396,324	98,468	205,680	335,526	302,286	226,388	1,564,672

(c) Market risk

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk arises from both the Group's trading and non-trading businesses.

The Group is primarily exposed to structural interest rate risk arising from commercial banking and position risk arising from treasury transactions. Interest rate risk is inherent in many of its businesses and largely arises from mismatches between the repricing dates of interest-generating assets and interest-bearing liabilities.

The Group's currency risk mainly results from the risk arising from exchange rate fluctuations on its foreign exchange exposures. Foreign exchange exposures include the mismatch of foreign exchange assets and liabilities, and off-balance sheet foreign exchange positions arising from derivative transactions.

The Group considers the market risk arising from stock prices fluctuations in respect of its investment portfolios as immaterial.

Sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major market risk management tools used by the Group. The Bank monitors market risk separately in respect of trading and other non-trading portfolios. The Value-at-risk ("VaR") analysis is a major tool used by the Bank to measure and monitor the market risk of its trading portfolios. The following sections include a VaR analysis by risk type of the Group's trading portfolios including Head Office, New York Branch and Singapore Branch and a sensitivity analysis based on the Group's currency risk exposure and interest rate risk exposure (both trading and non-trading portfolios).

(In RMB millions, unless otherwise stated)

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(i) VaR

VaR analysis is a statistical technique which estimates the potential maximum losses that could occur on risk positions taken due to movements in interest rates, foreign exchange rates or prices over a specified time horizon and at a given level of confidence. The Bank adopts a historical simulation model to calculate and monitor trading portfolio VaR with 250 days' historical market data (with a 99% confidence level, and one-day holding period) on a daily basis.

A summary of VaR by risk type of the Bank's trading portfolios is as follows:

	2011			
	31 December 2011	Average	Highest	Lowest
Interest rate risk	39	44	103	23
Foreign exchange risk	15	14	81	3
Commodity risk	1	4	63	1
Total portfolio VaR	41	46	101	24

	2010			
	31 December 2010	Average	Highest	Lowest
Interest rate risk	13	16	43	4
Foreign exchange risk	291	116	305	47
Total portfolio VaR	292	118	299	47

(1) The Bank calculated VaR using the Global Market Risk Management (GMRM) system based on the new valuation method and market data for 2011.

(2) Derivatives such as RMB-denominated interest rate swap have been included in the calculation of VaR for 2011. The Bank calculated VaR of commodity risk from April 2011.

(3) VaR was calculated at the Head Office level for 2010. In December 2011, the Bank extended VaR calculation to include New York Branch and Singapore Branch.

VaR for each risk factor is the derived largest potential loss due to fluctuations solely in that risk factor. As there was a diversification effect due to the correlation amongst the risk factors, the individual VaR did not add up to the total portfolio VaR.

Although VaR is an important tool for measuring market risk under normal market environment, the assumptions on which the model is based do give rise to some limitations, mainly including the following:

(1) VaR does not reflect liquidity risk. In the VaR model, a one-day holding period assumes that it is possible to hedge or dispose of positions within that period without restriction, the price of the financial instruments will fluctuate in the given range, and the correlation between these market prices will remain unchanged. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully;

(2) Even though positions may change throughout the day, VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level; and

(3) VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, especially those of an exceptional nature due to significant market moves.

(In RMB millions, unless otherwise stated)

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(ii) Currency risk

The Group conducts it businesses mainly in RMB, with certain transactions denominated in USD, HK$ and, to a lesser extent, other currencies. Transactions in foreign currencies mainly arise from the Group's treasury operations, foreign exchange dealings and overseas investments.

The exchange rate of RMB to USD is managed under a floating exchange rate system. The HK$ exchange rate has been pegged to the USD and therefore the exchange rate of RMB to HK$ has fluctuated in line with the changes in the exchange rate of RMB to USD.

The Group manages its currency risk through various methods, including limitation management and risk hedging to hedge foreign exchange risk, and performing currency risk sensitivity analysis and stress testing regularly.

The tables below indicate a sensitivity analysis of exchange rate changes of the currencies to which the Group had significant exposure on its monetary assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement in the currency rates against RMB, with all other variables held constant, on profit before tax and equity. A negative amount in the table reflects a potential net reduction in profit before tax or equity, while a positive amount reflects a potential net increase. This effect, however, is based on the assumption that the Group's foreign exchange exposures as at the year end are kept unchanged and, therefore, have not incorporated actions that would be taken by the Group to mitigate the adverse impact of this foreign exchange risk.

Group

Currency	Change in currency rate	Effect on profit before tax 2011	Effect on profit before tax 2010	Effect on equity 2011	Effect on equity 2010
USD	-1%	(175)	149	(41)	(42)
HK$	-1%	(42)	(5)	(293)	(212)

Bank

Currency	Change in currency rate	Effect on profit before tax 2011	Effect on profit before tax 2010	Effect on equity 2011	Effect on equity 2010
USD	-1%	(225)	198	(14)	(7)
HK$	-1%	2	(35)	(3)	(2)

While the table above indicates the effect on profit before tax and equity of 1% depreciation of USD and HK$, there will be an opposite effect with the same amount if the currencies appreciate by the same percentage.

(In RMB millions, unless otherwise stated)

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

A breakdown of the assets and liabilities analysed by currency is as follows:

Group

31 December 2011

	RMB	USD (equivalent to RMB)	HK$ (equivalent to RMB)	Others (equivalent to RMB)	Total
Assets:					
Cash and balances with central banks	2,723,401	15,813	16,664	6,278	2,762,156
Due from banks and other financial institutions (i)	521,393	228,860	10,262	66,924	827,439
Financial assets held for trading	29,836	399	471	116	30,822
Financial assets designated at fair value through profit or loss	120,811	490	85	—	121,386
Derivative financial assets	12,414	3,014	226	1,806	17,460
Loans and advances to customers	6,990,074	454,907	101,925	47,113	7,594,019
Financial investments	3,689,661	52,392	3,933	17,708	3,763,694
Investments in associates and jointly-controlled entities	55	709	174	31,812	32,750
Property and equipment	108,613	9,602	386	427	119,028
Others	153,057	6,752	5,745	42,560	208,114
Total assets	14,349,315	772,938	139,871	214,744	15,476,868
Liabilities:					
Due to central banks	100	—	—	—	100
Financial liabilities designated at fair value through profit or loss	164,480	865	1	6,627	171,973
Derivative financial liabilities	3,893	3,731	57	4,936	12,617
Due to banks and other financial institutions (ii)	1,197,095	267,673	8,164	74,612	1,547,544
Certificates of deposit	13,592	15,794	4,883	7,157	41,426
Due to customers	11,829,251	183,146	140,648	108,174	12,261,219
Debt securities issued	189,504	11,476	497	2,684	204,161
Others	258,867	12,186	2,024	6,928	280,005
Total liabilities	13,656,782	494,871	156,274	211,118	14,519,045
Net position	692,533	278,067	(16,403)	3,626	957,823
Credit commitments	1,459,699	402,491	74,916	39,486	1,976,592

(i) Includes reverse repurchase agreements.

(ii) Includes repurchase agreements.

(In RMB millions, unless otherwise stated)

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

31 December 2010

	RMB	USD (equivalent to RMB)	HK$ (equivalent to RMB)	Others (equivalent to RMB)	Total
Assets:					
Cash and balances with central banks	2,261,743	9,154	5,641	6,461	2,282,999
Due from banks and other financial institutions (i)	407,659	75,633	3,222	24,573	511,087
Financial assets held for trading	6,921	467	2,436	364	10,188
Financial assets designated at fair value through profit or loss	1,850	663	285	—	2,798
Derivative financial assets	7,416	3,983	87	1,846	13,332
Loans and advances to customers	6,108,135	353,869	115,688	45,680	6,623,372
Financial investments	3,625,676	69,045	5,141	19,420	3,719,282
Investments in associates and jointly-controlled entities	25	707	164	39,429	40,325
Property and equipment	99,659	2,918	329	506	103,412
Others	127,041	4,983	5,983	13,820	151,827
Total assets	12,646,125	521,422	138,976	152,099	13,458,622
Liabilities:					
Due to central banks	50	—	—	1	51
Financial liabilities designated at fair value through profit or loss	5,367	299	685	319	6,670
Derivative financial liabilities	3,880	4,842	174	1,668	10,564
Due to banks and other financial institutions (ii)	945,965	144,041	11,528	31,356	1,132,890
Certificates of deposit	2,172	3,423	3,719	—	9,314
Due to customers	10,791,485	166,357	126,104	61,611	11,145,557
Debt securities issued	97,124	3,667	1,336	137	102,264
Others	210,321	9,729	2,957	6,648	229,655
Total liabilities	12,056,364	332,358	146,503	101,740	12,636,965
Net position	589,761	189,064	(7,527)	50,359	821,657
Credit commitments	1,203,417	334,126	74,380	37,234	1,649,157

(i) Includes reverse repurchase agreements.

(ii) Includes repurchase agreements.

(In RMB millions, unless otherwise stated)

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Bank

31 December 2011

	RMB	USD (equivalent to RMB)	HK$ (equivalent to RMB)	Others (equivalent to RMB)	Total
Assets:					
Cash and balances with central banks	2,718,281	14,944	1,378	2,635	2,737,238
Due from banks and other financial institutions (i)	519,154	119,560	16,592	48,750	704,056
Financial assets held for trading	29,781	68	—	—	29,849
Financial assets designated at fair value through profit or loss	120,811	—	—	—	120,811
Derivative financial assets	11,903	1,877	21	1,675	15,476
Loans and advances to customers	6,878,495	338,868	10,150	19,114	7,246,627
Financial investments	3,680,907	35,505	4,485	9,457	3,730,354
Investments in subsidiaries and associates	5,679	5,801	37,214	38,582	87,276
Property and equipment	105,690	241	8	32	105,971
Others	136,026	1,580	116	40,039	177,761
Total assets	14,206,727	518,444	69,964	160,284	14,955,419
Liabilities:					
Financial liabilities designated at fair value through profit or loss	164,515	802	1	6,627	171,945
Derivative financial liabilities	3,792	2,617	25	4,411	10,845
Due to banks and other financial institutions (ii)	1,138,782	151,167	15,028	71,521	1,376,498
Certificates of deposit	140	6,280	857	7,157	14,434
Due to customers	11,761,008	120,874	16,617	65,316	11,963,815
Debt securities issued	187,912	1,843	—	2,684	192,439
Others	254,729	8,248	443	5,614	269,034
Total liabilities	13,510,878	291,831	32,971	163,330	13,999,010
Net position	695,849	226,613	36,993	(3,046)	956,409
Credit commitments	1,466,855	430,971	33,849	33,351	1,965,026

(i) Includes reverse repurchase agreements.

(ii) Includes repurchase agreements.

(In RMB millions, unless otherwise stated)

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

31 December 2010

	RMB	USD (equivalent to RMB)	HK$ (equivalent to RMB)	Others (equivalent to RMB)	Total
Assets:					
Cash and balances with central banks	2,259,221	8,301	1,884	2,859	2,272,265
Due from banks and other financial institutions (i)	400,448	59,047	8,474	20,170	488,139
Financial assets held for trading	6,887	72	—	—	6,959
Financial assets designated at fair value through profit or loss	1,850	138	—	—	1,988
Derivative financial assets	6,606	2,782	50	1,441	10,879
Loans and advances to customers	6,055,563	265,528	13,714	21,035	6,355,840
Financial investments	3,623,388	44,042	4,721	10,107	3,682,258
Investments in subsidiaries and associates	5,294	5,620	29,152	38,708	78,774
Property and equipment	98,150	174	9	85	98,418
Others	118,936	1,703	124	11,381	132,144
Total assets	12,576,343	387,407	58,128	105,786	13,127,664
Liabilities:					
Financial liabilities designated at fair value through profit or loss	5,367	137	1	318	5,823
Derivative financial liabilities	3,846	2,818	71	1,552	8,287
Due to banks and other financial institutions (ii)	905,746	113,777	14,241	28,626	1,062,390
Certificates of deposit	—	2,318	1,153	—	3,471
Due to customers	10,769,011	94,229	19,755	30,701	10,913,696
Debt securities issued	97,125	380	1,244	137	98,886
Others	208,861	6,053	604	5,702	221,220
Total liabilities	11,989,956	219,712	37,069	67,036	12,313,773
Net position	586,387	167,695	21,059	38,750	813,891
Credit commitments	1,198,736	324,980	10,553	30,403	1,564,672

(i) Includes reverse repurchase agreements.

(ii) Includes repurchase agreements.

(iii) Interest rate risk

The Group's interest rate risk mainly arises from the mismatches between the repricing dates of interest-generating assets and interest-bearing liabilities. The Group's interest-generating assets and interest-bearing liabilities are mainly denominated in RMB. The PBOC establishes RMB interest rate policy which includes a cap for RMB deposit rates and a floor for RMB loan rates.

The Group manages its interest rate risk by:

- regularly monitoring the macroeconomic factors that may have impact on the PBOC benchmark interest rates;
- optimising the differences in timing between contractual repricing (maturities) of interest-generating assets and interest-bearing liabilities; and
- managing the deviation of the pricing of interest-generating assets and interest-bearing liabilities from the PBOC benchmark interest rates.

(In RMB millions, unless otherwise stated)

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

A principal part of the Group's management of interest rate risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modeling). The Group aims to mitigate the impact of prospective interest rate movements which could reduce future net interest income, while balancing the cost of such hedging on the current revenue.

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's and the Bank's net interest income and equity.

The sensitivity of the net interest income is the effect of the assumed changes in interest rates on the net interest income, arising from the financial assets and financial liabilities held at year end that are subject to repricing within the coming year, including the effect of hedging instruments. The sensitivity of equity is the effect of the assumed changes in interest rates on other comprehensive income, calculated by revaluing fixed rate available-for-sale financial assets held at year end, including the effect of any associated hedges.

Group

	Sensitivity of net interest income		Sensitivity of equity	
Change in basis points	**2011**	**2010**	**2011**	**2010**
+100 basis points	(12,509)	(23,156)	(19,151)	(18,848)
-100 basis points	12,509	23,156	20,417	20,130

Bank

	Sensitivity of net interest income		Sensitivity of equity	
Change in basis points	**2011**	**2010**	**2011**	**2010**
+100 basis points	(12,363)	(22,742)	(18,931)	(18,557)
-100 basis points	12,363	22,742	20,197	19,839

The interest rate sensitivities set out in the tables above are for illustration only and are based on simplified scenarios. The figures represent the effect of the pro forma movements in net interest income and equity based on the projected yield curve scenarios and the Group's and the Bank's current interest rate risk profile. This effect, however, does not incorporate actions that would be taken by management to mitigate the impact of interest rate risk. The projections above also assume that interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on net interest income and equity in the case where some rates change while others remain unchanged.

(In RMB millions, unless otherwise stated)

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

The tables below summarise the contractual repricing or maturity date, whichever is earlier, of the Group's assets and liabilities:

31 December 2011

	Less than three months	Three months to one year	One to five years	More than five years	Non-interest-bearing	Total
Assets:						
Cash and balances with central banks	2,502,220	—	—	—	259,936	2,762,156
Due from banks and other financial institutions (i)	709,319	82,608	31,714	—	3,798	827,439
Financial assets held for trading	8,859	16,301	4,530	985	147	30,822
Financial assets designated at fair value through profit or loss	100,310	15,403	4,853	820	—	121,386
Derivative financial assets	—	—	—	—	17,460	17,460
Loans and advances to customers	4,384,282	3,017,912	30,127	130,447	31,251	7,594,019
Financial investments	253,166	638,919	1,650,739	1,217,148	3,722	3,763,694
Investments in associates and jointly-controlled entities	—	—	—	—	32,750	32,750
Property and equipment	—	—	—	—	119,028	119,028
Others	15,431	610	—	—	192,073	208,114
Total assets	7,973,587	3,771,753	1,721,963	1,349,400	660,165	15,476,868
Liabilities:						
Due to central banks	30	70	—	—	—	100
Financial liabilities designated at fair value through profit or loss	158,963	6,667	—	—	6,343	171,973
Derivative financial liabilities	—	—	—	—	12,617	12,617
Due to banks and other financial institutions (ii)	1,375,418	161,538	2,481	4,679	3,428	1,547,544
Certificates of deposit	24,240	11,049	6,137	—	—	41,426
Due to customers	8,295,296	2,614,211	1,071,176	17,334	263,202	12,261,219
Debt securities issued	6,681	2,028	58,024	137,428	—	204,161
Others	—	—	—	—	280,005	280,005
Total liabilities	9,860,628	2,795,563	1,137,818	159,441	565,595	14,519,045
Interest rate mismatch	(1,887,041)	976,190	584,145	1,189,959	N/A	N/A

(i) Includes reverse repurchase agreements.

(ii) Includes repurchase agreements.

(In RMB millions, unless otherwise stated)

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

31 December 2010

	Less than three months	Three months to one year	One to five years	More than five years	Non-interest-bearing	Total
Assets:						
Cash and balances with central banks	2,053,031	—	—	—	229,968	2,282,999
Due from banks and other financial institutions (i)	431,688	74,549	2,758	—	2,092	511,087
Financial assets held for trading	3,463	2,446	2,896	1,246	137	10,188
Financial assets designated at fair value through profit or loss	1,850	138	649	161	—	2,798
Derivative financial assets	—	—	—	—	13,332	13,332
Loans and advances to customers	1,693,741	4,822,637	4,264	102,730	—	6,623,372
Financial investments	455,651	886,647	1,305,385	1,066,554	5,045	3,719,282
Investments in associates and jointly-controlled entities	—	—	—	—	40,325	40,325
Property and equipment	—	—	—	—	103,412	103,412
Others	7,494	—	—	—	144,333	151,827
Total assets	4,646,918	5,786,417	1,315,952	1,170,691	538,644	13,458,622
Liabilities:						
Due to central banks	1	50	—	—	—	51
Financial liabilities designated at fair value through profit or loss	4,054	2,547	69	—	—	6,670
Derivative financial liabilities	—	—	—	—	10,564	10,564
Due to banks and other financial institutions (ii)	1,054,575	77,420	71	—	824	1,132,890
Certificates of deposit	8,471	546	297	—	—	9,314
Due to customers	7,583,862	2,527,185	772,382	13,769	248,359	11,145,557
Debt securities issued	423	6,931	29,300	65,610	—	102,264
Others	—	—	—	—	229,655	229,655
Total liabilities	8,651,386	2,614,679	802,119	79,379	489,402	12,636,965
Interest rate mismatch	(4,004,468)	3,171,738	513,833	1,091,312	N/A	N/A

(i) Includes reverse repurchase agreements.

(ii) Includes repurchase agreements.

(In RMB millions, unless otherwise stated)

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

The tables below summarise the contractual repricing or maturity date, whichever is earlier, of the Bank's assets and liabilities:

31 December 2011

	Less than three months	Three months to one year	One to five years	More than five years	Non-interest-bearing	Total
Assets:						
Cash and balances with central banks	2,478,780	—	—	—	258,458	2,737,238
Due from banks and other financial institutions (i)	592,359	83,215	27,049	—	1,433	704,056
Financial assets held for trading	8,205	16,301	4,363	980	—	29,849
Financial assets designated at fair value through profit or loss	100,310	15,403	4,424	674	—	120,811
Derivative financial assets	—	—	—	—	15,476	15,476
Loans and advances to customers	4,296,838	2,759,265	30,127	130,447	29,950	7,246,627
Financial investments	249,099	634,888	1,628,976	1,215,356	2,035	3,730,354
Investments in subsidiaries and associates	—	—	—	—	87,276	87,276
Property and equipment	—	—	—	—	105,971	105,971
Others	—	—	—	—	177,761	177,761
Total assets	7,725,591	3,509,072	1,694,939	1,347,457	678,360	14,955,419
Liabilities:						
Financial liabilities designated at fair value through profit or loss	158,935	6,667	—	—	6,343	171,945
Derivative financial liabilities	—	—	—	—	10,845	10,845
Due to banks and other financial institutions (ii)	1,281,615	92,466	2,417	—	—	1,376,498
Certificates of deposit	12,754	1,117	563	—	—	14,434
Due to customers	8,081,975	2,560,547	1,067,224	17,334	236,735	11,963,815
Debt securities issued	6,193	510	57,536	128,200	—	192,439
Others	—	—	—	—	269,034	269,034
Total liabilities	9,541,472	2,661,307	1,127,740	145,534	522,957	13,999,010
Interest rate mismatch	(1,815,881)	847,765	567,199	1,201,923	N/A	N/A

(i) Includes reverse repurchase agreements.

(ii) Includes repurchase agreements.

(In RMB millions, unless otherwise stated)

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

31 December 2010

	Less than three months	Three months to one year	One to five years	More than five years	Non-interest-bearing	Total
Assets:						
Cash and balances with central banks	2,043,427	—	—	—	228,838	2,272,265
Due from banks and other financial institutions (i)	399,981	85,928	2,024	166	40	488,139
Financial assets held for trading	648	2,434	2,692	1,185	—	6,959
Financial assets designated at fair value through profit or loss	1,850	138	—	—	—	1,988
Derivative financial assets	—	—	—	—	10,879	10,879
Loans and advances to customers	1,641,557	4,607,289	4,264	102,730	—	6,355,840
Financial investments	448,118	884,885	1,281,922	1,064,553	2,780	3,682,258
Investments in subsidiaries and associates	—	—	—	—	78,774	78,774
Property and equipment	—	—	—	—	98,418	98,418
Others	—	—	—	—	132,144	132,144
Total assets	4,535,581	5,580,674	1,290,902	1,168,634	551,873	13,127,664
Liabilities:						
Financial liabilities designated at fair value through profit or loss	3,961	1,862	—	—	—	5,823
Derivative financial liabilities	—	—	—	—	8,287	8,287
Due to banks and other financial institutions (ii)	1,020,742	41,648	—	—	—	1,062,390
Certificates of deposit	2,957	217	297	—	—	3,471
Due to customers	7,414,256	2,481,745	768,386	13,745	235,564	10,913,696
Debt securities issued	331	6,931	29,300	62,324	—	98,886
Others	—	—	—	—	221,220	221,220
Total liabilities	8,442,247	2,532,403	797,983	76,069	465,071	12,313,773
Interest rate mismatch	(3,906,666)	3,048,271	492,919	1,092,565	N/A	N/A

(i) Includes reverse repurchase agreements.

(ii) Includes repurchase agreements.

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(d) Capital management

The Group's objectives on capital management are:

- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth;
- To allocate capital using an efficient and risk-based approach to optimise the risk adjusted return to the shareholders; and
- To maintain an adequate capital base to support the development of its business.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust its profit distribution policy, issue or redeem own shares, long term subordinated bonds, convertible bonds and hybrid instruments.

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management based on regulations issued by the CBRC. The required information is filed with the CBRC by the Group and the Bank Semi-annually and quarterly.

The CBRC requires each bank to maintain the capital adequacy ratio and core capital adequacy ratio not below the minimum of 8% and 4%, respectively. In addition, those individual banking subsidiaries or branches incorporated outside Mainland China are also directly regulated and supervised by their local banking supervisors. There are certain differences in the capital adequacy requirements of different countries.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. Market risk capital adjustment is calculated using the standardised approach.

The Group computes the capital adequacy ratio and core capital adequacy ratio in accordance with "Regulations Governing Capital Adequacy of Commercial Banks" and related regulations promulgated by the CBRC. The requirements pursuant to these regulations may have significant differences comparing to those applicable in Hong Kong and other countries.

The capital adequacy ratios and related components of the Group are computed in accordance with the statutory financial statements of the Group prepared under PRC GAAP. During the year, the Group has complied in full with all its externally imposed capital requirements.

(In RMB millions, unless otherwise stated)

51. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(d) Capital management (continued)

The Group calculates the capital adequacy ratios in accordance with "Regulations Governing Capital Adequacy of Commercial Banks" and relevant requirements promulgated by the CBRC.

	2011	2010
Core capital adequacy ratio	**10.07%**	**9.97%**
Capital adequacy ratio	**13.17%**	**12.27%**
Components of capital base		
Core capital:		
Share capital	349,084	349,019
Reserves (i)	532,135	400,724
Minority interests	1,081	1,227
Total core capital	882,300	750,970
Supplementary capital:		
General provisions for loan impairment (ii)	77,889	67,905
Long term subordinated bonds	167,655	78,286
Convertible bonds (iii)	24,615	24,870
Other supplementary capital	1,671	3,444
Total supplementary capital	271,830	174,505
Total capital base before deductions	1,154,130	925,475
Deductions:		
Goodwill	(22,223)	(27,369)
Unconsolidated equity investments (iv)	(18,957)	(22,649)
Others (v)	(487)	(3,084)
Net capital base	1,112,463	872,373
Net core capital base	850,355	709,193
Risk weighted assets and market risk capital adjustment	8,447,263	7,112,357

(i) Pursuant to the Administrative Measures of Capital Adequacy Ratios of Commercial Banks issued by the CBRC, reserves include the valid portion of capital reserve and retained profits, surplus reserve and general reserve.

(ii) Pursuant to the Notice on Specifying the Calculating Method of General Provisions for Loan Impairment issued by the CBRC, the general provisions for loan impairment included in supplementary capital should not exceed 1% of the total loans balance since the second quarter of 2010.

(iii) On 31 August 2010, as approved by the relevant regulators, the Bank issued convertible bonds of RMB25 billion. All funds raised from the issuance are utilised to enhance the Bank's supplementary capital after deducting direct transaction costs.

(iv) Pursuant to the Administrative Measures of Capital Adequacy Ratios of Commercial Banks issued by the CBRC, 100% and 50% of unconsolidated equity investments were deducted when calculating the net capital base and net core capital base, respectively.

(v) Included in the amount was the asset securitisation risk exposure deducted according to relevant regulations issued by the CBRC.

52. FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

(In RMB millions, unless otherwise stated)

52. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments recorded at fair value

The following tables show an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

Group

31 December 2011

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets held for trading				
Equity investments	147	—	—	147
Debt securities	595	30,080	—	30,675
	742	30,080	—	30,822
Financial assets designated at fair value through profit or loss				
Debt securities	279	10,265	—	10,544
Other debt instruments	—	110,842	—	110,842
	279	121,107	—	121,386
Derivative financial assets				
Exchange rate contracts	—	11,427	716	12,143
Interest rate contracts	—	2,970	1,796	4,766
Other derivative contracts	—	9	542	551
	—	14,406	3,054	17,460
Available-for-sale financial assets				
Equity investments	2,559	400	—	2,959
Debt securities	34,502	799,441	2,040	835,983
	37,061	799,841	2,040	838,942
	38,082	965,434	5,094	1,008,610
Financial liabilities:				
Financial liabilities designated at fair value through profit or loss				
Wealth management product	—	121,191	—	121,191
Structured deposits	—	44,376	—	44,376
Financial liabilities related to precious metals	—	6,343	—	6,343
Certificates of deposit	—	63	—	63
	—	171,973	—	171,973
Derivative financial liabilities				
Exchange rate contracts	—	6,027	731	6,758
Interest rate contracts	—	3,528	2,329	5,857
Other derivative contracts	—	—	2	2
	—	9,555	3,062	12,617
	—	181,528	3,062	184,590

(In RMB millions, unless otherwise stated)

52. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments recorded at fair value (continued)

31 December 2010

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets held for trading				
Equity investments	137	—	—	137
Debt securities	1,782	8,269	—	10,051
	1,919	8,269	—	10,188
Financial assets designated at fair value through profit or loss				
Debt securities	364	584	—	948
Other debt instruments	—	1,850	—	1,850
	364	2,434	—	2,798
Derivative financial assets				
Exchange rate contracts	—	8,557	1,180	9,737
Interest rate contracts	—	1,818	1,055	2,873
Other derivative contracts	—	13	709	722
	—	10,388	2,944	13,332
Available-for-sale financial assets				
Equity investments	2,986	—	—	2,986
Debt securities	39,954	852,889	6,907	899,750
	42,940	852,889	6,907	902,736
	45,223	873,980	9,851	929,054
Financial liabilities:				
Financial liabilities designated at fair value through profit or loss				
Structured deposits	—	3,961	—	3,961
Wealth management product	—	1,862	—	1,862
Certificates of deposit	—	754	—	754
Notes payable	—	93	—	93
	—	6,670	—	6,670
Derivative financial liabilities				
Exchange rate contracts	—	5,115	1,181	6,296
Interest rate contracts	—	2,852	1,415	4,267
Other derivative contracts	—	1	—	1
	—	7,968	2,596	10,564
	—	14,638	2,596	17,234

(In RMB millions, unless otherwise stated)

52. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments recorded at fair value (continued)

Bank

31 December 2011

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets held for trading				
Debt securities	—	29,849	—	29,849
Financial assets designated at fair value through profit or loss				
Debt securities	—	9,969	—	9,969
Other debt instruments	—	110,842	—	110,842
	—	120,811	—	120,811
Derivative financial assets				
Exchange rate contracts	—	10,585	716	11,301
Interest rate contracts	—	2,378	1,796	4,174
Other derivative contracts	—	—	1	1
	—	12,963	2,513	15,476
Available-for-sale financial assets				
Equity investments	910	—	—	910
Debt securities	5,504	789,328	548	795,380
	6,414	789,328	548	796,290
	6,414	952,951	3,061	962,426
Financial liabilities:				
Financial liabilities designated at fair value through profit or loss				
Wealth management product	—	121,191	—	121,191
Structured deposits	—	44,411	—	44,411
Financial liabilities related to precious metals	—	6,343	—	6,343
	—	171,945	—	171,945
Derivative financial liabilities				
Exchange rate contracts	—	5,072	731	5,803
Interest rate contracts	—	2,711	2,329	5,040
Other derivative contracts	—	—	2	2
	—	7,783	3,062	10,845
	—	179,728	3,062	182,790

(In RMB millions, unless otherwise stated)

52. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments recorded at fair value (continued)

31 December 2010

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets held for trading				
Debt securities	—	6,959	—	6,959
Financial assets designated at fair value through profit or loss				
Debt securities	—	138	—	138
Other debt instruments	—	1,850	—	1,850
	—	1,988	—	1,988
Derivative financial assets				
Exchange rate contracts	—	7,074	1,180	8,254
Interest rate contracts	—	1,568	1,055	2,623
Other derivative contracts	—	—	2	2
	—	8,642	2,237	10,879
Available-for-sale financial assets				
Equity investments	818	—	—	818
Debt securities	14,598	841,703	5,311	861,612
	15,416	841,703	5,311	862,430
	15,416	859,292	7,548	882,256
Financial liabilities:				
Financial liabilities designated at fair value through profit or loss				
Structured deposits	—	3,961	—	3,961
Wealth management product	—	1,862	—	1,862
	—	5,823	—	5,823
Derivative financial liabilities				
Exchange rate contracts	—	3,741	1,181	4,922
Interest rate contracts	—	1,950	1,415	3,365
	—	5,691	2,596	8,287
	—	11,514	2,596	14,110

The following is a description of the fair value of the financial instruments recorded at fair value which are determined using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Financial investments

Financial investments valued using a valuation technique consist of certain debt securities and asset-backed securities. The Group values such securities in use of discounted cash flow analysis which incorporates either only observable data or both observable and non-observable data. Observable inputs include assumptions regarding current interest rates; unobservable inputs include assumptions regarding expected future default rates, prepayment rates and market liquidity discounts.

A majority of the debt securities classified as level 2 are RMB bonds. The fair value of these bonds are determined based on the valuation results provided by China Central Depository & Clearing Co., Ltd., which are determined based on a valuation technique for which all significant inputs are observable market data.

(In RMB millions, unless otherwise stated)

52. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments recorded at fair value (continued)

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate yield curves.

Derivatives valued using a valuation technique with significant non-market observable inputs are primarily certain structured products. These derivatives are valued using models which calculate present value such as the binomial model for options. The models incorporate various non-observable assumptions such as market rate volatilities.

Other liabilities designated at fair value through profit or loss

For unquoted other liabilities designated at fair value through profit or loss, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity adjusted for market liquidity and credit spreads.

(b) Movement in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing balance of level 3 financial assets and liabilities which are recorded at fair value and the movement during the year:

Group

	As at \ 1 January 2011	Total gains/ (losses) recorded in profit or loss	Total gains recorded in other comprehensive income	Additions	Disposals	Settlements	Transfers to level 3 from level 2	As at 31 December 2011
Financial assets:								
Derivative financial assets								
Exchange rate contracts	1,180	630	–	–	–	(1,094)	–	716
Interest rate contracts	1,055	791	–	–	–	(335)	285	1,796
Other derivative contracts	709	(167)	–	–	–	–	–	542
	2,944	1,254	–	–	–	(1,429)	285	3,054
Available-for-sale financial assets								
Debt securities	6,907	54	(183)	276	(2,203)	(2,944)	133	2,040
	9,851	1,308	(183)	276	(2,203)	(4,373)	418	5,094
Financial liabilities:								
Derivative financial liabilities								
Exchange rate contracts	(1,181)	351	–	–	–	99	–	(731)
Interest rate contracts	(1,415)	(1,030)	–	–	–	116	–	(2,329)
Other derivative contracts	–	(2)	–	–	–	–	–	(2)
	(2,596)	(681)	–	–	–	215	–	(3,062)

(In RMB millions, unless otherwise stated)

52. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Movement in level 3 financial instruments measured at fair value (continued)

	As at 1 January 2010	Total gains/ (losses) recorded in profit or loss	Total gains recorded in other comprehensive income	Additions	Disposals	Settlements	Transfers to level 3 from level 2	As at 31 December 2010
Financial assets:								
Derivative financial assets								
Exchange rate contracts	297	892	—	—	—	(9)	—	1,180
Interest rate contracts	1,828	(32)	—	—	—	(741)	—	1,055
Other derivative contracts	—	286	—	423	—	—	—	709
	2,125	1,146	—	423	—	(750)	—	2,944
Available-for-sale financial assets								
Debt securities	7,688	66	688	837	(161)	(2,432)	221	6,907
	9,813	1,212	688	1,260	(161)	(3,182)	221	9,851
Financial liabilities:								
Derivative financial liabilities								
Exchange rate contracts	(303)	(893)	—	—	—	15	—	(1,181)
Interest rate contracts	(2,062)	(104)	—	—	—	751	—	(1,415)
	(2,365)	(997)	—	—	—	766	—	(2,596)

Bank

	As at 1 January 2011	Total gains/ (losses) recorded in profit or loss	Total gains recorded in other comprehensive income	Disposals	Settlements	Transfers to level 3 from level 2	As at 31 December 2011
Financial assets:							
Derivative financial assets							
Exchange rate contracts	1,180	630	—	—	(1,094)	—	716
Interest rate contracts	1,055	791	—	—	(335)	285	1,796
Other derivative contracts	2	(1)	—	—	—	—	1
	2,237	1,420	—	—	(1,429)	285	2,513
Available-for-sale financial assets							
Debt securities	5,311	(12)	(10)	(1,930)	(2,944)	133	548
	7,548	1,408	(10)	(1,930)	(4,373)	418	3,061
Financial liabilities:							
Derivative financial liabilities							
Exchange rate contracts	(1,181)	351	—	—	99	—	(731)
Interest rate contracts	(1,415)	(1,030)	—	—	116	—	(2,329)
Other derivative contracts	—	(2)	—	—	—	—	(2)
	(2,596)	(681)	—	—	215	—	(3,062)

(In RMB millions, unless otherwise stated)

52. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Movement in level 3 financial instruments measured at fair value (continued)

	As at 1 January 2010	Total gains/ (losses) recorded in profit or loss	Total gains recorded in other comprehensive income	Disposals	Settlements	Transfers to level 3 from level 2	As at 31 December 2010
Financial assets:							
Derivative financial assets							
Exchange rate contracts	297	892	—	—	(9)	—	1,180
Interest rate contracts	1,779	17	—	—	(741)	—	1,055
Other derivative contracts	—	2	—	—	—	—	2
	2,076	911	—	—	(750)	—	2,237
Available-for-sale financial assets							
Debt securities	7,686	66	34	(161)	(2,431)	117	5,311
	9,762	977	34	(161)	(3,181)	117	7,548
Financial liabilities:							
Derivative financial liabilities							
Exchange rate contracts	(303)	(893)	—	—	15	—	(1,181)
Interest rate contracts	(2,013)	(153)	—	—	751	—	(1,415)
	(2,316)	(1,046)	—	—	766	—	(2,596)

Gains or losses on level 3 financial instruments included in the income statement for the year comprise:

	Group			Bank		
	Realised	Unrealised	Total	Realised	Unrealised	Total
2011						
Total gains/(losses) for the year	(1,480)	2,107	627	(1,480)	2,207	727
2010						
Total gains/(losses) for the year	277	(63)	214	277	(346)	(69)

(c) Transfers between level 1 and level 2

During the year, the transfers between level 1 and level 2 of the fair value hierarchy for financial assets and liabilities of the Group were immaterial.

(d) Fair value of financial assets and liabilities not carried at fair value

The following table summarises the carrying values and the fair values of receivables, held-to-maturity investments, subordinated bonds and convertible bonds whose fair values have not been presented or disclosed above:

	Group		Bank	
	Carrying value	Fair value	Carrying value	Fair value
31 December 2011:				
Receivables	498,804	498,683	498,804	498,683
Held-to-maturity investments	2,424,785	2,436,782	2,434,135	2,446,125
Subordinated bonds	167,619	158,696	163,000	153,921
Convertible bonds	22,608	19,367	22,608	19,367
31 December 2010:				
Receivables	501,706	501,310	501,706	501,310
Held-to-maturity investments	2,312,781	2,291,074	2,316,159	2,294,436
Subordinated bonds	78,286	72,721	75,000	69,424
Convertible bonds	22,124	20,990	22,124	20,990

(In RMB millions, unless otherwise stated)

52. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Fair value of financial assets and liabilities not carried at fair value (continued)

Subject to the existence of an active market, such as an authorised securities exchange, the market value is the best reflection of the fair value of financial instruments. As there is no available market value for certain of the financial assets and liabilities held and issued by the Group, the discounted cash flow method or other valuation methods described below are adopted to determine the fair values of these assets and liabilities:

(i) The receivables are non-transferable. The fair values of those receivables relating to the restructuring of the Bank are estimated on the basis of the stated interest rates and the consideration of the relevant special clauses of the instruments evaluated in the absence of any other relevant observable market data, and the fair values approximate to their carrying amounts. The fair values of receivables other than those relating to the restructuring of the Bank are estimated on the basis of pricing models or discounted cash flows.

(ii) The fair values of held-to-maturity investments, subordinated bonds and convertible bonds are determined with reference to the available market values. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows.

All of the above-mentioned assumptions and methods provide a consistent basis for the calculation of the fair values of the Group and the Bank's assets and liabilities. However, other institutions may use different assumptions and methods. Therefore, the fair values disclosed by different financial institutions may not be entirely comparable.

Those financial instruments for which their carrying amounts are the reasonable approximations of their fair values because, for example, they are short term in nature or repriced at current market rates frequently, are as follows:

Assets	Liabilities
Balances with central banks	Due to banks and other financial institutions
Due from banks and other financial institutions	Repurchase agreements
Reverse repurchase agreements	Due to customers
Loans and advances to customers	Other financial liabilities
Other financial assets	

53. EVENTS AFTER THE REPORTING PERIOD

The profit distribution plan

A final dividend of RMB0.203 per share after the appropriation of statutory surplus reserve and general reserve, was approved at the board of directors' meeting held on 29 March 2012, and is subject to the approval of the Bank's shareholders at the forthcoming annual general meeting. Based on the number of shares issued as at 31 December 2011, the final dividend amounted to approximately RMB70,864 million. The dividend payable was not recognised as a liability as at 31 December 2011.

(In RMB millions, unless otherwise stated)

54. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

In 2011, the Group adopted the Amendments to IFRS 1 made in Improvements to IFRSs in 2010. Pursuant to the Amendments, retrospective adjustments were made to certain items in equity as at 31 December 2010 and 1 January 2010. The amendments did not result in any effect on the income and expenses for the year ended 31 December 2010. Comparative financial statements are presented based on the restated figures.

Items in the Group's consolidated statements of financial position as of 31 December 2010 and 1 January 2010 affected by the adoption of the Amendments to IFRS 1 are as follows:

Consolidated statements of financial position

	31 December 2010		
	Before restatement	**Impact of restatement**	**Restated**
Equity			
Equity attributable to equity holders of the parent company			
Reserves	266,440	829	267,269
Retained profits	201,986	(829)	201,157

	1 January 2010		
	Before restatement	**Impact of restatement**	**Restated**
Equity			
Equity attributable to equity holders of the parent company			
Reserves	221,114	829	221,943
Retained profits	118,760	(829)	117,931

55. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2012.

Independent Auditors' Report

ERNST & YOUNG

22/F, CITIC Tower
1 TIM Mei Avenue, Central
Hong Kong

To the shareholders of Industrial and Commercial Bank of China Limited

(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Industrial and Commercial Bank of China Limited (the "Bank") and its subsidiaries (together, the "Group") set out on pages 154 to 286, which comprise the consolidated and company 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to 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.

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 auditors' 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 auditors consider 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 state of affairs of the Bank and of the Group as at 31 December 2012, and of the Group's profit 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.

Certified Public Accountants

Hong Kong

27 March 2013

Consolidated Income Statement

Year ended 31 December 2012
(In RMB millions, unless otherwise stated)

	Notes	2012	2011
Interest income	6	721,439	589,580
Interest expense	6	(303,611)	(226,816)
NET INTEREST INCOME	6	417,828	362,764
Fee and commission income	7	115,881	109,077
Fee and commission expense	7	(9,817)	(7,527)
NET FEE AND COMMISSION INCOME	7	106,064	101,550
Net trading income	8	510	444
Net loss on financial assets and liabilities designated at fair value through profit or loss	9	(5,114)	(271)
Net gain on financial investments	10	608	219
Other operating income, net	11	9,824	5,895
OPERATING INCOME		529,720	470,601
Operating expenses	12	(189,940)	(169,613)
Impairment losses on:			
Loans and advances to customers	26	(32,572)	(31,832)
Others	15	(1,173)	711
OPERATING PROFIT		306,035	269,867
Share of profits of associates and jointly-controlled entities		2,652	2,444
PROFIT BEFORE TAX		308,687	272,311
Income tax expense	16	(69,996)	(63,866)
PROFIT FOR THE YEAR		238,691	208,445
Attributable to:			
Equity holders of the parent company		238,532	208,265
Non-controlling interests		159	180
		238,691	208,445
EARNINGS PER SHARE			
— Basic (RMB yuan)	19	0.68	0.60
— Diluted (RMB yuan)	19	0.67	0.59

Details of the dividends declared and paid or proposed are disclosed in note 18 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012
(In RMB millions, unless otherwise stated)

	Note	2012	2011
Profit for the year		238,691	208,445
Other comprehensive income (after-tax, net):			
Net gain on available-for-sale financial assets	42	234	2,293
Net gain on cash flow hedges	42	139	355
Share of other comprehensive income of associates and jointly-controlled entities	42	255	774
Foreign currency translation differences	42	(1,913)	(11,416)
Others	42	107	43
Subtotal of other comprehensive income for the year		(1,178)	(7,951)
Total comprehensive income for the year		237,513	200,494
Total comprehensive income attributable to:			
Equity holders of the parent company		237,245	200,368
Non-controlling interests		268	126
		237,513	200,494

Consolidated Statement of Financial Position

31 December 2012
(In RMB millions, unless otherwise stated)

	Notes	31 December 2012	31 December 2011
ASSETS			
Cash and balances with central banks	20	3,174,943	2,762,156
Due from banks and other financial institutions	21	636,450	478,002
Financial assets held for trading	22	20,463	30,822
Financial assets designated at fair value through profit or loss	23	201,208	121,386
Derivative financial assets	24	14,756	17,460
Reverse repurchase agreements	25	544,579	349,437
Loans and advances to customers	26	8,583,289	7,594,019
Financial investments	27	3,862,216	3,763,694
Investments in associates and jointly-controlled entities	29	33,284	32,750
Property and equipment	30	135,889	119,028
Deferred income tax assets	31	22,789	21,938
Other assets	32	312,351	186,176
TOTAL ASSETS		**17,542,217**	**15,476,868**
LIABILITIES			
Due to central banks		1,133	100
Financial liabilities designated at fair value through profit or loss	33	319,742	171,973
Derivative financial liabilities	24	13,261	12,617
Due to banks and other financial institutions	34	1,486,805	1,341,290
Repurchase agreements	35	237,764	206,254
Certificates of deposit	36	38,009	41,426
Due to customers	37	13,642,910	12,261,219
Income tax payable		56,922	51,535
Deferred income tax liabilities	31	552	103
Debt securities issued	38	232,186	204,161
Other liabilities	39	384,474	228,367
TOTAL LIABILITIES		**16,413,758**	**14,519,045**
EQUITY			
Equity attributable to equity holders of the parent company			
Share capital	40	349,620	349,084
Equity component of convertible bonds	38	2,708	2,954
Reserves		400,128	291,370
Retained profits		372,541	313,334
		1,124,997	956,742
Non-controlling interests		3,462	1,081
TOTAL EQUITY		**1,128,459**	**957,823**
TOTAL EQUITY AND LIABILITIES		**17,542,217**	**15,476,868**

Jiang Jianqing
Chairman

Yang Kaisheng
Vice Chairman and President

Shen Rujun
General Manager of Finance and Accounting Department

Consolidated Statement of Changes in Equity

Year ended 31 December 2012
(In RMB millions, unless otherwise stated)

	Attributable to equity holders of the parent company													
			Reserves											
	Issued share capital	Equity component of convertible bonds	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Foreign currency translation reserve	Cash flow hedge reserve	Other reserves	Subtotal	Retained profits	Total	Non-controlling interests	Total equity
Balance as at 1 January 2012	349,084	2,954	132,096	74,420	104,301	(3,999)	(10,792)	(3,893)	(763)	291,370	313,334	956,742	1,081	957,823
Profit for the year	—	—	—	—	—	—	—	—	—	—	238,532	238,532	159	238,691
Other comprehensive income	—	—	107	—	—	242	(2,030)	139	255	(1,287)	—	(1,287)	109	(1,178)
— Change in fair value of available-for-sale investments, net of tax	—	—	—	—	—	242	—	—	—	242	—	242	(8)	234
— Cash flow hedges, net of tax	—	—	—	—	—	—	—	139	—	139	—	139	—	139
— Share of other comprehensive income of associates and jointly-controlled entities	—	—	—	—	—	—	—	—	255	255	—	255	—	255
— Exchange differences on translation of foreign operations	—	—	—	—	—	—	(2,030)	—	—	(2,030)	—	(2,030)	117	(1,913)
— Others	—	—	107	—	—	—	—	—	—	107	—	107	—	107
Total comprehensive income	—	—	107	—	—	242	(2,030)	139	255	(1,287)	238,532	237,245	268	237,513
Dividend — 2011 final (note 18)	—	—	—	—	—	—	—	—	—	—	(70,912)	(70,912)	—	(70,912)
Appropriation to surplus reserve (i)	—	—	—	23,643	—	—	—	—	—	23,643	(23,643)	—	—	—
Appropriation to general reserve (ii)	—	—	—	—	84,770	—	—	—	—	84,770	(84,770)	—	—	—
Conversion of convertible bonds	536	—	1,632	—	—	—	—	—	—	1,632	—	2,168	—	2,168
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	1,554	1,554
Capital injection by non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	—	—	600	600
Dividends to non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	—	—	(41)	(41)
Equity component of convertible bonds (note 38)	—	(246)	—	—	—	—	—	—	—	—	—	(246)	—	(246)
Balance as at 31 December 2012	**349,620**	**2,708**	**133,835**	**98,063**	**189,071**	**(3,757)**	**(12,822)**	**(3,754)**	**(508)**	**400,128**	**372,541**	**1,124,997**	**3,462**	**1,128,459**

(i) Includes the appropriation made by overseas branches and subsidiaries in the amounts of RMB15 million and RMB310 million, respectively.

(ii) Includes the appropriation made by subsidiaries in the amount of RMB1,314 million.

(In RMB millions, unless otherwise stated)

	Attributable to equity holders of the parent company													
			Reserves											
	Issued share capital	Equity component of convertible bonds	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Foreign currency translation reserve	Cash flow hedge reserve	Other reserves	Subtotal	Retained profits	Total	Non-controlling interests	Total equity
Balance as at 1 January 2011	349,019	2,985	131,923	53,782	93,071	(6,303)	581	(4,248)	(1,537)	267,269	201,157	820,430	1,227	821,657
Profit for the year	—	—	—	—	—	—	—	—	—	—	208,265	208,265	180	208,445
Other comprehensive income	—	—	43	—	—	2,304	(11,373)	355	774	(7,897)	—	(7,897)	(54)	(7,951)
— Change in fair value of available-for-sale investments, net of tax	—	—	—	—	—	2,304	—	—	—	2,304	—	2,304	(11)	2,293
— Cash flow hedges, net of tax	—	—	—	—	—	—	—	355	—	355	—	355	—	355
— Share of other comprehensive income of associates and jointly-controlled entities	—	—	—	—	—	—	—	—	774	774	—	774	—	774
— Exchange differences on translation of foreign operations	—	—	—	—	—	—	(11,373)	—	—	(11,373)	—	(11,373)	(43)	(11,416)
— Others	—	—	43	—	—	—	—	—	—	43	—	43	—	43
Total comprehensive income	—	—	43	—	—	2,304	(11,373)	355	774	(7,897)	208,265	200,368	126	200,494
Dividend — 2010 final (note 18)	—	—	—	—	—	—	—	—	—	—	(64,220)	(64,220)	—	(64,220)
Appropriation to surplus reserve (i)	—	—	—	20,638	—	—	—	—	—	20,638	(20,638)	—	—	—
Appropriation to general reserve (ii)	—	—	—	—	11,230	—	—	—	—	11,230	(11,230)	—	—	—
Conversion of convertible bonds	65	—	200	—	—	—	—	—	—	200	—	265	—	265
Capital injection by non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	—	—	31	31
Change in shareholdings in subsidiaries	—	—	(70)	—	—	—	—	—	—	(70)	—	(70)	(234)	(304)
Dividends to non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	—	—	(69)	(69)
Equity component of convertible bonds (note 38)	—	(31)	—	—	—	—	—	—	—	—	—	(31)	—	(31)
Balance as at 31 December 2011	**349,084**	**2,954**	**132,096**	**74,420**	**104,301**	**(3,999)**	**(10,792)**	**(3,893)**	**(763)**	**291,370**	**313,334**	**956,742**	**1,081**	**957,823**

(i) Includes the appropriation made by overseas branches and subsidiaries in the amount of RMB41 million and RMB250 million, respectively.

(ii) Includes the appropriation made by subsidiaries in the amount of RMB227 million.

Consolidated Statement of Cash Flows

Year ended 31 December 2012
(In RMB millions, unless otherwise stated)

	Notes	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		308,687	272,311
Adjustments for:			
Share of profits of associates and jointly-controlled entities		(2,652)	(2,444)
Depreciation	12	13,215	12,027
Amortisation	12	1,781	1,426
Amortisation of financial investments		(2,857)	(7,562)
Impairment losses on loans and advances to customers	26	32,572	31,832
Impairment losses on assets other than loans and advances to customers	15	1,173	(711)
Unrealised foreign exchange loss		6,853	7,497
Interest expense on debt securities issued		9,876	5,103
Accreted interest on impaired loans	6	(944)	(602)
Gain on disposal of available-for-sale financial assets, net	10	(559)	(178)
Net trading gain on equity investments	8	(42)	(3)
Net loss on financial assets and liabilities designated at fair value through profit or loss	9	5,114	271
Net gain on disposal and overage of property and equipment and other assets (other than repossessed assets)		(961)	(881)
Dividend income	10	(49)	(41)
		371,207	318,045
Net decrease/(increase) in operating assets:			
Due from central banks		(179,741)	(437,857)
Due from banks and other financial institutions		(191,882)	(37,009)
Financial assets held for trading		10,636	(20,475)
Financial assets designated at fair value through profit or loss		(80,025)	(118,555)
Reverse repurchase agreements		(35,653)	(1,344)
Loans and advances to customers		(1,010,592)	(1,036,506)
Other assets		(31,126)	(27,188)
		(1,518,383)	(1,678,934)
Net increase/(decrease) in operating liabilities:			
Financial liabilities designated at fair value through profit or loss		147,651	160,203
Due to central banks		1,025	49
Due to banks and other financial institutions		148,697	279,170
Repurchase agreements		31,325	121,366
Certificates of deposit		(3,880)	33,038
Due to customers		1,365,818	1,135,086
Other liabilities		55,401	27,912
		1,746,037	1,756,824
Net cash flows from operating activities before tax		598,861	395,935
Income tax paid		(65,353)	(47,812)
Net cash flows from operating activities		533,508	348,123

(In RMB millions, unless otherwise stated)

	Note	2012	2011
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment and other assets		(31,852)	(22,896)
Proceeds from disposal of property and equipment and other assets (other than repossessed assets)		1,271	1,278
Purchases of financial investments		(1,058,490)	(1,385,697)
Proceeds from sale and redemption of financial investments		965,229	1,349,324
Investments in associates and jointly-controlled entities		(19)	(10)
Acquisition of subsidiaries		(3,723)	—
Dividends received		914	1,268
Net cash flows from investing activities		(126,670)	(56,733)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital injection by non-controlling shareholders		600	31
Proceeds from issuance of subordinated bonds		20,000	89,500
Proceeds from issuance of other debt securities		9,640	14,303
Interest paid on debt securities		(8,566)	(3,212)
Acquisition of non-controlling interests		—	(328)
Dividends paid on ordinary shares		(70,912)	(64,220)
Dividends paid to non-controlling shareholders		(41)	(69)
Net cash flows from financing activities		(49,279)	36,005
NET INCREASE IN CASH AND CASH EQUIVALENTS		357,559	327,395
Cash and cash equivalents at beginning of the year		848,308	528,971
Effect of exchange rate changes on cash and cash equivalents		(4,220)	(8,058)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	44	1,201,647	848,308
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		704,500	565,899
Interest paid		(243,400)	(204,648)

Statement of Financial Position

31 December 2012
(In RMB millions, unless otherwise stated)

	Notes	31 December 2012	31 December 2011
ASSETS			
Cash and balances with central banks	20	3,146,659	2,737,238
Due from banks and other financial institutions	21	658,317	474,287
Financial assets held for trading	22	18,064	29,849
Financial assets designated at fair value through profit or loss	23	200,786	120,811
Derivative financial assets	24	13,406	15,476
Reverse repurchase agreements	25	320,133	229,769
Loans and advances to customers	26	8,168,369	7,246,627
Financial investments	27	3,808,282	3,730,354
Investments in subsidiaries	28	69,638	53,907
Investments in associates	29	33,883	33,369
Property and equipment	30	114,950	105,971
Deferred income tax assets	31	22,144	21,796
Other assets	32	257,760	155,965
TOTAL ASSETS		**16,832,391**	**14,955,419**
LIABILITIES			
Due to central banks		658	—
Financial liabilities designated at fair value through profit or loss	33	319,742	171,945
Derivative financial liabilities	24	12,322	10,845
Due to banks and other financial institutions	34	1,424,272	1,297,947
Repurchase agreements	35	7,313	78,551
Certificates of deposit	36	18,124	14,434
Due to customers	37	13,301,472	11,963,815
Income tax payable		56,075	50,818
Debt securities issued	38	214,044	192,439
Other liabilities	39	359,668	218,216
TOTAL LIABILITIES		**15,713,690**	**13,999,010**
EQUITY			
Share capital	40	349,620	349,084
Equity component of convertible bonds	38	2,708	2,954
Reserves	41	413,395	305,573
Retained profits	41	352,978	298,798
TOTAL EQUITY		**1,118,701**	**956,409**
TOTAL EQUITY AND LIABILITIES		**16,832,391**	**14,955,419**

Jiang Jianqing
Chairman

Yang Kaisheng
Vice Chairman and President

Shen Rujun
General Manager of Finance and Accounting Department

1. CORPORATE INFORMATION

Industrial and Commercial Bank of China Limited (the "Bank"), which was previously known as Industrial and Commercial Bank of China ("ICBC"), used to be a wholly-state-owned commercial bank established on 1 January 1984 based on the authorisation of the State Council and the People's Bank of China (the "PBOC") of the People's Republic of China (the "PRC"). On 28 October 2005, with the approval of the State Council, ICBC was restructured and incorporated as a joint-stock limited company. The joint-stock limited company undertook all the assets and liabilities of ICBC upon the restructuring.

The Bank obtained its finance permit No. B0001H111000001 from the China Banking Regulatory Commission (the "CBRC") of the PRC. The Bank obtained its business license No. 100000000003965 from the State Administration for Industry and Commerce of the PRC. The legal representative is Jiang Jianqing and the registered office is located at No. 55 Fuxingmennei Avenue, Xicheng District, Beijing, the PRC.

The Bank's A Shares and H Shares are listed on the Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited and the stock codes are 601398 and 1398, respectively.

The principal activities of the Bank and its subsidiaries (collectively referred to as the "Group") comprise corporate and personal banking, treasury operations, investment banking, asset management, trust, financial leasing, insurance and other financial services. Domestic establishments refer to the Head Office of the Bank, branches and subsidiaries established inside Mainland China. Overseas establishments refer to branches and subsidiaries established under local jurisdictions outside Mainland China.

2.1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and interpretations promulgated by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, financial assets and liabilities held for trading, financial assets and liabilities designated at fair value through profit or loss and available-for-sale financial assets (unless the fair value cannot be reliably measured) that have been measured at fair value, as further explained in the respective accounting policies below. The carrying values of recognised assets and liabilities, that are hedged in fair value hedges and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged. These financial statements are presented in RMB and all values are rounded to the nearest million except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

(i) Subsidiaries

The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

2.1 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

(a) derecognises the assets (including goodwill) and liabilities of the subsidiary;

(b) derecognises the carrying amount of any non-controlling interest;

(c) derecognises the cumulative translation differences recorded in equity;

(d) recognises the fair value of the consideration received;

(e) recognises the fair value of any investment retained;

(f) recognises any resulting surplus or deficit in profit or loss; and

(g) reclassifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained profits, as appropriate.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the consolidated income statement, and within equity in the consolidated statement of financial position separately from the equity attributable to equity holders of the parent company. An acquisition of non-controlling interests is accounted for as an equity transaction.

(ii) Special purpose entities

Special purpose entities ("SPEs") are consolidated if they are in substance controlled by the Bank. When assessing whether the Bank has a control over the SPEs, the Bank evaluates a range of factors, including whether:

(a) the activities of the SPE are being conducted on behalf of the Bank and according to the Bank's specific business needs so that the Bank obtains benefits from the SPE's operations;

(b) the Bank has the decision-making powers to obtain the majority of the benefits of the activities of the SPE;

(c) the Bank has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE; or

(d) the Bank retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

2.2 REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS THAT ARE EFFECTIVE IN 2012 AND RELEVANT TO THE GROUP

The IASB has issued the following revised IFRSs (including International Accounting Standards ("IASs")) that are effective in 2012 and relevant to the Group's operation.

IFRS 1 Amendments	*First-time Adoption of International Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
IFRS 7 Amendments	*Financial Instruments: Disclosures — Transfers of Financial Assets*
IAS 12 Amendments	*Income Taxes — Deferred Tax: Recovery of Underlying Assets*

2.2 REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS THAT ARE EFFECTIVE IN 2012 AND RELEVANT TO THE GROUP (CONTINUED)

The principal effects of adopting these revised IFRSs are as follows:

IFRS 1 First-time Adoption of International Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments)

The amendments provide guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendments had no impact on the Group's financial statements.

IFRS 7 Financial Instruments: Disclosures — Transfers of Financial Assets (Amendments)

The amendments enhance disclosures for financial assets. These disclosures relate to assets transferred (as defined under IAS 39). If the assets transferred are not derecognised entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities. If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. Effective implementation date is for annual periods beginning on or after 1 July 2011. Disclosures for any period prior to the date of initial application are not required. Details of transfers of financial assets are included in note 45 "transferred financial assets".

IAS 12 Income Taxes — Deferred Tax: Recovery of Underlying Assets (Amendments)

The amendments clarify the determination of deferred tax on investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments introduce the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis of the asset. Effective implementation date is for annual periods beginning on or after 1 January 2012. The amendments had no impact on the Group's financial statements.

The Group has not adopted any other standard, interpretation or amendment that was issued but is not yet effective.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Subsidiaries

A subsidiary is an entity whose financial and operating policies the Bank controls, directly and indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Bank's income statement to the extent of dividends received and receivable. The Bank's investments in subsidiaries are stated at cost less any impairment losses.

(2) Jointly-controlled entities

A jointly-controlled entity is a joint venture, not being a subsidiary or an associate, that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entities.

The Group's investments in jointly-controlled entities are accounted for under the equity method of accounting. Under the equity method, investments in jointly-controlled entities are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the jointly-controlled entities, less any impairment losses. Goodwill relating to jointly-controlled entities is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investments in the jointly-controlled entities. The consolidated income statement reflects the share of the results of operations of the jointly-controlled entities. Where there has been a change recognised directly in the equity of the jointly-controlled entities, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Profits and losses resulting from transactions between the Group and the jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities.

The results of the jointly-controlled entities are included in the Bank's income statement to the extent of dividends received and receivable. The Bank's investments in jointly-controlled entities are stated at cost less any impairment losses.

The reporting periods of the jointly-controlled entities and the Group are identical and the jointly-controlled entities' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(3) Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are accounted for under the equity method of accounting. Under the equity method, an investment in an associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the associate, less any impairment losses. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The consolidated income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Profits and losses resulting from transactions between the Group and the associates are eliminated to the extent of the Group's interests in the associates.

The results of the associates are included in the Bank's income statement to the extent of dividends received and receivable. The Bank's investments in associates are stated at cost less any impairment losses.

The reporting periods of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

(4) Foreign currency translation

The consolidated financial statements are presented in RMB, being the functional and presentation currency of the Bank's operations in Mainland China. Each entity in the Group determines its own functional currency and the financial statements of each entity are presented using that functional currency.

Foreign currency transactions are initially recorded at the functional currency using the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the applicable exchange rates ruling at the end of the reporting period. Exchange differences arising on the settlement of monetary items or on translating monetary items at period end rates are recognised in the income statement, with the exception that they are taken directly to other comprehensive income when the monetary items are designated as part of the hedge of the Bank's net investment of a foreign entity, and the aggregate exchange differences are not recognised in the income statement until the disposal of such net investment. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates as at the date when the fair value is determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the rates ruling at the end of the reporting period. The exchange differences are recognised in the income statement or in other comprehensive income, depending on the nature of non-monetary items.

As at the end of the reporting period, the assets and liabilities of foreign operations are translated into the presentation currency of the Bank at the exchange rates ruling at the end of the reporting period. All items within equity except for retained profits are translated at the exchange rates ruling at the dates of the initial transactions. Their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the above translation are taken directly to other comprehensive income. On disposal of a foreign operation, the deferred cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(4) Foreign currency translation (continued)

Cash flows arising from transactions in foreign currencies and cash flows of overseas subsidiaries are translated using the weighted average exchange rates for the year. The effect of exchange rate movements on cash is presented separately in statement of cash flows as a reconciling item.

(5) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Initial recognition of financial instruments

At initial recognition, financial assets are classified into four categories: financial assets at fair value through profit or loss, held-to-maturity financial investments, loans and receivables and available-for-sale financial assets.

At initial recognition, financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities.

A financial asset or financial liability is measured initially at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Measurement of fair value

The fair value of a financial asset or financial liability traded in active markets is based on its quoted market price.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include making reference to the prices from recent arm's length market transactions between knowledgeable and willing parties, if available, current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

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

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

Financial assets or financial liabilities held for trading

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

(i) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;

(ii) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking; or

(iii) it is a derivative.

Financial assets held for trading mainly include debt securities, equity investments and derivatives that are not designated as effective hedging instruments.

Financial assets or financial liabilities held for trading are measured at fair value after initial recognition. Realised or unrealised income or expenses are recognised in the income statement. Derivatives are separately presented and disclosed in the financial statements, and accounting policies of derivatives are shown in note 3(10).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(5) Financial instruments (continued)

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

A financial instrument may be designated as a financial asset or financial liability at fair value through profit or loss upon initial recognition, if it meets any of the criteria set out below.

(i) It eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial asset or financial liability or from recognising the gains and losses on them on different bases;

(ii) It applies to a group of financial assets, financial liabilities or both which is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and where information about that group of financial instruments is provided internally on that basis to key management personnel; or

(iii) The financial instrument contains one or more embedded derivatives, unless the embedded derivative(s) does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

In the case of an equity investment, if neither a quoted market price in an active market exists nor its fair value can be reliably measured, it cannot be designated as a financial asset at fair value through profit or loss.

Financial assets designated at fair value through profit or loss mainly include debt securities and other debt instruments, financial liabilities designated at fair value through profit or loss mainly include wealth management products, structured deposits, notes payable, certificates of deposit, and financial liabilities related to precious metals. These assets and liabilities are measured at fair value after initial recognition. Realised and unrealised income or expenses are recognised in the income statement.

Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity and which the Group has the positive intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Gains and losses are recognised in the income statement when the held-to-maturity financial investments are derecognised or impaired, as well as through the amortisation process. All the held-to-maturity financial investments are bond investments.

The Group shall reclassify any remaining held-to-maturity investments as available for sale and shall not classify any financial assets as held to maturity during the current financial year or during the two preceding financial years, if the Group has sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) except for sale or reclassification that:

(i) is so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;

(ii) occurs after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or

(iii) is attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(5) Financial instruments (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group has no intention of trading the assets immediately or in the near term. After initial measurement, such assets are subsequently carried at amortised cost using the effective interest rate method, less any allowance for impairment losses. Gains and losses are recognised in the income statement when such assets are derecognised or impaired, as well as through the amortisation process. Loans and receivables mainly include loans and advances to customers, receivables and discounted bills.

Discounted bills are granted by the Group to its customers based on the bank acceptance held which has not matured. Discounted bills are carried at face value less unrealised interest income and the interest income of the discounted bills is recognised using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets which are designated as such or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Premiums and discounts on available-for-sale financial assets are amortised using the effective interest rate method and are taken to the income statement as interest income. Changes in fair value of available-for-sale financial assets are recognised as a separate component of other comprehensive income until the financial asset is derecognised or determined to be impaired at which time the cumulative gains or losses previously recorded in other comprehensive income are transferred to the income statement. Dividend and interest income on available-for-sale financial assets are recorded in the income statement.

In the case of an equity investment classified as available for sale, if neither a quoted market price in an active market exists nor its fair value can be reliably measured, it will be measured at cost less any impairment loss.

Other financial liabilities

Other financial liabilities are carried at amortised cost using the effective interest rate method.

(6) Impairment of financial assets

An assessment on carrying amount of financial assets is made at the end of each reporting period. Impairment is recognised if there is objective evidence of impairment of financial assets, i.e., one or more events that occur after the initial recognition of those assets and have an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, they would probably enter into bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows.

Financial assets carried at amortised cost

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(6) Impairment of financial assets (continued)

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

Future cash flows of 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 impact of current conditions that did not affect the period on which the historical loss experience is based and to eliminate the impact of historical conditions that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be attributed objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the assets does not exceed its amortised cost at the reversal date.

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

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on the financial asset, the amount of impairment loss, measured as the difference between the carrying amount of that financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset, is recognised in the income statement. In the case of an equity investment, if neither a quoted market price in an active market exists nor its fair value can be reliably measured, the amount of impairment loss is recognised in the income statement. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If there is objective evidence that the financial asset is impaired, the cumulative loss, 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, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The Group considers the period and consistency of the decline in evaluating whether a decline in fair value is prolonged. The Group considers the time period and continuity of the magnitude of the decline to evaluate whether the decline in fair value is prolonged. More significantly the fair value declines relative to the cost, the less the volatility moves, and the longer the decline lasts or the more obvious the continuity of the magnitude of the decline is, the more likely the equity investment impairs. In general, the Group considers the situation when fair value is less than 40% of the cost as significant decline and that when fair value falls below the cost in a period over 12 months as prolonged decline. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised as other comprehensive income.

In the case of debt instruments classified as available for sale, if, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impaired loss is reversed through the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(7) Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(8) Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset; or has retained its rights to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and either the Group has transferred substantially all the risks and rewards of ownership of the financial asset; or the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has retained its rights to receive cash flows from the asset but has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Securitisation

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to SPEs which issue securities to investors. The transferred assets may qualify for derecognition in full or in part. Further details on prerequisites for derecognition of financial assets are set out above. Interests in the securitised financial assets may be partially retained by the Group and are primarily classified as available-for-sale financial assets. The book value of the transferred asset should be recognised between the derecognised portion and the retained portion based on their respective relative fair values, and the difference between the book value of the derecognised portion and the total consideration paid for the derecognised portion shall be recorded in profit or loss.

Sales of assets on condition of repurchase

The derecognition of financial assets sold on condition of repurchase is determined by the economic substance of the transaction. If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price or at the sale price plus a reasonable return, the Group will not derecognise the asset. If a financial asset is sold together with an option to repurchase the financial asset at its fair value at the time of repurchase (in case of transferor sells such financial asset), the Group will derecognise the financial asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(8) Derecognition of financial assets and liabilities (continued)

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

(9) Convertible bonds

Convertible bonds which contain both a liability and an equity component are separated at the issue date. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond. The equity component is assigned the residual amount after deducting from the fair value of the convertible bonds as a whole the amount separately determined for the liability component. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the convertible bonds are first recognised. The liability component is carried as a liability on the amortised cost basis until extinguished on cancellation, conversion or redemption. The equity component is included in shareholders' equity, and not remeasured in subsequent years.

On conversion of the convertible bonds, the Group derecognises the liability component and recognises it as equity.

(10) Derivatives and hedge accounting

Derivatives

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the hybrid instrument is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognised in the income statement.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

For less complex derivative products, the fair values are principally determined by valuation models which are commonly used by market participants. Inputs to valuation models are determined from observable market data wherever possible, including foreign exchange spot and forward rates and interest rate yield curves. For more complex derivative products, the fair values are mainly determined by quoted prices from dealers.

Hedge accounting

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they have actually been highly effective throughout the financial reporting periods for which they were designated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(10) Derivatives and hedge accounting (continued)

Certain derivative transactions, while providing effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under IAS 39 and are therefore treated as derivatives held for trading with fair value gains or losses recognised in the income statement. Hedges which meet the strict criteria for hedge accounting are accounted for in accordance with the Group's accounting policy as set out below.

Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or unrecognised firm commitment, that is attributable to a particular risk and could affect the profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and the gains and losses from both are taken to the income statement.

For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item and the face value is amortised over the remaining term of the original hedge using the effective interest rate method.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the income statement. The changes in the fair value of the hedging instrument are also recognised in the income statement.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. If the hedged items are derecognised, the unamortised fair value is recorded in the income statement.

Cash flow hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised directly in other comprehensive income. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the income statement.

When the hedged cash flow affects the income statement, the gain or loss on the hedging instrument recognised directly in other comprehensive income is recycled in the corresponding income or expense line of the income statement. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income until the hedged forecast transaction ultimately occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

(11) Trade date accounting

All regular way purchases and sales of financial assets are recognised at the trade date, which is the date that the Group commits to purchase or sell the assets. A regular way purchase or sale is the purchase or sale of financial assets that requires delivery of assets within the time frame generally established by regulation or convention in the marketplace.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(12) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position if, and only if, the Group has a legally enforceable right to offset such amounts with the same counterparty and an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(13) Repurchase and reverse repurchase transactions (including securities borrowing and lending)

Assets sold under agreements to repurchase at a specified future date ("repos") are not derecognised from the statement of financial position. The corresponding cash received, including accrued interest, is recognised on the statement of financial position as a "repurchase agreement", reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as an interest expense and is accrued over the life of the agreement using the effective interest rate method.

Conversely, assets purchased under agreements to resell at a specified future date ("reverse repos") are not recognised on the statement of financial position. The corresponding cash paid, including accrued interest, is recognised on the statement of financial position as a "reverse repurchase agreement". The difference between the purchase and resale prices is treated as an interest income and is accrued over the life of the agreement using the effective interest rate method.

Securities borrowing and lending transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognised on the statement of financial position, unless they are then sold to third parties, in which case the obligation to return the securities is recorded as a financial liability held for trading and measured at fair value with any gains or losses included in the income statement.

(14) Precious metals

Precious metals comprise gold, silver and other precious metals. Precious metals that are not related to the Group's precious metals trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals acquired by the Group for trading purposes are initially measured at fair value and subsequent changes in fair value are recorded in income statement.

The Group records the precious metals received as an asset. A liability to return the amount of precious metals deposited is also recognised. The precious metals deposited in the Group are measured at fair value both on initial recognition and in subsequent measurement.

(15) Property and equipment

Property and equipment, other than construction in progress are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price, tax and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement.

(In RMB millions, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(15) Property and equipment (continued)

Construction in progress comprises the direct costs of construction during the period of construction and is not depreciated. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for use.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment, less any estimated residual value, over the estimated useful life. The estimated useful life, estimated residual value and the annual depreciation rate of each item of property and equipment (excluding aircraft and vessels) are as follows:

	Estimated useful life	Estimated residual value rate	Annual depreciation rate
Properties and buildings	5–35 years	3%	2.77%–19.40%
Office equipment and motor vehicles (excluding aircraft and vessels)	3–6 years	—	16.67%–33.33%
Leasehold improvements	Over the shorter of the economic useful lives and remaining lease terms		

Equipment under operating leases where the Group is the lessor are aircraft, aircraft engines and vessels. The estimated useful lives and depreciation methods are determined according to the real conditions of each individual aircraft and vessels. The residual values are assessed by an independent valuer based on historical data. The estimated useful lives range from 15 to 25 years.

For an item of impaired fixed assets, the depreciation is calculated based on the carrying value less the cumulative impairment losses.

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

(16) Land use rights

Land use rights are recognised at cost, being the fair value at the time of injection from the central government of the PRC (the "Government") or the consideration paid. The rights are amortised using the straight-line basis over the period of the leases. When the prepaid land lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of properties and buildings as finance leases in property and equipment.

(17) Repossessed assets

Repossessed assets are initially recognised at fair value, and are subsequently measured at the lower of the carrying value and net recoverable amount. If the recoverable amount is lower than the carrying value of the repossessed assets, the assets are written down to the recoverable amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(18) Business combination and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition costs incurred are expensed.

For each business combination, the Group measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either: (a) fair value; or (b) the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair values, unless another measurement basis is required by IFRSs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, is recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units ("CGU"), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the CGU (group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (group of CGUs) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a CGU (group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

(19) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(20) Asset impairment

Impairment losses on assets except for deferred tax assets, financial assets and goodwill are determined based on the following:

The Group assesses at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, or when impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined on an individual basis, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the CGU to which the asset belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount. In assessing value in use of an asset, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of any depreciation/amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement. After such a reversal, the depreciation/amortisation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(21) Cash and cash equivalents

Cash and cash equivalents refer to short term highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents comprise cash, unrestricted balances with central banks, amounts due from banks and other financial institutions and reverse repurchase agreements with original maturity of less than three months.

(22) Employee benefits

Employee benefits refer to all forms of consideration and other related expenditure given by the Group in exchange for services rendered by employees. The benefits payable are recognised as liabilities during the period in which the employees have rendered services to the Group. If the effect of discounting the benefits payable which are payable after one year from the end of the reporting period is significant, the Group will present them at their present value.

Statutory defined contribution plans

In accordance with the relevant laws and regulations, domestic employees of the Group participate in various social insurance schemes like basic pension insurance, medical insurance, unemployment insurance and housing fund schemes administered by the local government authorities. The Group calculates and contributes to the local government agencies the above pension and insurance schemes using applicable contribution basis and rates stipulated in the relevant local regulations in the period the employees providing their services to the Group. Contributions to these plans are recognised in the income statement as incurred.

All eligible employees outside Mainland China participate in local defined contribution schemes. The Group contributes to these defined contribution schemes based on the requirements of the local regulatory bodies.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(22) Employee benefits (continued)

Retirement benefit annuity plan

In addition, employees in Mainland China also participate in a defined contribution retirement benefit plan established by the Group (the "Annuity Plan"). The Group and its employees are required to contribute a certain percentage of the employees' previous year basic salaries to the Annuity Plan. The contribution is charged to the income statement when it incurs. The Group pays a fixed contribution into the Annuity Plan and has no obligation to pay further contributions if the Annuity Plan does not hold sufficient assets to pay all employee benefits.

Termination benefits

Termination benefits are payable whenever an employee's employment is voluntarily terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits in the income statement when it is demonstrably committed to terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal.

Early retirement benefits

According to the Bank's policy on early retirement benefits, certain employees are entitled to take leave of absence and in return receive a certain level of staff salaries and related benefits from the Bank. The salaries and benefit payments are made from the date of early retirement to the normal retirement date. The amounts of retirement benefit expense and present value of these liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, retirement benefit growth rates and other factors. Gains and losses arising from the changes in assumptions and amendments to pension plans are recognised in the income statement as incurred.

(23) Fiduciary activities

Where the Group acts in a fiduciary capacity such as custodian or agent, assets arising thereon together with related undertakings to return such assets to customers are excluded from the statement of financial position.

The asset custody services of the Group refer to the business that the Group as trustee approved by regulatory authorities, signs custody agreement with clients and takes the responsibility of trustee in accordance with relevant laws and regulations. The assets under custody are recorded as off-balance sheet items as the Group merely fulfils the responsibility as trustee and charges fees in accordance with these agreements without retaining any risks or rewards of the assets under custody.

The Group grants entrusted loans on behalf of trustors, which are recorded off-balance sheet. The Group, as a trustee, grants such entrusted loans to borrowers under the direction of those trustors who fund these loans. The Group has been contracted by those trustors to manage the administration and collection of these loans on their behalf. Those trustors determine both the underwriting criteria for and the terms of all entrusted loans including their purposes, amounts, interest rates, and repayment schedules. The Group charges a commission related to its activities in connection with entrusted loans which are recognised ratably over the period in which the service is provided. The risk of loss is borne by those trustors.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(24) Insurance contracts

Insurance contracts classification

The Group's insurance subsidiary executes the contract with the policyholder. Where the Group undertakes only the insurance risk, the contract is classified as an insurance contract; where the Group undertakes the risks other than the insurance risk, the contract is classified as non-insurance contract; and where the Group undertakes both insurance risk and other risks, forming a contract with mixed risks, the following stipulations shall apply:

(i) Where the insurance risk and other risks can be distinguished from each other and separately measured, the insurance risk shall be separated from other risks. The insurance risk is accounted for according to the insurance contract and other risks are not accounted for as insurance contract.

(ii) Where the insurance risk and other risks cannot be distinguished from each other, or can be distinguished but cannot be separately measured, an umbrella contract applies and significant insurance risk test shall be performed based on it. If the insurance risk is significant, the contract is identified as an insurance contract; otherwise, it is identified as non-insurance contract.

Insurance income recognition

Insurance premium income is recognised when:

(i) The insurance contract is issued, and related insurance risk is undertaken by the Group;

(ii) The related economic benefits are likely to flow to the Group; and

(iii) Related income can be reliably measured.

Insurance contract liabilities

When measuring insurance contract liabilities, the Group classifies insurance contracts whose insurance risks are of similar nature as a measurement unit. Insurance contract liabilities are measured based on a reasonably estimated amount of payment that the Group is obliged to pay to fulfill relevant obligations under the insurance contract. At the end of each reporting period, liability adequacy tests are performed. If the insurance contract liabilities re-calculated with the insurance actuarial method exceed their carrying amounts on date of the liability adequacy test, an additional provision shall be made for the respective insurance contract liabilities based on the difference. Otherwise, no adjustment is made to the respective insurance contract liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(25) Recognition of income and expense

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and when the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest income and expense

For all financial instruments measured at amortised cost and interest-generating financial instruments classified as available-for-sale financial assets, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded in profit or loss.

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.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(i) Fee income on transactions conducted or from services provided over a period of time

Fee income is recognised on the basis of when the transaction is completed or on an accrual basis when the service is provided over a period of time. These fees mainly include fee income on settlement and clearing business, commission income and fee income on asset management, custody and other management advisory services.

(ii) Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

The fair value of the award credits granted to the bank card holders is deferred and recognised as fee and commission income when the award credits are redeemed or expire.

Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

Net trading income

Results arising from trading activities include all gains and losses from changes in fair value for financial assets and financial liabilities that are held for trading. This includes gains and losses from changes in fair value relating to the ineffective portion of the hedging arrangements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(26) Income tax

Income tax comprises current and deferred income tax. Income tax is recognised in the income statement except that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of each reporting period.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

(i) Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and

(ii) In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

(i) Where the deferred income tax asset relating to the deductible temporary differences 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 the accounting profit nor taxable income or deductible expenses; and

(ii) In respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period and reflect the corresponding tax effect.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilised. When it is virtually probable that sufficient taxable income will be available, the reduced amount can be reversed accordingly.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(27) Leases

Leases which transfer substantially all the risks and rewards of ownership of the assets to the lessees are classified as finance leases. Leases where substantially all the rewards and risks of the assets remain with the lessor are accounted for as operating leases.

Finance leases

When the Group is a lessor under finance leases, an amount representing the minimum lease payment receivables and initial direct costs is included in the statement of financial position as loans and advances to customers. Any unguaranteed residual value is also recognised at the inception of the lease. The difference between the sum of the minimum lease payment receivables, initial direct costs, the unguaranteed residual value and their present value is recognised as unearned finance income. Unearned finance income is recognised over the period of the lease using the effective interest rate method.

Operating leases

Rental payments applicable to operating leases are charged to the income statement on the straight-line basis over the lease terms.

When the Group is the lessor under operating leases, the assets subject to operating leases are accounted for as the Group's assets. Rental income is recognised as "other operating income, net" in the income statement on the straight-line basis over the lease term.

(28) Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person,

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(29) Financial guarantee contracts

The Group issues financial guarantee contracts, including letters of credit, letters of guarantee and acceptance. These financial guarantee contracts provide for specified payments to be made to reimburse the holders for the losses they incur when a guaranteed party defaults under the original or modified terms of a debt instrument, loan or any other obligation.

The Group initially measures all financial contracts at fair value, in other liabilities, being the premium received. This amount is recognised ratably over the period of the contract as fee and commission income. Subsequently, the liabilities are measured at the higher of the initial fair value less cumulative amortisation and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to a financial guarantee is taken to the income statement.

(30) 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. Contingent liabilities are disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and can be reliably estimated, it will then be recognised as a provision.

(31) Dividends

Dividends are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders in general meetings and declared. Interim dividends are deducted from equity when they are approved and declared, and no longer at the discretion of the Bank. Dividend for the year that is approved after the end of the reporting period is disclosed as an event after the reporting period.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, management has used its judgements and made assumptions of the effects of uncertain future events on the financial statements. The most significant use of judgements and key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are described below.

Designation of held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments when the Group has the positive intention and ability to hold the investments to maturity. Accordingly, in evaluating whether a financial asset shall be classified as a held-to-maturity investment, significant management judgement is required. If the Group fails to correctly assess its intention and ability to hold the investments to maturity and the Group sells or reclassifies more than an insignificant amount of held-to-maturity investments before maturity, the Group shall reclassify the whole held-to-maturity investment portfolio as available for sale.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Impairment losses of loans and advances and amounts due from banks and other financial institutions

The Group determines periodically whether there is any objective evidence that impairment losses have occurred on loans and advances and amounts due from banks and other financial institutions. If any such evidence exists, the Group assesses the amount of impairment losses. The amount of impairment losses is measured as the difference between the carrying amount and the present value of estimated future cash flows. Assessing the amount of impairment losses requires significant judgement on whether the objective evidence for impairment exists and also significant estimates when determining the present value of the expected future cash flows.

Impairment losses of available-for-sale and held-to-maturity investments

In determining whether there is any objective evidence that impairment losses have occurred on available-for-sale and held-to-maturity investments, the Group assesses periodically whether there has been a significant or prolonged decline in the fair value below its cost or carrying amount, or whether other objective evidence of impairment exists based on the investee's financial conditions and business prospects, including industry environment, change of technology as well as operating and financing cash flows. This requires a significant level of judgement of management, which would affect the amount of impairment losses.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis and when circumstances indicate that the carrying value may be impaired. This requires an estimation of the recoverable amount of the CGU or groups of CGUs to which the goodwill is allocated. Estimating the recoverable amount requires the Group to make an estimate of the expected future cash flows from the CGU or groups of CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Income tax

Determining income tax provisions requires the Group to estimate the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant estimation on the tax treatments of certain transactions and also significant assessment on the probability that adequate future taxable profits will be available for the deferred income tax assets to be recovered.

Fair value of financial instruments

If the market for a financial instrument is not active, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable and willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. To the extent practicable, valuation technique makes maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on such unobservable market inputs.

(In RMB millions, unless otherwise stated)

5. IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs and IASs that have been issued but are not yet effective, in these financial statements.

IFRS 1 Amendments	*First-time Adoption of International Financial Reporting Standards — Government Loans* [2]
IFRS 7 Amendments	*Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities* [2]
IFRS 9	*Financial Instruments* [4]
IFRS 10 and IAS 27 (Revised)	*Consolidated Financial Statements* [2] *and Separate Financial Statements* [2]
IFRS 11	*Joint Arrangements* [2]
IFRS 12	*Disclosure of Interests in Other Entities* [2]
IFRS 13	*Fair Value Measurement* [2]
IFRS 10, IFRS 11 and IFRS 12 Amendments	*Transition Guidance* [2]
IAS 1 Amendments	*Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income* [1]
IAS 19 Amendments	*Employee Benefits* [2]
IAS 28 (Revised)	*Investments in Associates and Joint Ventures* [2]
IAS 32 Amendments	*Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities* [3]
IFRS10, IFRS12 and IAS27 (Revised) Amendments	*Investment Entities* [3]
Annual Improvements May 2012	*Amendments to a number of IFRSs issued in May 2012* [2]

1 Effective for annual periods beginning on or after 1 July 2012

2 Effective for annual periods beginning on or after 1 January 2013

3 Effective for annual periods beginning on or after 1 January 2014

4 Effective for annual periods beginning on or after 1 January 2015

Further information about those changes that are expected to affect the Group is as follows:

IFRS 1 First-time Adoption of IFRSs — Government Loans (Amendments)

These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendments will have no impact on the Group's financial statements.

5. IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

IFRS 7 Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities (Amendments)

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance.

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements (as revised in 2011)

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12 *Consolidation — Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IAS 27 (Revised) is limited to accounting for subsidiaries, jointly-controlled entities, and associates in separate financial statements. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The Group is currently assessing the impact of this standard on its financial position or performance.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC 13 *Jointly-Controlled Entities — Non-Monetary Contributions by Ventures*. IFRS 11 removes the option to account for jointly-controlled entities using proportionate consolidation. Instead, jointly-controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The Group is currently assessing the impact of the standard on its financial position and performance.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The standard affects disclosures only and is not expected to impact on the Group's financial position or performance.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRSs when fair value is required or permitted. The standard is not expected to have a material impact on the Group's financial position or performance.

5. IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

IFRS 10, IFRS 11 and IFRS 12 Transition Guidance (Amendments)

These amendments provide further relief from full retrospective application of the standards. The amendments clarify that retrospective adjustments are only required if the control assessment is different between IFRS 10 and IAS 27 at the beginning of the annual reporting period in which IFRS 10 is applied for the first time.

IAS 1 Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income (Amendments)

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or "recycled") to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendments affect presentation only and are not expected to impact on the Group's financial position or performance.

IAS 19 Employee Benefits (Amendments)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendments are not expected to impact on the Group's financial statements.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard is not expected to impact on the Group's financial statements.

IAS 32 Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities (Amendments)

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The Group is currently assessing the impact of the amendments on its financial position and performance.

IFRS 10, IFRS 12 and IAS 27 Investment Entities (Revised) Amendments

Amendments to IFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9. Consequential amendments were made to IFRS 12 and IAS 27 (Revised) for new disclosure requirements related to investment entities.

Annual Improvements May 2012

These improvements will not have an impact on the Group, but include:

IFRS 1 First-time Adoption of IFRSs

This improvement clarifies that an entity that stopped applying IFRSs in the past and chooses, or is required, to apply IFRSs, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRSs.

(In RMB millions, unless otherwise stated)

5. IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property, Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventories.

IAS 32 Financial Instruments: Presentation

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

IAS 34 Interim Financial Reporting

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

6. NET INTEREST INCOME

	2012	2011
Interest income on:		
Loans and advances to customers (i)		
— Corporate loans and advances	379,020	309,083
— Personal loans	126,233	96,954
— Discounted bills	14,599	10,351
Financial investments (ii)	138,159	121,077
Due from central banks	41,766	38,332
Due from banks and other financial institutions	21,662	13,783
	721,439	589,580
Interest expense on:		
Due to customers	(249,422)	(188,650)
Due to banks and other financial institutions	(43,461)	(32,809)
Debt securities issued	(10,728)	(5,357)
	(303,611)	(226,816)
Net interest income	417,828	362,764

The above interest income and expense were related to financial instruments which are not at fair value through profit or loss.

(i) Included in interest income on loans and advances to customers for the year is an amount of RMB944 million (2011: RMB602 million) with respect to the accreted interest on impaired loans.

(ii) Included in interest income on financial investments for the year is an amount of RMB10 million (2011: RMB81 million) with respect to interest income on impaired debt securities.

(In RMB millions, unless otherwise stated)

7. NET FEE AND COMMISSION INCOME

	2012	2011
Settlement, clearing business and cash management	27,499	25,410
Investment banking business	26,117	22,592
Bank card business	23,494	17,268
Personal wealth management and private banking services (i)	16,760	21,264
Corporate wealth management services (i)	10,018	9,269
Asset custody business (i)	5,974	5,892
Guarantee and commitment business	2,848	5,101
Trust and agency services (i)	1,623	1,376
Others	1,548	905
Fee and commission income	115,881	109,077
Fee and commission expense	(9,817)	(7,527)
Net fee and commission income	106,064	101,550

(i) Included in personal wealth management and private banking services, corporate wealth management services, asset custody business and trust and agency services above is an amount of RMB12,074 million (2011: RMB10,837 million) with respect to trust and other fiduciary activities.

8. NET TRADING INCOME

	2012	2011
Debt securities	1,043	1,236
Equity investments	42	3
Derivatives	(575)	(795)
	510	444

The above amounts include gains and losses arising from the buying and selling of, interest income and expense on, and changes in the fair value of financial assets and liabilities held for trading.

9. NET LOSS ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012	2011
Financial assets	5,135	4,442
Financial liabilities	(10,249)	(4,713)
	(5,114)	(271)

The above amounts represent gains and losses arising from the buying and selling of, interest income and expense on, and changes in the fair value of financial assets and liabilities designated at fair value through profit or loss upon initial recognition.

(In RMB millions, unless otherwise stated)

10. NET GAIN ON FINANCIAL INVESTMENTS

	2012	2011
Dividend income from unlisted investments	41	33
Dividend income from listed investments	8	8
Dividend income	49	41
Gain on disposal of available-for-sale financial assets, net	559	178
	608	219

11. OTHER OPERATING INCOME, NET

	2012	2011
Insurance net income	537	—
Gain from foreign exchange and foreign exchange products, net	4,095	1,400
Leasing income	2,058	1,433
Net gain on disposal of property and equipment, repossessed assets and others	1,165	1,273
Sundry bank charge income	357	368
Others	1,612	1,421
	9,824	5,895

12. OPERATING EXPENSES

	2012	2011
Staff costs:		
Salaries and bonuses	63,256	57,943
Staff benefits	22,762	21,399
Contributions to defined contribution schemes (i)	10,222	8,539
	96,240	87,881
Premises and equipment expenses:		
Depreciation (note 30)	13,215	12,027
Minimum lease payments under operating leases in respect of land and buildings	4,910	4,116
Repairs and maintenance charges	2,839	2,715
Utility expenses	2,523	2,263
	23,487	21,121
Amortisation	1,781	1,426
Other administrative expenses (ii)	24,802	23,253
Business tax and surcharges	35,066	28,875
Others	8,564	7,057
	189,940	169,613

(i) Contributions to defined contribution schemes mainly include contributions to the state pension and the Bank's Annuity Plan. During the year and as at the end of the reporting period, the Group's forfeited contributions available to reduce its contributions to the pension schemes in future years were not material.

(ii) Included in other administrative expenses is auditors' remuneration (including related assurance services for the Group and its subsidiaries and overseas branches) of RMB186 million for the year (2011: RMB176 million).

13. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Details of the directors' and supervisors' emoluments before tax, as disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, are as follows:

		Year ended 31 December 2012			
Name	Position	Remuneration paid (before tax) RMB'000 (1)	Contributions to defined contribution schemes RMB'000 (2)	Fees RMB'000 (3)	Total emoluments before tax RMB'000 (4)=(1)+(2)+(3)
JIANG Jianqing	Chairman of the Board of Directors, Executive Director	880	256	—	1,136
YANG Kaisheng	Vice Chairman of the Board of Directors, Executive Director, President	812	234	—	1,046
ZHAO Lin	Chairman of the Board of Supervisors	790	232	—	1,022
WANG Lili	Executive Director, Vice President	754	226	—	980
LI Xiaopeng	Executive Director, Vice President	754	226	—	980
HUAN Huiwu	Non-executive Director	—	—	—	—
WANG Xiaoya (i)	Non-executive Director	—	—	—	—
GE Rongrong (i)	Non-executive Director	—	—	—	—
LI Jun	Non-executive Director	—	—	—	—
WANG Xiaolan (i)	Non-executive Director	—	—	—	—
YAO Zhongli (i)	Non-executive Director	—	—	—	—
GAO Jianhong (iv)	Former Non-executive Director	—	—	—	—
LI Chunxiang (iv)	Former Non-executive Director	—	—	—	—
LI Xiwen (iv)	Former Non-executive Director	—	—	—	—
WEI Fusheng (iv)	Former Non-executive Director	—	—	—	—
XU Shanda	Independent Non-executive Director	—	—	—	—
WONG Kwong Shing, Frank (i)	Independent Non-executive Director	—	—	490	490
M.C.McCarthy	Independent Non-executive Director	—	—	410	410
Kenneth Patrick CHUNG	Independent Non-executive Director	—	—	412	412
Or Ching Fai (ii)	Independent Non-executive Director	—	—	242	242
HONG Yongmiao (iii)	Independent Non-executive Director	—	—	140	140
LEUNG Kam Chung, Antony (iv)	Former Independent Non-executive Director	—	—	208	208
QIAN Yingyi (iv)	Former Independent Non-executive Director	—	—	327	327
WANG Chixi	Shareholder Representative Supervisor	724	183	—	907
DONG Juan (v)	External Supervisor	—	—	300	300
MENG Yan (v)	External Supervisor	—	—	280	280
ZHANG Wei (vi)	Employee Representative Supervisor	—	—	50	50
ZHU Lifei	Employee Representative Supervisor	—	—	50	50
LI Mingtian (vi)	Employee Representative Supervisor	—	—	21	21
		4,714	1,357	2,930	9,001

Note: The total compensation packages for the Chairman of the Board of Directors, President, Chairman of the Board of Supervisors, Executive Directors, and Supervisors of the Bank have not been finalised in accordance with the regulations of the PRC relevant authorities. The remuneration not yet accrued is not expected to have a significant impact on the Group's and the Bank's 2012 financial statements. The total compensation packages will be further disclosed when determined by the relevant authorities.

(i) At the First Extraordinary General Meeting of 2011 held on 29 November 2011, Ms. Wang Xiaoya, Ms. Ge Rongrong, Mr. Wang Xiaolan and Mr. Yao Zhongli were elected as Non-executive Directors of the Bank, whose appointment was approved by CBRC in January 2012; Mr. Wong Kwong Shing, Frank was re-appointed as Independent Non-executive Director of the Bank, and his new term of office took effect from January 2012.

(ii) At the First Extraordinary General Meeting of 2012 held on 23 February 2012, Mr. Or Ching Fai was elected as Independent Non-executive Director of the Bank, and his appointment was approved by CBRC in May 2012.

(iii) At the Annual General Meeting for the Year 2011 held on 31 May 2012, Mr. Hong Yongmiao was elected as Independent Non-executive Director of the Bank, whose appointment was approved by CBRC in August 2012.

(iv) Mr. Gao Jianhong, Ms. Li Chunxiang, Mr. Li Xiwen and Mr. Wei Fusheng ceased to act as Non-executive Directors of the Bank with effect from January 2012. Mr. Leung Kam Chung, Antony ceased to act as Independent Non-executive Director of the Bank with effect from May 2012. Mr. Qian Yingyi ceased to act as Independent Non-executive Director of the Bank with effect from August 2012.

(v) After the review and approval by the Annual General Meeting for the Year 2011 held on 31 May 2012, Ms. Dong Juan and Mr. Meng Yan were re-appointed as External Supervisors, and the appointment took effect from the date of review and approval by the General Meeting.

(vi) At the enlarged meeting of the Trade Union Working Committee of the Bank held on 24 July 2012, Mr. Zhang Wei was re-elected as Employee Supervisor of the Bank, and the appointment took effect from 4 August 2012; Mr. Li Mingtian was elected as Employee Supervisor of the Bank, and the appointment took effect from the date of election at the enlarged meeting of the Trade Union Working Committee.

13. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

		Year ended 31 December 2011						
Name	Position	Fees RMB'000 (1)	Remuneration paid RMB'000 (2)	Discretionary bonuses RMB'000 (3)	Contributions to defined contribution schemes RMB'000 (4)	Total emoluments before tax RMB'000 (5)=(1)+(2)+(3)+(4)	Of which: deferred payment RMB'000 (6)	Actual amount of remuneration paid (pre-tax) RMB'000 (7)=(5)-(6)
JIANG Jianqing	Chairman of the Board of Directors, Executive Director	—	465	1,177	319	1,961	590	1,371
YANG Kaisheng	Vice Chairman of the Board of Directors, Executive Director, President	—	419	1,059	416	1,894	531	1,363
ZHAO Lin	Chairman of the Board of Supervisors	—	409	1,035	321	1,765	519	1,246
WANG Lili	Executive Director, Vice President	—	395	997	287	1,679	499	1,180
LI Xiaopeng	Executive Director, Vice President	—	395	997	287	1,679	499	1,180
HUAN Huiwu	Non-executive Director	—	—	—	—	—	—	—
GAO Jianhong	Non-executive Director	—	—	—	—	—	—	—
LI Chunxiang	Non-executive Director	—	—	—	—	—	—	—
LI Jun	Non-executive Director	—	—	—	—	—	—	—
LI Xiwen	Non-executive Director	—	—	—	—	—	—	—
WEI Fusheng	Non-executive Director	—	—	—	—	—	—	—
LEUNG Kam Chung, Antony	Independent Non-executive Director	500	—	—	—	500	—	500
QIAN Yingyi	Independent Non-executive Director	490	—	—	—	490	—	490
XU Shanda	Independent Non-executive Director	—	—	—	—	—	—	—
WONG Kwong Shing, Frank	Independent Non-executive Director	470	—	—	—	470	—	470
M.C. McCarthy	Independent Non-executive Director	400	—	—	—	400	—	400
Kenneth Patrick CHUNG	Independent Non-executive Director	390	—	—	—	390	—	390
WANG Chixi	Shareholder Representative Supervisor	—	288	796	263	1,347	—	1,347
DONG Juan	External Supervisor	300	—	—	—	300	—	300
MENG Yan	External Supervisor	280	—	—	—	280	—	280
ZHANG Wei	Employee Representative Supervisor	50	—	—	—	50	—	50
ZHU Lifei	Employee Representative Supervisor	50	—	—	—	50	—	50
		2,930	2,371	6,061	1,893	13,255	2,638	10,617

Note 1: The above directors' and supervisors' emoluments for the year ended 31 December 2011 were restated in accordance with the supplemental announcement for the 2011 annual report released by the Bank on 31 May 2012. The remuneration before tax payable to the Chairman of the Board of Directors, the President, the Chairman of the Board of Supervisors and other senior management members for 2011 set out in the table above represents the total amount of annual remuneration for each of these individuals, which includes the amount of "remuneration paid" as disclosed in the 2011 Annual Report.

Note 2: Pursuant to the PRC relevant regulations, a portion of the discretionary bonus payments for the Chairman of the Board of Directors, the President, the Chairman of the Board of Supervisors, Executive Directors and other senior management members are deferred based on the future performance.

13. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

The non-executive directors of the Bank received emoluments from the Bank's shareholders or its affiliates in respect of their services during the year.

During the year ended 31 December 2012, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration (2011: Nil).

During the year, no emoluments were paid by the Group to any of the persons who are directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office (2011: Nil).

14. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group are employees of the Bank's subsidiaries. Their emoluments were determined based on the prevailing market rates in the respective countries/regions where the subsidiaries are operating. None of them are directors, supervisors or key management personnel of the Bank whose emoluments are disclosed in notes 13 and 51(e) to the financial statements. Details of the emoluments in respect of the five highest paid individuals are as follows:

	Group	
	2012	**2011**
	RMB'000	**RMB'000**
Salaries and allowances	14,273	13,558
Discretionary bonuses	23,757	21,752
Contributions to defined contribution schemes	799	701
	38,829	36,011

The number of these individuals whose emoluments fell within the following bands is set out below.

	Number of employees	
	2012	**2011**
RMB6,500,001 to RMB7,000,000	—	1
RMB7,000,001 to RMB7,500,000	3	2
RMB7,500,001 to RMB8,000,000	—	1
RMB8,000,001 to RMB8,500,000	1	—
RMB8,500,001 to RMB9,000,000	1	—
RMB10,500,001 to RMB11,000,000	—	1
	5	5

During the year, no emoluments were paid by the Group to any of these non-director and non-supervisor individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2011: Nil).

(In RMB millions, unless otherwise stated)

15. IMPAIRMENT LOSSES ON ASSETS OTHER THAN LOANS AND ADVANCES TO CUSTOMERS

	Notes	2012	2011
Charge/(reversal) of impairment losses on:			
Due from banks and other financial institutions	21	97	38
Financial investments:			
Held-to-maturity investments	27(d)	(30)	(417)
Available-for-sale financial assets	27(c)(i),(d)	607	(469)
Investments in associates and jointly-controlled entities		—	348
Other assets		499	(211)
		1,173	(711)

16. INCOME TAX EXPENSE

(a) Income tax

	2012	2011
Current income tax expense:		
Mainland China	68,844	66,829
Hong Kong and Macau	1,019	891
Overseas	850	534
	70,713	68,254
Adjustments in respect of current income tax of prior years	(433)	(2,666)
Deferred income tax expense	(284)	(1,722)
	69,996	63,866

(b) Reconciliation between income tax and accounting profit

The PRC income tax has been provided at the statutory rate of 25% in accordance with the relevant tax laws in Mainland China during the year. Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the countries/regions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. A reconciliation of the income tax expense applicable to profit before tax at the PRC statutory income tax rate to income tax expense at the Group's effective income tax rate is as follows:

	2012	2011
Profit before tax	308,687	272,311
Tax at the PRC statutory income tax rate	77,172	68,078
Effects of different applicable rates of tax prevailing in other countries/regions	(42)	(10)
Non-deductible expenses (i)	996	2,587
Non-taxable income (ii)	(7,589)	(7,024)
Profits and losses attributable to associates and jointly-controlled entities	(663)	(596)
Adjustment in respect of current and deferred income tax of prior years	(239)	670
Others	361	161
Tax expense at the Group's effective income tax rate	69,996	63,866

(i) The non-deductible expenses mainly represent non-deductible impairment provision and write-offs.

(ii) The non-taxable income mainly represents interest income arising from the PRC government bonds, which is exempted from income tax.

17. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

The consolidated profit attributable to equity holders of the parent company for the year ended 31 December 2012 includes a profit of RMB231,881 million (2011: RMB202,295 million) which has been dealt with in the financial statements of the Bank (note 41).

18. DIVIDENDS

	2012	2011
Dividends on ordinary shares declared and paid:		
Final dividend for 2011: RMB0.203 per share (2010: RMB0.184 per share)	70,912	64,220

	2012	2011
Dividends on ordinary shares proposed for approval (not recognised as at 31 December):		
Final dividend for 2012: RMB0.239 per share (2011: RMB0.203 per share)	83,559	70,864

19. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the following:

	2012	2011
Earnings:		
Profit for the year attributable to ordinary equity holders of the parent company	238,532	208,265
Shares:		
Weighted average number of ordinary shares in issue (in million shares)	349,312	349,024
Basic earnings per share (RMB yuan)	0.68	0.60

Basic earnings per share was calculated as the profit for the year attributable to ordinary equity holders of the Bank divided by the weighted average number of ordinary shares in issue.

The calculation of diluted earnings per share is based on the following:

	2012	2011
Earnings:		
Profit for the year attributable to ordinary equity holders of the parent company	238,532	208,265
Add: Interest expense on convertible bonds (net of tax)	631	644
Profit used to determine diluted earnings per share	239,163	208,909
Shares:		
Weighted average number of ordinary shares outstanding (in million shares)	349,312	349,024
Add: Weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	6,015	6,233
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	355,327	355,257
Diluted earnings per share (RMB yuan)	0.67	0.59

Diluted earnings per share was computed from dividing the profit attributable to ordinary equity holders of the parent company (after adjusting for interest expense on the convertible bonds) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

(In RMB millions, unless otherwise stated)

20. CASH AND BALANCES WITH CENTRAL BANKS

	Group		Bank	
	2012	2011	2012	2011
Cash and unrestricted balances with central banks:				
Cash on hand	76,060	60,145	72,807	58,694
Surplus reserves with central bank (i)	276,483	86,529	275,765	83,417
Unrestricted balances with central banks of overseas countries or regions	42,165	19,595	29,472	4,464
	394,708	166,269	378,044	146,575
Restricted balances with central banks:				
Mandatory reserves with central banks (ii)	2,571,357	2,403,325	2,566,105	2,399,041
Fiscal deposits with the PBOC	201,319	190,781	201,319	190,781
Mandatory reserves with central banks of overseas countries or regions (ii)	7,374	1,677	1,006	737
Other restricted balances with the PBOC (ii)	185	104	185	104
	2,780,235	2,595,887	2,768,615	2,590,663
	3,174,943	2,762,156	3,146,659	2,737,238

(i) Surplus reserves with the PBOC include funds for the purpose of cash settlement and other kinds of unrestricted deposits.

(ii) The Group is required to place mandatory reserve deposits and other restricted deposits with the PBOC and certain central banks of overseas countries or regions where it has operations. Mandatory reserve deposits with central banks and other restricted deposits are not available for use in the Group's daily operations. Mandatory reserve deposits mainly consist of deposits placed with the PBOC. As at 31 December 2012, the mandatory deposit reserve ratios of the domestic branches of the Bank in respect of customer deposits denominated in RMB and foreign currencies were consistent with the requirement of the PBOC. The amounts of mandatory reserve deposits placed with the central banks of those countries or regions outside Mainland China are determined by local jurisdictions.

21. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2012	2011	2012	2011
Nostro accounts:				
Banks operating in Mainland China	335,545	206,342	327,882	201,572
Other financial institutions operating in Mainland China	1,479	1,082	1,463	1,082
Banks and other financial institutions operating outside Mainland China	74,961	110,096	79,684	94,683
	411,985	317,520	409,029	297,337
Less: Allowance for impairment losses	(48)	(34)	(48)	(33)
	411,937	317,486	408,981	297,304
Placements with banks and other financial institutions:				
Banks operating in Mainland China	61,224	46,798	45,324	44,454
Other financial institutions operating in Mainland China	60,974	55,027	71,763	49,771
Banks and other financial institutions operating outside Mainland China	102,458	58,752	132,381	82,812
	224,656	160,577	249,468	177,037
Less: Allowance for impairment losses	(143)	(61)	(132)	(54)
	224,513	160,516	249,336	176,983
	636,450	478,002	658,317	474,287

(In RMB millions, unless otherwise stated)

21. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

Movements of the allowance for impairment losses during the year are as follows:

Group	Nostro accounts	Placements with banks and other financial institutions	Total
At 1 January 2011	34	31	65
Charge for the year	—	38	38
Write off for the year	—	(8)	(8)
At 31 December 2011 and 1 January 2012	34	61	95
Charge for the year	15	82	97
Write off for the year	(1)	—	(1)
At 31 December 2012	48	143	191

Bank	Nostro accounts	Placements with banks and other financial institutions	Total
At 1 January 2011	33	27	60
Charge for the year	—	34	34
Write off for the year	—	(7)	(7)
At 31 December 2011 and 1 January 2012	33	54	87
Charge for the year	15	78	93
At 31 December 2012	48	132	180

22. FINANCIAL ASSETS HELD FOR TRADING

	Group		Bank	
	2012	2011	2012	2011
Debt securities	20,317	30,675	18,064	29,849
Equity investments	146	147	—	—
	20,463	30,822	18,064	29,849
Debt securities analysed into:				
Listed in Hong Kong	98	96	69	68
Listed outside Hong Kong	1,495	928	355	627
Unlisted	18,724	29,651	17,640	29,154
	20,317	30,675	18,064	29,849

(In RMB millions, unless otherwise stated)

23. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2012	2011	2012	2011
Debt securities	103,460	10,544	103,038	9,969
Other debt instruments:				
Banks and other financial institutions	85,010	59,620	85,010	59,620
Corporate entities	—	51,222	—	51,222
Others	12,738	—	12,738	—
	201,208	121,386	200,786	120,811
Analysed into:				
Listed in Hong Kong	66	65	—	—
Listed outside Hong Kong	2,029	359	1,819	—
Unlisted	199,113	120,962	198,967	120,811
	201,208	121,386	200,786	120,811

24. DERIVATIVE FINANCIAL INSTRUMENTS

A derivative is a financial instrument, the value of which changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other similar variables. The Group uses derivative financial instruments including forwards, swaps and options.

The notional amount of a derivative represents the amount of an underlying asset upon which the value of the derivative is based. It indicates the volume of business transacted by the Group but does not reflect the risk.

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

(In RMB millions, unless otherwise stated)

24. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

At the end of the reporting period, the Group and the Bank had derivative financial instruments as follows:

Group

	2012						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Exchange rate contracts:							
Forward and swap contracts	672,192	511,474	73,218	2,689	1,259,573	10,781	(8,153)
Option contracts purchased	5,117	14,689	593	—	20,399	71	—
Option contracts written	2,798	2,969	593	—	6,360	—	(44)
	680,107	529,132	74,404	2,689	1,286,332	10,852	(8,197)
Interest rate contracts:							
Swap contracts	65,507	118,368	176,537	24,472	384,884	3,280	(3,640)
Forward contracts	1,610	2,619	1,745	—	5,974	38	(38)
Option contracts purchased	—	—	62	—	62	—	—
	67,117	120,987	178,344	24,472	390,920	3,318	(3,678)
Commodity derivatives and others	81,249	17,604	2,637	139	101,629	586	(1,386)
	828,473	667,723	255,385	27,300	1,778,881	14,756	(13,261)

	2011						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Exchange rate contracts:							
Forward and swap contracts	524,925	363,218	27,207	5,768	921,118	11,968	(6,728)
Option contracts purchased	1,673	18,135	1,182	—	20,990	175	—
Option contracts written	1,787	1,753	1,182	—	4,722	—	(30)
	528,385	383,106	29,571	5,768	946,830	12,143	(6,758)
Interest rate contracts:							
Swap contracts	79,186	153,760	226,366	32,654	491,966	4,635	(5,726)
Forward contracts	2,823	1,714	5,129	—	9,666	131	(131)
	82,009	155,474	231,495	32,654	501,632	4,766	(5,857)
Commodity derivatives and others	26,800	879	—	—	27,679	551	(2)
	637,194	539,459	261,066	38,422	1,476,141	17,460	(12,617)

(In RMB millions, unless otherwise stated)

24. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Bank

	2012						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Exchange rate contracts:							
Forward and swap contracts	581,000	471,262	66,809	2,689	1,121,760	10,505	(7,992)
Option contracts purchased	2,236	12,583	—	—	14,819	33	—
Option contracts written	83	867	—	—	950	—	(8)
	583,319	484,712	66,809	2,689	1,137,529	10,538	(8,000)
Interest rate contracts:							
Swap contracts	59,684	108,512	154,563	12,979	335,738	2,482	(2,903)
Forward contracts	1,496	2,617	1,745	—	5,858	38	(38)
	61,180	111,129	156,308	12,979	341,596	2,520	(2,941)
Commodity derivatives and others	79,516	12,355	1,970	—	93,841	348	(1,381)
	724,015	608,196	225,087	15,668	1,572,966	13,406	(12,322)

	2011						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Exchange rate contracts:							
Forward and swap contracts	411,760	292,968	21,567	5,768	732,063	11,158	(5,799)
Option contracts purchased	—	16,382	—	—	16,382	143	—
Option contracts written	132	—	—	—	132	—	(4)
	411,892	309,350	21,567	5,768	748,577	11,301	(5,803)
Interest rate contracts:							
Swap contracts	74,794	142,177	200,889	20,642	438,502	4,043	(4,909)
Forward contracts	2,823	1,714	5,129	—	9,666	131	(131)
	77,617	143,891	206,018	20,642	448,168	4,174	(5,040)
Commodity derivatives and others	26,297	—	—	—	26,297	1	(2)
	515,806	453,241	227,585	26,410	1,223,042	15,476	(10,845)

Cash flow hedges

The Group's cash flow hedges consist of currency swap contracts, interest rate swap contracts and interest forward contracts that are used to protect against exposures to variability of future cash flows arising from foreign currency assets and foreign currency liabilities during the year.

(In RMB millions, unless otherwise stated)

24. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Cash flow hedges (continued)

Among the above derivative financial instruments, those designated as hedging instruments in cash flow hedges are set out below.

Group

	2012						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Interest rate swap contracts	1,427	312	1,976	3,613	7,328	400	(64)
Interest forward contracts	25	—	—	—	25	—	—
	1,452	312	1,976	3,613	7,353	400	(64)

	2011						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Currency swap contracts	328	—	—	—	328	—	—
Interest rate swap contracts	734	93	3,716	3,339	7,882	286	(126)
	1,062	93	3,716	3,339	8,210	286	(126)

Bank

	2012						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Interest rate swap contracts	—	—	—	309	309	—	—

Bank (31 December 2011: Nil)

There is no ineffectiveness recognised in the income statement that arises from the cash flow hedge for the current year (2011: Nil).

Fair value hedges

Fair value hedges are used by the Group to protect against changes in the fair value of financial assets and financial liabilities due to movements in market exchange rates and interest rates. Currency swaps and interest rate swaps are used as hedging instruments to hedge the currency risk and interest risk of financial assets and financial liabilities, respectively.

The effectiveness of hedges based on changes in fair value of the derivatives and the hedged items attributable to the hedged risk recognised in the income statement during the period is presented as follows:

	Group	
	2012	2011
Gain/(loss) arising from fair value hedges, net:		
— Hedging instruments	119	(86)
— Hedged items attributable to the hedged risk	(119)	89
	—	3

(In RMB millions, unless otherwise stated)

24. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hedges (continued)

Among the above derivative financial instruments, those designated as hedging instruments in fair value hedges are set out below:

Group

	2012						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Currency swap contracts	—	—	438	—	438	2	(24)
Interest rate swap contracts	727	1,359	9,295	4,005	15,386	40	(743)
	727	1,359	9,733	4,005	15,824	42	(767)

	2011						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Currency swap contracts	—	181	596	—	777	4	(61)
Interest rate swap contracts	508	1,700	8,520	4,311	15,039	—	(882)
	508	1,881	9,116	4,311	15,816	4	(943)

Bank

	2012						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Interest rate swap contracts	665	940	5,552	2,883	10,040	40	(430)

	2011						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Interest rate swap contracts	363	1,071	3,857	3,082	8,373	—	(475)

The credit risk weighted amounts in respect of the above derivatives of the Group and of the Bank as at the end of the reporting period are as follows:

	Group		Bank	
	2012	2011	2012	2011
Currency derivatives	10,080	7,717	9,369	5,681
Interest rate derivatives	2,568	3,406	1,823	2,793
Commodity derivatives and others	1,093	938	787	316
	13,741	12,061	11,979	8,790

(In RMB millions, unless otherwise stated)

24. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hedges (continued)

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. The amounts calculated are dependent on, among other factors, the creditworthiness of the customers and the maturity characteristics of each type of contracts. The credit risk weighted amounts differ from the carrying amount or the maximum exposure to credit risk.

25. REVERSE REPURCHASE AGREEMENTS

Reverse repurchase agreements comprise reverse repurchase of securities, bills, loans, and cash advanced as collateral on securities borrowing.

	Group		Bank	
	2012	2011	2012	2011
Reverse repurchase	526,054	335,285	320,133	229,769
Cash advanced as collateral on securities borrowing	18,525	14,152	—	—
	544,579	349,437	320,133	229,769
Reverse repurchase analysed by counterparty:				
Banks	153,324	49,836	153,207	46,318
Other financial institutions	372,730	285,449	166,926	183,451
	526,054	335,285	320,133	229,769
Reverse repurchase analysed by collateral:				
Securities	448,409	317,686	243,012	213,670
Bills	73,358	15,759	73,556	15,759
Loans	4,287	1,840	3,565	340
	526,054	335,285	320,133	229,769

As part of the reverse repurchase agreements, the Group has received securities that it is allowed to sell or repledge in the absence of default by their owners. At 31 December 2012, the Group had received securities with a fair value of approximately RMB353,994 million on such terms (31 December 2011: RMB230,633 million). Of these, securities with a fair value of approximately RMB353,994 million have been repledged under repurchase agreements (31 December 2011: RMB229,470 million). The Group has an obligation to return the securities to its counterparties. If the collateral received declines in value, the Group may, in certain circumstances, require additional collateral.

26. LOANS AND ADVANCES TO CUSTOMERS

	Group		Bank	
	2012	2011	2012	2011
Corporate loans and advances	6,332,578	5,666,511	5,952,302	5,341,017
Personal loans	2,287,103	2,014,926	2,250,414	1,991,272
Discounted bills	184,011	107,460	182,113	106,560
	8,803,692	7,788,897	8,384,829	7,438,849
Less: Allowance for impairment losses	(220,403)	(194,878)	(216,460)	(192,222)
	8,583,289	7,594,019	8,168,369	7,246,627

(In RMB millions, unless otherwise stated)

26. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Movements of allowance for impairment losses during the year are as follows:

Group

	Individually assessed	Collectively assessed	Total
At 1 January 2011	41,300	125,834	167,134
Impairment loss:	(2,174)	34,006	31,832
— impairment allowances charged	9,310	85,970	95,280
— impairment allowances transferred	375	(375)	—
— reversal of impairment allowances	(11,859)	(51,589)	(63,448)
Accreted interest on impaired loans (note 6)	(602)	—	(602)
Write-offs	(4,057)	(489)	(4,546)
Recoveries of loans and advances previously written off	942	118	1,060
At 31 December 2011 and 1 January 2012	35,409	159,469	194,878
Impairment loss:	2,286	30,286	32,572
— impairment allowances charged	13,933	103,257	117,190
— impairment allowances transferred	84	(84)	—
— reversal of impairment allowances	(11,731)	(72,887)	(84,618)
Accreted interest on impaired loans (note 6)	(944)	—	(944)
Write-offs	(6,279)	(1,249)	(7,528)
Recoveries of loans and advances previously written off	701	191	892
Others	232	301	533
At 31 December 2012	31,405	188,998	220,403

Bank

	Individually assessed	Collectively assessed	Total
At 1 January 2011	40,716	124,467	165,183
Impairment loss:	(2,757)	33,706	30,949
— impairment allowances charged	8,661	85,164	93,825
— impairment allowances transferred	370	(370)	—
— reversal of impairment allowances	(11,788)	(51,088)	(62,876)
Accreted interest on impaired loans	(564)	—	(564)
Write-offs	(3,829)	(480)	(4,309)
Recoveries of loans and advances previously written off	845	118	963
At 31 December 2011 and 1 January 2012	34,411	157,811	192,222
Impairment loss:	1,906	29,517	31,423
— impairment allowances charged	13,083	101,549	114,632
— impairment allowances transferred	80	(80)	—
— reversal of impairment allowances	(11,257)	(71,952)	(83,209)
Accreted interest on impaired loans	(924)	—	(924)
Write-offs	(5,879)	(1,236)	(7,115)
Recoveries of loans and advances previously written off	694	160	854
At 31 December 2012	30,208	186,252	216,460

(In RMB millions, unless otherwise stated)

26. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Movements of allowance for impairment losses during the year analysed into those attributable to corporate loans and advances and discounted bills and personal loans are as follows:

Group

	Corporate loans and advances and discounted bills	Personal loans	Total
At 1 January 2011	132,565	34,569	167,134
Impairment loss:	18,489	13,343	31,832
— impairment allowances charged	72,015	23,265	95,280
— reversal of impairment allowances	(53,526)	(9,922)	(63,448)
Accreted interest on impaired loans (note 6)	(602)	—	(602)
Write-offs	(4,057)	(489)	(4,546)
Recoveries of loans and advances previously written off	942	118	1,060
At 31 December 2011 and 1 January 2012	147,337	47,541	194,878
Impairment loss:	19,051	13,521	32,572
— impairment allowances charged	88,269	28,921	117,190
— reversal of impairment allowances	(69,218)	(15,400)	(84,618)
Accreted interest on impaired loans (note 6)	(944)	—	(944)
Write-offs	(6,279)	(1,249)	(7,528)
Recoveries of loans and advances previously written off	701	191	892
Others	188	345	533
At 31 December 2012	160,054	60,349	220,403

Bank

	Corporate loans and advances and discounted bills	Personal loans	Total
At 1 January 2011	130,694	34,489	165,183
Impairment loss:	17,612	13,337	30,949
— impairment allowances charged	70,711	23,114	93,825
— reversal of impairment allowances	(53,099)	(9,777)	(62,876)
Accreted interest on impaired loans	(564)	—	(564)
Write-offs	(3,829)	(480)	(4,309)
Recoveries of loans and advances previously written off	845	118	963
At 31 December 2011 and 1 January 2012	144,758	47,464	192,222
Impairment loss:	17,921	13,502	31,423
— impairment allowances charged	85,931	28,701	114,632
— reversal of impairment allowances	(68,010)	(15,199)	(83,209)
Accreted interest on impaired loans	(924)	—	(924)
Write-offs	(5,879)	(1,236)	(7,115)
Recoveries of loans and advances previously written off	694	160	854
At 31 December 2012	156,570	59,890	216,460

(In RMB millions, unless otherwise stated)

26. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	Group		Bank	
	2012	2011	2012	2011
Loans and advances for which allowance for impairment losses are:				
Individually assessed	60,977	62,263	58,419	59,995
Collectively assessed	8,742,715	7,726,634	8,326,410	7,378,854
	8,803,692	7,788,897	8,384,829	7,438,849
Less: Allowance for impairment losses:				
Individually assessed	31,405	35,409	30,208	34,411
Collectively assessed	188,998	159,469	186,252	157,811
	220,403	194,878	216,460	192,222
Net loans and advances for which allowance for impairment losses are:				
Individually assessed	29,572	26,854	28,211	25,584
Collectively assessed	8,553,717	7,567,165	8,140,158	7,221,043
	8,583,289	7,594,019	8,168,369	7,246,627
Identified impaired loans and advances	74,575	73,011	71,761	70,681
Percentage of impaired loans and advances	0.85%	0.94%	0.86%	0.95%

27. FINANCIAL INVESTMENTS

		Group		Bank	
	Notes	2012	2011	2012	2011
Receivables	(a)	364,715	498,804	364,232	498,804
Held-to-maturity investments	(b)	2,576,562	2,424,785	2,582,790	2,434,135
Available-for-sale financial assets	(c)	920,939	840,105	861,260	797,415
		3,862,216	3,763,694	3,808,282	3,730,354

(a) Receivables

The receivables are unlisted and stated at amortised cost and comprise the following:

		Group		Bank	
	Notes	2012	2011	2012	2011
Huarong bonds	(i)	175,096	312,996	175,096	312,996
Special government bond	(ii)	85,000	85,000	85,000	85,000
Others	(iii)	104,619	100,808	104,136	100,808
		364,715	498,804	364,232	498,804

(i) The Huarong bonds are a series of long term bonds issued by China Huarong Asset Management Co., Ltd ("Huarong") in 2000 to 2001 to the Bank, with an aggregate amount of RMB312,996 million. The proceeds from the issuance of the bonds were used to purchase non-performing loans of the Bank. The bonds are non-negotiable, with a tenure of 10 years and bear interest at a fixed rate of 2.25% per annum. In 2010, the Bank received a notice from the Ministry of Finance of the People's Republic of China (the "MOF") that the maturity dates of the Huarong bonds are extended for another ten years and the interest rate remains unchanged. Besides, the MOF will continue providing funding in support of the repayment of the principal and interest of the bonds. In 2012, the Bank received early repayment amounting to RMB137,900 million.

(ii) The special government bond represents a non-negotiable bond with a nominal value of RMB85,000 million issued by the MOF to the Bank in 1998. The bond will mature in 2028 and bears interest at a fixed rate of 2.25% per annum.

(iii) Others include government, financial and corporate bonds and debt investment plans with fixed or determinable payments that are not quoted in an active market. They will mature from March 2013 to July 2027 and bear interest rates ranging from 3.26% to 7.50% per annum.

(In RMB millions, unless otherwise stated)

27. FINANCIAL INVESTMENTS (CONTINUED)

(b) Held-to-maturity investments

Held-to-maturity investments are stated at amortised cost and comprise the following:

	Group		Bank	
	2012	2011	2012	2011
Debt securities	2,577,022	2,425,279	2,583,151	2,434,522
Less: Allowance for impairment losses	(460)	(494)	(361)	(387)
	2,576,562	2,424,785	2,582,790	2,434,135

	Group		Bank	
	2012	2011	2012	2011
Analysed into:				
Listed in Hong Kong	107	415	—	91
Listed outside Hong Kong	744,456	679,890	742,122	677,968
Unlisted	1,831,999	1,744,480	1,840,668	1,756,076
	2,576,562	2,424,785	2,582,790	2,434,135
Market value of listed debt securities	746,087	687,521	743,624	685,285

(c) Available-for-sale financial assets

Available-for-sale financial assets comprise the following:

	Group		Bank	
	2012	2011	2012	2011
Debt securities, at fair value (i)	914,344	835,983	860,011	795,380
Other debt instruments, at fair value	2,799	400	—	—
Equity investments:				
At fair value (i)	2,655	2,559	148	910
At cost (ii)				
Debt for equity swaps	1,619	1,619	1,619	1,619
Others	325	502	283	319
Less: Allowance for impairment losses of equity investments	(803)	(958)	(801)	(813)
	1,141	1,163	1,101	1,125
Subtotal of Equity investments	3,796	3,722	1,249	2,035
	920,939	840,105	861,260	797,415
Debt securities analysed into:				
Listed in Hong Kong	7,633	6,520	1,783	2,483
Listed outside Hong Kong	134,210	119,903	106,819	96,408
Unlisted	772,501	709,560	751,409	696,489
	914,344	835,983	860,011	795,380
Equity investments analysed into:				
Listed in Hong Kong	502	594	—	—
Listed outside Hong Kong	320	307	146	139
Unlisted	2,974	2,821	1,103	1,896
	3,796	3,722	1,249	2,035
Market value of listed securities:				
Debt securities	141,843	126,423	108,602	98,891
Equity investments	822	901	146	139
	142,665	127,324	108,748	99,030

(In RMB millions, unless otherwise stated)

27. FINANCIAL INVESTMENTS (CONTINUED)

(c) Available-for-sale financial assets (continued)

(i) When impairment of an available-for-sale investment measured at fair value occurs, any impairment loss recognised is recorded in the carrying amount directly. As at 31 December 2012, the available-for-sale financial assets measured at fair value include impaired debt securities whose carrying amount is RMB106 million (31 December 2011: RMB52 million), and impaired equity investments whose carrying amount is RMB483 million (31 December 2011: Nil), with the accrual of impairment loss recognised in the income statement for the year of RMB41 million (2011: the reversal of impairment loss of RMB469 million) on available-for-sale bonds; and the accrual of impairment loss recognised in the income statement for the year of RMB547 million (2011: Nil) on available-for-sale equity investments.

(ii) Certain available-for-sale unlisted equity investments which do not have any quoted market prices and whose fair values cannot be measured reliably are stated at cost less any impairment losses. There is no active market for these investments and it is the Group's intention to dispose of them as opportunities arise. During the year, the carrying amount of these equity investments decreased by RMB3 million (2011: RMB907 million). The gain on disposal of available-for-sale equity investments is RMB37 million during the year (2011: Nil).

(d) Movements of allowance for impairment losses of held-to-maturity investments and available-for-sale equity investments measured at cost during the year are as follows:

	Group			Bank		
	Held-to-maturity investments	Available-for-sale equity investments	Total	Held-to-maturity investments	Available-for-sale equity investments	Total
At 1 January 2011	1,474	1,036	2,510	1,313	813	2,126
Charge for the year	44	—	44	44	—	44
Reversal	(461)	—	(461)	(461)	—	(461)
Disposals	(563)	(78)	(641)	(509)	—	(509)
At 31 December 2011 and 1 January 2012	494	958	1,452	387	813	1,200
Charge for the year	1	19	20	1	19	20
Reversal	(31)	—	(31)	(24)	—	(24)
Disposals	(4)	(174)	(178)	(3)	(31)	(34)
At 31 December 2012	460	803	1,263	361	801	1,162

28. INVESTMENTS IN SUBSIDIARIES

	Bank	
	2012	2011
Unlisted investments, at cost	69,638	53,907

(In RMB millions, unless otherwise stated)

28. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Particulars of the Bank's principal subsidiaries as at the end of the reporting period are as follows:

Name	Percentage of equity interest 2012 %	Percentage of equity interest 2011 %	Voting rights 2012 %	Nominal value of issued share/ paid-up capital 2012	Amount invested by the Bank	Place of incorporation/ registration and operations	Principal activities
Industrial and Commercial Bank of China (Asia) Limited ("ICBC Asia") (i)	100	100	100	HK$4,129 million	HK$34,142 million	Hong Kong, the PRC	Commercial banking
ICBC International Holdings Limited ("ICBC International")	100	100	100	HK$4,839 million	HK$4,882 million	Hong Kong, the PRC	Investment banking
Industrial and Commercial Bank of China (Almaty) Joint Stock Company	100	100	100	KZT8,933 million	KZT8,933 million	Almaty, Kazakhstan	Commercial banking
ICBC (London) PLC ("ICBC London")	100	100	100	USD200 million	USD200 million	London, United Kingdom	Commercial banking
ICBC Credit Suisse Asset Management Co., Ltd. *	80	80	80	RMB200 million	RMB433 million	Beijing, the PRC	Fund management
Industrial and Commercial Bank of China (Europe) S.A.	100	100	100	EUR115 million	EUR115 million	Luxembourg	Commercial banking
PT. Bank ICBC Indonesia	97.50	97.50	97.50	IDR1,500 billion	USD176 million	Jakarta, Indonesia	Commercial banking
ZAO Industrial and Commercial Bank of China (Moscow) ("ICBC Moscow") (ii)	100	100	100	RUB2,310 million	RUB2,310 million	Moscow, Russia	Commercial banking
ICBC Financial Leasing Co., Ltd. *(iii)	100	100	100	RMB8,000 million	RMB8,000 million	Tianjin, the PRC	Leasing
Industrial and Commercial Bank of China (Macau) Limited ("ICBC Macau")	89.33	89.33	89.33	MOP461 million	MOP9,188 million	Macau, the PRC	Commercial banking
Industrial and Commercial Bank of China (Middle East) Limited	100	100	100	USD50 million	USD50 million	Dubai, United Arab Emirates	Commercial and investment banking
Zhejiang Pinghu ICBC Rural Bank Co., Ltd. *	60	60	60	RMB200 million	RMB120 million	Zhejiang, the PRC	Commercial banking
Chongqing Bishan ICBC Rural Bank Co., Ltd. *	100	100	100	RMB100 million	RMB100 million	Chongqing, the PRC	Commercial banking
Industrial and Commercial Bank of China (Canada) ("ICBC Canada")	80	80	80	CA$83 million	CA$118.66 million	Toronto, Canada	Commercial banking
Industrial and Commercial Bank of China (Malaysia) Berhad	100	100	100	MYR331 million	MYR331 million	Kuala Lumpur, Malaysia	Commercial banking
Industrial and Commercial Bank of China (Thai) Public Company Limited ("ICBC Thai")	97.70	97.70	97.70	THB14,187 million	THB17,871 million	Bangkok, Thailand	Commercial banking
Industrial and Commercial Bank of China Financial Services LLC	100	100	100	USD50 million	USD50.25 million	Delaware and New York United States,	Broker dealer
ICBC-AXA Assurance Co., Ltd ("ICBC-AXA") *(iv)	60	—	60	RMB3,705 million	RMB2,700 million	Shanghai, China	Insurance
Industrial and Commercial Bank of China (USA) NA(v)	80	—	80	USD169 million	USD146 million	Chicago, United States	Commercial banking
Standard Bank Argentina S.A. (vi)	80	—	80	ARS847 million	ARS3,107 million	Buenos Aires, Argentina	Commercial banking
Industrial and Commercial Bank of China (Peru) Limited ("ICBC Peru") (vii)	100	—	100	USD50 million	USD50 million	Lima, Peru	Commercial banking

* These subsidiaries incorporated in Mainland China are all limited liability companies.

The above table lists the principal subsidiaries of the Bank. To give details of other subsidiaries would, in the opinion of the management, result in particulars of excessive length.

(In RMB millions, unless otherwise stated)

28. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(i) On 5 November 2012, the Bank made an additional capital injection of HK$5.6 billion into ICBC Asia and its total registered and paid-in capital increased to HK$4,129 million.

(ii) On 27 November 2012, the Bank made an additional capital injection of RUB1,310 million into ICBC Moscow and its total registered and paid-in capital increased to RUB2,310 million.

(iii) On 4 June 2012, the Bank made an additional capital injection of RMB3 billion into ICBC Financial Leasing Co., Ltd. and its total registered and paid-in capital increased to RMB8 billion.

(iv) On 5 July 2012, the Bank acquired 60% of equity interest of AXA-Minmetals Assurance Co., Ltd. ("AXA-Minmetals Assurance") from AXA CHINA and China Minmetals Corporation, at a consideration of RMB1,800 million, and became its controlling shareholder. On 6 July 2012, AXA-Minmetals Assurance officially changed its name to ICBC-AXA Assurance Co., Ltd. ("ICBC-AXA"). After the transfer of equity interest, the Bank and non-controlling shareholders made an additional capital injection of RMB900 million and RMB600 million to ICBC-AXA respectively at the same equity-holding proportion. ICBC-AXA's total registered and paid-in capital increased to RMB3,705 million.

(v) On 6 July 2012, the Bank completed the acquisition of 80% equity interest of Bank of East Asia (U.S.A.) National Association ("BEA USA") held by East Asia Holding Company, Inc., for a consideration of RMB924 million. BEA USA officially changed its name to Industrial and Commercial Bank of China (USA) NA subsequently.

(vi) On 30 November 2012, the Bank completed the acquisition of 80% shares of Standard Bank Argentina S.A. for a consideration of RMB4,005 million.

(vii) On 30 October 2012, the Bank a capital injection into ICBC Peru and its registered and paid-in capital was USD50 million.

Apart from the above, the Bank has consolidated SPEs which are controlled by the Bank.

29. INVESTMENTS IN ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES

	Group	
	2012	2011
Share of net assets	18,163	16,996
Goodwill	15,469	16,102
	33,632	33,098
Less: Allowance for impairment losses	(348)	(348)
	33,284	32,750

	Bank	
	2012	2011
Shares listed outside Hong Kong, at cost	33,883	33,369

The following tables illustrate the summarised financial information of the Group's associates and jointly-controlled entities:

	2012	2011
Assets	1,138,509	1,154,338
Liabilities	(1,040,166)	(1,061,245)
Net assets	98,343	93,093

	2012	2011
Revenue	106,845	92,188
Profit for the year	14,725	13,732

The financial information above was extracted from the financial statements of the associates and jointly-controlled entities.

(In RMB millions, unless otherwise stated)

29. INVESTMENTS IN ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES (CONTINUED)

The following table illustrates the market value of the Group's listed investments in associates and jointly-controlled entities:

	2012	2011
Market value of listed investments	28,049	23,981

Particulars of the Group's principal associates and jointly-controlled entities are as follows:

	Percentage of equity interest		Voting rights		
Name	2012 %	2011 %	2012 %	Place of incorporation/ registration	Principal activities
Associates:					
Listed investment directly held:					
Standard Bank Group Limited ("Standard Bank") (i)	20.05	20.05	20.05	Johannesburg, Republic of South Africa	Commercial banking
Listed investment indirectly held:					
Finansia Syrus Securities Public Company Limited (ii)	23.52	23.83	24.07	Bangkok, Thailand	Securities
Unlisted investments indirectly held:					
IEC Investments Limited (iii)	40.00	40.00	40.00	Hong Kong, the PRC	Investment
All Winwin Holdings Limited (iv)	20.00	20.00	20.00	British Virgin Islands	Investment
Jointly-controlled entities:					
Unlisted investments indirectly held:					
Jiangxi Poyanghu Industry Investment Management Company Limited (v)	50.00	50.00	50.00	Jiangxi, the PRC	Investment management
COLI ICBCI China Investment Management (Cayman Islands) Limited (vi)	47.00	45.00	Note 1	Cayman Islands	Investment management
Harmony China Real Estate Fund L.P. (vii)	28.61	27.91	Note 2	Cayman Islands	Fund
ICBC HNA (Tianjin) Equity Investment Fund Management Limited ("ICBC HNA") (viii)	50.00	50.00	50.00	Tianjin, the PRC	Fund management
Tianjin ICBC International Advisory LLP (ix)	50.00	50.00	Note 3	Tianjin, the PRC	Investment advisor
Tianjin ICBC International capital management LLP (x)	50.00	50.00	Note 3	Tianjin, the PRC	Assets Management

Note 1: According to the articles of association, the Group and other shareholders jointly control the entity.

Note 2: The fund is a limited partnership; under the partnership agreement, the Group and other partners jointly control the fund.

Note 3: The enterprises are limited partnerships; under the partnership agreements, the Group and other partners jointly control the enterprises.

29. INVESTMENTS IN ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES (CONTINUED)

(i) According to the scrip dividend scheme of Standard Bank, the Bank adopted a total of 5,981,674 ordinary shares of Standard Bank on 17 September 2012.

(ii) The shareholding of a 24.07% equity interest in this associate is held by a non-wholly-owned subsidiary, ICBC Thai. The percentage of equity interest disclosed represents the effective percentage of equity held by the Group.

(iii) The shareholding of a 40% equity interest in this associate is held by a wholly-owned subsidiary, ICBC Asia. The percentage of equity interest disclosed represents the effective percentage of equity held by the Group.

(iv) The shareholding of a 20% equity interest in this associate is held by a wholly-owned subsidiary, ICBC International. The percentage of equity interest disclosed represents the effective percentage of equity held by the Group.

(v) Jiangxi Poyanghu Industry Investment Management Company Limited is a jointly-controlled entity of a wholly-owned subsidiary, ICBC International. The percentage of equity interest disclosed represents the effective percentage held by the Group.

(vi) COLI ICBCI China Investment Management (Cayman Islands) Limited is a jointly-controlled entity of a wholly-owned subsidiary, ICBC International. The percentage of equity interest disclosed represents the effective percentage held by the Group.

(vii) Harmony China Real Estate Fund L.P. is a jointly-controlled limited partnership of a wholly-owned subsidiary, ICBC International. The percentage of equity interest disclosed represents the effective percentage held by the Group.

(viii) ICBC HNA is a jointly-controlled entity of a wholly-owned subsidiary, ICBC International. The percentage of equity interest disclosed represents the effective percentage held by the Group.

(ix) Tianjin ICBC International Advisory LLP is a jointly-controlled enterprise of a wholly-owned subsidiary, ICBC International. The percentage of equity interest disclosed represents the effective percentage held by the Group.

(x) Tianjin ICBC International capital management LLP is a jointly-controlled enterprise of a wholly-owned subsidiary, ICBC International. The percentage of equity interest disclosed represents the effective percentage held by the Group.

(In RMB millions, unless otherwise stated)

30. PROPERTY AND EQUIPMENT

Group

	Properties and buildings	Construction in progress	Leasehold improve-ments	Office equipment and motor vehicles	Aircraft and vessels	Total
Cost:						
At 1 January 2011	91,483	10,324	4,846	39,732	3,861	150,246
Additions	2,054	11,712	984	6,840	6,449	28,039
CIP transfer in/(out)	4,687	(5,703)	—	1,016	—	—
Disposals	(193)	(221)	(302)	(1,676)	—	(2,392)
At 31 December 2011 and 1 January 2012	98,031	16,112	5,528	45,912	10,310	175,893
Additions	2,684	13,308	1,095	7,291	6,159	30,537
CIP transfer in/(out)	6,067	(6,688)	—	505	116	—
Acquisition of subsidiaries	282	—	143	270	—	695
Disposals	(438)	(70)	(106)	(2,200)	(791)	(3,605)
At 31 December 2012	106,626	22,662	6,660	51,778	15,794	203,520
Accumulated depreciation and impairment:						
At 1 January 2011	20,386	54	2,273	23,948	173	46,834
Depreciation charge for the year (note 12)	4,862	—	809	6,082	274	12,027
Impairment allowance charge for the year	—	4	—	—	27	31
Disposals	(148)	—	(282)	(1,597)	—	(2,027)
At 31 December 2011 and 1 January 2012	25,100	58	2,800	28,433	474	56,865
Depreciation charge for the year (note 12)	5,071	—	927	6,658	559	13,215
Disposals	(232)	—	(77)	(2,102)	(38)	(2,449)
At 31 December 2012	29,939	58	3,650	32,989	995	67,631
Net carrying amount:						
At 31 December 2011	72,931	16,054	2,728	17,479	9,836	119,028
At 31 December 2012	76,687	22,604	3,010	18,789	14,799	135,889

(In RMB millions, unless otherwise stated)

30. PROPERTY AND EQUIPMENT (CONTINUED)

Bank

	Properties and buildings	Construction in progress	Leasehold improve-ments	Office equipment and motor vehicles	Total
Cost:					
At 1 January 2011	90,555	10,324	4,517	39,366	144,762
Additions	2,007	9,793	898	6,669	19,367
CIP transfer in/(out)	4,687	(5,703)	—	1,016	—
Disposals	(192)	(221)	(275)	(1,598)	(2,286)
At 31 December 2011 and 1 January 2012	97,057	14,193	5,140	45,453	161,843
Additions	2,494	11,008	1,013	7,227	21,742
CIP transfer in/(out)	5,946	(6,451)	—	505	—
Disposals	(412)	(69)	(85)	(2,117)	(2,683)
At 31 December 2012	105,085	18,681	6,068	51,068	180,902
Accumulated depreciation and impairment:					
At 1 January 2011	20,331	54	2,105	23,854	46,344
Depreciation charge for the year	4,816	4	773	5,903	11,496
Disposals	(144)	—	(266)	(1,558)	(1,968)
At 31 December 2011 and 1 January 2012	25,003	58	2,612	28,199	55,872
Depreciation charge for the year	5,031	—	887	6,570	12,488
Disposals	(232)	—	(75)	(2,101)	(2,408)
At 31 December 2012	29,802	58	3,424	32,668	65,952
Net carrying amount:					
At 31 December 2011	72,054	14,135	2,528	17,254	105,971
At 31 December 2012	75,283	18,623	2,644	18,400	114,950

(In RMB millions, unless otherwise stated)

30. PROPERTY AND EQUIPMENT (CONTINUED)

The carrying value of the Group's and the Bank's properties and buildings is analysed based on the remaining terms of the land leases as follows:

	Group		Bank	
	2012	2011	2012	2011
Long term leases (over 50 years):				
Held in the PRC (other than Hong Kong)	9,641	8,650	9,641	8,650
Held in Hong Kong	419	330	144	152
Held overseas	420	78	52	53
	10,480	9,058	9,837	8,855
Medium term leases (10 to 50 years):				
Held in the PRC (other than Hong Kong)	62,834	60,543	62,758	60,461
Held in Hong Kong	155	160	37	39
Held overseas	567	314	5	—
	63,556	61,017	62,800	60,500
Short term leases (less than 10 years):				
Held in the PRC (other than Hong Kong)	2,648	2,699	2,646	2,699
Held in Hong Kong	—	24	—	—
Held overseas	3	133	—	—
	2,651	2,856	2,646	2,699
	76,687	72,931	75,283	72,054

As at 31 December 2012, the process of obtaining the titleship for the Group's properties and buildings with an aggregate net carrying value of RMB10,126 million (31 December 2011: RMB8,125 million) was still in progress. Management is of the view that the aforesaid matter would not affect the rights of the Group to these assets nor have any significant impact on the business operation of the Group.

As at 31 December 2012, the net carrying value of aircraft and vessels leased out by the Group under operating leases was RMB14,799 million (31 December 2011: RMB9,836 million).

As at 31 December 2012, the net carrying value of aircraft and vessels owned by the Group that have been pledged for due to banks and financial institutions was RMB3,286 million (31 December 2011: RMB3,357 million).

31. DEFERRED INCOME TAX ASSETS AND LIABILITIES

(a) Analysed by nature

Group

	2012		2011	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets:				
Allowance for impairment losses	78,301	19,561	77,573	19,378
Change in fair value of available-for-sale financial assets	6,545	1,670	5,690	1,446
Change in fair value of financial instruments at fair value through profit or loss	(1,569)	(387)	(4,980)	(1,247)
Accrued staff costs	23,726	5,932	23,057	5,764
Others	(16,241)	(3,987)	(13,577)	(3,403)
	90,762	22,789	87,763	21,938

(In RMB millions, unless otherwise stated)

31. DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

	2012		2011	
	Taxable/ (deductible) temporary differences	Deferred income tax liabilities/ (assets)	Taxable/ (deductible) temporary differences	Deferred income tax liabilities/ (assets)
Deferred income tax liabilities:				
Allowance for impairment losses	(235)	(45)	(308)	(51)
Change in fair value of available-for-sale financial assets	908	151	469	78
Others	1,944	446	327	76
	2,617	552	488	103

Bank

	2012		2011	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets:				
Allowance for impairment losses	76,958	19,235	77,175	19,294
Change in fair value of available-for-sale financial assets	6,678	1,692	5,685	1,445
Change in fair value of financial instruments at fair value through profit or loss	(1,622)	(406)	(4,980)	(1,247)
Accrued staff costs	23,726	5,932	23,057	5,764
Others	(17,220)	(4,309)	(13,812)	(3,460)
	88,520	22,144	87,125	21,796

(b) Movements of deferred income tax

Group

	At 1 January 2012	Total gains/ (losses) recorded in profit or loss	Total gains/ (losses) recorded in other comprehensive income	Acquisition of subsidiaries	At 31 December 2012
Deferred income tax assets:					
Allowance for impairment losses	19,378	112	—	71	19,561
Change in fair value of available-for-sale financial assets	1,446	—	222	2	1,670
Change in fair value of financial instruments at fair value through profit or loss	(1,247)	837	—	23	(387)
Accrued staff costs	5,764	168	—	—	5,932
Others	(3,403)	(807)	(15)	238	(3,987)
	21,938	310	207	334	22,789

(In RMB millions, unless otherwise stated)

31. DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

	At 1 January 2011	Total gains/(losses) recorded in profit or loss	Total gains/(losses) recorded in other comprehensive income	At 31 December 2011
Deferred income tax assets:				
Allowance for impairment losses	14,297	5,081	—	19,378
Change in fair value of available-for-sale financial assets	2,885	—	(1,439)	1,446
Change in fair value of financial instruments at fair value through profit or loss	(745)	(502)	—	(1,247)
Accrued staff costs	4,927	837	—	5,764
Others	348	(3,754)	3	(3,403)
	21,712	1,662	(1,436)	21,938

	At 1 January 2012	Total losses recorded in profit or loss	Total losses recorded in other comprehensive income	Acquisition of subsidiaries	At 31 December 2012
Deferred income tax liabilities:					
Allowance for impairment losses	(51)	6	—	—	(45)
Change in fair value of available-for-sale financial assets	78	—	73	—	151
Others	76	20	35	315	446
	103	26	108	315	552

	At 1 January 2011	Total (gains)/losses recorded in profit or loss	Total (gains)/losses recorded in other comprehensive income	At 31 December 2011
Deferred income tax liabilities:				
Allowance for impairment losses	(56)	5	—	(51)
Change in fair value of available-for-sale financial assets	309	—	(231)	78
Change in fair value of financial instruments at fair value through profit or loss	37	(37)	—	—
Others	28	(28)	76	76
	318	(60)	(155)	103

(In RMB millions, unless otherwise stated)

31. DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

Bank

	At 1 January 2012	Total gains/(losses) recorded in profit or loss	Total gains recorded in other comprehensive income	At 31 December 2012
Deferred income tax assets:				
Allowance for impairment losses	19,294	(59)	—	19,235
Change in fair value of available-for-sale financial assets	1,445	—	247	1,692
Change in fair value of financial instruments at fair value through profit or loss	(1,247)	841	—	(406)
Accrued staff costs	5,764	168	—	5,932
Others	(3,460)	(850)	1	(4,309)
	21,796	100	248	22,144

	At 1 January 2011	Total gains/(losses) recorded in profit or loss	Total losses recorded in other comprehensive income	At 31 December 2011
Deferred income tax assets:				
Allowance for impairment losses	14,212	5,082	—	19,294
Change in fair value of available-for-sale financial assets	2,882	—	(1,437)	1,445
Change in fair value of financial instruments at fair value through profit or loss	(745)	(502)	—	(1,247)
Accrued staff costs	4,927	837	—	5,764
Others	292	(3,751)	(1)	(3,460)
	21,568	1,666	(1,438)	21,796

The Group and the Bank did not have significant unrecognised deferred income tax assets and liabilities at the end of the reporting period.

32. OTHER ASSETS

	Group		Bank	
	2012	2011	2012	2011
Interest receivable	87,496	74,097	84,835	71,929
Precious metals	55,358	38,971	55,297	38,951
Land use rights	20,921	21,407	20,669	21,407
Advance payments	32,639	18,074	1,558	2,105
Settlement accounts	89,561	14,501	80,627	10,385
Goodwill (i)	8,821	6,121	—	—
Repossessed assets	1,849	1,646	1,623	1,391
Others	15,706	11,359	13,151	9,797
	312,351	186,176	257,760	155,965

(In RMB millions, unless otherwise stated)

32. OTHER ASSETS (CONTINUED)

(i) Goodwill arising from business combinations has been allocated to the Group's CGU, which is not larger than the reportable segment of the Group, for impairment testing.

The recoverable amount of the CGU is determined based on the discounted future cash flows of the CGU. The cash flow projections based on financial forecasts approved by management of the subsidiaries. The average growth rates are extrapolated using the estimated rates which do not exceed the long term average growth rate for the business in which the CGU operates. The discount rate is the pre-tax rate and reflects the specific risk associated with the CGU.

As indicated by the impairment tests, goodwill arising from business combinations is not impaired and thus, no impairment loss is recognised.

33. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

		Group		Bank	
	Notes	2012	2011	2012	2011
Wealth management products	(1)	205,064	121,191	205,064	121,191
Structured deposits	(2)(a)	60,425	44,376	60,425	44,411
Financial liabilities related to precious metals	(2)(b)	52,346	6,343	52,346	6,343
Debt securities	(2)(c)	1,907	—	1,907	—
Certificates of deposit		—	63	—	—
		319,742	171,973	319,742	171,945

(1) The principal guaranteed wealth management products issued by the Group and the financial assets invested by the aforesaid product form part of a group of financial instruments that are together managed on a fair value basis, and are classified as financial liabilities and financial assets designated at fair value through profit or loss, respectively. The fair value of the wealth management products was RMB90 million higher than the amount that the Group would be contractually required to pay to the holders of the wealth management products upon maturity as at 31 December 2012 (31 December 2011: RMB130 million above).

(2) Structured deposits, certain financial liabilities related to precious metals, debt securities and certificates of deposit have been matched with derivatives or precious metals as part of a documented risk management strategy to mitigate market risk, such as interest rate risk. An accounting mismatch would arise if these financial liabilities were accounted for at amortised cost, whereas the related derivatives or precious metals were measured at fair value with movements in the fair value taken through the income statement. By designating these financial liabilities at fair value through profit or loss, the movement in their fair values is recorded in the income statement.

(a) As at 31 December 2012, the fair value of structured deposits was higher than the amount that the Group would be contractually required to pay to the holders of these structured deposits upon maturity by RMB81.73 million (31 December 2011: RMB23.99 million lower).

(b) As at 31 December 2012, the fair value of the financial liabilities related to precious metals was approximately the same as the amount that the Group would be contractually required to pay to the holders (31 December 2011: approximately the same).

(c) The debt securities were all issued by the Singapore Branch at fixed rates and were classified as financial liabilities designated at fair value through profit or loss. The fair value of the debt securities is higher than the amount that the Group would be contractually required to pay to the holders of these debt securities upon maturity as at 31 December 2012 by RMB83.25 million.

There were no significant changes in the credit spread of the Bank and therefore the amounts of changes in fair value of the financial liabilities that were attributable to changes in credit risk were considered not significant during the years presented and cumulatively as at 31 December 2012 and 31 December 2011. The changes in fair value of the financial liabilities were mainly attributable to changes in other market factors.

(In RMB millions, unless otherwise stated)

34. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2012	2011	2012	2011
Deposits:				
Banks and other financial institutions operating in Mainland China	1,218,829	1,075,301	1,218,120	1,079,767
Banks and other financial institutions operating outside Mainland China	13,794	16,193	15,860	18,424
	1,232,623	1,091,494	1,233,980	1,098,191
Money market takings:				
Banks and other financial institutions operating in Mainland China	104,304	110,861	27,198	51,026
Banks and other financial institutions operating outside Mainland China	149,878	138,935	163,094	148,730
	254,182	249,796	190,292	199,756
	1,486,805	1,341,290	1,424,272	1,297,947

35. REPURCHASE AGREEMENTS

Repurchase agreements comprise repurchase of securities, bills, loans, and cash received as collateral on securities lending.

	Group		Bank	
	2012	2011	2012	2011
Repurchase	226,098	196,986	7,313	78,551
Cash received as collateral on securities lending	11,666	9,268	—	—
	237,764	206,254	7,313	78,551
Repurchase analysed by counterparty:				
Banks	16,517	85,753	5,951	75,233
Other financial institutions	209,581	111,233	1,362	3,318
	226,098	196,986	7,313	78,551
Repurchase analysed by collateral:				
Securities	216,449	186,546	1,399	77,233
Bills	5,927	1,318	5,914	1,318
Loans	3,722	9,122	—	—
	226,098	196,986	7,313	78,551

36. CERTIFICATES OF DEPOSIT

Certificates of deposit were mainly issued by the Hong Kong Branch, the Tokyo Branch, the Luxembourg Branch, the New York Branch, the Sydney Branch, ICBC Asia, ICBC Macau, ICBC London and Standard Bank Argentina S.A., and were recognised at amortised cost.

(In RMB millions, unless otherwise stated)

37. DUE TO CUSTOMERS

	Group		Bank	
	2012	2011	2012	2011
Demand deposits:				
Corporate customers	3,993,173	3,817,387	3,933,635	3,762,461
Personal customers	2,800,169	2,565,696	2,771,529	2,547,789
Time deposits:				
Corporate customers	2,915,072	2,364,558	2,704,893	2,179,310
Personal customers	3,754,118	3,335,741	3,711,060	3,296,519
Others	180,378	177,837	180,355	177,736
	13,642,910	12,261,219	13,301,472	11,963,815

38. DEBT SECURITIES ISSUED

		Group		Bank	
	Notes	2012	2011	2012	2011
Subordinated bonds issued by:					
The Bank	(1)(a)	183,000	163,000	183,000	163,000
A subsidiary	(1)(b)	4,589	4,619	—	—
		187,589	167,619	183,000	163,000
Convertible bonds	(2)	21,353	22,608	21,353	22,608
Other debt securities issued by:	(3)				
The Bank		9,691	6,831	9,691	6,831
Subsidiaries		13,553	7,103	—	—
		23,244	13,934	9,691	6,831
		232,186	204,161	214,044	192,439

(1) Subordinated bonds

(a) As approved by the PBOC and the CBRC, the Bank issued callable subordinated bonds through open market bidding in 2005, 2009, 2010, 2011 and 2012. These subordinated bonds were traded in the bond market among banks. The Bank has not had any defaults of principal or interest or other breaches with respect to the subordinated bonds during the year (2011: Nil). The relevant information on these subordinated bonds is set out below:

Name	Issue date	Issue price (RMB)	Coupon rate	Value date	Maturity date	Circulation date	Issue amount (RMB)	Notes
05 ICBC 02 Bond	2005-8-19	100	3.77%	2005-9-6	2020-9-6	2005-10-11	13,000 million	(i)
09 ICBC 01 Bond	2009-7-16	100	3.28%	2009-7-20	2019-7-20	2009-8-20	10,500 million	(ii)
09 ICBC 02 Bond	2009-7-16	100	4.00%	2009-7-20	2024-7-20	2009-8-20	24,000 million	(iii)
09 ICBC 03 Bond	2009-7-16	100	Base rate +0.58%	2009-7-20	2019-7-20	2009-8-20	5,500 million	(iv)
10 ICBC 01 Bond	2010-9-10	100	3.90%	2010-9-14	2020-9-14	2010-11-3	5,800 million	(v)
10 ICBC 02 Bond	2010-9-10	100	4.10%	2010-9-14	2025-9-14	2010-11-3	16,200 million	(vi)
11 ICBC 01 Bond	2011-6-29	100	5.56%	2011-6-30	2031-6-30	2011-8-30	38,000 million	(vii)
11 ICBC 02 Bond	2011-12-29	100	5.50%	2011-12-30	2026-12-30	2012-1-17	50,000 million	(viii)
12 ICBC 01 Bond	2012-6-11	100	4.99%	2012-6-13	2027-6-13	2012-7-13	20,000 million	(ix)

(i) The Bank has the option to redeem all or part of the bonds at face value on 6 September 2015. If the Bank does not exercise this option, the annual coupon rate will increase by 300 basis points ("bps") thereafter.

(ii) The Bank has the option to redeem all or part of the bonds at face value on 20 July 2014. If the Bank does not exercise this option, the annual coupon rate will increase by 300 bps thereafter.

(iii) The Bank has the option to redeem all or part of the bonds at face value on 20 July 2019. If the Bank does not exercise this option, the annual coupon rate will increase by 300 bps thereafter.

(In RMB millions, unless otherwise stated)

38. DEBT SECURITIES ISSUED (CONTINUED)

(1) Subordinated bonds (continued)

(iv) The base rate for the bonds is the one-year lump-sum deposit and withdrawal time deposit rate published by the PBOC which is applicable on the date of issue or the first value date in each interest-bearing year. The spread in the first five interest-bearing years (i.e., initial spread) is 0.58%. The Bank has the option to redeem all or part of the bonds at face value on 20 July 2014. If the Bank does not exercise this option, the interest margin will increase by 300 bps thereafter.

(v) The Bank has the option to redeem all of the bonds on 14 September 2015 upon the approval of the relevant regulatory authorities.

(vi) The Bank has the option to redeem all of the bonds on 14 September 2020 upon the approval of the relevant regulatory authorities.

(vii) The Bank has the option to redeem all of the bonds on 30 June 2026 upon the approval of the relevant regulatory authorities.

(viii) The Bank has the option to redeem all of the bonds on 30 December 2021 upon the approval of the relevant regulatory authorities.

(ix) The Bank has the option to redeem all of the bonds on 13 June 2022 upon the approval of the relevant regulatory authorities.

(b) On 30 November 2010, ICBC Asia issued a subordinated bond with an aggregate nominal amount of USD500 million, bearing a fixed interest rate of 5.125% per annum. The bond was issued at the price fixed at 99.737% of the nominal amount with maturity due on 30 November 2020. On 4 November 2011, ICBC Asia issued subordinated notes in an aggregate nominal amount of RMB1,500 million, with a fixed interest rate of 6% per annum. The subordinated notes were issued at the price fixed at 100% of the nominal amount maturing on 4 November 2021. The above subordinated bonds and notes are both listed on the Singapore Exchange Securities Trading Limited. ICBC Asia has not had any defaults of principal or interest or other breaches with respect to the subordinated bonds and notes during the year (2011: Nil).

(2) Convertible bonds

As approved by the CBRC and the China Securities Regulatory Commission, the Bank issued RMB25 billion A share convertible bonds on 31 August 2010.

Name	Issue date	Issue price	Coupon rate	Value date	Maturity date	Circulation date	Issue amount
ICBC convertible bonds	31 August 2010	RMB100	Step-up interest rate	31 August 2010	31 August 2016	10 September 2010	RMB25 billion

The convertible bonds have a term of six years. From the first year to the sixth year, the bonds are paying annual coupon at the rates of 0.5%, 0.7%, 0.9%, 1.1%, 1.4% and 1.8%, respectively. The conversion period of the bonds commenced on 1 March 2011, which was the first trading day immediately following the expiry of the six-month period after the date of issuance of the convertible bonds, and ends on 31 August 2016, which is the maturity date of the bonds. Within five trading days after the maturity of the bonds, the Bank shall redeem all the outstanding convertible bonds which have not been converted into shares by then at 105% of the nominal value of these convertible bonds (including the interest last accrued). RMB2,323 million convertible bonds have been converted into shares from 1 March 2011 to 31 December 2012 (1 March 2011 to 31 December 2011: RMB257 million).

During the conversion period of the convertible bonds, if the closing prices of the A Shares of the Bank in at least 15 trading days out of 30 consecutive trading days are equal to or higher than 130% of the prevailing conversion price, the Bank shall have the right to redeem all or any part of the outstanding convertible bonds which have not been converted into the shares, at a price equal to the nominal value of the convertible bonds plus the interest accrued. When the nominal value of the balance of the outstanding convertible bonds is less than RMB30 million, the board of the Bank shall have the right to decide whether to redeem all the outstanding convertible bonds at a price equal to the nominal value plus the interest accrued.

(In RMB millions, unless otherwise stated)

38. DEBT SECURITIES ISSUED (CONTINUED)

(2) Convertible bonds (continued)

If, during the term of the convertible bonds, the closing prices of the A Shares of the Bank in any 15 trading days out of any 30 consecutive trading days are lower than 80% of the prevailing conversion price, the board of the Bank may propose a downward adjustment to the conversion price to the shareholders for their consideration and approval at a shareholders' general meeting.

The initial conversion price was RMB4.20 per share. The conversion price is subject to adjustment, upon the occurrence of certain events which affect the share capital of the Bank, such as distribution of share dividend, capitalisation, issuance of new shares, rights issue or distribution of cash dividend. During the period from the date of issuance to 31 December 2012, the conversion price was adjusted from RMB4.20 per share to RMB3.77 per share, as a result of the cash dividend distribution and rights issue of A shares and H shares.

The convertible bonds issued have been split into the liability and equity components as follows:

	Liability component	Equity component	Total
Nominal value of convertible bonds	21,998	3,002	25,000
Direct transaction costs	(113)	(17)	(130)
Balance as at the issuance date	21,885	2,985	24,870
Accretion of interest	239	—	239
Balance as at 31 December 2010	22,124	2,985	25,109
Conversion	(234)	(31)	(265)
Accretion of interest	718	—	718
Balance as at 31 December 2011	22,608	2,954	25,562
Conversion	(1,916)	(246)	(2,162)
Accretion of interest	661	—	661
Balance as at 31 December 2012	21,353	2,708	24,061

(3) Other debt securities issued

As at 31 December 2012, the Group's other debt securities issued mainly include:

The Bank:

(i) The Sydney Branch issued debt securities amounting to RMB4,799 million denominated in USD and AUD. These securities were issued at par value with maturities between 2013 and 2017 at fixed or floating interest rates;

(ii) The Tokyo Branch issued zero-coupon commercial papers amounting to RMB2,178 million denominated in RMB and USD. These commercial papers were issued at a discount with maturity in 2013;

(iii) The Singapore Branch issued Euro medium term notes amounting to RMB1,714 million denominated in USD. These notes were issued at par value with maturities in 2014 at floating interest rates;

(iv) The Head Office issued fixed interest rate RMB bond in Hong Kong amounting to RMB1,000 million. The bond was issued at par value with maturity in 2015.

38. DEBT SECURITIES ISSUED (CONTINUED)

(3) Other debt securities issued (continued)

Subsidiaries:

(i) ICBC Asia issued interest-free Equity Linked Notes at 99.972% to 100.500% of the nominal amount denominated in HKD, and Senior Notes at 99.802% to 100.000% of the nominal amount denominated in USD, HKD and RMB at fixed interest rates. These notes amounted to RMB7,556 million with maturity between 2013 and 2016;

(ii) Skysea International Capital Management Limited, which is an SPE of the Group, issued guaranteed notes of USD750 million with a fixed interest rate of 4.875%. The notes were guaranteed by the Hong Kong Branch and were issued at the price fixed at 97.708% of the nominal amount with maturity due on 7 December 2021 amounting to RMB4,609 million. By satisfying certain conditions, the SPE has the option to redeem all of the notes at any time. The notes were listed on the Stock Exchange of Hong Kong Limited;

(iii) ICBC Thai issued debt securities amounting to RMB1,388 million denominated in THB. These securities were issued at par value with maturity between 2013 and 2015 at fixed interest rates.

39. OTHER LIABILITIES

	Group		Bank	
	2012	2011	2012	2011
Interest payable	164,451	113,346	162,040	111,283
Settlement accounts	138,141	50,286	134,831	48,503
Salaries, bonuses, allowances and subsidies payables (i)	16,394	13,949	15,188	13,293
Early retirement benefits	7,761	9,647	7,761	9,647
Sundry tax payables	11,240	9,511	10,722	9,410
Bank drafts	3,030	3,225	2,426	3,090
Others	43,457	28,403	26,700	22,990
	384,474	228,367	359,668	218,216

(i) Except for the deferred discretionary bonuses for those employees under the deferred performance-based salary scheme pursuant to regulations of the PRC relevant authorities, the salaries, bonuses, allowances and subsidies payables were scheduled to be paid before 30 June 2013. There was no overdue payment for staff salaries, bonuses, allowances, subsidies payables as at 31 December 2012 (31 December 2011: Nil).

40. SHARE CAPITAL

	2012		2011	
	Number of shares (millions)	Nominal value	Number of shares (millions)	Nominal value
Issued and fully paid:				
H shares of RMB1 each	86,795	86,795	86,795	86,795
A shares of RMB1 each (i)	262,825	262,825	262,289	262,289
	349,620	349,620	349,084	349,084

Except for the dividends for H shares which are payable in Hong Kong dollars, all of the H shares and A shares rank pari passu with each other in respect of dividends.

40. SHARE CAPITAL (CONTINUED)

(i) According to the "Announcement in relation to the Conversion of ICBC Convertible Bonds", the 250 million convertible bonds (with a nominal value of RMB100 each and an aggregate amount of RMB25 billion) issued by the Bank on 31 August 2010, can be converted into the Bank's A Shares from 1 March 2011. As of 31 December 2012, a total of 23,234,740 convertible bonds were converted into A Shares of the Bank, resulting in an increase of 600,211,699 A Shares. In 2012, a total of 20,664,360 convertible bonds were converted into A shares of the Bank, resulting in an increase of 535,504,735 A Shares. The number of the Bank's A Shares amounted to 262,824,712,976 at the end of the year.

41. RESERVES

(a) Capital reserve

Capital reserve mainly includes share premium arising from the issuance of new shares at prices in excess of par value.

(b) Surplus reserves

(i) Statutory surplus reserve

The Bank is required to appropriate 10% of its profit for the year pursuant to the Company Law of the People's Republic of China and the Articles to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses of the Bank, if any, and may also be converted into capital of the Bank, provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before capitalisation.

Pursuant to the resolution of the board of directors' meeting held on 27 March 2013, an appropriation of 10% of the profit for the year determined under the generally accepted accounting principles of PRC ("PRC GAAP") to the statutory surplus reserve, in the amount of RMB23,318 million (2011: RMB20,347 million) was approved.

(ii) Discretionary surplus reserve

After making the appropriation to the statutory surplus reserve, the Bank may also appropriate its profit for the year determined under PRC GAAP to the discretionary surplus reserve upon approval by the shareholders in general meetings. Subject to the approval by the shareholders, the discretionary surplus reserve may be used to offset accumulated losses of the Bank, if any, and may be converted into capital.

(iii) Other surplus reserve

The Bank's overseas entities appropriate their profits to the surplus reserves in accordance with the relevant regulations promulgated by the local regulatory bodies.

(c) General reserve

From 1 July 2012, the Bank is required by the MOF to maintain a general reserve within equity, through the appropriation of profit, which should not be less than 1.5% of the year end balance of its risk assets (2011: No less than 1%).

The Bank's subsidiaries appropriate their profits to the general reserve according to the applicable local regulations.

Pursuant to the resolution of the board of directors' meeting held on 27 March 2013, an appropriation to the general reserve amounting to RMB83,456 million (2011: RMB11,003 million) was approved. The general reserve balance of the Bank as at 31 December 2012 amounted to RMB187,187 million, which has reached 1.5% of the year end balance of the Bank's risk assets.

(In RMB millions, unless otherwise stated)

41. RESERVES (CONTINUED)

(d) Investment revaluation reserve

The investment revaluation reserve records the fair value changes of available-for-sale financial assets.

(e) Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of the subsidiaries and branches incorporated outside Mainland China.

(f) Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the gain or loss on the hedging instrument.

(g) Other reserves

Other reserves represent reserves of subsidiaries and share of reserves of associates and jointly-controlled entities other than the items listed above.

(h) Distributable profits

The Bank's distributable profits are based on the retained profits of the Bank as determined under PRC GAAP and IFRSs, whichever is lower. The amount that the Bank's subsidiaries can legally distribute is determined by reference to their profits as reflected in their financial statements prepared in accordance with the accounting regulations and principles promulgated by the local regulatory bodies of the respective countries/regions. These profits may differ from those dealt with in these financial statements, which are prepared in accordance with IFRSs.

The movements in reserves and retained profits of the Bank during the year are set out below.

	Reserves							
	Capital reserve	Surplus reserves	General reserve	Investment revaluation reserve	Foreign currency translation reserve	Cash flow hedge reserve	Total	Retained profits
Balance at 1 January 2011	136,019	53,563	92,728	(8,189)	(266)	(4,082)	269,773	192,114
Profit for the year	—	—	—	—	—	—	—	202,295
Convertible bonds	200	—	—	—	—	—	200	—
Change in fair value of available-for-sale investments	—	—	—	4,321	—	—	4,321	—
Cash flow hedges, net of tax	—	—	—	—	—	2	2	—
Foreign currency translation	—	—	—	—	(114)	—	(114)	—
Dividend – 2010 final (note 18)	—	—	—	—	—	—	—	(64,220)
Appropriation to surplus reserves (i)	—	20,388	—	—	—	—	20,388	(20,388)
Appropriation to general reserve	—	—	11,003	—	—	—	11,003	(11,003)
Balance as at 31 December 2011 and 1 January 2012	**136,219**	**73,951**	**103,731**	**(3,868)**	**(380)**	**(4,080)**	**305,573**	**298,798**
Profit for the year	—	—	—	—	—	—	—	231,881
Convertible bonds	1,632	—	—	—	—	—	1,632	—
Change in fair value of available-for-sale investments	—	—	—	(641)	—	—	(641)	—
Foreign currency translation	—	—	—	—	42	—	42	—
Dividend — 2011 final (note 18)	—	—	—	—	—	—	—	(70,912)
Appropriation to surplus reserves (i)	—	23,333	—	—	—	—	23,333	(23,333)
Appropriation to general reserve	—	—	83,456	—	—	—	83,456	(83,456)
Balance as at 31 December 2012	**137,851**	**97,284**	**187,187**	**(4,509)**	**(338)**	**(4,080)**	**413,395**	**352,978**

(i) Includes the appropriation made by overseas branches in the amount of RMB15 million (2011: RMB41 million).

(In RMB millions, unless otherwise stated)

42. COMPONENTS OF OTHER COMPREHENSIVE INCOME

	2012	2011
Available-for-sale financial assets:		
Changes in fair value recorded in other comprehensive income/(loss)	(321)	2,919
Less: Transfer to the income statement arising from disposal/impairment	406	582
Income tax effect	149	(1,208)
	234	2,293
Cash flow hedges:		
Gain during the year	176	418
Less: Income tax effect	(37)	(63)
	139	355
Share of other comprehensive income of associates and jointly-controlled entities	255	774
Foreign currency translation differences	(1,913)	(11,416)
Others	120	53
Less: Income tax effect	(13)	(10)
	107	43
	(1,178)	(7,951)

43. BUSINESS COMBINATION

(1) AXA-Minmetals Assurance Co., Ltd

"AXA-Minmetals Assurance" is a domestic insurance company which principally engaged in the life insurance business. To further deepen the comprehensive management strategy, and strengthen the cooperation depth of banking and insurance, the Bank acquired 60% equity interest in AXA-Minmetals Assurance. The acquisition was completed on 5 July 2012 at a consideration of RMB1.8 billion in aggregate. On 6 July 2012, AXA-Minmetals Assurance officially changed its name to ICBC-AXA Assurance Co., Ltd.

(In RMB millions, unless otherwise stated)

43. BUSINESS COMBINATION (CONTINUED)

(1) AXA-Minmetals Assurance Co., Ltd (continued)

The details of the identifiable assets and liabilities acquired are as follows:

	5 July 2012	
	Carrying amount	Fair value
Due from banks and other financial institutions	1,274	1,274
Financial assets designated at fair value through profit or loss	63	63
Reverse repurchase agreements	37	37
Available-for-sale financial assets	1,416	1,416
Intangible assets	2	1,263
Other assets	2,287	2,287
Financial liabilities designated at fair value through profit or loss	(59)	(59)
Salaries, bonuses, allowances and subsidies payables	(60)	(60)
Income tax payable	(7)	(7)
Deferred income tax liabilities	—	(315)
Other liabilities	(3,696)	(3,696)
Non-controlling interests		(881)
Identifiable net assets		1,322
Goodwill on acquisition		478
Total consideration		1,800

The financial performance and cash flows of AXA-Minmetals Assurance from the date of acquisition until 31 December 2012 are as follows:

	Period from 5 July 2012 to 31 December 2012
Operating income	2,749
Profit for the period	(33)
Net cash flows for the period	1,032

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of AXA-Minmetals Assurance is as follows:

	5 July 2012
Cash and cash equivalents held by AXA-Minmetals Assurance	303
Cash consideration paid on acquisition of AXA-Minmetals Assurance	(1,800)
Net cash outflow on acquisition of AXA-Minmetals Assurance	(1,497)

(In RMB millions, unless otherwise stated)

43. BUSINESS COMBINATION (CONTINUED)

(2) The Bank of East Asia (U.S.A.) National Association

The Bank of East Asia (U.S.A.) National Association ("BEA USA") is a commercial bank operated in America. To expand the overseas business, the Bank acquired 80% equity interest in BEA USA. The acquisition was completed on 6 July 2012 at a consideration equivalent to RMB924 million in aggregate. After this, BEA USA officially changed its name to Industrial and Commercial Bank of China (USA) NA.

The details of the identifiable assets and liabilities acquired are as follows:

	6 July 2012	
	Carrying amount	Fair value
Cash and balances with central banks	589	589
Derivative financial assets	87	87
Loans and advances to customers	3,447	3,439
Held-to-maturity investments	36	37
Long term equity investments	26	26
Deferred income tax assets	161	153
Other assets	69	102
Derivative financial liabilities	(94)	(94)
Due to customers	(3,566)	(3,572)
Other liabilities	(40)	(41)
Non-controlling interests		(145)
Identifiable net assets		581
Goodwill on acquisition		343
Total consideration		924

The financial performance and cash flows of BEA USA from the date of acquisition until 31 December 2012 are as follows:

	Period from 6 July 2012 to 31 December 2012
Operating income	106
Profit for the period	4
Net cash flows for the period	(151)

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of BEA USA is as follows:

	6 July 2012
Cash and cash equivalents held by BEA USA	547
Cash consideration paid on acquisition of BEA USA	(886)
Net cash outflow on acquisition of BEA USA	(339)

(In RMB millions, unless otherwise stated)

43. BUSINESS COMBINATION (CONTINUED)

(3) Standard Bank Argentina S.A.

Standard Bank Argentina S.A. is a commercial bank operated in Argentina. To expand the overseas business, the Bank acquired 80% equity interest in Standard Bank Argentina S.A. The acquisition was completed on 30 November 2012 at a consideration equivalent to RMB4,005 million in aggregate.

In the opinion of the Bank, there was no material difference between the fair value of the identifiable assets and liabilities of Standard Bank Argentina S.A. and their carrying amounts as at the acquisition date. The details of the identifiable assets and liabilities acquired are as follows:

	30 November 2012
Cash and balances with central banks	5,236
Due from banks and other financial institutions	818
Financial assets designated at fair value through profit or loss	320
Reverse repurchase agreements	378
Loans and advances to customers	15,102
Available-for-sale financial assets	1,959
Other assets	2,248
Due to customers	(18,244)
Due to banks and other financial institutions	(304)
Other liabilities	(4,872)
Non-controlling interests	(528)
Identifiable net assets	2,113
Goodwill on acquisition	1,892
Total consideration	4,005

The financial performance and cash flows of Standard Bank Argentina S.A. from the date of acquisition until 31 December 2012 are as follows:

	Period from 30 November 2012 to 31 December 2012
Operating income	344
Profit for the period	2
Net cash flows for the period	(545)

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of Standard Bank Argentina S.A. is as follows:

	30 November 2012
Cash and cash equivalents held by Standard Bank Argentina S.A.	2,037
Cash consideration paid on acquisition of Standard Bank Argentina S.A.	(3,924)
Net cash outflow on acquisition of Standard Bank Argentina S.A.	(1,887)

Had the above three combinations taken place at the beginning of the year, the operating income and the net profit of the Group for the year would have been RMB545,277 million (under PRC GAAP) and RMB239,218 million, respectively.

The goodwill on the aforementioned acquisitions mainly arise from the operating channels of AXA-Minmetals Assurance, BEA USA and Standard Bank Argentina S.A. in the local markets, their future operating income and other factors. None of the goodwill recognised is expected to be deductible for income tax purposes.

(In RMB millions, unless otherwise stated)

44. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Analysis of balances of cash and cash equivalents

	Note	2012	2011
Cash on hand	20	76,060	60,145
Balances with central banks other than restricted deposits	20	318,648	106,124
Nostro accounts with banks and other financial institutions with original maturity of three months or less		279,311	236,694
Placements with banks and other financial institutions with original maturity of three months or less		37,916	115,085
Reverse repurchase agreements with original maturity of three months or less		489,712	330,260
		1,201,647	848,308

45. TRANSFERRED FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to SPEs. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

Repurchase transactions and securities lending transactions

Transferred financial assets that do not qualify for derecognition mainly include debt securities held by counterparties as collateral under repurchase agreements and debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities sold under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may in certain circumstances require or be required to pay additional cash collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

The following table analyses the carrying amount of the abovementioned financial assets transferred to third parties that did not qualify for derecognition and their associated financial liabilities:

	2012		2011	
	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Repurchase agreements	590	539	231	219
Securities lending agreements	15,906	—	—	—
	16,496	539	231	219

(In RMB millions, unless otherwise stated)

45. TRANSFERRED FINANCIAL ASSETS (CONTINUED)

Securitisation transactions

Transferred financial assets that achieved partial de-recognition mainly include financial assets transferred under securitisation transactions. The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to SPEs which issue asset-backed securities to investors. The Group may retain interests in the form of subordinated tranches which would give rise to the Group's continuing involvement in the transferred assets. Those financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets.

As at 31 December 2012, the Group retained interests in the form of subordinated tranches which gave rise to the Group's continuing involvement in the securitised loan with an original carrying amount of RMB8,011 million (31 December 2011: RMB8,011 million). As at 31 December 2012, the principal of the abovementioned subordinated tranches has been fully repaid.

46. SHARE APPRECIATION RIGHTS PLAN

The Bank's share appreciation rights plan was approved in 2006, which allows share appreciation rights to be granted to eligible participants including directors, supervisors, senior management and other key personnel designated by the board of directors. The share appreciation rights will be granted and exercised based on the price of the Bank's H shares and will be valid for 10 years. As at the approval date of these financial statements, no share appreciation rights have been granted.

47. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

At the end of the reporting period, the Group and the Bank had capital commitments as follows:

	Group		Bank	
	2012	**2011**	**2012**	**2011**
Authorised, but not contracted for	952	2,297	952	2,297
Contracted, but not provided for	11,992	13,696	7,707	8,003
	12,944	15,993	8,659	10,300

(b) Operating lease commitments

Operating lease commitments — Lessee

At the end of the reporting period, the Group and the Bank lease certain of its office properties under operating lease arrangements, and the total future minimum lease payments in respect of non-cancellable operating leases are as follows:

	Group		Bank	
	2012	**2011**	**2012**	**2011**
Within one year	4,166	3,617	3,995	3,238
After one year but not more than five years	10,330	8,457	9,659	7,826
After five years	1,516	1,528	1,444	1,469
	16,012	13,602	15,098	12,533

(In RMB millions, unless otherwise stated)

47. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(b) Operating lease commitments (continued)

Operating lease commitments — Lessor

At the end of the reporting period, the Group leases certain aircraft and vessels to third parties under operating lease arrangements, and the total future minimum lease receivables in respect of non-cancellable operating leases with its tenants are as follows:

	Group	
	2012	2011
Within one year	1,539	686
In the second to fifth years, inclusive	5,293	2,691
After five years	4,794	2,873
	11,626	6,250

(c) Credit commitments

At any given time, the Group has outstanding commitments to extend credit. These commitments are in the form of approved loans and undrawn credit card limits.

The Group provides letters of credit and financial guarantees to guarantee the performance of customers to third parties.

Bank acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of credit commitments by category are set out below. The amounts disclosed in respect of loan commitments and undrawn credit card limit are under the assumption that the amounts will be fully advanced. The amounts for bank acceptances, letters of credit and guarantees represent the maximum potential losses that would be recognised at the end of the reporting period had the counterparties failed to perform as contracted.

	Group		Bank	
	2012	2011	2012	2011
Bank acceptances	341,033	300,437	338,157	297,983
Guarantees issued:				
Financing letters of guarantees	47,148	46,299	98,952	86,196
Non-financing letters of guarantees	213,874	179,439	257,092	209,666
Sight letters of credit	52,190	70,258	50,276	67,201
Usance letters of credit and other commitments	347,271	326,626	337,524	349,917
Loan commitments:				
With an original maturity of under one year	214,370	150,685	88,967	76,813
With an original maturity of one year or over	453,520	519,112	421,671	494,615
Undrawn credit card limit	406,800	383,736	405,014	382,635
	2,076,206	1,976,592	1,997,653	1,965,026

	Group		Bank	
	2012	2011	2012	2011
Credit risk weighted amount of credit commitments	817,008	801,639	786,472	776,565

(In RMB millions, unless otherwise stated)

47. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(c) Credit commitments (continued)

The credit risk weighted amount refers to the amount computed in accordance with the rules promulgated by the CBRC. The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights ranged from 0% to 100% for credit commitments.

(d) Legal proceedings

As at 31 December 2012, there were a number of legal proceedings outstanding against the Bank and/or its subsidiaries with a claimed amount of RMB1,559 million (31 December 2011: RMB1,978 million).

In the opinion of management, the Group and the Bank have made adequate allowance for any probable losses based on the current facts and circumstances, and the ultimate outcome of these lawsuits will not have a material impact on the financial position or operations of the Group and the Bank.

(e) Redemption commitments of government bonds

As an underwriting agent of the Government, the Bank underwrites certain PRC government bonds and sells the bonds to the general public, in which the Bank is obliged to redeem these bonds at the discretion of the holders at any time prior to maturity. The redemption price for the bonds is based on the nominal value of the bonds plus any interest accrued up to the redemption date. As at 31 December 2012, the Bank had underwritten and sold bonds with an accumulated amount of RMB99,861 million (31 December 2011: RMB156,366 million) to the general public, and these government bonds have not yet matured nor been redeemed. Management expects that the amount of redemption of these government bonds through the Bank prior to maturity will not be material.

The MOF will not provide funding for the early redemption of these government bonds on a back-to-back basis but is obliged to repay the principal and the respective interest upon maturity.

(f) Underwriting obligations

As at 31 December 2012, the Group and the Bank had no unexpired securities underwriting obligations (31 December 2011: Nil).

48. DESIGNATED FUNDS AND LOANS

	Group	
	2012	**2011**
Designated funds	730,140	641,319
Designated loans	729,451	640,650

The designated loans represent the loans granted to specific borrowers designated by the trustors on their behalf according to the entrusted agreements signed by the Group and the trustors. The Group does not bear any risk.

The designated funds represent the funding that the trustors have instructed the Group to use to make loans to third parties as designated by them. The credit risk remains with the trustors.

49. ASSETS PLEDGED AS SECURITY

Financial assets of the Group including securities, bills and loans have been pledged as security for liabilities or contingent liabilities, mainly the repurchase agreements and derivative contracts. As at 31 December 2012, the carrying value of the financial assets of the Group pledged as security amounted to approximately RMB13,341 million (31 December 2011: RMB87,996 million).

(In RMB millions, unless otherwise stated)

50. FIDUCIARY ACTIVITIES

The Group provides custody, trust and asset management services to third parties. Revenue from such activities is included in "net fee and commission income" set out in note 7 above. Those assets held in a fiduciary capacity are not included in the Group's consolidated statement of financial position.

51. RELATED PARTY DISCLOSURES

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

(a) Shareholders with significant influence

(i) The MOF

The MOF is a ministry under the State Council, primarily responsible for, among others, state fiscal revenues, expenses and taxation policies. As at 31 December 2012, the MOF directly owned approximately 35.27% (31 December 2011: approximately 35.33%) of the issued share capital of the Bank. The Group enters into banking transactions with the MOF in its normal course of business, including the subscription and redemption of government bonds issued by the MOF. Details of the material transactions are as follows:

	2012	2011
Balances at end of the year:		
The PRC government bonds and the special government bond	831,417	867,847

	2012	2011
Transactions during the year:		
Subscription of the PRC government bonds	84,587	175,520
Redemption of the PRC government bonds	90,895	90,217
Interest income on the PRC government bonds	29,918	28,020
Interest rate ranges during the year are as follows:	%	%
Bond investments	0.41 to 6.34	1.0 to 6.43

As of 31 December 2012, the Group holds a series of long term bonds issued by Huarong, which is under the control of the MOF, with an aggregate amount of RMB175,096 million (31 December 2011: RMB312,996 million). The details of the Huarong bonds are included in note 27.

Other related party transactions between the Group and enterprises under the control or joint control of the MOF are disclosed in note 51(g) "transactions with state-owned entities in the PRC".

(In RMB millions, unless otherwise stated)

51. RELATED PARTY DISCLOSURES (CONTINUED)

(a) Shareholders with significant influence (continued)

(ii) Huijin

As at 31 December 2012, Central Huijin Investment Ltd ("Huijin") directly owned approximately 35.46% (31 December 2011: approximately 35.43%) of the issued share capital of the Bank. Huijin is a state-owned investment company established on 16 December 2003 under the Company Law of the PRC. Huijin has total registered and paid-in capital of RMB828,209 million, and its legal representative is Mr. Lou Jiwei. Huijin is a wholly-owned subsidiary of China Investment Corporation, and in accordance with the authorisation by the State, Huijin makes equity investments in the key state-owned financial institutions, and shall, to the extent of its capital contribution, exercise the rights and perform the obligations as an investor on behalf of the State in accordance with applicable laws, to achieve the goal of preserving and enhancing the value of state-owned financial assets. Huijin does not engage in other business activities, and does not intervene in the day-to-day business operations of the key state-owned financial institutions it controls.

As at 31 December 2012, the Huijin Bonds held by the Bank are of an aggregate face value of RMB18.13 billion (31 December 2011: RMB21.63 billion), with terms ranging from 5 to 30 years and coupon rates ranging from 3.14% to 4.20% per annum. The Huijin Bonds are government-backed and the Bank's subscription of the Huijin Bonds was conducted in the ordinary course of business, in compliance with relevant regulatory requirements and the corporate governance of the Bank.

The Group entered into banking transactions with Huijin in the ordinary course of business under normal commercial terms and at the market rates. Details of the material transactions are as follows:

	2012	2011
Balances at end of the year:		
Debt securities purchased	17,288	20,926
Interest receivable	190	239
Deposits	10,236	1
Interest payable	16	—

	2012	2011
Transactions during the year:		
Interest income on debt securities purchased	760	765
Interest expense on deposits	77	20
Interest rate ranges during the year are as follows:	%	%
Debt securities purchased	3.14 to 4.20	3.14 to 4.20
Deposits	0.01 to 2.86	0.02 to 1.49

(In RMB millions, unless otherwise stated)

51. RELATED PARTY DISCLOSURES (CONTINUED)

(a) Shareholders with significant influence (continued)

Huijin has equity interests in certain other banks and financial institutions under the direction of the Government. The Group enters into transactions with these banks and financial institutions in the ordinary course of business under normal commercial terms. Management considers that these banks and financial institutions are competitors of the Group. Significant transactions during the year conducted with these banks and financial institutions, and the corresponding balances as at 31 December 2012 are as follows:

	2012	2011
Balances at end of the year:		
Debt securities purchased	979,291	828,155
Due from these banks and financial institutions	142,413	48,149
Derivative financial assets	809	1,144
Due to these banks and financial institutions	115,434	91,868
Derivative financial liabilities	1,754	953

	2012	2011
Transactions during the year:		
Interest income on debt securities purchased	36,495	25,974
Interest income on amounts due from these banks and financial institutions	2,004	359
Interest expense on amounts due to these banks and financial institutions	1,067	984
Interest rate ranges during the year are as follows:	%	%
Debt securities purchased	0 to 8.25	0 to 8.25
Due from these banks and financial institutions	0 to 9.0	0.0001 to 7.6
Due to these banks and financial institutions	0.0001 to 7.4	0.0001 to 8.0

The interest rates disclosed above vary across product groups and transactions depending on the maturity date, credit risk of counterparty and currency. In particular, given local market conditions, the spread of certain significant or long dated transactions can vary across the market.

(b) Subsidiaries

	2012	2011
Balances at end of the year:		
Debt securities purchased	14,029	14,621
Due from banks and other financial institutions	105,779	60,630
Loans and advances to customers	5,784	5,833
Derivative financial assets	887	209
Due to banks and other financial institutions	41,466	33,276
Derivative financial liabilities	764	239
Commitments	116,423	120,246

	2012	2011
Transactions during the year:		
Interest income on debt securities purchased	133	124
Interest income on amounts due from banks and other financial institutions	1,112	659
Interest income on loans and advances to customers	240	185
Interest expense on amounts due to banks and other financial institutions	619	280
Net trading expense	72	33
Net fee and commission income	315	209
Interest rate ranges during the year are as follows:	%	%
Debt securities purchased	0 to 1.55	0.35 to 1.56
Due from banks and other financial institutions	0 to 7.66	0 to 8.72
Loans and advances to customers	1.75 to 6.9	1.15 to 6.56
Due to banks and other financial institutions	0 to 6.0	0 to 8.74

The material balances and transactions with subsidiaries have been eliminated in full in the consolidated financial statements.

(In RMB millions, unless otherwise stated)

51. RELATED PARTY DISCLOSURES (CONTINUED)

(c) Associates and affiliates

	2012	2011
Balances at end of the year:		
Due from banks	334	984
Loans to associates	3,100	1,693
Other receivables	209	464
Due to banks	3,341	2,855
Deposits	125	28

	2012	2011
Transactions during the year:		
Interest income on amounts due from banks	4	3
Interest income on loans to associates	62	41
Interest expense on amounts due to banks	46	15
Interest rates ranges during the year are as follows:	%	%
Due from banks	0.72 to 5.4	5.55 to 9.5
Loans to associates	1.47 to 2.84	2.25 to 7.0
Due to banks	0.5 to 1.65	0.72 to 1.72
Deposits	0 to 2.8	0 to 3.05

The major transactions between the Group and the associates and their affiliates mainly comprised taking and placing interbank balances, lending and deposit taking and the corresponding interest income and interest expense. In the opinion of management, the transactions between the Group and the associates and their affiliates were conducted under normal commercial terms and conditions.

(d) Jointly-controlled entities and affiliates

	2012	2011
Balances at end of the year:		
Deposits	264	336

	2012	2011
Transactions during the year:		
Interest expense on deposits	4	1
Interest rates during the year are as follows:	%	%
Deposits	0.35 to1.05	0 to 0.8

In the opinion of management, the transactions between the Group and the aforementioned parties were conducted in the ordinary course of business under normal terms and conditions and at market rates.

51. RELATED PARTY DISCLOSURES (CONTINUED)

(e) Key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group, directly or indirectly, including members of the board of directors, the supervisory board and executive officers.

The aggregate compensation for the year, other than those for the personnel disclosed in note 13 above, is as follows:

	2012 RMB'000	2011 RMB'000
Short term employment benefits	7,415	12,295
Post-employment benefits	230	865
	7,645	13,160

Note: The above compensation for the year ended 31 December 2011 was restated in accordance with the supplemental announcement for the 2011 annual report released by the Bank on 31 May 2012.

The total compensation packages for senior management of the Bank for the year ended 31 December 2012 have not been finalised in accordance with the regulations of the PRC relevant authorities. The remuneration not yet accrued is not expected to have a significant impact on the Group's and the Bank's 2012 financial statements. The total compensation packages will be further disclosed when determined by the relevant authorities.

Companies or corporations, in which the key management of the Group or their close relatives are shareholders or key management personnel who are able to exercise control directly or indirectly are also considered as related parties of the Group.

The transactions between the Group and the aforementioned parties for the year are as follows:

	2012	2011
Loans	687	254

In the opinion of management, the transactions between the Group and the aforementioned parties were conducted in the ordinary course of business under normal terms and conditions and at market rates.

(f) Annuity Fund

Apart from the obligations for defined contributions to the Annuity Fund, no transactions were outstanding between the Group and the Annuity Fund during the year end (2011: Nil).

(g) Transactions with state-owned entities in the PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the Government through its authorities, affiliates or other organisations (collectively the "state-owned entities"). During the year, the Group entered into extensive banking transactions with these state-owned entities including, but not limited to, lending and deposit taking, taking and placing of interbank balances, entrusted lending and the provision of intermediary services, the sale, purchase, underwriting and redemption of bonds issued by other state-owned entities, and the sale, purchase, and leasing of properties and other assets.

51. RELATED PARTY DISCLOSURES (CONTINUED)

(g) Transactions with state-owned entities in the PRC (continued)

Management considers that transactions with state-owned entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those state-owned entities are ultimately controlled or owned by the Government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are state-owned entities.

52. SEGMENT INFORMATION

(a) Operating segments

For management purposes, the Group is organised into different operating segments, namely corporate banking, personal banking and treasury operations, based on internal organisational structure, management requirement and internal reporting system.

Corporate banking

The corporate banking segment covers the provision of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, trade financing, deposit-taking activities, corporate wealth management services, custody activities and various types of corporate intermediary services.

Personal banking

The personal banking segment covers the provision of financial products and services to individual customers. The products and services include personal loans, deposit-taking activities, card business, personal wealth management services and various types of personal intermediary services.

Treasury operations

The treasury operations segment covers the Group's treasury operations which include money market transactions, investment securities, foreign exchange transactions and the holding of derivative positions, for its own accounts or on behalf of customers.

Others

This represents the assets, liabilities, income and expenses that are not directly attributable or cannot be allocated to a segment on a reasonable basis.

Management monitors the operating results of the Group's business units separately for the purpose of making decisions about resources allocation and performance assessment. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Group.

Transactions between segments mainly represent the provision of funding to and from individual segments. These transactions are conducted on terms determined with reference to the average cost of funding and have been reflected in the performance of each segment. Net interest income and expense arising on internal fund transfer are referred to as "internal net interest income/expense". Net interest income and expense relating to third parties are referred to as "external net interest income/expense".

(In RMB millions, unless otherwise stated)

52. SEGMENT INFORMATION (CONTINUED)

(a) Operating segments (continued)

Segment revenues, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The basis for allocation is mainly based on occupation of or contribution to resources. Income taxes are managed on a group basis and are not allocated to operating segments.

	Corporate banking	Personal banking	Treasury operations	Others (iii)	Total
Year ended 31 December 2012					
External net interest income/(expense)	276,656	(8,985)	150,087	70	417,828
Internal net interest income/(expense)	(58,023)	123,232	(65,209)	—	—
Net fee and commission income	66,158	39,788	395	(277)	106,064
Other income, net (i)	974	21	720	4,113	5,828
Operating income	285,765	154,056	85,993	3,906	529,720
Operating expenses	(89,871)	(77,140)	(17,094)	(5,835)	(189,940)
Impairment losses on:					
Loans and advances to customers	(19,051)	(13,521)	—	—	(32,572)
Others	(338)	(7)	(790)	(38)	(1,173)
Operating profit/(loss)	176,505	63,388	68,109	(1,967)	306,035
Share of profits and losses of associates and jointly-controlled entities	—	—	—	2,652	2,652
Profit before tax	176,505	63,388	68,109	685	308,687
Income tax expense					(69,996)
Profit for the year					238,691
Other segment information:					
Depreciation	5,804	4,670	2,526	215	13,215
Amortisation	850	553	356	22	1,781
Capital expenditure	14,319	11,406	6,190	516	32,431
As at 31 December 2012					
Segment assets	6,495,908	2,320,534	8,591,801	133,974	17,542,217
Including: Investments in associates and jointly-controlled entities	—	—	—	33,284	33,284
Property and equipment	49,902	40,056	21,514	24,417	135,889
Other non-current assets (ii)	13,911	7,611	4,958	9,439	35,919
Segment liabilities	7,275,642	6,704,125	2,376,936	57,055	16,413,758
Other segment information:					
Credit commitments	1,669,406	406,800	—	—	2,076,206

(i) Including net trading income, net loss on financial assets and liabilities designated at fair value through profit or loss, net gain on financial investments and other operating income (net).

(ii) Including long term receivables, intangible assets, goodwill, long term deferred expenses and other non-current assets.

(iii) Including ICBC-AXA's operating figures.

(In RMB millions, unless otherwise stated)

52. SEGMENT INFORMATION (CONTINUED)

(a) Operating segments (continued)

	Corporate banking	Personal banking	Treasury operations	Others	Total
Year ended 31 December 2011					
External net interest income/(expense)	230,891	(4,349)	136,222	—	362,764
Internal net interest income/(expense)	(44,679)	109,303	(64,624)	—	—
Net fee and commission income	62,330	38,821	399	—	101,550
Other income, net (i)	1,142	19	284	4,842	6,287
Operating income	249,684	143,794	72,281	4,842	470,601
Operating expenses	(78,221)	(70,761)	(15,603)	(5,028)	(169,613)
Impairment losses on:					
Loans and advances to customers	(18,489)	(13,343)	—	—	(31,832)
Others	(73)	9	840	(65)	711
Operating profit/(loss)	152,901	59,699	57,518	(251)	269,867
Share of profits and losses of associates and jointly-controlled entities	—	—	—	2,444	2,444
Profit before tax	152,901	59,699	57,518	2,193	272,311
Income tax expense					(63,866)
Profit for the year					208,445
Other segment information:					
Depreciation	5,165	4,251	2,377	234	12,027
Amortisation	664	472	264	26	1,426
Capital expenditure	12,545	10,288	5,723	561	29,117
As at 31 December 2011					
Segment assets	5,742,727	2,046,297	7,581,726	106,118	15,476,868
Including: Investments in associates and jointly-controlled entities	—	—	—	32,750	32,750
Property and equipment	44,316	36,486	20,200	18,026	119,028
Other non-current assets (ii)	12,746	7,829	4,276	6,749	31,600
Segment liabilities	6,519,080	6,013,448	1,953,920	32,597	14,519,045
Other segment information:					
Credit commitments	1,592,856	383,736	—	—	1,976,592

(i) Including net trading expense, net loss on financial assets and liabilities designated at fair value through profit or loss, net gain on financial investments and other operating income (net).

(ii) Including long term receivables, intangible assets, goodwill, long term deferred expenses and other non-current assets.

(In RMB millions, unless otherwise stated)

52. SEGMENT INFORMATION (CONTINUED)

(b) Geographical information

The Group operates principally in Mainland China, and also has branches and subsidiaries operating outside Mainland China (including: Hong Kong, Macau, Singapore, Frankfurt, Luxembourg, Seoul, Busan, Tokyo, London, Almaty, Jakarta, Moscow, Doha, Dubai, Abu Dhabi, Sydney, Toronto, Kuala Lumpur, Hanoi, Bangkok, New York, Karachi, Mumbai, Phnom Penh, Vientiane, Islamabad, Chicago, Buenos Aires and Lima).

The distribution of the geographical areas is as follows:

Mainland China (Head Office and domestic branches):

Head Office ("HO"): the HO business division (including institutions directly controlled by the HO and their offices);

Yangtze River Delta: including Shanghai, Jiangsu, Zhejiang, Ningbo and Suzhou;

Pearl River Delta: including Guangdong, Shenzhen, Fujian and Xiamen;

Bohai Rim: including Beijing, Tianjin, Hebei, Shandong and Qingdao;

Central China: including Shanxi, Henan, Hubei, Hunan, Anhui, Jiangxi and Hainan;

Western China: including Chongqing, Sichuan, Guizhou, Yunnan, Guangxi, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang, Inner Mongolia and Tibet; and

Northeastern China: including Liaoning, Heilongjiang, Jilin and Dalian.

Overseas and others: branches located outside Mainland China, domestic and overseas subsidiaries, and investments in associates and jointly-controlled entities.

	Mainland China (HO and domestic branches)									
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and others	Eliminations	Total
Year ended 31 December 2012										
External net interest income	160,996	62,237	39,987	31,681	39,119	56,278	16,401	11,129	—	417,828
Internal net interest income/(expense)	(120,391)	19,187	11,327	54,029	14,701	11,616	9,071	460	—	—
Net fee and commission income	1,651	26,284	17,957	19,050	16,699	15,372	4,824	4,281	(54)	106,064
Other income/(expense), net (i)	5,363	(680)	45	(730)	(77)	(272)	(475)	2,654	—	5,828
Operating income	47,619	107,028	69,316	104,030	70,442	82,994	29,821	18,524	(54)	529,720
Operating expenses	(14,551)	(33,238)	(23,581)	(32,799)	(30,614)	(34,309)	(13,832)	(7,070)	54	(189,940)
Impairment losses on:										
Loans and advances to customers	(3,347)	(7,768)	(4,293)	(5,166)	(4,197)	(4,696)	(1,776)	(1,329)	—	(32,572)
Others	(166)	(21)	(6)	(155)	15	(82)	(12)	(746)	—	(1,173)
Operating profit	29,555	66,001	41,436	65,910	35,646	43,907	14,201	9,379	—	306,035
Share of profits and losses of associates and jointly-controlled entities	—	—	—	—	—	—	—	2,652	—	2,652
Profit before tax	29,555	66,001	41,436	65,910	35,646	43,907	14,201	12,031	—	308,687
Income tax expense										(69,996)
Profit for the year										238,691
Other segment information:										
Depreciation	1,520	2,099	1,425	1,856	2,163	2,396	1,009	747	—	13,215
Amortisation	715	220	116	118	223	223	60	106	—	1,781
Capital expenditure	3,743	3,399	2,167	2,933	3,760	5,046	1,827	9,556	—	32,431

(i) Including net trading income/(expense), net loss on financial assets and liabilities designated at fair value through profit or loss, net gain on financial investments and other operating income (net).

(In RMB millions, unless otherwise stated)

52. SEGMENT INFORMATION (CONTINUED)

(b) Geographical information (continued)

	Mainland China (HO and domestic branches)									
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and others	Eliminations	Total
As at 31 December 2012										
Assets by geographical areas	8,224,142	3,294,148	2,296,600	3,902,655	2,095,440	2,466,885	923,766	1,234,420	(6,918,628)	17,519,428
Including: Investments in associates and jointly-controlled entities	—	—	—	—	—	—	—	33,284	—	33,284
Property and equipment	11,154	23,167	12,356	17,969	18,701	21,393	10,046	21,103	—	135,889
Other non-current assets (i)	11,014	5,731	2,320	4,041	4,869	4,257	1,681	2,006	—	35,919
Unallocated assets										22,789
Total assets										17,542,217
Liabilities by geographical areas	7,410,679	3,237,528	2,259,922	3,839,768	2,064,592	2,428,238	909,743	1,124,442	(6,918,628)	16,356,284
Unallocated liabilities										57,474
Total liabilities										16,413,758
Other segment information:										
Credit commitments	418,897	390,236	337,265	321,305	120,188	162,835	59,386	266,094	—	2,076,206

(i) Including long term receivables, intangible assets, goodwill, long term deferred expenses and other non-current assets.

	Mainland China (HO and domestic branches)									
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and others	Eliminations	Total
Year ended 31 December 2011										
External net interest income	143,397	56,644	33,077	29,509	31,597	44,668	14,452	9,420	—	362,764
Internal net interest income/(expense)	(114,350)	16,746	14,039	47,020	15,605	12,986	8,059	(105)	—	—
Net fee and commission income	2,284	25,472	17,733	18,907	14,449	14,529	4,809	3,511	(144)	101,550
Other income, net (i)	2,993	275	172	460	336	503	162	1,390	(4)	6,287
Operating income	34,324	99,137	65,021	95,896	61,987	72,686	27,482	14,216	(148)	470,601
Operating expenses	(10,849)	(30,399)	(21,946)	(30,419)	(27,712)	(30,468)	(12,838)	(5,130)	148	(169,613)
Impairment losses on:										
Loans and advances to customers	(4,206)	(5,988)	(4,003)	(5,493)	(5,415)	(5,291)	(521)	(915)	—	(31,832)
Others	778	64	(4)	149	69	129	(90)	(384)	—	711
Operating profit	20,047	62,814	39,068	60,133	28,929	37,056	14,033	7,787	—	269,867
Share of profits and losses of associates and jointly-controlled entities	—	—	—	—	—	—	—	2,444	—	2,444
Profit before tax	20,047	62,814	39,068	60,133	28,929	37,056	14,033	10,231	—	272,311
Income tax expense										(63,866)
Profit for the year										208,445
Other segment information:										
Depreciation	1,343	1,931	1,341	1,754	1,974	2,182	957	545	—	12,027
Amortisation	514	209	100	115	203	195	54	36	—	1,426
Capital expenditure	1,989	4,917	2,075	2,867	3,347	3,872	1,234	8,816	—	29,117

(i) Including net trading income/(expense), net loss on financial assets and liabilities designated at fair value through profit or loss, net gain on financial investments, and other operating income (net).

(In RMB millions, unless otherwise stated)

52. SEGMENT INFORMATION (CONTINUED)

(b) Geographical information (continued)

	Mainland China (HO and domestic branches)									
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and others	Eliminations	Total
As at 31 December 2011										
Assets by geographical areas	7,363,929	2,960,832	2,037,404	3,499,724	1,865,008	2,150,030	845,818	926,709	(6,194,524)	15,454,930
Including: Investments in associates and jointly-controlled entities	—	—	—	—	—	—	—	32,750	—	32,750
Property and equipment	9,218	22,004	11,828	17,063	17,370	18,941	9,393	13,211	—	119,028
Other non-current assets (i)	7,396	5,820	2,224	3,934	5,009	4,277	1,644	1,296	—	31,600
Unallocated assets										21,938
Total assets										15,476,868
Liabilities by geographical areas	6,698,446	2,901,326	1,999,210	3,440,828	1,837,114	2,113,992	831,310	839,705	(6,194,524)	14,467,407
Unallocated liabilities										51,638
Total liabilities										14,519,045
Other segment information:										
Credit commitments	394,265	434,989	343,562	311,307	118,215	142,619	56,967	174,668	—	1,976,592

(i) Including long term receivables, intangible assets, goodwill, long term deferred expenses and other non-current assets.

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT

A description and an analysis of the major risks faced by the Group are as follows:

The board of directors (the "Board") has the ultimate responsibility for risk management and oversees the Group's risk management functions through the Risk Management Committee and the Audit Committee of the Board.

The President supervises the risk management strategies and reports directly to the Board. He chairs two management committees including the Risk Management Committee and the Asset and Liability Management Committee. These two committees formulate and make recommendations in respect of risk management strategies and policies through the President to the Risk Management Committee of the Board. The Chief Risk Officer assists the President to supervise and manage various risks.

The Group has also assigned departments monitoring financial risks within the Group, including the Credit Management Department to monitor credit risk, the Risk Management Department together with the Asset and Liability Management Department to monitor market and liquidity risks, and the Internal Control and Compliance Department to monitor operational risk. The Risk Management Department is primarily responsible for coordinating and establishing a comprehensive risk management framework, preparing consolidated reports on credit risk, market risk and operational risk and reporting directly to the Chief Risk Officer.

The Bank maintains a dual-reporting line structure at the branch level for risk management purposes. Under this structure, the risk management departments of the branches report to both the corresponding risk management departments at the head office and management of the relevant branches.

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(a) Credit risk

Credit risk is the risk of loss arising from a borrower's or counterparty's inability to meet its obligations. Credit risk can also arise from operational failures that result in an unauthorised or inappropriate guarantee, commitment or investment of funds. The Group is exposed to credit risk primarily due to loans, guarantees and other credit related commitments.

The principal features of the Group's credit risk management function include:

- Centralised credit management procedures;
- Risk management rules and procedures that focus on risk control throughout the entire credit business process, including customer investigation and credit rating, granting of credit limits, loan evaluation, loan review and approval, granting of loan and post-disbursement loan monitoring;
- Stringent qualification system for the loan approval officers; and
- Information management systems designed to enable a real time risk monitoring.

To enhance the credit risk management practices, the Group also launches training programs periodically for credit officers at different levels.

In addition to the credit risk exposures on credit-related assets and amounts due from or lending to banks and other financial institutions, credit risk also arises in other areas. For instance, credit risk exposure also arises from derivative financial instruments which is, however, limited to those with positive fair values, as recorded in the statement of financial position. In addition, the Group also makes available to its customers' guarantees which may require the Group to make payments on their behalf. Such payments are collected from customers based on the terms of the agreements signed. They expose the Group to similar risks as loans and these are mitigated by the same control processes and policies.

The Group will normally sign an ISDA Master Agreement, a China Interbank Market Financial Derivatives Master Agreement ("NAFMII master agreement") with its counterparties for documenting over-the-counter derivative activities. Each of these master agreements provides the contractual framework within which derivative dealing activities are conducted. Under each of these master agreements, close-out netting shall be applied across all outstanding transactions covered by the agreement if either party defaults.

Risk concentration

Credit risk is often greater when counterparties are concentrated in one single industry or geographical location or have comparable economic characteristics.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or whether there are any liquidity problems of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed impairment and collectively assessed impairment.

Individually assessed loans

All corporate loans and discounted bills are individually reviewed for objective evidence of impairment and classified based on a five-tier classification system. Corporate loans and discounted bills that are classified as substandard, doubtful or loss are assessed individually for impairment.

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

If there is objective evidence that an impairment loss on a loan or advance has been incurred on an individual basis, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The allowance for impairment loss is deducted in the carrying amount. The impairment loss is recognised in the income statement. In determining allowances on an individual basis, the following factors are considered:

- The sustainability of the counterparty's business plan;
- The borrower's ability to improve performance once a financial difficulty has arisen;
- Projected receipts and the expected payout should bankruptcy ensue;
- The availability of other financial support and the realisable value of collateral; and
- The timing of the expected cash flows.

It may not be possible to identify a single, discrete event that caused the impairment, but it may be possible to identify impairment through the combined effect of several events. The impairment losses are evaluated at the end of each reporting period, unless unforeseen circumstances require more careful attention.

Collectively assessed loans

Loans that are assessed for impairment losses on a collective basis include the following:

- Homogeneous groups of loans, including all personal loans; and
- All loans for which no impairment can be identified individually, either due to the absence of any loss events or due to an inability to measure reliably the impact of potential loss events on future cash flows.

For the purpose of collective assessment, assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

Objective evidence of impairment losses on a collective basis consists of observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans since the initial recognition of those loans, including:

- Adverse changes in the payment status of borrowers in the group of loans; and
- National or local economic conditions that correlate with defaults on assets in the portfolio of loans.

Homogenous groups of loans not considered individually significant

For homogeneous groups of loans, the Group uses a collective assessment approach for impairment losses. The approach analyses historical trends of probability of default and the amount of the consequential loss, as well as evaluates current economic conditions that may have a consequential impact on inherent losses in the portfolio.

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Individually assessed loans with no objective evidence of impairment

When no impairment can be identified for individual loans, either due to the absence of any loss events or due to an inability to measure reliably the impact of potential loss events on future cash flows, these loans are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. This loss covers those loans that were impaired at the end of the reporting period but which would not be individually identified as impaired until sometime in the future. The collective impairment loss is assessed after taking into account:

- Historical loss experience in portfolios of similar risk characteristics; and
- The current economic and credit environment and, whether these, in management's experience, indicate that the actual level of incurred but not yet identified losses is likely to be greater or less than that suggested by historical experience.

As soon as information that specifically identifies objective evidence of impairment on individual assets in a pool is available, those assets are excluded and individually assessed. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment for impairment.

Collateral

The amount and type of collateral required depend on the assessment of the credit risk of the counterparty. Guidelines are in place specifying the types of collateral and valuation parameters which can be accepted.

Reverse repurchase business is mainly collateralised by bills, loans or investment securities. As part of the reverse repurchase agreements, the Group has received securities that it is allowed to sell or repledge in the absence of default by their owners. Fair value of collateral is shown in note 25.

Corporate loans are mainly collateralised by properties or other assets. As at 31 December 2012, the carrying value of corporate loans covered by collateral amounted to RMB2,907,405 million (31 December 2011: RMB2,306,381 million).

Retail loans are mainly collateralised by residential properties. As at 31 December 2012, the carrying value of retail loans covered by collateral amounted to RMB1,952,522 million (31 December 2011: RMB1,740,603 million).

The Group prefers more liquid collateral with relatively stable market value and does not accept the collateral that is illiquid, with difficulties in registration or high fluctuations in market value. The value of collateral should be assessed and confirmed by the Group or valuation agents identified by the Group. The value of collateral should adequately cover the outstanding balance of loans. The loan-to-value ratio depends on types of collateral, usage condition, liquidity, price volatility and realisation cost. All collateral has to be registered in accordance with the relevant laws and regulations. The credit officers inspect the collateral and assess the changes in the value of collateral regularly.

Although collateral can be an important mitigation of credit risk, the Group grants loans based on the assessment of the borrowers' ability to meet obligations out of their cash flow, instead of the value of collateral. The necessity of a collateral is dependent on the nature of the loan. In the event of default, the Group might sell the collateral for repayment. The fair value of collateral of past due but not impaired loans and impaired loans are disclosed in note 53(a)(iii).

(In RMB millions, unless otherwise stated)

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Management monitors the market value of collateral periodically and requests additional collateral in accordance with the underlying agreement when it is considered necessary.

It is the Group's policy to dispose of repossessed assets in an orderly manner. In general, the Group does not occupy repossessed assets for business use.

(i) Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

As at the end of the reporting period, the maximum credit risk exposure of the Group and of the Bank without taking account of any collateral and other credit enhancements is set out below:

	Group		Bank	
	2012	**2011**	**2012**	**2011**
Balances with central banks	3,098,883	2,702,011	3,073,852	2,678,544
Due from banks and other financial institutions	636,450	478,002	658,317	474,287
Financial assets held for trading	20,317	30,675	18,064	29,849
Financial assets designated at fair value through profit or loss	201,208	121,386	200,786	120,811
Derivative financial assets	14,756	17,460	13,406	15,476
Reverse repurchase agreements	544,579	349,437	320,133	229,769
Loans and advances to customers	8,583,289	7,594,019	8,168,369	7,246,627
Financial investments				
— Receivables	364,715	498,804	364,232	498,804
— Held-to-maturity investments	2,576,562	2,424,785	2,582,790	2,434,135
— Available-for-sale financial assets	917,143	836,383	860,011	795,380
Others	220,183	114,909	176,680	91,403
	17,178,085	15,167,871	16,436,640	14,615,085
Credit commitments	2,076,206	1,976,592	1,997,653	1,965,026
Total maximum credit risk exposure	19,254,291	17,144,463	18,434,293	16,580,111

(ii) Risk concentrations

Credit risk is often greater when counterparties are concentrated in one single industry or geographic location or have comparable economic features. In addition, different geographic areas and industrial sectors have their unique characteristics in terms of economic development, and could present a different credit risk.

(In RMB millions, unless otherwise stated)

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

By geographical distribution

The following tables set out the breakdown of the Group's and the Bank's maximum credit risk exposure without taking account of any collateral and other credit enhancements, as categorised by geographical distribution.

Group

31 December 2012

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Overseas and others	Total
Balances with central banks	2,792,670	48,293	32,904	110,108	19,753	31,345	8,301	55,509	3,098,883
Due from banks and other financial institutions	291,330	49,415	61,071	52,112	16,588	20,166	37,278	108,490	636,450
Financial assets held for trading	18,064	—	—	—	—	—	—	2,253	20,317
Financial assets designated at fair value through profit or loss	200,778	2	—	—	4	—	2	422	201,208
Derivative financial assets	9,923	362	433	841	88	109	139	2,861	14,756
Reverse repurchase agreements	222,043	24,603	4,587	52,565	7,355	6,028	2,188	225,210	544,579
Loans and advances to customers	303,625	1,887,989	1,208,518	1,518,202	1,158,116	1,485,267	499,870	521,702	8,583,289
Financial investments									
— Receivables	358,110	300	220	2,224	1,860	1,398	120	483	364,715
— Held-to-maturity investments	2,481,924	44,108	26,543	10,853	—	—	1,000	12,134	2,576,562
— Available-for-sale financial assets	518,842	54,141	26,764	214,574	13,535	13,404	4,187	71,696	917,143
Others	122,366	15,199	6,106	13,004	7,440	8,248	2,636	45,184	220,183
	7,319,675	2,124,412	1,367,146	1,974,483	1,224,739	1,565,965	555,721	1,045,944	17,178,085
Credit commitments	418,897	390,236	337,265	321,305	120,188	162,835	59,386	266,094	2,076,206
Total maximum credit risk exposure	7,738,572	2,514,648	1,704,411	2,295,788	1,344,927	1,728,800	615,107	1,312,038	19,254,291

The compositions of each geographical distribution above are set out in note 52(b).

31 December 2011

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Overseas and others	Total
Balances with central banks	2,438,416	46,875	28,657	103,321	18,484	27,191	9,817	29,250	2,702,011
Due from banks and other financial institutions	238,762	29,940	62,048	39,783	8,550	4,837	14,838	79,244	478,002
Financial assets held for trading	29,849	—	—	—	—	—	—	826	30,675
Financial assets designated at fair value through profit or loss	120,811	—	—	—	—	—	—	575	121,386
Derivative financial assets	11,681	487	646	973	136	261	559	2,717	17,460
Reverse repurchase agreements	188,937	3,244	4,219	29,166	3,511	—	692	119,668	349,437
Loans and advances to customers	241,393	1,701,446	1,062,254	1,372,315	1,018,435	1,276,320	449,556	472,300	7,594,019
Financial investments									
— Receivables	497,504	—	—	1,120	—	180	—	—	498,804
— Held-to-maturity investments	2,348,867	31,782	23,423	11,235	—	—	1,000	8,478	2,424,785
— Available-for-sale financial assets	462,216	56,726	26,225	207,643	13,833	11,977	4,464	53,299	836,383
Others	49,373	10,210	5,001	9,770	6,369	7,144	2,035	25,007	114,909
	6,627,809	1,880,710	1,212,473	1,775,326	1,069,318	1,327,910	482,961	791,364	15,167,871
Credit commitments	394,265	434,989	343,562	311,307	118,215	142,619	56,967	174,668	1,976,592
Total maximum credit risk exposure	7,022,074	2,315,699	1,556,035	2,086,633	1,187,533	1,470,529	539,928	966,032	17,144,463

The compositions of each geographical distribution above are set out in note 52(b).

(In RMB millions, unless otherwise stated)

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Bank

31 December 2012

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Overseas and others	Total
Balances with central banks	2,792,670	48,293	32,904	110,108	19,753	31,345	8,301	30,478	3,073,852
Due from banks and other financial institutions	338,818	49,700	61,499	52,144	16,657	20,237	37,359	81,903	658,317
Financial assets held for trading	18,064	—	—	—	—	—	—	—	18,064
Financial assets designated at fair value through profit or loss	200,778	2	—	—	4	—	2	—	200,786
Derivative financial assets	10,678	362	433	841	88	109	139	756	13,406
Reverse repurchase agreements	222,043	24,603	4,785	52,565	7,355	6,594	2,188	—	320,133
Loans and advances to customers	303,625	1,888,157	1,208,818	1,520,432	1,158,116	1,485,267	502,698	101,256	8,168,369
Financial investments									
— Receivables	358,110	300	220	2,224	1,860	1,398	120	—	364,232
— Held-to-maturity investments	2,483,486	44,108	26,543	10,853	—	—	1,000	16,800	2,582,790
— Available-for-sale financial assets	518,842	54,141	26,764	214,574	13,535	13,404	4,187	14,564	860,011
Others	122,139	15,199	6,106	13,004	7,440	8,248	2,636	1,908	176,680
	7,369,253	2,124,865	1,368,072	1,976,745	1,224,808	1,566,602	558,630	247,665	16,436,640
Credit commitments	420,767	402,690	362,804	331,240	123,199	164,203	60,024	132,726	1,997,653
Total maximum credit risk exposure	7,790,020	2,527,555	1,730,876	2,307,985	1,348,007	1,730,805	618,654	380,391	18,434,293

The compositions of each geographical distribution above are set out in note 52(b), except that "overseas and others" does not include domestic and overseas subsidiaries.

31 December 2011

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Overseas and others	Total
Balances with central banks	2,438,416	46,875	28,657	103,321	18,484	27,191	9,817	5,783	2,678,544
Due from banks and other financial institutions	265,768	30,119	63,297	40,055	8,809	4,891	14,843	46,505	474,287
Financial assets held for trading	29,849	—	—	—	—	—	—	—	29,849
Financial assets designated at fair value through profit or loss	120,811	—	—	—	—	—	—	—	120,811
Derivative financial assets	11,696	487	646	973	136	261	559	718	15,476
Reverse repurchase agreements	188,937	3,244	4,219	29,166	3,511	—	692	—	229,769
Loans and advances to customers	241,393	1,701,639	1,062,254	1,374,727	1,018,435	1,276,623	452,063	119,493	7,246,627
Financial investments									
— Receivables	497,504	—	—	1,120	—	180	—	—	498,804
— Held-to-maturity investments	2,355,034	31,782	23,423	11,235	—	—	1,000	11,661	2,434,135
— Available-for-sale financial assets	462,216	56,726	26,225	207,643	13,833	11,977	4,464	12,296	795,380
Others	49,541	10,210	5,001	9,770	6,369	7,144	2,035	1,333	91,403
	6,661,165	1,881,082	1,213,722	1,778,010	1,069,577	1,328,267	485,473	197,789	14,615,085
Credit commitments	394,265	465,608	369,203	319,876	121,876	145,641	57,971	90,586	1,965,026
Total maximum credit risk exposure	7,055,430	2,346,690	1,582,925	2,097,886	1,191,453	1,473,908	543,444	288,375	16,580,111

The compositions of each geographical distribution above are set out in note 52(b), except that "overseas and others" does not include domestic and overseas subsidiaries.

(In RMB millions, unless otherwise stated)

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

By industry distribution

The credit risk exposures of the Group mainly comprise loans and advances to customers and investments in securities. Details of the composition of the Group's investments in debt securities are set out in note 53(a)(iv) to the financial statements. The composition of the Group's and of the Bank's gross loans and advances to customers by industry is analysed as follows:

	Group		Bank	
	2012	2011	2012	2011
Manufacturing	1,455,792	1,163,275	1,406,071	1,129,781
Transportation, storage and postal services	1,154,071	1,114,765	1,144,740	1,066,027
Wholesale and retail	816,650	633,769	737,249	569,694
Production and supply of electricity, heating, gas and water	617,734	613,140	587,206	595,101
Real estate	562,563	577,563	491,014	515,240
Water, environment and public utility management	468,526	507,112	464,000	503,015
Leasing and commercial services	398,359	362,011	386,810	352,400
Mining	243,289	190,180	237,203	185,582
Lodging and catering	162,971	75,193	103,955	61,292
Construction	153,701	121,432	147,014	115,490
Science, education, culture and sanitation	87,450	70,069	85,096	67,674
Others	211,472	238,002	161,944	179,721
Subtotal for corporate loans and advances	6,332,578	5,666,511	5,952,302	5,341,017
Personal mortgage and business loans	1,660,600	1,455,670	1,640,298	1,440,103
Others	626,503	559,256	610,116	551,169
Subtotal for personal loans	2,287,103	2,014,926	2,250,414	1,991,272
Discounted bills	184,011	107,460	182,113	106,560
Total for loans and advances to customers	8,803,692	7,788,897	8,384,829	7,438,849

(iii) Loans and advances to customers

The total credit risk exposures of loans and advances to customers are summarised as follows:

	Group		Bank	
	2012	2011	2012	2011
Neither past due nor impaired	8,672,503	7,670,928	8,260,964	7,326,564
Past due but not impaired	56,614	44,958	52,104	41,604
Impaired	74,575	73,011	71,761	70,681
	8,803,692	7,788,897	8,384,829	7,438,849
Allowance for impairment losses	(220,403)	(194,878)	(216,460)	(192,222)
	8,583,289	7,594,019	8,168,369	7,246,627

(In RMB millions, unless otherwise stated)

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Neither past due nor impaired

The loans and advances to customers of the Group that are neither past due nor impaired are classified as "Pass" or "Special mention" under the five-tier loan classification system maintained by the Group. Management of the Group considers that these loans are exposed to normal business risk and there was no identifiable objective evidence of impairment for these loans which may incur losses to the Group at the end of the reporting period.

The following table presents the types of loans and advances to customers which are neither past due nor impaired as at the end of the reporting period:

Group

	2012			2011		
	Pass	Special mention	Total	Pass	Special mention	Total
Unsecured loans	2,626,242	50,142	2,676,384	2,484,037	62,741	2,546,778
Guaranteed loans	1,197,403	42,074	1,239,477	1,126,494	50,018	1,176,512
Loans secured by mortgages	3,610,019	69,638	3,679,657	3,098,165	65,880	3,164,045
Pledged loans	1,052,280	24,705	1,076,985	761,016	22,577	783,593
	8,485,944	186,559	8,672,503	7,469,712	201,216	7,670,928

Bank

	2012			2011		
	Pass	Special mention	Total	Pass	Special mention	Total
Unsecured loans	2,484,865	48,351	2,533,216	2,371,749	61,560	2,433,309
Guaranteed loans	1,118,505	41,407	1,159,912	1,046,953	49,412	1,096,365
Loans secured by mortgages	3,440,501	66,354	3,506,855	2,957,563	61,867	3,019,430
Pledged loans	1,036,402	24,579	1,060,981	754,935	22,525	777,460
	8,080,273	180,691	8,260,964	7,131,200	195,364	7,326,564

Past due but not impaired

The following tables present the ageing analysis of each type of loans and advances to customers of the Group and the Bank that are subject to credit risk which are past due but not impaired as at the end of the reporting period:

Group

	2012			2011		
	Corporate loans and advances	Personal loans	Total	Corporate loans and advances	Personal loans	Total
Past due for:						
Less than one month	12,010	31,814	43,824	3,819	30,882	34,701
One to two months	192	7,478	7,670	376	5,717	6,093
Two to three months	53	5,060	5,113	353	3,770	4,123
Over three months	5	2	7	37	4	41
Total	12,260	44,354	56,614	4,585	40,373	44,958
Fair value of collateral held	13,313	93,568	106,881	3,541	87,258	90,799

(In RMB millions, unless otherwise stated)

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Bank

	2012			2011		
	Corporate loans and advances	Personal loans	Total	Corporate loans and advances	Personal loans	Total
Past due for:						
Less than one month	9,004	30,669	39,673	1,581	30,544	32,125
One to two months	2	7,389	7,391	2	5,675	5,677
Two to three months	2	5,035	5,037	37	3,765	3,802
Over three months	3	—	3	—	—	—
Total	9,011	43,093	52,104	1,620	39,984	41,604
Fair value of collateral held	11,533	92,130	103,663	654	85,592	86,246

Impaired

Impaired loans and advances are defined as those loans and advances having objective evidence of impairment as a result of one or more events that occured after initial recognition and that event has an impact on the estimated future cash flows of loans and advances that can be reliably estimated. These loans and advances include corporate loans and personal loans which are graded as "Substandard", "Doubtful" or "Loss".

The fair values of collateral that the Group and the Bank hold relating to loans individually determined to be impaired as at 31 December 2012 amounted to RMB13,994 million (31 December 2011: RMB14,599 million) and RMB12,183 million (31 December 2011: RMB13,096 million), respectively. The collateral mainly consists of land and buildings, equipment and also others.

Renegotiated loans and advances to customers

The Group has formulated a set of loan restructuring policies to renegotiate the contractual terms with customers, to maximise the collectability of loans and to manage customer relationships.

The carrying amount of renegotiated loans and advances to customers is as follows:

	Group		Bank	
	2012	2011	2012	2011
Renegotiated loans and advances to customers	7,188	8,312	6,875	8,093
Impaired loans and advances to customers included in above	4,761	6,622	4,691	6,554

Collateral repossessed

During the year, the Group took possession of collateral held as security with a carrying amount of RMB558 million (2011: RMB661 million). Such collateral mainly comprises land and buildings, equipment and also others.

(In RMB millions, unless otherwise stated)

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iv) Debt securities

The credit risk of debt securities mainly arises from the risk that the issuer might default on a payment or go into liquidation. Debt securities by different types of issuers are generally subject to different degrees of credit risk.

The following tables present an analysis of the Group's total credit risk exposures of debt securities by types of issuers and investments:

Group

31 December 2012

	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets held-for- trading	Financial assets designated at fair value through profit or loss	Total
Neither past due nor impaired						
Governments and central banks	101,276	1,260,176	149,997	1,525	1,118	1,514,092
Policy banks	35,090	1,271,887	252,416	516	28,040	1,587,949
Public sector entities	2,500	22,508	66,048	190	3,354	94,600
Banks and other financial institutions	204,406	12,165	116,975	890	5,738	340,174
Corporate entities	21,443	9,533	328,802	17,196	65,210	442,184
Subtotal	364,715	2,576,269	914,238	20,317	103,460	3,978,999
Impaired (*)						
Banks and other financial institutions	—	723	—	—	—	723
Corporate entities	—	30	106	—	—	136
	—	753	106	—	—	859
Less: Allowance for impairment losses	—	(460)	—	—	—	(460)
Subtotal	—	293	106	—	—	399
Total	364,715	2,576,562	914,344	20,317	103,460	3,979,398

31 December 2011

	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets held-for-trading	Financial assets designated at fair value through profit or loss	Total
Neither past due nor impaired						
Governments and central banks	119,808	1,315,218	189,320	723	801	1,625,870
Policy banks	35,090	1,052,666	221,214	444	9,168	1,318,582
Public sector entities	2,500	21,688	68,259	1,008	100	93,555
Banks and other financial institutions	332,756	23,968	78,829	463	212	436,228
Corporate entities	8,650	10,967	278,309	28,037	263	326,226
Subtotal	498,804	2,424,507	835,931	30,675	10,544	3,800,461
Impaired (*)						
Banks and other financial institutions	—	742	4	—	—	746
Corporate entities	—	30	48	—	—	78
	—	772	52	—	—	824
Less: Allowance for impairment losses	—	(494)	—	—	—	(494)
Subtotal	—	278	52	—	—	330
Total	498,804	2,424,785	835,983	30,675	10,544	3,800,791

(*) Impaired debt securities above are all determined based on individual assessments. In determining whether a debt security is impaired, the Group considers the evidence of a loss event and the decreases in estimated future cash flows. No collateral was held by the Group as security of the impaired debt securities.

(In RMB millions, unless otherwise stated)

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Bank

31 December 2012

	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets held-for- trading	Financial assets designated at fair value through profit or loss	Total
Neither past due nor impaired						
Governments and central banks	101,276	1,256,414	141,821	268	1,118	1,500,897
Policy banks	35,090	1,271,881	249,991	508	28,040	1,585,510
Public sector entities	2,500	21,586	63,833	100	3,193	91,212
Banks and other financial institutions	204,406	24,782	88,114	20	5,672	322,994
Corporate entities	20,960	7,835	316,252	17,168	65,015	427,230
Subtotal	364,232	2,582,498	860,011	18,064	103,038	3,927,843
Impaired (*)						
Banks and other financial institutions	—	623	—	—	—	623
Corporate entities	—	30	—	—	—	30
	—	653	—	—	—	653
Less: Allowance for impairment losses	—	(361)	—	—	—	(361)
Subtotal	—	292	—	—	—	292
Total	364,232	2,582,790	860,011	18,064	103,038	3,928,135

31 December 2011

	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets held-for- trading	Financial assets designated at fair value through profit or loss	Total
Neither past due nor impaired						
Governments and central banks	119,808	1,313,005	186,055	470	801	1,620,139
Policy banks	35,090	1,052,561	220,592	436	9,168	1,317,847
Public sector entities	2,500	21,607	67,289	915	—	92,311
Banks and other financial institutions	332,756	35,811	54,038	20	—	422,625
Corporate entities	8,650	10,878	267,402	28,008	—	314,938
Subtotal	498,804	2,433,862	795,376	29,849	9,969	3,767,860
Impaired (*)						
Banks and other financial institutions	—	630	4	—	—	634
Corporate entities	—	30	—	—	—	30
	—	660	4	—	—	664
Less: Allowance for impairment losses	—	(387)	—	—	—	(387)
Subtotal	—	273	4	—	—	277
Total	498,804	2,434,135	795,380	29,849	9,969	3,768,137

(*) Impaired debt securities above are all determined based on individual assessments. In determining whether a debt security is impaired, the Bank considers the evidence of a loss event and the decreases in estimated future cash flows. No collateral was held by the Bank as security of the impaired debt securities.

(In RMB millions, unless otherwise stated)

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk

Liquidity risk is the risk that capital will not be sufficient or funds will not be raised at a reasonable cost in a timely manner to meet the need of asset growth or repayment of debts due, although remaining solvent. This may arise from amount or maturity mismatches of assets and liabilities.

The Group manages its liquidity risk through the Asset and Liability Management Department and aims at:

- optimising the structure of assets and liabilities;
- maintaining the stability of the deposit base;
- projecting cash flows and evaluating the level of current assets; and
- in terms of liquidity of the branches, maintaining an efficient internal fund transfer mechanism.

The Group and the Bank's expected remaining maturity of its financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

(i) Analysis of the remaining maturity of the assets and liabilities is set out below:

Group

31 December 2012

	Overdue/ repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated (***)	Total
Assets:								
Cash and balances with central banks	596,027	—	—	—	—	—	2,578,916	3,174,943
Due from banks and other financial institutions (*)	106,092	647,390	206,587	112,412	108,213	335	—	1,181,029
Financial assets held for trading	—	488	2,467	10,815	6,091	456	146	20,463
Financial assets designated at fair value through profit or loss	9	29,380	47,522	17,518	87,014	10,469	9,296	201,208
Derivative financial assets	105	1,189	3,194	5,703	2,785	1,780	—	14,756
Loans and advances to customers	17,189	599,599	746,692	2,308,352	1,946,681	2,927,776	37,000	8,583,289
Financial investments	—	29,975	57,999	766,932	1,709,631	1,293,623	4,056	3,862,216
Investments in associates and jointly-controlled entities	—	—	—	—	—	—	33,284	33,284
Property and equipment	—	—	—	—	—	—	135,889	135,889
Others	165,191	35,938	28,595	50,748	6,789	12,931	34,948	335,140
Total assets	884,613	1,343,959	1,093,056	3,272,480	3,867,204	4,247,370	2,833,535	17,542,217
Liabilities:								
Due to central banks	—	219	18	50	846	—	—	1,133
Financial liabilities designated at fair value through profit or loss	52,346	160,691	103,980	818	1,907	—	—	319,742
Derivative financial liabilities	11	2,396	1,448	4,595	3,024	1,787	—	13,261
Due to banks and other financial institutions (**)	581,632	746,416	190,709	138,616	64,405	2,791	—	1,724,569
Certificates of deposit	—	6,323	2,895	27,376	1,415	—	—	38,009
Due to customers	7,076,646	818,534	1,222,968	2,964,264	1,533,049	27,449	—	13,642,910
Debt securities issued	—	581	2,516	7,970	63,721	157,398	—	232,186
Others	182,562	48,284	29,809	129,488	40,764	11,041	—	441,948
Total liabilities	7,893,197	1,783,444	1,554,343	3,273,177	1,709,131	200,466	—	16,413,758
Net liquidity gap	(7,008,584)	(439,485)	(461,287)	(697)	2,158,073	4,046,904	2,833,535	1,128,459

(*) Includes reverse repurchase agreements.

(**) Includes repurchase agreements.

(***) Includes loans and advances to customers and bond investments that are impaired or not impaired but overdue for more than one month.

(In RMB millions, unless otherwise stated)

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

31 December 2011

	Overdue/ repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated (***)	Total
Assets:								
Cash and balances with central banks	357,050	—	—	—	—	—	2,405,106	2,762,156
Due from banks and other financial institutions (*)	108,997	550,919	27,159	42,040	98,324	—	—	827,439
Financial assets held for trading	—	4,133	4,209	16,093	5,068	1,172	147	30,822
Financial assets designated at fair value through profit or loss	—	39,959	9,887	17,306	49,092	5,142	—	121,386
Derivative financial assets	138	1,950	5,761	4,200	2,733	2,678	—	17,460
Loans and advances to customers	11,254	483,214	673,999	1,948,716	1,811,643	2,633,077	32,116	7,594,019
Financial investments	—	22,441	66,038	480,383	1,858,304	1,332,419	4,109	3,763,694
Investments in associates and jointly-controlled entities	—	—	—	—	—	—	32,750	32,750
Property and equipment	—	—	—	—	—	—	119,028	119,028
Others	72,640	26,574	15,640	42,135	10,469	10,183	30,473	208,114
Total assets	550,079	1,129,190	802,693	2,550,873	3,835,633	3,984,671	2,623,729	15,476,868
Liabilities:								
Due to central banks	—	—	30	70	—	—	—	100
Financial liabilities designated at fair value through profit or loss	6,343	46,490	112,473	6,667	—	—	—	171,973
Derivative financial liabilities	10	3,447	1,042	1,767	3,296	3,055	—	12,617
Due to banks and other financial institutions (**)	505,380	736,118	125,658	122,343	52,731	5,314	—	1,547,544
Certificates of deposit	—	10,396	13,529	11,364	6,137	—	—	41,426
Due to customers	6,660,720	753,224	1,143,595	2,615,102	1,071,244	17,334	—	12,261,219
Debt securities issued	—	577	1,813	2,028	62,315	137,428	—	204,161
Others	84,725	38,096	22,868	102,533	25,958	5,825	—	280,005
Total liabilities	7,257,178	1,588,348	1,421,008	2,861,874	1,221,681	168,956	—	14,519,045
Net liquidity gap	(6,707,099)	(459,158)	(618,315)	(311,001)	2,613,952	3,815,715	2,623,729	957,823

(*) Includes reverse repurchase agreements.

(**) Includes repurchase agreements.

(***) Includes loans and advances to customers and bond investments that are impaired or not impaired but overdue for more than one month.

(In RMB millions, unless otherwise stated)

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

Bank

31 December 2012

	Overdue/ repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated (***)	Total
Assets:								
Cash and balances with central banks	579,363	—	—	—	—	—	2,567,296	3,146,659
Due from banks and other financial institutions (*)	109,556	442,889	209,806	115,197	100,846	156	—	978,450
Financial assets held for trading	—	103	1,962	9,746	5,895	358	—	18,064
Financial assets designated at fair value through profit or loss	9	29,380	47,522	17,436	86,674	10,469	9,296	200,786
Derivative financial assets	—	1,448	3,043	5,345	2,371	1,199	—	13,406
Loans and advances to customers	13,516	562,283	707,529	2,213,382	1,822,675	2,813,426	35,558	8,168,369
Financial investments	—	26,265	52,894	771,852	1,668,977	1,286,715	1,579	3,808,282
Investments in subsidiaries and associates	—	—	—	—	—	—	103,521	103,521
Property and equipment	—	—	—	—	—	—	114,950	114,950
Others	156,248	23,366	17,990	42,431	6,371	9,974	23,524	279,904
Total assets	858,692	1,085,734	1,040,746	3,175,389	3,693,809	4,122,297	2,855,724	16,832,391
Liabilities:								
Due to central banks	—	—	—	—	658	—	—	658
Financial liabilities designated at fair value through profit or loss	52,346	160,691	103,980	818	1,907	—	—	319,742
Derivative financial liabilities	—	2,695	1,339	4,293	2,542	1,453	—	12,322
Due to banks and other financial institutions (**)	584,761	564,628	148,731	77,660	55,805	—	—	1,431,585
Certificates of deposit	—	4,699	7,755	5,670	—	—	—	18,124
Due to customers	6,997,634	710,211	1,145,185	2,902,588	1,522,754	23,100	—	13,301,472
Debt securities issued	—	549	1,011	2,632	61,651	148,201	—	214,044
Others	165,933	44,497	28,774	129,190	41,514	5,835	—	415,743
Total liabilities	7,800,674	1,487,970	1,436,775	3,122,851	1,686,831	178,589	—	15,713,690
Net liquidity gap	(6,941,982)	(402,236)	(396,029)	52,538	2,006,978	3,943,708	2,855,724	1,118,701

(*) Includes reverse repurchase agreements.

(**) Includes repurchase agreements.

(***) Includes loans and advances to customers and bond investments that are impaired or not impaired but overdue for more than one month.

(In RMB millions, unless otherwise stated)

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

31 December 2011

	Overdue/ repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated (***)	Total
Assets:								
Cash and balances with central banks	337,356	—	—	—	—	—	2,399,882	2,737,238
Due from banks and other financial institutions (*)	103,861	438,342	24,444	43,951	93,300	158	—	704,056
Financial assets held for trading	—	3,827	4,121	15,967	4,768	1,166	—	29,849
Financial assets designated at fair value through profit or loss	—	39,959	9,887	17,306	48,663	4,996	—	120,811
Derivative financial assets	—	1,708	5,594	3,439	2,475	2,260	—	15,476
Loans and advances to customers	4,377	446,881	630,310	1,872,672	1,720,170	2,541,403	30,814	7,246,627
Financial investments	—	20,252	65,694	476,045	1,831,371	1,334,623	2,369	3,730,354
Investments in subsidiaries and associates	—	—	—	—	—	—	87,276	87,276
Property and equipment	—	—	—	—	—	—	105,971	105,971
Others	66,580	18,900	13,571	38,587	6,244	9,919	23,960	177,761
Total assets	512,174	969,869	753,621	2,467,967	3,706,991	3,894,525	2,650,272	14,955,419
Liabilities:								
Financial liabilities designated at fair value through profit or loss	6,343	46,462	112,473	6,667	—	—	—	171,945
Derivative financial liabilities	—	3,179	817	1,415	2,648	2,786	—	10,845
Due to banks and other financial institutions (**)	508,386	656,733	106,433	53,536	51,410	—	—	1,376,498
Certificates of deposit	—	6,484	5,955	1,432	563	—	—	14,434
Due to customers	6,588,132	654,100	1,076,448	2,560,547	1,067,254	17,334	—	11,963,815
Debt securities issued	—	568	1,332	510	61,829	128,200	—	192,439
Others	77,428	35,834	21,482	102,276	26,471	5,543	—	269,034
Total liabilities	7,180,289	1,403,360	1,324,940	2,726,383	1,210,175	153,863	—	13,999,010
Net liquidity gap	(6,668,115)	(433,491)	(571,319)	(258,416)	2,496,816	3,740,662	2,650,272	956,409

(*) Includes reverse repurchase agreements.

(**) Includes repurchase agreements.

(***) Includes loans and advances to customers and bond investments that are impaired or not impaired but overdue for more than one month.

(ii) Maturity analysis of contractual undiscounted cash flows

The tables below summarise the maturity profile of the Group's and of the Bank's financial instruments based on the contractual undiscounted cash flows. The balances of some items in the tables below are different from the balances on the statement of financial position as the tables incorporate all cash flows relating to both principal and interest. The Group and the Bank's expected cash flows on these instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

(In RMB millions, unless otherwise stated)

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

Group

31 December 2012

	Overdue/ repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated (***)	Total
Non-derivative cash flows:								
Financial assets:								
Cash and balances with central banks	596,027	—	1,316	—	—	—	2,578,916	3,176,259
Due from banks and other financial institutions (*)	106,650	648,657	208,535	115,129	118,200	433	—	1,197,604
Financial assets held for trading	—	500	2,605	11,578	7,098	521	146	22,448
Financial assets designated at fair value through profit or loss	9	29,844	48,967	21,752	99,404	11,757	9,296	221,029
Loans and advances to customers (**)	17,944	677,978	881,125	2,749,973	3,172,666	4,522,308	76,275	12,098,269
Financial investments	—	35,160	79,114	891,374	2,057,438	1,539,585	4,926	4,607,597
Others	154,899	11,269	10,440	8,124	371	4,009	664	189,776
	875,529	1,403,408	1,232,102	3,797,930	5,455,177	6,078,613	2,670,223	21,512,982

(*) Includes reverse repurchase agreements.

(**) The maturity profile of the renegotiated loans' contractual undiscounted cash flows is determined according to the negotiated terms.

(***) Includes loans and advances to customers and bond investments that are impaired or not impaired but overdue for more than one month.

31 December 2012

	Overdue/ repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Non-derivative cash flows:								
Financial liabilities:								
Due to central banks	—	220	22	55	852	—	—	1,149
Financial liabilities designated at fair value through profit or loss	52,346	161,202	104,881	822	1,952	—	—	321,203
Due to banks and other financial institutions (*)	582,655	748,231	192,119	140,817	65,406	4,054	—	1,733,282
Certificates of deposit	—	6,378	3,108	27,674	1,531	—	—	38,691
Due to customers	7,079,079	838,220	1,258,654	3,069,964	1,660,171	30,817	—	13,936,905
Debt securities issued	—	605	2,546	17,789	98,579	199,755	—	319,274
Others	160,629	29	23	225	1,021	10,325	—	172,252
	7,874,709	1,754,885	1,561,353	3,257,346	1,829,512	244,951	—	16,522,756
Derivative cash flows:								
Derivative financial instruments settled on net basis	—	2	(44)	(128)	77	(83)	—	(176)
Derivative financial instruments settled on gross basis:								
— Cash inflow	30,968	388,784	311,498	537,367	53,489	—	—	1,322,106
— Cash outflow	(30,735)	(382,958)	(308,246)	(535,419)	(53,933)	—	—	(1,311,291)
	233	5,826	3,252	1,948	(444)	—	—	10,815

(*) Includes reverse repurchase agreements.

(In RMB millions, unless otherwise stated)

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

31 December 2011

	Overdue/ repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated (***)	Total
Non-derivative cash flows:								
Financial assets:								
Cash and balances with central banks	357,050	—	1,216	—	—	—	2,405,106	2,763,372
Due from banks and other financial institutions (*)	109,000	551,821	27,615	43,798	116,719	—	—	848,953
Financial assets held for trading	—	4,158	4,270	16,377	5,900	1,317	147	32,169
Financial assets designated at fair value through profit or loss	—	40,474	10,565	20,367	56,677	6,230	—	134,313
Loans and advances to customers (**)	13,578	550,434	802,630	2,383,145	2,937,992	3,854,456	68,661	10,610,896
Financial investments	—	26,984	81,370	584,345	2,191,951	1,581,820	5,851	4,472,321
Others	64,172	6,111	1,948	3,517	4,559	485	—	80,792
	543,800	1,179,982	929,614	3,051,549	5,313,798	5,444,308	2,479,765	18,942,816

(*) Includes reverse repurchase agreements.

(**) The maturity profile of the renegotiated loans' contractual undiscounted cash flows is determined according to the negotiated terms.

(***) Includes loans and advances to customers and bond investments that are impaired or not impaired but overdue for more than one month.

31 December 2011

	Overdue/ repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Non-derivative cash flows:								
Financial liabilities:								
Due to central banks	—	—	31	71	—	—	—	102
Financial liabilities designated at fair value through profit or loss	6,343	46,960	114,096	6,879	—	—	—	174,278
Due to banks and other financial institutions (*)	505,456	741,789	140,151	142,561	57,158	6,007	—	1,593,122
Certificates of deposit	—	10,462	13,685	11,514	6,210	—	—	41,871
Due to customers	6,662,545	767,519	1,173,412	2,664,733	1,091,575	17,663	—	12,377,447
Debt securities issued	—	615	1,817	10,535	93,902	178,722	—	285,591
Others	67,117	21	778	89	839	5,271	—	74,115
	7,241,461	1,567,366	1,443,970	2,836,382	1,249,684	207,663	—	14,546,526
Derivative cash flows:								
Derivative financial instruments settled on net basis	—	7	(75)	397	804	(500)	—	633
Derivative financial instruments settled on gross basis:								
— Cash inflow	16,784	243,207	257,353	348,926	25,010	136	—	891,416
— Cash outflow	(16,877)	(242,356)	(252,503)	(347,302)	(25,090)	(155)	—	(884,283)
	(93)	851	4,850	1,624	(80)	(19)	—	7,133

(*) Includes reverse repurchase agreements.

(In RMB millions, unless otherwise stated)

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

Bank

31 December 2012

	Overdue/ repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated (***)	Total
Non-derivative cash flows:								
Financial assets:								
Cash and balances with central banks	579,363	—	1,313	—	—	—	2,567,296	3,147,972
Due from banks and other financial institutions (*)	109,995	443,936	211,791	117,387	110,537	164	—	993,810
Financial assets held for trading	—	109	2,087	10,466	6,879	403	—	19,944
Financial assets designated at fair value through profit or loss	9	29,842	48,965	21,655	99,063	11,757	9,296	220,587
Loans and advances to customers (**)	14,204	638,113	837,914	2,640,950	3,002,070	4,370,809	73,460	11,577,520
Financial investments	—	31,209	73,686	882,287	2,013,423	1,531,378	2,095	4,534,078
Others	147,141	—	—	—	—	—	—	147,141
	850,712	1,143,209	1,175,756	3,672,745	5,231,972	5,914,511	2,652,147	20,641,052

(*) Includes reverse repurchase agreements.

(**) The maturity profile of the renegotiated loans' contractual undiscounted cash flows is determined according to the negotiated terms.

(***) Includes loans and advances to customers and bond investments that are impaired or not impaired but overdue for more than one month.

31 December 2012

	Overdue/ repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Non-derivative cash flows:								
Financial liabilities:								
Due to central banks	—	—	—	—	673	—	—	673
Financial liabilities designated at fair value through profit or loss	52,346	161,202	104,881	822	1,952	—	—	321,203
Due to banks and other financial institutions (*)	585,797	566,293	149,786	78,844	56,439	—	—	1,437,159
Certificates of deposit	—	4,725	7,796	5,781	—	—	—	18,302
Due to customers	7,000,361	727,780	1,179,397	3,008,085	1,650,068	25,950	—	13,591,641
Debt securities issued	—	570	1,029	11,708	94,365	187,183	—	294,855
Others	146,000	29	23	225	1,021	5,221	—	152,519
	7,784,504	1,460,599	1,442,912	3,105,465	1,804,518	218,354	—	15,816,352
Derivative cash flows:								
Derivative financial instruments settled on net basis	—	4	(15)	(10)	(158)	(434)	—	(613)
Derivative financial instruments settled on gross basis:								
— Cash inflow	—	336,122	261,034	475,867	63,998	—	—	1,137,021
— Cash outflow	—	(337,584)	(260,096)	(474,242)	(63,882)	—	—	(1,135,804)
	—	(1,462)	938	1,625	116	—	—	1,217

(*) Includes reverse repurchase agreements.

(In RMB millions, unless otherwise stated)

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

31 December 2011

	Overdue/ repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated (***)	Total
Non-derivative cash flows:								
Financial assets:								
Cash and balances with central banks	337,356	—	1,213	—	—	—	2,399,882	2,738,451
Due from banks and other financial institutions (*)	103,861	439,173	24,899	45,655	110,787	170	—	724,545
Financial assets held for trading	—	3,851	4,179	16,243	5,590	1,311	—	31,174
Financial assets designated at fair value through profit or loss	—	40,472	10,564	20,338	56,179	5,649	—	133,202
Loans and advances to customers (**)	6,566	511,885	755,523	2,296,273	2,810,298	3,732,687	66,331	10,179,563
Financial investments	—	24,635	80,830	579,316	2,162,765	1,585,084	3,744	4,436,374
Others	58,429	—	—	—	—	—	—	58,429
	506,212	1,020,016	877,208	2,957,825	5,145,619	5,324,901	2,469,957	18,301,738

(*) Includes reverse repurchase agreements.

(**) The maturity profile of the renegotiated loans' contractual undiscounted cash flows is determined according to the negotiated terms.

(***) Includes loans and advances to customers and bond investments that are impaired or not impaired but overdue for more than one month.

31 December 2011

	Overdue/ repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Non-derivative cash flows:								
Financial liabilities:								
Financial liabilities designated at fair value through profit or loss	6,343	46,917	114,096	6,879	—	—	—	174,235
Due to banks and other financial institutions (*)	508,423	662,609	121,739	71,025	55,171	—	—	1,418,967
Certificates of deposit	—	6,521	6,023	1,455	566	—	—	14,565
Due to customers	6,590,038	667,004	1,106,960	2,635,857	1,140,720	19,103	—	12,159,682
Debt securities issued	—	612	1,339	8,580	91,564	166,197	—	268,292
Others	61,403	21	13	89	839	4,972	—	67,337
	7,166,207	1,383,684	1,350,170	2,723,885	1,288,860	190,272	—	14,103,078
Derivative cash flows:								
Derivative financial instruments settled on net basis	—	(82)	(35)	89	(182)	(710)	—	(920)
Derivative financial instruments settled on gross basis:								
— Cash inflow	—	181,595	210,025	276,533	18,819	136	—	687,108
— Cash outflow	—	(182,698)	(206,857)	(274,964)	(18,796)	(155)	—	(683,470)
	—	(1,103)	3,168	1,569	23	(19)	—	3,638

(*) Includes reverse repurchase agreements.

(In RMB millions, unless otherwise stated)

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

(iii) Analysis of credit commitments by contractual expiry date

Management expects that not all of the commitments will be drawn before the expiry of the commitments.

Group

	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Total
31 December 2012							
Credit commitments	635,824	143,048	278,689	510,723	287,642	220,280	2,076,206
31 December 2011							
Credit commitments	625,080	129,611	232,590	399,221	311,409	278,681	1,976,592

Bank

	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Total
31 December 2012							
Credit commitments	680,309	134,498	248,766	447,492	277,626	208,962	1,997,653
31 December 2011							
Credit commitments	613,772	111,996	234,740	389,608	291,057	323,853	1,965,026

(c) Market risk

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk arises from both the Group's trading and non-trading businesses.

The Group is primarily exposed to structural interest rate risk arising from commercial banking and position risk arising from treasury transactions. Interest rate risk is inherent in many of its businesses and largely arises from mismatches between the repricing dates of interest-generating assets and interest-bearing liabilities.

The Group's currency risk mainly results from the risk arising from exchange rate fluctuations on its foreign exchange exposures. Foreign exchange exposures include the mismatch of foreign exchange assets and liabilities, and off-balance sheet foreign exchange positions arising from derivative transactions.

The Group considers the market risk arising from stock price fluctuations in respect of its investment portfolios as immaterial.

Sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major market risk management tools used by the Group. The Bank monitors market risk separately in respect of trading and other non-trading portfolios. The Value-at-risk ("VaR") analysis is a major tool used by the Bank to measure and monitor the market risk of its trading portfolios. The following sections include a VaR analysis by risk type of the Group's trading portfolios including Head Office and all overseas branches and a sensitivity analysis based on the Group's currency risk exposure and interest rate risk exposure (both trading and non-trading portfolios).

(In RMB millions, unless otherwise stated)

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(i) VaR

VaR analysis is a statistical technique which estimates the potential maximum losses that could occur on risk positions taken due to movements in interest rates, foreign exchange rates or prices over a specified time horizon and at a specified level of confidence. The Bank adopts a historical simulation model to calculate and monitor trading portfolio VaR with 250 days' historical market data (with a 99% confidence level, and one-day holding period) on a daily basis.

A summary of VaR by risk type of the Bank's trading portfolios is as follows:

	2012			
	31 December 2012	Average	Highest	Lowest
Interest rate risk	14	28	81	7
Foreign exchange risk	28	28	60	3
Commodity risk	0	7	20	0
Total portfolio VaR	32	41	88	22

	2011			
	31 December 2011	Average	Highest	Lowest
Interest rate risk	39	44	103	23
Foreign exchange risk	15	14	81	3
Commodity risk	1	4	63	1
Total portfolio VaR	41	46	101	24

(1) The Bank extended the VaR calculation by 14 overseas branches in 2012.

VaR for each risk factor is the derived largest potential loss due to fluctuations solely in that risk factor. As there was a diversification effect due to the correlation amongst the risk factors, the individual VaR did not add up to the total portfolio VaR.

Although VaR is an important tool for measuring market risk under normal market environment, the assumptions on which the model is based do give rise to some limitations, mainly including the following:

(1) VaR does not reflect liquidity risk. In the VaR model, a one-day holding period assumes that it is possible to hedge or dispose of positions within that period without restriction, the price of the financial instruments will fluctuate in the specified range, and the correlation between these market prices will remain unchanged. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully;

(2) Even though positions may change throughout the day, VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level; and

(3) VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, especially those of an exceptional nature due to significant market moves.

(In RMB millions, unless otherwise stated)

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(ii) Currency risk

The Group conducts it businesses mainly in RMB, with certain transactions denominated in USD, HK$ and, to a lesser extent, other currencies. Transactions in foreign currencies mainly arise from the Group's treasury operations, foreign exchange dealings and overseas investments.

The exchange rate of RMB to USD is managed under a floating exchange rate system. The HK$ exchange rate has been pegged to USD and therefore the exchange rate of RMB to HK$ has fluctuated in line with the changes in the exchange rate of RMB to USD.

The Group manages its currency risk through various methods, including limitation management and risk hedging to hedge foreign exchange risk, and performing currency risk sensitivity analysis and stress testing regularly.

The tables below indicate a sensitivity analysis of exchange rate changes of the currencies to which the Group had significant exposure on its monetary assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement in the currency rates against RMB, with all other variables held constant, on profit before tax and equity. A negative amount in the table reflects a potential net reduction in profit before tax or equity, while a positive amount reflects a potential net increase. This effect, however, is based on the assumption that the Group's foreign exchange exposures as at the year end are kept unchanged and, therefore, have not incorporated actions that would be taken by the Group to mitigate the adverse impact of this foreign exchange risk.

Group

Currency	Change in currency rate	Effect on profit before tax 2012	Effect on profit before tax 2011	Effect on equity 2012	Effect on equity 2011
USD	-1%	(172)	(175)	(58)	(41)
HK$	-1%	62	(42)	(375)	(293)

Bank

Currency	Change in currency rate	Effect on profit before tax 2012	Effect on profit before tax 2011	Effect on equity 2012	Effect on equity 2011
USD	-1%	(76)	(225)	(16)	(14)
HK$	-1%	54	2	(4)	(3)

While the tables above indicates the effect on profit before tax and equity of 1% depreciation of USD and HK$, there will be an opposite effect with the same amount if the currencies appreciate by the same percentage.

(In RMB millions, unless otherwise stated)

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

A breakdown of the assets and liabilities analysed by currency is as follows:

Group

31 December 2012

	RMB	USD (equivalent to RMB)	HK$ (equivalent to RMB)	Others (equivalent to RMB)	Total
Assets:					
Cash and balances with central banks	3,099,725	36,778	10,617	27,823	3,174,943
Due from banks and other financial institutions (*)	725,041	371,620	15,730	68,638	1,181,029
Financial assets held for trading	18,458	460	991	554	20,463
Financial assets designated at fair value though profit or loss	200,777	340	82	9	201,208
Derivative financial assets	7,186	2,373	171	5,026	14,756
Loans and advances to customers	7,827,810	575,977	108,872	70,630	8,583,289
Financial investments	3,772,068	63,498	3,980	22,670	3,862,216
Investments in associates and jointly-controlled entities	121	719	184	32,260	33,284
Property and equipment	118,917	15,490	488	994	135,889
Others	220,571	44,129	7,503	62,937	335,140
Total assets	15,990,674	1,111,384	148,618	291,541	17,542,217
Liabilities:					
Due to central banks	68	219	—	846	1,133
Financial liabilities designated at fair value through profit or loss	265,489	1,906	1	52,346	319,742
Derivative financial liabilities	2,017	10,132	71	1,041	13,261
Due to banks and other financial institutions (**)	1,175,996	450,420	1,034	97,119	1,724,569
Certificates of deposit	10,646	14,116	4,444	8,803	38,009
Due to customers	13,076,332	250,042	137,219	179,317	13,642,910
Debt securities issued	209,050	18,420	549	4,167	232,186
Others	389,533	34,441	4,164	13,810	441,948
Total liabilities	15,129,131	779,696	147,482	357,449	16,413,758
Net position	861,543	331,688	1,136	(65,908)	1,128,459
Credit commitments	1,566,440	298,301	140,770	70,695	2,076,206

(*) Includes reverse repurchase agreements.

(**) Includes repurchase agreements.

(In RMB millions, unless otherwise stated)

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

31 December 2011

	RMB	USD (equivalent to RMB)	HK$ (equivalent to RMB)	Others (equivalent to RMB)	Total
Assets:					
Cash and balances with central banks	2,723,401	15,813	16,664	6,278	2,762,156
Due from banks and other financial institutions (*)	521,393	228,860	10,262	66,924	827,439
Financial assets held for trading	29,836	399	471	116	30,822
Financial assets designated at fair value though profit or loss	120,811	490	85	—	121,386
Derivative financial assets	12,414	3,014	226	1,806	17,460
Loans and advances to customers	6,990,074	454,907	101,925	47,113	7,594,019
Financial investments	3,689,661	52,392	3,933	17,708	3,763,694
Investments in associates and jointly-controlled entities	55	709	174	31,812	32,750
Property and equipment	108,613	9,602	386	427	119,028
Others	153,057	6,752	5,745	42,560	208,114
Total assets	14,349,315	772,938	139,871	214,744	15,476,868
Liabilities:					
Due to central banks	100	—	—	—	100
Financial liabilities designated at fair value through profit or loss	164,480	865	1	6,627	171,973
Derivative financial liabilities	3,893	3,731	57	4,936	12,617
Due to banks and other financial institutions (**)	1,197,095	267,673	8,164	74,612	1,547,544
Certificates of deposit	13,592	15,794	4,883	7,157	41,426
Due to customers	11,829,251	183,146	140,648	108,174	12,261,219
Debt securities issued	189,504	11,476	497	2,684	204,161
Others	258,867	12,186	2,024	6,928	280,005
Total liabilities	13,656,782	494,871	156,274	211,118	14,519,045
Net position	692,533	278,067	(16,403)	3,626	957,823
Credit commitments	1,459,699	402,491	74,916	39,486	1,976,592

(*) Includes reverse repurchase agreements.

(**) Includes repurchase agreements.

(In RMB millions, unless otherwise stated)

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Bank

31 December 2012

	RMB	USD (equivalent to RMB)	HK$ (equivalent to RMB)	Others (equivalent to RMB)	Total
Assets:					
Cash and balances with central banks	3,093,873	34,945	1,416	16,425	3,146,659
Due from banks and other financial institutions (*)	724,270	178,759	8,588	66,833	978,450
Financial assets held for trading	17,995	69	—	—	18,064
Financial assets designated at fair value though profit or loss	200,777	—	—	9	200,786
Derivative financial assets	6,815	1,271	1	5,319	13,406
Loans and advances to customers	7,698,301	441,787	9,048	19,233	8,168,369
Financial investments	3,750,661	44,143	1,638	11,840	3,808,282
Investments in subsidiaries and associates	11,379	12,163	41,723	38,256	103,521
Property and equipment	114,690	212	8	40	114,950
Others	181,971	37,635	873	59,425	279,904
Total assets	15,800,732	750,984	63,295	217,380	16,832,391
Liabilities:					
Due to central banks	—	—	—	658	658
Financial liabilities designated at fair value through profit or loss	265,489	1,906	1	52,346	319,742
Derivative financial liabilities	2,244	7,505	16	2,557	12,322
Due to banks and other financial institutions (**)	1,104,836	233,104	6,560	87,085	1,431,585
Certificates of deposit	841	7,872	1,280	8,131	18,124
Due to customers	13,004,725	166,080	14,838	115,829	13,301,472
Debt securities issued	205,973	5,293	—	2,778	214,044
Others	375,246	28,711	1,375	10,411	415,743
Total liabilities	14,959,354	450,471	24,070	279,795	15,713,690
Net position	841,378	300,513	39,225	(62,415)	1,118,701
Credit commitments	1,561,904	326,651	42,845	66,253	1,997,653

(*) Includes reverse repurchase agreements.

(**) Includes repurchase agreements.

(In RMB millions, unless otherwise stated)

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

31 December 2011

	RMB	USD (equivalent to RMB)	HK$ (equivalent to RMB)	Others (equivalent to RMB)	Total
Assets:					
Cash and balances with central banks	2,718,281	14,944	1,378	2,635	2,737,238
Due from banks and other financial institutions (*)	519,154	119,560	16,592	48,750	704,056
Financial assets held for trading	29,781	68	—	—	29,849
Financial assets designated at fair value though profit or loss	120,811	—	—	—	120,811
Derivative financial assets	11,903	1,877	21	1,675	15,476
Loans and advances to customers	6,878,495	338,868	10,150	19,114	7,246,627
Financial investments	3,680,907	35,505	4,485	9,457	3,730,354
Investments in subsidiaries and associates	5,679	5,801	37,214	38,582	87,276
Property and equipment	105,690	241	8	32	105,971
Others	136,026	1,580	116	40,039	177,761
Total assets	14,206,727	518,444	69,964	160,284	14,955,419
Liabilities:					
Financial liabilities designated at fair value through profit or loss	164,515	802	1	6,627	171,945
Derivative financial liabilities	3,792	2,617	25	4,411	10,845
Due to banks and other financial institutions (**)	1,138,782	151,167	15,028	71,521	1,376,498
Certificates of deposit	140	6,280	857	7,157	14,434
Due to customers	11,761,008	120,874	16,617	65,316	11,963,815
Debt securities issued	187,912	1,843	—	2,684	192,439
Others	254,729	8,248	443	5,614	269,034
Total liabilities	13,510,878	291,831	32,971	163,330	13,999,010
Net position	695,849	226,613	36,993	(3,046)	956,409
Credit commitments	1,466,855	430,971	33,849	33,351	1,965,026

(*) Includes reverse repurchase agreements.

(**) Includes repurchase agreements.

(iii) Interest rate risk

The Group's interest rate risk mainly arises from the mismatches between the repricing dates of interest-generating assets and interest-bearing liabilities. The Group's interest-generating assets and interest-bearing liabilities are mainly denominated in RMB. The PBOC establishes RMB interest rate policy which includes a cap for RMB deposit rates and a floor for RMB loan rates.

The Group manages its interest rate risk by:

- regularly monitoring the macroeconomic factors that may have impact on the PBOC benchmark interest rates;
- optimising the differences in timing between contractual repricing (maturities) of interest-generating assets and interest-bearing liabilities; and
- managing the deviation of the pricing of interest-generating assets and interest-bearing liabilities from the PBOC benchmark interest rates.

(In RMB millions, unless otherwise stated)

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

A principal part of the Group's management of interest rate risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modeling). The Group aims to mitigate the impact of prospective interest rate movements which could reduce future net interest income, while balancing the cost of such hedging on the current revenue.

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's and the Bank's net interest income and equity.

The sensitivity of the net interest income is the effect of the assumed changes in interest rates on the net interest income, arising from the financial assets and financial liabilities held at year end that are subject to repricing within the coming year, including the effect of hedging instruments. The sensitivity of equity is the effect of the assumed changes in interest rates on other comprehensive income, calculated by revaluing fixed rate available-for-sale financial assets held at year end, including the effect of any associated hedges.

Group

	Effect on net interest income		Effect on equity	
Change in basis points	**2012**	**2011**	**2012**	**2011**
+100 basis points	(6,994)	(12,509)	(22,489)	(19,151)
-100 basis points	6,994	12,509	23,851	20,417

Bank

	Effect on net interest income		Effect on equity	
Change in basis points	**2012**	**2011**	**2012**	**2011**
+100 basis points	(6,553)	(12,363)	(21,733)	(18,931)
-100 basis points	6,553	12,363	23,094	20,197

The interest rate sensitivities set out in the tables above are for illustration only and are based on simplified scenarios. The figures represent the effect of the pro forma movements in net interest income and equity based on the projected yield curve scenarios and the Group's and the Bank's current interest rate risk profile. This effect, however, does not incorporate actions that would be taken by management to mitigate the impact of interest rate risk. The projections above also assume that interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on net interest income and equity in the case where some rates change while others remain unchanged.

(In RMB millions, unless otherwise stated)

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

The tables below summarise the contractual repricing or maturity dates, whichever is earlier, of the Group's assets and liabilities:

31 December 2012

	Less than three months	Three months to one year	One to five years	More than five years	Non-interest-bearing	Total
Assets:						
Cash and balances with central banks	2,736,423	—	—	—	438,520	3,174,943
Due from banks and other financial institutions (*)	979,890	166,681	31,010	335	3,113	1,181,029
Financial assets held for trading	3,831	10,707	5,493	286	146	20,463
Financial assets designated at fair value through profit or loss	84,272	19,330	77,366	7,502	12,738	201,208
Derivative financial assets	—	—	—	—	14,756	14,756
Loans and advances to customers	5,041,876	3,363,398	22,392	117,512	38,111	8,583,289
Financial investments	276,967	939,062	1,446,678	1,195,889	3,620	3,862,216
Investments in associates and jointly-controlled entities	—	—	—	—	33,284	33,284
Property and equipment	—	—	—	—	135,889	135,889
Others	30,406	813	—	—	303,921	335,140
Total assets	9,153,665	4,499,991	1,582,939	1,321,524	984,098	17,542,217
Liabilities:						
Due to central banks	237	50	846	—	—	1,133
Financial liabilities designated at fair value through profit or loss	266,578	818	—	—	52,346	319,742
Derivative financial liabilities	—	—	—	—	13,261	13,261
Due to banks and other financial institutions (**)	1,523,838	172,359	9,461	1,199	17,712	1,724,569
Certificates of deposit	22,360	14,359	1,290	—	—	38,009
Due to customers	8,873,020	2,962,878	1,527,808	23,100	256,104	13,642,910
Debt securities issued	7,218	9,460	92,442	123,066	—	232,186
Others	—	—	—	—	441,948	441,948
Total liabilities	10,693,251	3,159,924	1,631,847	147,365	781,371	16,413,758
Interest rate mismatch	(1,539,586)	1,340,067	(48,908)	1,174,159	N/A	N/A

(*) Includes reverse repurchase agreements.

(**) Includes repurchase agreements.

(In RMB millions, unless otherwise stated)

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

31 December 2011

	Less than three months	Three months to one year	One to five years	More than five years	Non-interest-bearing	Total
Assets:						
Cash and balances with central banks	2,502,220	—	—	—	259,936	2,762,156
Due from banks and other financial institutions (*)	709,319	82,608	31,714	—	3,798	827,439
Financial assets held for trading	8,859	16,301	4,530	985	147	30,822
Financial assets designated at fair value through profit or loss	100,310	15,403	4,853	820	—	121,386
Derivative financial assets	—	—	—	—	17,460	17,460
Loans and advances to customers	4,384,282	3,017,912	30,127	130,447	31,251	7,594,019
Financial investments	253,166	638,919	1,650,739	1,217,148	3,722	3,763,694
Investments in associates and jointly-controlled entities	—	—	—	—	32,750	32,750
Property and equipment	—	—	—	—	119,028	119,028
Others	15,431	610	—	—	192,073	208,114
Total assets	7,973,587	3,771,753	1,721,963	1,349,400	660,165	15,476,868
Liabilities:						
Due to central banks	30	70	—	—	—	100
Financial liabilities designated at fair value through profit or loss	158,963	6,667	—	—	6,343	171,973
Derivative financial liabilities	—	—	—	—	12,617	12,617
Due to banks and other financial institutions (**)	1,375,418	161,538	2,481	4,679	3,428	1,547,544
Certificates of deposit	24,240	11,049	6,137	—	—	41,426
Due to customers	8,295,296	2,614,211	1,071,176	17,334	263,202	12,261,219
Debt securities issued	6,681	2,028	58,024	137,428	—	204,161
Others	—	—	—	—	280,005	280,005
Total liabilities	9,860,628	2,795,563	1,137,818	159,441	565,595	14,519,045
Interest rate mismatch	(1,887,041)	976,190	584,145	1,189,959	N/A	N/A

(*) Includes reverse repurchase agreements.

(**) Includes repurchase agreements.

(In RMB millions, unless otherwise stated)

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

The tables below summarise the contractual repricing or maturity dates, whichever is earlier, of the Bank's assets and liabilities:

31 December 2012

	Less than three months	Three months to one year	One to five years	More than five years	Non-interest-bearing	Total
Assets:						
Cash and balances with central banks	2,711,421	—	—	—	435,238	3,146,659
Due from banks and other financial institutions (*)	784,074	169,197	22,850	—	2,329	978,450
Financial assets held for trading	2,581	9,869	5,425	189	—	18,064
Financial assets designated at fair value through profit or loss	84,272	19,248	77,026	7,502	12,738	200,786
Derivative financial assets	—	—	—	—	13,406	13,406
Loans and advances to customers	4,958,996	3,032,902	22,375	117,425	36,671	8,168,369
Financial investments	265,695	942,510	1,410,090	1,188,738	1,249	3,808,282
Investments in subsidiaries and associates	—	—	—	—	103,521	103,521
Property and equipment	—	—	—	—	114,950	114,950
Others	—	—	—	—	279,904	279,904
Total assets	8,807,039	4,173,726	1,537,766	1,313,854	1,000,006	16,832,391
Liabilities:						
Due to central banks	—	—	658	—	—	658
Financial liabilities designated at fair value through profit or loss	266,578	818	—	—	52,346	319,742
Derivative financial liabilities	—	—	—	—	12,322	12,322
Due to banks and other financial institutions (**)	1,308,588	112,222	3,880	—	6,895	1,431,585
Certificates of deposit	12,730	5,394	—	—	—	18,124
Due to customers	8,622,299	2,902,588	1,522,748	23,100	230,737	13,301,472
Debt securities issued	5,181	5,216	90,246	113,401	—	214,044
Others	—	—	—	—	415,743	415,743
Total liabilities	10,215,376	3,026,238	1,617,532	136,501	718,043	15,713,690
Interest rate mismatch	(1,408,337)	1,147,488	(79,766)	1,177,353	N/A	N/A

(*) Includes reverse repurchase agreements.

(**) Includes repurchase agreements.

(In RMB millions, unless otherwise stated)

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

31 December 2011

	Less than three months	Three months to one year	One to five years	More than five years	Non-interest-bearing	Total
Assets:						
Cash and balances with central banks	2,478,780	—	—	—	258,458	2,737,238
Due from banks and other financial institutions (*)	592,359	83,215	27,049	—	1,433	704,056
Financial assets held for trading	8,205	16,301	4,363	980	—	29,849
Financial assets designated at fair value through profit or loss	100,310	15,403	4,424	674	—	120,811
Derivative financial assets	—	—	—	—	15,476	15,476
Loans and advances to customers	4,296,838	2,759,265	30,127	130,447	29,950	7,246,627
Financial investments	249,099	634,888	1,628,976	1,215,356	2,035	3,730,354
Investments in subsidiaries and associates	—	—	—	—	87,276	87,276
Property and equipment	—	—	—	—	105,971	105,971
Others	—	—	—	—	177,761	177,761
Total assets	7,725,591	3,509,072	1,694,939	1,347,457	678,360	14,955,419
Liabilities:						
Financial liabilities designated at fair value through profit or loss	158,935	6,667	—	—	6,343	171,945
Derivative financial liabilities	—	—	—	—	10,845	10,845
Due to banks and other financial institutions (**)	1,281,615	92,466	2,417	—	—	1,376,498
Certificates of deposit	12,754	1,117	563	—	—	14,434
Due to customers	8,081,975	2,560,547	1,067,224	17,334	236,735	11,963,815
Debt securities issued	6,193	510	57,536	128,200	—	192,439
Others	—	—	—	—	269,034	269,034
Total liabilities	9,541,472	2,661,307	1,127,740	145,534	522,957	13,999,010
Interest rate mismatch	(1,815,881)	847,765	567,199	1,201,923	N/A	N/A

(*) Includes reverse repurchase agreements.

(**) Includes repurchase agreements.

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(d) Capital management

The Group's objectives on capital management are:

- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth;
- To allocate capital using an efficient and risk-based approach to optimise the risk adjusted return to the shareholders; and
- To maintain an adequate capital base to support the development of its business.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust its profit distribution policy, issue or redeem own shares, long term subordinated bonds, convertible bonds and hybrid instruments.

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management based on regulations issued by the CBRC. The required information is filed with the CBRC by the Group and the Bank semi-annually and quarterly.

The CBRC requires each bank to maintain the capital adequacy ratio and core capital adequacy ratio not below the minimum of 8% and 4%, respectively. In addition, those individual banking subsidiaries or branches incorporated outside Mainland China are also directly regulated and supervised by their local banking supervisors. There are certain differences in the capital adequacy requirements of different countries.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. Market risk capital adjustment is calculated using the standardised approach.

The Group computes the capital adequacy ratio and core capital adequacy ratio in accordance with "Regulations Governing Capital Adequacy of Commercial Banks" and related regulations promulgated by the CBRC. The requirements pursuant to these regulations may have significant differences comparing to those applicable in Hong Kong and other countries.

The capital adequacy ratios and related components of the Group are computed in accordance with the statutory financial statements of the Group prepared under PRC GAAP. During the year, the Group has complied in full with all its externally imposed capital requirements.

(In RMB millions, unless otherwise stated)

53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

(d) Capital management (continued)

The Group calculates the capital adequacy ratios in accordance with "Regulations Governing Capital Adequacy of Commercial Banks" and relevant requirements promulgated by the CBRC.

	2012	2011
Core capital adequacy ratio	**10.62%**	**10.07%**
Capital adequacy ratio	**13.66%**	**13.17%**
Components of capital base		
Core capital:		
Share capital	349,620	349,084
Reserves (i)	691,482	532,135
Non-controlling interests	3,462	1,081
Total core capital	1,044,564	882,300
Supplementary capital:		
General provisions for loan impairment (ii)	88,037	77,889
Long term subordinated bonds	187,585	167,655
Convertible bonds (iii)	22,558	24,615
Other supplementary capital	185	1,671
Total supplementary capital	298,365	271,830
Total capital base before deductions	1,342,929	1,154,130
Deductions:		
Goodwill	(24,287)	(22,223)
Unconsolidated equity investments (iv)	(19,574)	(18,957)
Others (v)	(54)	(487)
Net capital base	1,299,014	1,112,463
Net core capital base	1,010,463	850,355
Risk weighted assets and market risk capital adjustment	9,511,205	8,447,263

(i) Pursuant to the Administrative Measures of Capital Adequacy Ratios of Commercial Banks issued by the CBRC, reserves include the valid portion of capital reserve and retained profits, surplus reserve and general reserve.

(ii) Pursuant to the Notice on Specifying the Calculating Method of General Provisions for Loan Impairment issued by the CBRC, the general provisions for loan impairment included in supplementary capital should not exceed 1% of the total loan balance since the second quarter of 2010.

(iii) On 31 August 2010, as approved by the relevant regulators, the Bank issued convertible bonds of RMB25 billion. All funds raised from the issuance are utilised to enhance the Bank's supplementary capital after deducting direct transaction costs.

(iv) Pursuant to the Administrative Measures of Capital Adequacy Ratios of Commercial Banks issued by the CBRC, 100% and 50% of unconsolidated equity investments were deducted when calculating the net capital base and net core capital base, respectively.

(v) Included in the amount was the asset securitisation risk exposure deducted according to relevant regulations issued by the CBRC.

54. FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

(In RMB millions, unless otherwise stated)

54. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments recorded at fair value

The following tables show an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

Group

31 December 2012

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets held for trading				
Equity investments	146	—	—	146
Debt securities	1,955	18,362	—	20,317
	2,101	18,362	—	20,463
Financial assets designated at fair value through profit or loss				
Debt securities	341	103,119	—	103,460
Other debt instruments	—	85,010	—	85,010
Others	—	12,738	—	12,738
	341	200,867	—	201,208
Derivative financial assets				
Exchange rate contracts	—	10,674	178	10,852
Interest rate contracts	—	2,422	896	3,318
Commodity derivatives and others	—	277	309	586
	—	13,373	1,383	14,756
Available-for-sale financial assets				
Equity investments	2,479	176	—	2,655
Debt securities	54,237	859,092	1,015	914,344
Other debt instruments	—	2,799	—	2,799
	56,716	862,067	1,015	919,798
	59,158	1,094,669	2,398	1,156,225
Financial liabilities:				
Financial liabilities designated at fair value through profit or loss				
Wealth management products	—	205,064	—	205,064
Structured deposits	—	60,425	—	60,425
Financial liabilities related to precious metals	—	52,346	—	52,346
Other debt securities issued	—	1,907	—	1,907
	—	319,742	—	319,742
Derivative financial liabilities				
Exchange rate contracts	—	8,017	180	8,197
Interest rate contracts	—	2,735	943	3,678
Commodity derivatives and others	—	1,310	76	1,386
	—	12,062	1,199	13,261
	—	331,804	1,199	333,003

(In RMB millions, unless otherwise stated)

54. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments recorded at fair value (continued)

31 December 2011

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets held for trading				
Equity investments	147	—	—	147
Debt securities	595	30,080	—	30,675
	742	30,080	—	30,822
Financial assets designated at fair value through profit or loss				
Debt securities	279	10,265	—	10,544
Other debt instruments	—	110,842	—	110,842
	279	121,107	—	121,386
Derivative financial assets				
Exchange rate contracts	—	11,427	716	12,143
Interest rate contracts	—	2,970	1,796	4,766
Commodity derivatives and others	—	9	542	551
	—	14,406	3,054	17,460
Available-for-sale financial assets				
Equity investments	2,559	—	—	2,559
Debt securities	34,502	799,441	2,040	835,983
Other debt instruments, at fair value	—	400	—	400
	37,061	799,841	2,040	838,942
	38,082	965,434	5,094	1,008,610
Financial liabilities:				
Financial liabilities designated at fair value through profit or loss				
Wealth management products	—	121,191	—	121,191
Structured deposits	—	44,376	—	44,376
Financial liabilities related to precious metals	—	6,343	—	6,343
Certificates of deposit	—	63	—	63
	—	171,973	—	171,973
Derivative financial liabilities				
Exchange rate contracts	—	6,027	731	6,758
Interest rate contracts	—	3,528	2,329	5,857
Commodity derivatives and others	—	—	2	2
	—	9,555	3,062	12,617
	—	181,528	3,062	184,590

(In RMB millions, unless otherwise stated)

54. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments recorded at fair value (continued)

Bank

31 December 2012

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets held for trading				
Debt securities	—	18,064	—	18,064
Financial assets designated at fair value through profit or loss				
Debt securities	—	103,038	—	103,038
Other debt instruments	—	85,010	—	85,010
Others	—	12,738	—	12,738
	—	200,786	—	200,786
Derivative financial assets				
Exchange rate contracts	—	10,360	178	10,538
Interest rate contracts	—	1,624	896	2,520
Commodity derivatives and others	—	272	76	348
	—	12,256	1,150	13,406
Available-for-sale financial assets				
Equity investments	148	—	—	148
Debt securities	5,763	853,911	337	860,011
	5,911	853,911	337	860,159
	5,911	1,085,017	1,487	1,092,415
Financial liabilities:				
Financial liabilities designated at fair value through profit or loss				
Wealth management products	—	205,064	—	205,064
Structured deposits	—	60,425	—	60,425
Financial liabilities related to precious metals	—	52,346	—	52,346
Other debt securities issued	—	1,907	—	1,907
	—	319,742	—	319,742
Derivative financial liabilities				
Exchange rate contracts	—	7,820	180	8,000
Interest rate contracts	—	1,998	943	2,941
Commodity derivatives and others	—	1,305	76	1,381
	—	11,123	1,199	12,322
	—	330,865	1,199	332,064

(In RMB millions, unless otherwise stated)

54. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments recorded at fair value (continued)

31 December 2011

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets held for trading				
Debt securities	—	29,849	—	29,849
Financial assets designated at fair value through profit or loss				
Debt securities	—	9,969	—	9,969
Other debt instruments	—	110,842	—	110,842
	—	120,811	—	120,811
Derivative financial assets				
Exchange rate contracts	—	10,585	716	11,301
Interest rate contracts	—	2,378	1,796	4,174
Commodity derivatives and others	—	—	1	1
	—	12,963	2,513	15,476
Available-for-sale financial assets				
Equity investments	910	—	—	910
Debt securities	5,504	789,328	548	795,380
	6,414	789,328	548	796,290
	6,414	952,951	3,061	962,426
Financial liabilities:				
Financial liabilities designated at fair value through profit or loss				
Wealth management products	—	121,191	—	121,191
Structured deposits	—	44,411	—	44,411
Financial liabilities related to precious metals	—	6,343	—	6,343
	—	171,945	—	171,945
Derivative financial liabilities				
Exchange rate contracts	—	5,072	731	5,803
Interest rate contracts	—	2,711	2,329	5,040
Commodity derivatives and others	—	—	2	2
	—	7,783	3,062	10,845
	—	179,728	3,062	182,790

The following is a description of the fair value of the financial instruments recorded at fair value which are determined using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Financial investments

Financial investments valued using a valuation technique consist of certain debt securities and asset-backed securities. The Group values such securities in use of a discounted cash flow analysis which incorporates either only observable data or both observable and non-observable data. Observable inputs include assumptions regarding current interest rates; unobservable inputs include assumptions regarding expected future default rates, prepayment rates and market liquidity discounts.

A majority of the debt securities classified as level 2 are RMB bonds. The fair value of these bonds are determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd., which are determined based on a valuation technique for which all significant inputs are observable market data.

(In RMB millions, unless otherwise stated)

54. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments recorded at fair value (continued)

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps contracts, forward and swap contracts, etc.. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate yield curves.

Derivatives valued using a valuation technique with significant non-market observable inputs are primarily certain structured products. These derivatives are valued using models. which calculate present value such as the binomial model for options. The models incorporate various non-observable assumptions such as market rate volatilities.

Other liabilities designated at fair value through profit or loss

For unquoted other liabilities designated at fair value through profit or loss, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity adjusted for market liquidity and credit spreads.

(b) Movement in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing balance of level 3 financial assets and liabilities which are recorded at fair value and the movement during the year:

Group

	As at 1 January 2012	Total gains/ (losses) recorded in profit or loss	Total losses recorded in other comprehensive income	Additions	Disposals	Settlements	Transfers to level 2 from level 3	As at 31 December 2012
Financial assets:								
Derivative financial assets								
Exchange rate contracts	716	(296)	—	—	—	(242)	—	178
Interest rate contracts	1,796	(266)	—	—	—	(377)	(257)	896
Commodity derivatives and others	542	(261)	—	29	—	(1)	—	309
	3,054	(823)	—	29	—	(620)	(257)	1,383
Available-for-sale financial assets								
Debt securities	2,040	—	(311)	647	(953)	(408)	—	1,015
	5,094	(823)	(311)	676	(953)	(1,028)	(257)	2,398
Financial liabilities:								
Derivative financial liabilities								
Exchange rate contracts	(731)	294	—	—	—	257	—	(180)
Interest rate contracts	(2,329)	283	—	—	—	416	687	(943)
Commodity derivatives and others	(2)	(76)	—	—	—	2	—	(76)
	(3,062)	501	—	—	—	675	687	(1,199)

(In RMB millions, unless otherwise stated)

54. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Movement in level 3 financial instruments measured at fair value (continued)

	As at 1 January 2011	Total gains/ (losses) recorded in profit or loss	Total losses recorded in other comprehensive income	Additions	Disposals	Settlements	Transfers to level 3 from level 2	As at 31 December 2011
Financial assets:								
Derivative financial assets								
Exchange rate contracts	1,180	630	—	—	—	(1,094)	—	716
Interest rate contracts	1,055	791	—	—	—	(335)	285	1,796
Commodity derivatives and others	709	(167)	—	—	—	—	—	542
	2,944	1,254	—	—	—	(1,429)	285	3,054
Available-for-sale financial assets								
Debt securities	6,907	54	(183)	276	(2,203)	(2,944)	133	2,040
	9,851	1,308	(183)	276	(2,203)	(4,373)	418	5,094
Financial liabilities:								
Derivative financial liabilities								
Exchange rate contracts	(1,181)	351	—	—	—	99	—	(731)
Interest rate contracts	(1,415)	(1,030)	—	—	—	116	—	(2,329)
Commodity derivatives and others	—	(2)	—	—	—	—	—	(2)
	(2,596)	(681)	—	—	—	215	—	(3,062)

Bank

	As at 1 January 2012	Total gains/ (losses) recorded in profit or loss	Total losses recorded in other comprehensive income	Additions	Disposals	Settlements	Transfers to level 2 from level 3	As at 31 December 2012
Financial assets:								
Derivative financial assets								
Exchange rate contracts	716	(296)	—	—	—	(242)	—	178
Interest rate contracts	1,796	(266)	—	—	—	(377)	(257)	896
Commodity derivatives and others	1	76	—	—	—	(1)	—	76
	2,513	(486)	—	—	—	(620)	(257)	1,150
Available-for-sale financial assets								
Debt securities	548	6	(14)	460	(254)	(409)	—	337
	3,061	(480)	(14)	460	(254)	(1,029)	(257)	1,487
Financial liabilities:								
Derivative financial liabilities								
Exchange rate contracts	(731)	294	—	—	—	257	—	(180)
Interest rate contracts	(2,329)	283	—	—	—	416	687	(943)
Commodity derivatives and others	(2)	(76)	—	—	—	2	—	(76)
	(3,062)	501	—	—	—	675	687	(1,199)

(In RMB millions, unless otherwise stated)

54. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Movement in level 3 financial instruments measured at fair value (continued)

	As at 1 January 2011	Total gains/ (losses) recorded in profit or loss	Total losses recorded in other comprehensive income	Disposals	Settlements	Transfers to level 3 from level 2	As at 31 December 2011
Financial assets:							
Derivative financial assets							
Exchange rate contracts	1,180	630	—	—	(1,094)	—	716
Interest rate contracts	1,055	791	—	—	(335)	285	1,796
Commodity derivatives and others	2	(1)	—	—	—	—	1
	2,237	1,420	—	—	(1,429)	285	2,513
Available-for-sale financial assets							
Debt securities	5,311	(12)	(10)	(1,930)	(2,944)	133	548
	7,548	1,408	(10)	(1,930)	(4,373)	418	3,061
Financial liabilities:							
Derivative financial liabilities							
Exchange rate contracts	(1,181)	351	—	—	99	—	(731)
Interest rate contracts	(1,415)	(1,030)	—	—	116	—	(2,329)
Commodity derivatives and others	—	(2)	—	—	—	—	(2)
	(2,596)	(681)	—	—	215	—	(3,062)

Gains or losses on level 3 financial instruments included in the income statement for the year comprise:

	Group			Bank		
	Realised	Unrealised	Total	Realised	Unrealised	Total
2012						
Total gains/(losses) for the year	(49)	(273)	(322)	(49)	70	21
2011						
Total gains/(losses) for the year	(1,480)	2,107	627	(1,480)	2,207	727

(c) Transfers between level 1 and level 2

During the year, the transfers between level 1 and level 2 of the fair value hierarchy for financial assets and liabilities of the Group were immaterial.

(d) Fair value of financial assets and liabilities not carried at fair value

The following table summarises the carrying values and the fair values of receivables, held-to-maturity investments, subordinated bonds and convertible bonds whose fair values have not been presented or disclosed above:

	Group		Bank	
	Carrying value	Fair value	Carrying value	Fair value
31 December 2012:				
Receivables	364,715	364,669	364,232	364,186
Held-to-maturity investments	2,576,562	2,566,959	2,582,790	2,573,157
Subordinated bonds	187,589	183,135	183,000	178,030
Convertible bonds	21,353	20,472	21,353	20,472
31 December 2011:				
Receivables	498,804	498,683	498,804	498,683
Held-to-maturity investments	2,424,785	2,436,782	2,434,135	2,446,125
Subordinated bonds	167,619	158,696	163,000	153,921
Convertible bonds	22,608	19,367	22,608	19,367

(In RMB millions, unless otherwise stated)

54. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Fair value of financial assets and liabilities not carried at fair value (continued)

Subject to the existence of an active market, such as an authorised securities exchange, the market value is the best reflection of the fair value of financial instruments. As there is no available market value for certain of the financial assets and liabilities held and issued by the Group, the discounted cash flow method or other valuation methods described below are adopted to determine the fair values of these assets and liabilities:

(i) The receivables are not quoted in an active market. The fair values of those receivables relating to the restructuring of the Bank are estimated on the basis of the stated interest rates and the consideration of the relevant special clauses of the instruments evaluated in the absence of any other relevant observable market data, and the fair values approximate to their carrying amounts. The fair values of receivables other than those relating to the restructuring of the Bank are estimated on the basis of pricing models or discounted cash flows.

(ii) The fair values of held-to-maturity investments, subordinated bonds and convertible bonds are determined with reference to the available market values. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows.

All of the above-mentioned assumptions and methods provide a consistent basis for the calculation of the fair values of the Group and the Bank's assets and liabilities. However, other institutions may use different assumptions and methods. Therefore, the fair values disclosed by different financial institutions may not be entirely comparable.

Those financial instruments for which their carrying amounts are the reasonable approximations of their fair values because, for example, they are short term in nature or repriced at current market rates frequently, are as follows:

Assets	Liabilities
Balances with central banks	Due to banks and other financial institutions
Due from banks and other financial institutions	Repurchase agreements
Reverse repurchase agreements	Due to customers
Loans and advances to customers	Other financial liabilities
Other financial assets	

55. EVENTS AFTER THE REPORTING PERIOD

The profit distribution plan

A final dividend of RMB0.239 per share after the appropriation of statutory surplus reserve and general reserve, was approved at the board of directors' meeting held on 27 March 2013, and is subject to the approval of the Bank's shareholders at the forthcoming annual general meeting. Based on the number of shares issued as at 31 December 2012, the final dividend amounted to approximately RMB83,559 million. The dividend payable was not recognised as a liability as at 31 December 2012.

56. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

57. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2013.

Report on Review of Interim Financial Information

KPMG

To the board of directors of Industrial and Commercial 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 87 to 174, which comprises the consolidated statement of financial position of Industrial and Commercial Bank of China Limited (the "Bank") and its subsidiaries (collectively the "Group") as at 30 June 2013 and the related consolidated statement 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.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

29 August 2013

Unaudited Interim Consolidated Statement of Income

For the six months ended 30 June 2013
(In RMB millions, unless otherwise stated)

	Notes	Six months ended 30 June 2013 (unaudited)	2012 (unaudited)
Interest income	3	372,507	354,522
Interest expense	3	(156,618)	(150,464)
NET INTEREST INCOME	3	215,889	204,058
Fee and commission income	4	72,512	58,836
Fee and commission expense	4	(5,130)	(4,032)
NET FEE AND COMMISSION INCOME	4	67,382	54,804
Net trading expense	5	(338)	(248)
Net gain/(loss) on financial assets and liabilities designated at fair value through profit or loss	6	90	(1,463)
Net gain on financial investments	7	608	454
Other operating income, net	8	7,845	5,223
OPERATING INCOME		291,476	262,828
Operating expenses	9	(91,749)	(84,531)
Impairment losses on:			
Loans and advances to customers	20	(21,927)	(19,029)
Others	10	(14)	(208)
OPERATING PROFIT		177,786	159,060
Share of profits of associates and joint ventures		1,055	1,152
PROFIT BEFORE TAX		178,841	160,212
Income tax expense	11	(40,364)	(36,971)
PROFIT FOR THE PERIOD		138,477	123,241
Attributable to:			
Equity holders of the parent company		138,347	123,160
Non-controlling interests		130	81
		138,477	123,241
EARNINGS PER SHARE			
— Basic (RMB yuan)	13	0.40	0.35
— Diluted (RMB yuan)	13	0.39	0.35

Details of the dividends declared and paid are disclosed in note 12 to the financial statements.

The notes on pages 95 to 174 form part of these financial statements.

Unaudited Interim Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2013
(In RMB millions, unless otherwise stated)

		Six months ended 30 June	
	Notes	2013 (unaudited)	2012 (unaudited)
Profit for the period		138,477	123,241
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Net (loss)/gain on available-for-sale financial assets	35	(1,456)	9,413
Net (loss)/gain on cash flow hedges	35	(210)	109
Share of other comprehensive income of associates and joint ventures	35	824	(77)
Foreign currency translation differences	35	(7,927)	(687)
Others	35	25	16
Tax effect of the items that may be reclassified subsequently to profit or loss	35	266	(2,306)
Subtotal of other comprehensive income for the period		(8,478)	6,468
Total comprehensive income for the period		129,999	129,709
Total comprehensive income attributable to:			
Equity holders of the parent company		129,968	129,619
Non-controlling interests		31	90
		129,999	129,709

The notes on pages 95 to 174 form part of these financial statements.

Unaudited Interim Consolidated Statement of Financial Position

As at 30 June 2013
(In RMB millions, unless otherwise stated)

	Notes	30 June 2013 (unaudited)	31 December 2012 (audited)
ASSETS			
Cash and balances with central banks	14	3,300,991	3,174,943
Due from banks and other financial institutions	15	641,073	636,450
Financial assets held for trading	16	43,935	20,463
Financial assets designated at fair value through profit or loss	17	268,216	201,208
Derivative financial assets	18	26,949	14,756
Reverse repurchase agreements	19	462,000	544,579
Loans and advances to customers	20	9,202,023	8,583,289
Financial investments	21	4,070,113	3,862,216
Investments in associates and joint ventures	22	28,983	33,284
Property and equipment	23	142,869	135,889
Deferred income tax assets	24	21,877	22,789
Other assets	25	514,324	312,351
TOTAL ASSETS		**18,723,353**	**17,542,217**
LIABILITIES			
Due to central banks		717	1,133
Financial liabilities designated at fair value through profit or loss	26	389,503	319,742
Derivative financial liabilities	18	23,851	13,261
Due to banks and other financial institutions	27	1,271,443	1,486,805
Repurchase agreements	28	337,871	237,764
Certificates of deposit	29	56,020	38,009
Due to customers	30	14,508,402	13,642,910
Income tax payable		32,211	56,922
Deferred income tax liabilities	24	395	552
Debt securities issued	31	250,203	232,186
Other liabilities	32	677,644	384,474
TOTAL LIABILITIES		**17,548,260**	**16,413,758**
EQUITY			
Equity attributable to equity holders of the parent company			
Share capital	33	349,650	349,620
Equity component of convertible bonds	31	2,694	2,708
Reserves	34	392,197	400,128
Retained profits		426,966	372,541
		1,171,507	1,124,997
Non-controlling interests		3,586	3,462
TOTAL EQUITY		**1,175,093**	**1,128,459**
TOTAL EQUITY AND LIABILITIES		**18,723,353**	**17,542,217**

Jiang Jianqing
Chairman

Yi Huiman
Vice Chairman and President

Shen Rujun
General Manager of Finance and Accounting Department

The notes on pages 95 to 174 form part of these financial statements.

Unaudited Interim Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013
(In RMB millions, unless otherwise stated)

	Attributable to equity holders of the parent company													
			Reserves											
	Issued share capital	Equity component of convertible bonds	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Foreign currency translation reserve	Cash flow hedge reserve	Other reserves	Subtotal	Retained profits	Total	Non-controlling interests	Total equity
Balance as at 1 January 2013	349,620	2,708	133,835	98,063	189,071	(3,757)	(12,822)	(3,754)	(508)	400,128	372,541	1,124,997	3,462	1,128,459
Profit for the period	—	—	—	—	—	—	—	—	—	—	138,347	138,347	130	138,477
Other comprehensive income	—	—	21	—	—	(1,207)	(7,845)	(172)	824	(8,379)	—	(8,379)	(99)	(8,478)
— Change in fair value of available-for-sale investments, net of tax	—	—	—	—	—	(1,207)	—	—	—	(1,207)	—	(1,207)	(15)	(1,222)
— Cash flow hedges, net of tax	—	—	—	—	—	—	—	(172)	—	(172)	—	(172)	(2)	(174)
— Share of other comprehensive income of associates and joint ventures	—	—	—	—	—	—	—	—	824	824	—	824	—	824
— Exchange differences on translation of foreign operations	—	—	—	—	—	—	(7,845)	—	—	(7,845)	—	(7,845)	(82)	(7,927)
— Others	—	—	21	—	—	—	—	—	—	21	—	21	—	21
Total comprehensive income	—	—	21	—	—	(1,207)	(7,845)	(172)	824	(8,379)	138,347	129,968	31	129,999
Dividend — 2012 final (note 12)	—	—	—	—	—	—	—	—	—	—	(83,565)	(83,565)	—	(83,565)
Appropriation to surplus reserve (i)	—	—	—	132	—	—	—	—	—	132	(132)	—	—	—
Appropriation to general reserve (ii)	—	—	—	—	225	—	—	—	—	225	(225)	—	—	—
Conversion of convertible bonds	30	—	91	—	—	—	—	—	—	91	—	121	—	121
Capital injection by non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	—	—	125	125
Dividends to non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	—	—	(32)	(32)
Conversion of equity component of convertible bonds (note 31)	—	(14)	—	—	—	—	—	—	—	—	—	(14)	—	(14)
Balance as at 30 June 2013 (unaudited)	**349,650**	**2,694**	**133,947**	**98,195**	**189,296**	**(4,964)**	**(20,667)**	**(3,926)**	**316**	**392,197**	**426,966**	**1,171,507**	**3,586**	**1,175,093**

(i) Includes the appropriation made by subsidiaries in the amount of RMB132 million.

(ii) Includes the appropriation made by subsidiaries in the amount of RMB225 million.

The notes on pages 95 to 174 form part of these financial statements.

(In RMB millions, unless otherwise stated)

	Attributable to equity holders of the parent company													
			Reserves											
	Issued share capital	Equity component of convertible bonds	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Foreign currency translation reserve	Cash flow hedge reserve	Other reserves	Subtotal	Retained profits	Total	Non-controlling interests	Total equity
Balance as at 1 January 2012	349,084	2,954	132,096	74,420	104,301	(3,999)	(10,792)	(3,893)	(763)	291,370	313,334	956,742	1,081	957,823
Profit for the period	—	—	—	—	—	—	—	—	—	—	123,160	123,160	81	123,241
Other comprehensive income	—	—	13	—	—	7,119	(689)	93	(77)	6,459	—	6,459	9	6,468
— Change in fair value of available-for-sale investments, net of tax	—	—	—	—	—	7,119	—	—	—	7,119	—	7,119	7	7,126
— Cash flow hedges, net of tax	—	—	—	—	—	—	—	93	—	93	—	93	—	93
— Share of other comprehensive income of associates and joint ventures	—	—	—	—	—	—	—	—	(77)	(77)	—	(77)	—	(77)
— Exchange differences on translation of foreign operations	—	—	—	—	—	—	(689)	—	—	(689)	—	(689)	2	(687)
— Others	—	—	13	—	—	—	—	—	—	13	—	13	—	13
Total comprehensive income	—	—	13	—	—	7,119	(689)	93	(77)	6,459	123,160	129,619	90	129,709
Dividend — 2011 final	—	—	—	—	—	—	—	—	—	—	(70,912)	(70,912)	—	(70,912)
Appropriation to surplus reserve (i)	—	—	—	77	—	—	—	—	—	77	(77)	—	—	—
Appropriation to general reserve (ii)	—	—	—	—	217	—	—	—	—	217	(217)	—	—	—
Conversion of convertible bonds	238	—	743	—	—	—	—	—	—	743	—	981	—	981
Dividends to non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	—	—	(41)	(41)
Conversion of equity component of convertible bonds	—	(112)	—	—	—	—	—	—	—	—	—	(112)	—	(112)
Balance as at 30 June 2012 (unaudited)	349,322	2,842	132,852	74,497	104,518	3,120	(11,481)	(3,800)	(840)	298,866	365,288	1,016,318	1,130	1,017,448

(i) Includes the appropriation made by overseas branches and subsidiaries in the amount of RMB2 million and RMB75 million respectively.

(ii) Includes the appropriation made by subsidiaries in the amount of RMB217 million.

The notes on pages 95 to 174 form part of these financial statements.

(In RMB millions, unless otherwise stated)

	Attributable to equity holders of the parent company													
			Reserves											
	Issued share capital	Equity component of convertible bonds	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Foreign currency translation reserve	Cash flow hedge reserve	Other reserves	Subtotal	Retained profits	Total	Non-controlling interests	Total equity
Balance as at 1 January 2012	349,084	2,954	132,096	74,420	104,301	(3,999)	(10,792)	(3,893)	(763)	291,370	313,334	956,742	1,081	957,823
Profit for the year	—	—	—	—	—	—	—	—	—	—	238,532	238,532	159	238,691
Other comprehensive income	—	—	107	—	—	242	(2,030)	139	255	(1,287)	—	(1,287)	109	(1,178)
— Change in fair value of available-for-sale investments, net of tax	—	—	—	—	—	242	—	—	—	242	—	242	(8)	234
— Cash flow hedges, net of tax	—	—	—	—	—	—	—	139	—	139	—	139	—	139
— Share of other comprehensive income of associates and joint ventures	—	—	—	—	—	—	—	—	255	255	—	255	—	255
— Exchange differences on translation of foreign operations	—	—	—	—	—	—	(2,030)	—	—	(2,030)	—	(2,030)	117	(1,913)
— Others	—	—	107	—	—	—	—	—	—	107	—	107	—	107
Total comprehensive income	—	—	107	—	—	242	(2,030)	139	255	(1,287)	238,532	237,245	268	237,513
Dividend — 2011 final (note 12)	—	—	—	—	—	—	—	—	—	—	(70,912)	(70,912)	—	(70,912)
Appropriation to surplus reserve (i)	—	—	—	23,643	—	—	—	—	—	23,643	(23,643)	—	—	—
Appropriation to general reserve (ii)	—	—	—	—	84,770	—	—	—	—	84,770	(84,770)	—	—	—
Conversion of convertible bonds	536	—	1,632	—	—	—	—	—	—	1,632	—	2,168	—	2,168
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	1,554	1,554
Capital injection by non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	—	—	600	600
Dividends to non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	—	—	(41)	(41)
Conversion of equity component of convertible bonds (note 31)	—	(246)	—	—	—	—	—	—	—	—	—	(246)	—	(246)
Balance as at 31 December 2012	349,620	2,708	133,835	98,063	189,071	(3,757)	(12,822)	(3,754)	(508)	400,128	372,541	1,124,997	3,462	1,128,459

(i) Includes the appropriation made by overseas branches and subsidiaries in the amount of RMB15 million and RMB310 million, respectively.

(ii) Includes the appropriation made by subsidiaries in the amount of RMB1,314 million.

The notes on pages 95 to 174 form part of these financial statements.

Unaudited Interim Consolidated Statement of Cash Flows

For the six months ended 30 June 2013
(In RMB millions, unless otherwise stated)

	Notes	Six months ended 30 June 2013 (unaudited)	Six months ended 30 June 2012 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		178,841	160,212
Adjustments for:			
Share of profits of associates and joint ventures		(1,055)	(1,152)
Depreciation	9	7,196	6,471
Amortisation	9	1,002	807
Amortisation of financial investments		91	(2,388)
Impairment losses on loans and advances to customers	20	21,927	19,029
Impairment losses on assets other than loans and advances to customers	10	14	208
Unrealised foreign exchange loss		4,767	3,100
Interest expense on debt securities issued		5,487	4,788
Accreted interest on impaired loans	3	(937)	(419)
Gain on disposal of available-for-sale financial assets, net	7	(578)	(431)
Net trading gain on equity investments	5	(8)	(14)
Net (gain)/loss on financial assets and liabilities designated at fair value through profit or loss	6	(90)	1,463
Net gain on disposal of property and equipment and other assets (other than repossessed assets)		(423)	(318)
Dividend income	7	(30)	(23)
		216,204	191,333
Net decrease/(increase) in operating assets:			
Due from central banks		(239,541)	(63,988)
Due from banks and other financial institutions		111,677	(16,014)
Financial assets held for trading		(23,694)	3,340
Financial assets designated at fair value through profit or loss		(66,393)	17,810
Reverse repurchase agreements		9,817	(17,716)
Loans and advances to customers		(649,962)	(634,563)
Other assets		(39,640)	(20,361)
		(897,736)	(731,492)
Net increase/(decrease) in operating liabilities:			
Financial liabilities designated at fair value through profit or loss		69,995	232,333
Due to central banks		(416)	337
Due to banks and other financial institutions		(210,788)	261,850
Repurchase agreements		100,107	(29,279)
Certificates of deposit		18,407	12,724
Due to customers		871,542	917,409
Other liabilities		39,463	26,046
		888,310	1,421,420
Net cash flows from operating activities before tax		206,778	881,261
Income tax paid		(64,054)	(60,236)
Net cash flows from operating activities		142,724	821,025

The notes on pages 95 to 174 form part of these financial statements.

(In RMB millions, unless otherwise stated)

	Notes	Six months ended 30 June 2013 (unaudited)	Six months ended 30 June 2012 (unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment and other assets		(12,274)	(10,779)
Acquisitions and disposals of joint ventures/associates		487	—
Proceeds from disposal of property and equipment and other assets (other than repossessed assets)		423	592
Purchases of financial investments		(648,030)	(508,695)
Proceeds from sale and redemption of financial investments		435,913	428,403
Investments in associates and joint ventures		—	(13)
Dividends received		152	783
Net cash flows from investing activities		(223,329)	(89,709)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital injection by non-controlling shareholders		125	—
Proceeds from issuance of subordinated bonds		—	20,000
Proceeds from issuance of other debt securities		21,889	8,028
Interest paid on debt securities		(1,532)	(273)
Borrowing and repayments of debt		(3,289)	—
Dividends paid to non-controlling shareholders		(23)	(20)
Net cash flows from financing activities		17,170	27,735
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(63,435)	759,051
Cash and cash equivalents at beginning of the period		1,201,647	848,308
Effect of exchange rate changes on cash and cash equivalents		(6,520)	(18)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	36	1,131,692	1,607,341
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		351,432	327,669
Interest paid		(125,971)	(120,986)

The notes on pages 95 to 174 form part of these financial statements.

1. CORPORATE INFORMATION

Industrial and Commercial Bank of China Limited (the "Bank"), which was previously known as Industrial and Commercial Bank of China ("ICBC"), used to be a wholly-state-owned commercial bank established on 1 January 1984 based on the authorisation of the State Council and the People's Bank of China (the "PBOC") of the People's Republic of China (the "PRC"). On 28 October 2005, with the approval of the State Council, ICBC was restructured and incorporated as a joint-stock limited company. The joint-stock limited company undertook all the assets and liabilities of ICBC upon the restructuring.

The Bank obtained its finance permit No. B0001H111000001 from the China Banking Regulatory Commission (the "CBRC") of the PRC. The Bank obtained its business license No. 100000000003965 from the State Administration for Industry and Commerce of the PRC. The legal representative is Jiang Jianqing and the registered office is located at No. 55 Fuxingmennei Avenue, Xicheng District, Beijing, the PRC.

The Bank's A Shares and H Shares are listed on the Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited and the stock codes are 601398 and 1398, respectively.

The principal activities of the Bank and its subsidiaries (collectively referred to as the "Group") comprise corporate and personal banking, treasury operations, investment banking, asset management, trust, financial leasing, insurance and other financial services. Domestic establishments refer to the Head Office of the Bank, branches and subsidiaries established inside Mainland China. Overseas establishments refer to branches and subsidiaries outside Mainland China.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

These interim condensed consolidated financial statements for the six months ended 30 June 2013 have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2012.

Accounting judgements and estimates

The preparation of the interim condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and key sources of uncertainty were the same as those applied in the preparation of the consolidated financial statements for the year ended 31 December 2012.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries for the six months ended 30 June 2013. The financial statements of the subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

(In RMB millions, unless otherwise stated)

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

Investees are consolidated as subsidiaries if they are controlled by the Bank. The Bank controls an investee if and only if the Bank has all of the following:

(a) power over the investee;

(b) exposure or rights to variable returns from its involvement with the investee; and

(c) the ability to use its power over the investee to affect those returns.

The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

(a) derecognises the assets (including goodwill) and liabilities of the subsidiary;

(b) derecognises the carrying amount of any non-controlling interest;

(c) recognises the fair value of the consideration received;

(d) recognises the fair value of any investment retained;

(e) recognises any resulting surplus or deficit in profit or loss; and

(f) reclassifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained profits, as appropriate.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the consolidated statement of income, and within equity in the consolidated statement of financial position separately from the equity attributable to equity holders of the parent company. An acquisition of non-controlling interests is accounted for as an equity transaction.

Particulars of the Bank's principal subsidiaries as at the end of the reporting period are as follows:

Name	Percentage of equity interest directly attributable to the Bank		Nominal value of issued share/ paid-up capital	Place of incorporation registration and operations	Principal activities
	30 June 2013 %	31 December 2012 %			
Industrial and Commercial Bank of China (Asia) Limited ("ICBC Asia")	100	100	HK$4,129 million	Hong Kong, the PRC	Commercial banking
ICBC International Holdings Limited ("ICBC International")	100	100	HK$4,839 million	Hong Kong, the PRC	Investment banking
Industrial and Commercial Bank of China (Almaty) Joint Stock Company	100	100	KZT8,933 million	Almaty, Kazakhstan	Commercial banking
ICBC (London) PLC ("ICBC London")	100	100	USD200 million	London, United Kingdom	Commercial banking
ICBC Credit Suisse Asset Management Co., Ltd. *	80	80	RMB200 million	Beijing, the PRC	Fund management
Industrial and Commercial Bank of China (Europe) S.A.	100	100	EUR115 million	Luxembourg	Commercial banking

(In RMB millions, unless otherwise stated)

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

Name	Percentage of equity interest directly attributable to the Bank 30 June 2013 %	31 December 2012 %	Nominal value of issued share/ paid-up capital	Place of incorporation registration and operations	Principal activities
PT. Bank ICBC Indonesia	97.50	97.50	IDR1,500 billion	Jakarta, Indonesia	Commercial banking
ZAO Industrial and Commercial Bank of China (Moscow)	100	100	RUB2,310 million	Moscow, Russia	Commercial banking
ICBC Financial Leasing Co., Ltd. ("ICBC Leasing") *	100	100	RMB8,000 million	Tianjin, the PRC	Leasing
Industrial and Commercial Bank of China (Macau) Limited ("ICBC Macau")	89.33	89.33	MOP461 million	Macau, the PRC	Commercial banking
Industrial and Commercial Bank of China (Middle East) Limited	100	100	USD50 million	Dubai, United Arab Emirates	Commercial and investment banking
Zhejiang Pinghu ICBC Rural Bank Co., Ltd. *	60	60	RMB200 million	Zhejiang, the PRC	Commercial banking
Chongqing Bishan ICBC Rural Bank Co., Ltd. *	100	100	RMB100 million	Chongqing, the PRC	Commercial banking
Industrial and Commercial Bank of China (Canada) ("ICBC Canada")	80	80	CA$83 million	Toronto, Canada	Commercial banking
Industrial and Commercial Bank of China (Malaysia) Berhad	100	100	MYR331 million	Kuala Lumpur, Malaysia	Commercial banking
Industrial and Commercial Bank of China (Thai) Public Company Limited ("ICBC Thai")	97.70	97.70	THB14,187 million	Bangkok, Thailand	Commercial banking
Industrial and Commercial Bank of China Financial Services LLC	100	100	USD50 million	Delaware and New York, United States	Broker dealer
ICBC-AXA Assurance Co., Ltd ("ICBC-AXA") *	60	60	RMB3,705 million	Shanghai, China	Insurance
Industrial and Commercial Bank of China (USA) NA	80	80	USD169 million	Chicago, United States	Commercial banking
Industrial and Commercial Bank of China (Argentina) Limited ("ICBC Argentina")(i)	80	80	ARS1,345 million	Buenos Aires, Argentina	Commercial banking
Industrial and Commercial Bank of China (Peru) Limited ("ICBC Peru")	100	100	USD50 million	Lima, Peru	Commercial banking
Industrial and Commercial Bank of China (Brazil) ("ICBC Brazil") (ii)	100	—	Real202 million	Sao Paulo, Brazil	Commercial and investment banking

* These subsidiaries incorporated in Mainland China are all limited liability companies.

(i) On 4 February 2013, the Bank made an additional capital injection of USD80 million (ARS398 million) into ICBC Argentina. Its total registered and paid-in capital changed to ARS1,345 million after the injection.

(ii) On 22 January 2013, the Bank made a capital injection of Real202 million into ICBC Brazil. Its total registered and paid-in capital is Real202 million.

The above table lists the principal subsidiaries of the Bank. To give details of other subsidiaries would, in the opinion of management, result in particulars of excessive length. Apart from the above, the Bank has consolidated structured entities which are controlled by the Bank.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012, except for the adoption of the following revised International Financial Reporting Standards ("IFRSs", including International Accounting Standards ("IASs")) as of 1 January 2013. The principal effects of adopting these revised IFRSs are as follows:

IAS 1 — Presentation of financial statements – Presentation of items of other comprehensive income (Amendment)

The amendment to IAS 1 enhances disclosures for other comprehensive income. These disclosures require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in these financial statements has been modified accordingly.

IFRS 10 — Consolidated financial statements

IFRS 10 replaces the requirements in *IAS 27, Consolidated and separate financial statements relating to the preparation of consolidated financial statements and SIC 12 Consolidation — Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of IFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not have significant impact on the Group's financial statements.

IFRS 11 — Joint arrangements

IFRS 11, which replaces *IAS 31, Interests in joint ventures*, divides joint arrangements into joint operations and joint ventures. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. Joint arrangements which are classified as joint operations under IFRS 11 are recognised on a line-by-line basis to the extent of the joint operator's interest in the joint operation. All other joint arrangements are classified as joint ventures under IFRS 11 and are required to be accounted for using the equity method in the Group's consolidated financial statements. Proportionate consolidation is no longer allowed as an accounting policy choice.

As a result of the adoption of IFRS 11, the Group has changed its accounting policy with respect to its interests in joint arrangements and re-evaluated its involvement in its joint arrangements. The Group has reclassified the investment from jointly controlled entity to joint venture. The investment continues to be accounted for using the equity method and therefore this reclassification does not have any material impact on the financial position and the financial result of the Group.

IFRS 12 — Disclosure of interests in other entities

IFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by IFRS 12 are generally more extensive than those previously required by the respective standards. Since those disclosure requirements only apply to a full set of financial statements, the Group has not made additional disclosures in this interim financial report as a result of adopting IFRS 12.

(In RMB millions, unless otherwise stated)

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Significant accounting policies (continued)

IFRS 13 — Fair value measurement

IFRS 13 replaces existing guidance in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and nonfinancial instruments. Some of the disclosures are specifically required for financial instruments in the interim financial reports. The Group has provided those disclosures in note 46 "fair value of financial instruments". The adoption of IFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

The Group has not adopted any other standard, interpretation or amendment that was issued but is not yet effective.

3. NET INTEREST INCOME

	Six months ended 30 June	
	2013 (unaudited)	**2012 (unaudited)**
Interest income on:		
Loans and advances to customers (i)		
— Corporate loans and advances	192,903	186,914
— Personal loans	67,849	61,139
— Discounted bills	5,305	7,683
Financial investments (ii)	71,920	67,864
Due from central banks	21,966	20,412
Due from banks and other financial institutions	12,564	10,510
	372,507	354,522
Interest expense on:		
Due to customers	(132,153)	(120,005)
Due to banks and other financial institutions	(18,642)	(25,362)
Debt securities issued	(5,823)	(5,097)
	(156,618)	(150,464)
Net interest income	215,889	204,058

The above interest income and expense were related to financial instruments which are not at fair value through profit or loss.

(i) Included in interest income on loans and advances to customers for the period is an amount of RMB937 million (six months ended 30 June 2012: RMB419 million) with respect to the accreted interest on impaired loans.

(ii) Included in interest income on financial investments for the period is an amount of RMB4 million (six months ended 30 June 2012: RMB4 million) with respect to interest income on impaired debt securities.

(In RMB millions, unless otherwise stated)

4. NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2013 (unaudited)	2012 (unaudited)
Investment banking business	17,077	14,950
Settlement, clearing business and cash management	15,638	13,784
Bank card business	14,275	10,505
Personal wealth management and private banking services (i)	9,920	8,886
Corporate wealth management services (i)	6,868	4,792
Asset custody business (i)	3,738	2,806
Guarantee and commitment business	2,812	1,463
Trust and agency services (i)	1,004	895
Others	1,180	755
Fee and commission income	72,512	58,836
Fee and commission expense	(5,130)	(4,032)
Net fee and commission income	67,382	54,804

(i) Included in personal wealth management and private banking services, corporate wealth management services, asset custody business and trust and agency services above for the period is an amount of RMB8,375 million (six months ended 30 June 2012: RMB5,759 million) with respect to trust and other fiduciary activities.

5. NET TRADING EXPENSE

	Six months ended 30 June	
	2013 (unaudited)	2012 (unaudited)
Debt securities	552	879
Equity investments	8	14
Derivatives and others	(898)	(1,141)
	(338)	(248)

The above amounts mainly include gains and losses arising from the buying and selling of, interest income and expense on, and changes in the fair value of financial assets and liabilities held for trading.

6. NET GAIN/(LOSS) ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Six months ended 30 June	
	2013 (unaudited)	2012 (unaudited)
Financial assets	4,122	4,072
Financial liabilities	(4,032)	(5,535)
	90	(1,463)

The above amounts represent gains and losses arising from the buying and selling of, interest income and expense on, and changes in the fair value of financial assets and liabilities designated at fair value through profit or loss upon initial recognition.

(In RMB millions, unless otherwise stated)

7. NET GAIN ON FINANCIAL INVESTMENTS

	Six months ended 30 June	
	2013 (unaudited)	2012 (unaudited)
Dividend income from unlisted investments	27	20
Dividend income from listed investments	3	3
Dividend income	30	23
Gain on disposal of available-for-sale financial assets, net	578	431
	608	454

8. OTHER OPERATING INCOME, NET

	Six months ended 30 June	
	2013 (unaudited)	2012 (unaudited)
Insurance net income (i)	544	—
Gain from foreign exchange and foreign exchange products, net	4,569	3,624
Leasing income	1,430	847
Net gain on disposal of property and equipment, repossessed assets and others	363	427
Sundry bank charge income	42	56
Others	897	269
	7,845	5,223

(i) Details of insurance net income are as follows:

	Six months ended 30 June	
	2013 (unaudited)	2012 (unaudited)
Premium income	6,498	—
Less: premiums ceded to reinsurers	(34)	—
Net premium income	6,464	—
Insurance operating cost	(5,920)	—
Insurance net income	544	—

(In RMB millions, unless otherwise stated)

9. OPERATING EXPENSES

	Six months ended 30 June	
	2013 (unaudited)	2012 (unaudited)
Staff costs:		
Salaries and bonuses	30,532	28,792
Staff benefits	9,296	8,361
Contributions to defined contribution schemes (i)	4,872	5,156
	44,700	42,309
Premises and equipment expenses:		
Depreciation (note 23)	7,196	6,471
Lease payments under operating leases in respect of land and buildings	3,136	2,519
Repairs and maintenance charges	1,125	881
Utility expenses	1,198	1,126
	12,655	10,997
Amortisation	1,002	807
Other administrative expenses	10,443	9,763
Business tax and surcharges	18,613	17,327
Others	4,336	3,328
	91,749	84,531

(i) Contributions to defined contribution schemes mainly include contributions to the state pension and the Bank's Annuity Plan. During the period and as at the end of the reporting period, the Group's forfeited contributions available to reduce its contributions to the pension schemes in future years were not material.

10. IMPAIRMENT LOSSES ON ASSETS OTHER THAN LOANS AND ADVANCES TO CUSTOMERS

		Six months ended 30 June	
	Notes	2013 (unaudited)	2012 (unaudited)
Charge/(reversal) of impairment losses on:			
Due from banks and other financial institutions	15	17	128
Financial investments:			
Held-to-maturity investments	21(d)	(283)	1
Available-for-sale financial assets	21(c)(i), (d)	30	(79)
Other assets		250	158
		14	208

(In RMB millions, unless otherwise stated)

11. INCOME TAX EXPENSE

(a) Income tax

	Six months ended 30 June 2013 (unaudited)	Six months ended 30 June 2012 (unaudited)
Current income tax expense:		
Mainland China	40,073	37,694
Hong Kong and Macau	645	494
Overseas	627	420
	41,345	38,608
Adjustments in respect of current income tax of prior years	(2,002)	13
	39,343	38,621
Deferred income tax expense	1,021	(1,650)
	40,364	36,971

(b) Reconciliation between income tax and accounting profit

The PRC income tax has been provided at the statutory rate of 25% in accordance with the relevant tax laws in Mainland China during the period. Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the countries/regions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. A reconciliation of the income tax expense applicable to profit before tax at the PRC statutory income tax rate to income tax expense at the Group's effective income tax rate is as follows:

	Six months ended 30 June 2013 (unaudited)	Six months ended 30 June 2012 (unaudited)
Profit before tax	178,841	160,212
Tax at the PRC statutory income tax rate (25%)	44,710	40,053
Effects of different applicable rates of tax prevailing in other countries/regions	(11)	(97)
Effects of non-deductible expenses (i)	1,771	966
Effects of profits and losses attributable to associates and joint ventures	(360)	(288)
Effects of non-taxable income (ii)	(4,247)	(3,949)
Adjustment in respect of current income tax of prior years	(2,002)	13
Others	503	273
Current income tax expense	40,364	36,971
The Group's effective income tax rate	22.57%	23.08%

(i) The non-deductible expenses mainly represent non-deductible impairment provision and write-offs.

(ii) The non-taxable income mainly represents interest income arising from the PRC government bonds, which is exempted from income tax.

12. DIVIDENDS

	Six months ended 30 June	
	2013 (unaudited)	2012 (unaudited)
Dividends on ordinary shares declared and paid:		
Final dividend for 2012: RMB0.239 per share (2011: RMB0.203 per share)	83,565	70,912

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the following:

	Six months ended 30 June	
	2013 (unaudited)	2012 (unaudited)
Earnings:		
Profit for the period attributable to ordinary equity holders of the parent company	138,347	123,160
Shares:		
Weighted average number of ordinary shares in issue (in million shares)	349,640	349,245
Basic earnings per share (RMB yuan)	0.40	0.35

Basic earnings per share was calculated as the profit for the period attributable to ordinary equity holders of the Bank divided by the weighted average number of ordinary shares in issue.

The calculation of diluted earnings per share is based on the following:

	Six months ended 30 June	
	2013 (unaudited)	2012 (unaudited)
Earnings:		
Profit for the period attributable to ordinary equity holders of the parent company	138,347	123,160
Add: Interest expense on convertible bonds (net of tax)	308	317
Profit used to determine diluted earnings per share	138,655	123,477
Shares:		
Weighted average number of ordinary shares outstanding (in million shares)	349,640	349,245
Add: Weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	6,398	6,313
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	356,038	355,558
Diluted earnings per share (RMB yuan)	0.39	0.35

Diluted earnings per share was computed from dividing the profit attributable to ordinary equity holders of the Bank (after adjusting for interest expense on the convertible bonds) by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

(In RMB millions, unless otherwise stated)

14. CASH AND BALANCES WITH CENTRAL BANKS

	30 June 2013 (unaudited)	31 December 2012 (audited)
Cash and unrestricted balances with central banks:		
Cash on hand	74,899	76,060
Surplus reserves with central banks (i)	174,283	276,483
Unrestricted balances with central banks of overseas countries or regions	32,033	42,165
	281,215	394,708
Restricted balances with central banks:		
Mandatory reserves with central banks (ii)	2,736,574	2,571,357
Fiscal deposits with the PBOC	276,719	201,319
Mandatory reserves with central banks of overseas countries or regions (ii)	6,342	7,374
Other restricted balances with the PBOC (ii)	141	185
	3,019,776	2,780,235
	3,300,991	3,174,943

(i) Surplus reserves with the PBOC include funds for the purpose of cash settlement and other kinds of unrestricted deposits.

(ii) The Group is required to place mandatory reserve deposits and other restricted deposits with the PBOC and certain central banks of overseas countries or regions where it has operations. Mandatory reserve deposits with central banks and other restricted deposits are not available for use in the Group's daily operations. Mandatory reserve deposits mainly consist of deposits placed with the PBOC. As at 30 June 2013, the mandatory deposit reserve ratios of the domestic branches of the Bank in respect of customer deposits denominated in RMB and foreign currencies were consistent with the requirement of the PBOC. The amounts of mandatory reserve deposits placed with the central banks of those countries or regions outside Mainland China are determined by local jurisdictions.

15. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2013 (unaudited)	31 December 2012 (audited)
Nostro accounts:		
Banks operating in Mainland China	240,098	335,545
Other financial institutions operating in Mainland China	949	1,479
Banks and other financial institutions operating outside Mainland China	62,177	74,961
	303,224	411,985
Less: Allowance for impairment losses	(160)	(48)
	303,064	411,937
Placements with banks and other financial institutions:		
Banks operating in Mainland China	110,045	61,224
Other financial institutions operating in Mainland China	171,200	60,974
Banks and other financial institutions operating outside Mainland China	56,812	102,458
	338,057	224,656
Less: Allowance for impairment losses	(48)	(143)
	338,009	224,513
	641,073	636,450

(In RMB millions, unless otherwise stated)

15. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

Movements of the allowance for impairment losses during the period/year are as follows:

	Nostro accounts	Placements with banks and other financial institutions	Total
At 1 January 2012	34	61	95
Charge for the year	15	82	97
Reversal for the period	(1)	—	(1)
At 31 December 2012 and 1 January 2013 (audited)	48	143	191
Charge for the period	112	—	112
Reversal for the period	—	(95)	(95)
At 30 June 2013 (unaudited)	160	48	208

16. FINANCIAL ASSETS HELD FOR TRADING

	30 June 2013 (unaudited)	31 December 2012 (audited)
Debt securities	43,771	20,317
Equity investments	164	146
	43,935	20,463
Debt securities analyzed into:		
Listed in Hong Kong	210	98
Listed outside Hong Kong	1,184	1,495
Unlisted	42,377	18,724
	43,771	20,317

17. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2013 (unaudited)	31 December 2012 (audited)
Debt securities	86,332	103,460
Other debt instruments:		
Banks and other financial institutions	133,569	85,010
Others	48,315	12,738
	268,216	201,208
Analyzed into:		
Listed in Hong Kong	65	66
Listed outside Hong Kong	2,104	2,029
Unlisted	266,047	199,113
	268,216	201,208

(In RMB millions, unless otherwise stated)

18. DERIVATIVE FINANCIAL INSTRUMENTS

A derivative is a financial instrument, the value of which changes in response to the changes in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other similar variables. The Group uses derivative financial instruments including forwards, swaps and options.

The notional amount of a derivative represents the amount of an underlying asset upon which the value of the derivative is based. It indicates the volume of business transacted by the Group but does not reflect the risk.

The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

At the end of the reporting period, the Group had derivative financial instruments as follows:

	30 June 2013 (unaudited)						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Exchange rate contracts:							
Forward and swap contracts	757,025	580,475	108,903	1,609	1,448,012	13,197	(11,217)
Option contracts purchased	4,884	22,815	1,709	—	29,408	84	—
Option contracts written	830	2,349	1,758	—	4,937	—	(3)
	762,739	605,639	112,370	1,609	1,482,357	13,281	(11,220)
Interest rate contracts:							
Swap contracts	44,765	107,177	149,618	32,314	333,874	2,424	(2,688)
Forward contracts	—	61	—	—	61	—	—
	44,765	107,238	149,618	32,314	333,935	2,424	(2,688)
Commodity derivatives and others	105,688	28,735	1,409	161	135,993	11,244	(9,943)
	913,192	741,612	263,397	34,084	1,952,285	26,949	(23,851)

	31 December 2012 (audited)						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Exchange rate contracts:							
Forward and swap contracts	672,192	511,474	73,218	2,689	1,259,573	10,781	(8,153)
Option contracts purchased	5,117	14,689	593	—	20,399	71	—
Option contracts written	2,798	2,969	593	—	6,360	—	(44)
	680,107	529,132	74,404	2,689	1,286,332	10,852	(8,197)
Interest rate contracts:							
Swap contracts	65,507	118,368	176,537	24,472	384,884	3,280	(3,640)
Forward contracts	1,610	2,619	1,745	—	5,974	38	(38)
Option contracts purchased	—	—	62	—	62	—	—
	67,117	120,987	178,344	24,472	390,920	3,318	(3,678)
Commodity derivatives and others	81,249	17,604	2,637	139	101,629	586	(1,386)
	828,473	667,723	255,385	27,300	1,778,881	14,756	(13,261)

(In RMB millions, unless otherwise stated)

18. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Cash flow hedges

The Group's cash flow hedges consist of interest rate swap contracts and interest rate forward contracts that are used to protect against exposures to variability of future cash flows arising from foreign currency denominated assets and foreign currency denominated liabilities during the period/year.

Among the above derivative financial instruments, those designated as hedging instruments in cash flow hedges are set out below.

	30 June 2013 (unaudited)						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Interest rate swap contracts	—	899	4,722	3,261	8,882	189	(103)

	31 December 2012 (audited)						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
Interest rate swap contracts	1,427	312	1,976	3,613	7,328	400	(64)
Interest rate forward contracts	25	—	—	—	25	—	—
	1,452	312	1,976	3,613	7,353	400	(64)

There was no ineffectiveness recognised in the statement of income that arose from the cash flow hedge for the current period (six months ended 30 June 2012: Nil).

Fair value hedges

Fair value hedges are used by the Group to protect against changes in the fair value of financial assets and financial liability due to movements in market interest rates and exchange rates. Interest rate swaps, currency swaps and currency forward are used as hedging instruments to hedge the interest risk and currency risk of financial assets and financial liability, respectively.

The effectiveness of hedges based on changes in fair value of the derivatives and the hedged items attributable to the hedged risk recognised in the statement of income during the period is presented as follows:

	Six months ended 30 June	
	2013 (unaudited)	2012 (unaudited)
Gain/(loss) arising from fair value hedges, net:		
— Hedging instruments	55	29
— Hedged items attributable to the hedged risk	(59)	(30)
	(4)	(1)

(In RMB millions, unless otherwise stated)

18. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hedges (continued)

Among the above derivative financial instruments, those designated as hedging instruments in fair value hedges are set out below:

	30 June 2013 (unaudited)						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over 3 months but within one year	Over 1 year but within five years	Over five years	Total	Assets	Liabilities
Currency swap contracts	—	203	189	—	392	7	(1)
Currency forward contracts	2,946	775	459	—	4,180	1	(119)
Interest rate swap contracts	307	2,229	4,786	3,290	10,612	—	(373)
	3,253	3,207	5,434	3,290	15,184	8	(493)

	31 December 2012 (audited)						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over 3 months but within one year	Over 1 year but within five years	Over five years	Total	Assets	Liabilities
Currency swap contracts	—	—	438	—	438	2	(24)
Interest rate swap contracts	727	1,359	9,295	4,005	15,386	40	(743)
	727	1,359	9,733	4,005	15,824	42	(767)

The credit risk weighted amounts in respect of the above derivatives of the Group as at the end of the reporting period are as follows:

	30 June 2013 (unaudited)
Counterparty credit default risk-weighted assets	
Currency derivatives	18,663
Interest rate derivatives	1,109
Commodity derivatives and others	2,096
	21,868
Credit value adjustment	18,626
	40,494

(i) The credit risk weighted amounts represent the counterparty credit risk associated with derivative transactions and are calculated with reference to "Regulation Governing Capital of Commercial Banks (Provisional)" promulgated by the CBRC, which includes counterparty credit default risk-weighted assets and credit value adjustment.

(ii) The Group previously calculated the credit risk-weighted assets for derivatives as at 31 December 2012 in accordance with "Regulations Governing Capital Adequacy of Commercial Banks" and relevant requirements promulgated by the CBRC, which was superseded from 1 January 2013. The calculation is listed as follow:

	31 December 2012 (audited)
Currency derivatives	10,080
Interest rate derivatives	2,568
Commodity derivatives and others	1,093
	13,741

(In RMB millions, unless otherwise stated)

19. REVERSE REPURCHASE AGREEMENTS

Reverse repurchase agreements comprise reverse repurchase of securities, bills, loans, and cash advanced as collateral on securities borrowing.

	30 June 2013 (unaudited)	31 December 2012 (audited)
Reverse repurchase	432,778	526,054
Cash advanced as collateral on securities borrowing	29,222	18,525
	462,000	544,579
Reverse repurchase analyzed by counterparty:		
Banks	215,864	153,324
Other financial institutions	216,914	372,730
	432,778	526,054
Reverse repurchase analyzed by collateral:		
Securities	340,240	448,409
Bills	87,696	73,358
Loans	4,842	4,287
	432,778	526,054

As part of the reverse repurchase agreements, the Group has received securities that it is allowed to sell or repledge in the absence of default by their owners. At 30 June 2013, the Group had received securities with a fair value of approximately RMB214,901 million on such terms (31 December 2012: RMB353,994 million), among which securities with a fair value of approximately RMB211,610 million have been repledged under repurchase agreements (31 December 2012: RMB353,994 million). The Group has an obligation to return the securities to its counterparties. If the collateral received declines in value, the Group may, in certain circumstances, require additional collateral.

20. LOANS AND ADVANCES TO CUSTOMERS

	30 June 2013 (unaudited)	31 December 2012 (audited)
Corporate loans and advances	6,710,747	6,332,578
Personal loans	2,541,240	2,287,103
Discounted bills	185,655	184,011
	9,437,642	8,803,692
Less: Allowance for impairment losses	(235,619)	(220,403)
	9,202,023	8,583,289

(In RMB millions, unless otherwise stated)

20. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Movements of allowance for impairment losses during the period/year are as follows:

	Individually assessed	Collectively assessed	Total
At 1 January 2012	35,409	159,469	194,878
Impairment loss:	2,286	30,286	32,572
— impairment allowances charged	13,933	103,257	117,190
— impairment allowances transferred	84	(84)	—
— reversal of impairment allowances	(11,731)	(72,887)	(84,618)
Accreted interest on impaired loans	(944)	—	(944)
Write-offs	(6,279)	(1,249)	(7,528)
Recoveries of loans and advances previously written off	701	191	892
Others	232	301	533
At 31 December 2012 and 1 January 2013 (audited)	31,405	188,998	220,403
Impairment loss:	6,547	15,380	21,927
— impairment allowances charged	11,124	57,407	68,531
— impairment allowances transferred	284	(284)	—
— reversal of impairment allowances	(4,861)	(41,743)	(46,604)
Accreted interest on impaired loans (note 3)	(937)	—	(937)
Write-offs	(5,351)	(1,173)	(6,524)
Recoveries of loans and advances previously written off	719	31	750
At 30 June 2013 (unaudited)	32,383	203,236	235,619

Movements of allowance for impairment losses during the period/year analyzed into those attributable to corporate loans and advances and discounted bills and personal loans are as follows:

	Corporate loans and advances and discounted bills	Personal loans	Total
At 1 January 2012	147,337	47,541	194,878
Impairment loss:	19,051	13,521	32,572
— impairment allowances charged	88,269	28,921	117,190
— reversal of impairment allowances	(69,218)	(15,400)	(84,618)
Accreted interest on impaired loans	(944)	—	(944)
Write-offs	(6,279)	(1,249)	(7,528)
Recoveries of loans and advances previously written off	701	191	892
Others	188	345	533
At 31 December 2012 and 1 January 2013 (audited)	160,054	60,349	220,403
Impairment loss:	17,465	4,462	21,927
— impairment allowances charged	56,371	12,160	68,531
— reversal of impairment allowances	(38,906)	(7,698)	(46,604)
Accreted interest on impaired loans (note 3)	(937)	—	(937)
Write-offs	(5,351)	(1,173)	(6,524)
Recoveries of loans and advances previously written off	719	31	750
At 30 June 2013 (unaudited)	171,950	63,669	235,619

(In RMB millions, unless otherwise stated)

20. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	30 June 2013 (unaudited)	31 December 2012 (audited)
Loans and advances for which allowance for impairment losses are:		
Individually assessed	65,164	60,977
Collectively assessed	9,372,478	8,742,715
	9,437,642	8,803,692
Less: Allowance for impairment losses:		
Individually assessed	32,383	31,405
Collectively assessed	203,236	188,998
	235,619	220,403
Net loans and advances for which allowance for impairment losses are:		
Individually assessed	32,781	29,572
Collectively assessed	9,169,242	8,553,717
	9,202,023	8,583,289
Identified impaired loans and advances	81,768	74,575
Percentage of impaired loans and advances	0.87%	0.85%

21. FINANCIAL INVESTMENTS

	Notes	30 June 2013 (unaudited)	31 December 2012 (audited)
Receivables	(a)	369,542	364,715
Held-to-maturity investments	(b)	2,674,164	2,576,562
Available-for-sale financial assets	(c)	1,026,407	920,939
		4,070,113	3,862,216

(a) Receivables

The receivables are unlisted and stated at amortised cost and comprise the following:

	Notes	30 June 2013 (unaudited)	31 December 2012 (audited)
Huarong bonds	(i)	175,096	175,096
Special government bond	(ii)	85,000	85,000
Others	(iii)	109,446	104,619
		369,542	364,715

(i) The Huarong bonds are a series of long term bonds issued by China Huarong Asset Management Co., Ltd ("Huarong") in 2000 to 2001 to the Bank, with an aggregate amount of RMB312,996 million. The proceeds from the issuance of the bonds were used to purchase non-performing loans of the Bank. The bonds are non-negotiable, with a tenure of 10 years and bear interest at a fixed rate of 2.25% per annum. In 2010, the Bank received a notice from the MOF that the maturity dates of the Huarong bonds are extended for another ten years and the interest rate remains unchanged. Besides, the MOF will continue providing funding in support of the repayment of the principal and interest of the bonds. In 2012, the Bank received early repayment amounting to RMB137,900 million.

(In RMB millions, unless otherwise stated)

21. FINANCIAL INVESTMENTS (CONTINUED)

(a) Receivables (continued)

(ii) The special government bond represents a non-negotiable bond with a nominal value of RMB85,000 million issued by the MOF to the Bank in 1998. The bond will mature in 2028 and bears interest at a fixed rate of 2.25% per annum.

(iii) Others include government, financial and corporate bonds and debt investment plans, etc with fixed or determinable payments that are not quoted in an active market. They will mature from August 2013 to July 2027 and bear interest rates ranging from 3.26% to 7.50% per annum.

(b) Held-to-maturity investments

Held-to-maturity investments are stated at amortised cost and comprise the following:

	30 June 2013 (unaudited)	31 December 2012 (audited)
Debt securities	2,674,323	2,577,022
Less: Allowance for impairment losses	(159)	(460)
	2,674,164	2,576,562

	30 June 2013 (unaudited)	31 December 2012 (audited)
Analyzed into:		
Listed in Hong Kong	107	107
Listed outside Hong Kong	974,014	744,456
Unlisted	1,700,043	1,831,999
	2,674,164	2,576,562
Market value of listed debt securities	977,334	746,087

For the six months ended 30 June 2013, the Group disposed of securities classified as held-to-maturity with a total carrying amount of RMB755 million prior to their maturity. The carrying amount of held-to-maturity securities sold accounted for 0.03% of the total amount of the Group's held-to-maturity investments.

(In RMB millions, unless otherwise stated)

21. FINANCIAL INVESTMENTS (CONTINUED)

(c) Available-for-sale financial assets

Available-for-sale financial assets comprise the following:

	30 June 2013 (unaudited)	31 December 2012 (audited)
Debt securities, at fair value (i)	1,012,602	914,344
Other debt instruments, at fair value	10,198	2,799
Equity investments:		
At fair value (i)	2,424	2,655
At cost (ii)		
Debt for equity swaps	1,630	1,619
Others	356	325
Less: Allowance for impairment losses on equity investments	(803)	(803)
	1,183	1,141
Subtotal for equity investments	3,607	3,796
	1,026,407	920,939
Debt securities analyzed into:		
Listed in Hong Kong	13,238	7,633
Listed outside Hong Kong	157,495	134,210
Unlisted	841,869	772,501
	1,012,602	914,344
Equity investments analyzed into:		
Listed in Hong Kong	393	502
Listed outside Hong Kong	677	320
Unlisted	2,537	2,974
	3,607	3,796
Market value of listed securities:		
Debt securities	170,733	141,843
Equity investments	1,070	822
	171,803	142,665

(i) When impairment of an available-for-sale investment measured at fair value occurs, any impairment loss recognised is recorded in the carrying amount directly. As at 30 June 2013, the available-for-sale financial assets measured at fair value include impaired debt securities whose carrying amount was RMB80 million (31 December 2012: RMB106 million), and impaired equity investments whose carrying amount was RMB234 million (31 December 2012: RMB483 million)with the accrual of impairment loss recognised in the statement of income for the period of RMB16 million (six months ended 30 June 2012: the reversal of impairment loss of RMB79 million) on available-for-sale bonds, and the accrual of impairment loss recognised in the statement of income for the period of RMB14 million (six months ended 30 June 2012: Nil.) on available-for-sale equity investments.

(ii) Certain available-for-sale unlisted equity investments which do not have any quoted market prices and whose fair values cannot be measured reliably are stated at cost less any impairment losses. There is no active market for these investments and it is the Group's intention to dispose of them as opportunities arise. During the six months ended 30 June 2013, the carrying amount of these equity investments were disposed of was RMB31 million (six months ended 30 June 2012: Nil, full impairment made). A gain of RMB10 million was recognised on disposal during the period (six months ended 30 June 2012: RMB315 million).

(In RMB millions, unless otherwise stated)

21. FINANCIAL INVESTMENTS (CONTINUED)

(d) Movements of allowance for impairment losses of held-to-maturity investments and available-for-sale equity investments measured at cost during the period/year are as follows:

	Held-to-maturity Investments	Available-for-sale investments	Total
At 1 January 2012	494	958	1,452
Charge for the year	1	19	20
Reversal for the year	(31)	—	(31)
Disposals	(4)	(174)	(178)
At 31 December 2012 and 1 January 2013 (audited)	460	803	1,263
Reversal for the period	(283)	—	(283)
Disposals	(18)	—	(18)
At 30 June 2013 (unaudited)	159	803	962

22. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	30 June 2013 (unaudited)	31 December 2012 (audited)
Share of net assets	16,244	18,163
Goodwill	13,087	15,469
	29,331	33,632
Less: Allowance for impairment losses	(348)	(348)
	28,983	33,284

The following table illustrates the summarised financial information of the Group's associates and joint ventures:

	30 June 2013 (unaudited)	31 December 2012 (audited)
Assets	1,052,476	1,138,509
Liabilities	(962,435)	(1,040,166)
Net assets	90,041	98,343

	Six months ended 30 June	
	2013 (unaudited)	2012 (unaudited)
Revenue	42,048	48,094
Profit for the period	5,079	6,538

The financial information above was extracted from the financial statements of the associates and joint ventures.

(In RMB millions, unless otherwise stated)

22. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

The following table illustrates the market value of the Group's listed investments in associates and joint ventures:

	30 June 2013 (unaudited)	31 December 2012 (audited)
Market value of listed investments	22,403	28,049

Particulars of the Group's principal associates and joint ventures are as follows:

	Percentage of equity interest		Voting rights		
Name	30 June 2013 %	31 December 2012 %	30 June 2013 %	Place of incorporation/ registration	Principal activities
Associates:					
Listed investment directly held:					
Standard Bank Group Limited ("Standard Bank")(i)	20.09	20.05	20.09	Johannesburg, Republic of South Africa	Commercial banking
Listed investment indirectly held:					
Finansia Syrus Securities Public Company Limited (ii)	23.07	23.52	23.61	Bangkok, Thailand	Securities
Unlisted investment indirectly held:					
IEC Investments Limited (iii)	40.00	40.00	40.00	Hong Kong, the PRC	Investment
All Winwin Holdings Limited (iv)	20.00	20.00	20.00	British Virgin Islands	Investment
Tianjin ICBC IHG Equity Investment Fund Management Limited ("ICBC IHG") (v)	30.00	30.00	33.33	Tianjin, the PRC	Fund management
Joint ventures:					
Unlisted investment indirectly held:					
Jiangxi Poyanghu Industry Investment Management Company Limited (vi)	50.00	50.00	50.00	Jiangxi, the PRC	Investment management
COLI ICBCI China Investment Management (Cayman Islands) Limited (vii)	45.00	45.00	Note1	Cayman Islands	Investment management
ICBC HNA (Tianjin) Equity Investment Fund Management Limited ("ICBC HNA") (viii)	50.00	50.00	50.00	Tianjin, the PRC	Fund management
Tianjin ICBC International Advisory LLP (ix)	50.00	50.00	Note2	Tianjin, the PRC	Investment advisory
Tianjin ICBC International Capital Management LLP (x)	50.00	50.00	Note2	Tianjin, the PRC	Assets management

Note 1: According to the articles of association, the Group and other shareholders jointly control the entity.

Note 2: The enterprise is a limited partnership; under the partnership agreement, the Group and other partners jointly control the enterprise.

(i) On 22 April 2013 according to dividend warrant plan of Standard Bank, The Bank acquired 4,593,673 shares.

(ii) The shareholding of a 23.61% equity interest in this associate is held by a non-wholly-owned subsidiary, ICBC Thai. The percentage of equity interest disclosed represents the effective percentage of equity held by the Group.

(iii) The shareholding of a 40% equity interest in this associate is held by a wholly-owned subsidiary, ICBC Asia. The percentage of equity interest disclosed represents the effective percentage of equity held by the Group.

(In RMB millions, unless otherwise stated)

22. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(iv) The shareholding of a 20% equity interest in this associate is held by a wholly-owned subsidiary, ICBC International. The percentage of equity interest disclosed represents the effective percentage of equity held by the Group.

(v) The shareholding of a 33.33% equity interest in this associate is held by a wholly-owned subsidiary, ICBC International. The percentage of equity interest disclosed represents the effective percentage of equity held by the Group.

(vi) Jiangxi Poyanghu Industry Investment Management Company Limited is a joint venture of a wholly-owned subsidiary, ICBC International. The percentage of equity interest disclosed represents the effective percentage held by the Group.

(vii) COLI ICBCI China Investment Management (Cayman Islands) Limited is a joint venture of a wholly-owned subsidiary, ICBC International. The percentage of equity interest disclosed represents the effective percentage held by the Group.

(viii) ICBC HNA is a joint venture of a wholly-owned subsidiary, ICBC International. The percentage of equity interest disclosed represents the effective percentage held by the Group.

(ix) Tianjin ICBC International Advisory LLP is a joint venture of a wholly-owned subsidiary, ICBC International. The percentage of equity interest disclosed represents the effective percentage held by the Group.

(x) Tianjin ICBC International Capital Management LLP is a joint venture of a wholly-owned subsidiary, ICBC International. The percentage of equity interest disclosed represents the effective percentage held by the Group.

23. PROPERTY AND EQUIPMENT

	Properties and buildings	Construction in progress	Leasehold improve-ments	Office equipment and motor vehicles	Aircraft and vessels	Total
Cost:						
1 January 2012	98,031	16,112	5,528	45,912	10,310	175,893
Additions	2,684	13,308	1,095	7,291	6,159	30,537
CIP transfer in/(out)	6,067	(6,688)	—	505	116	—
Acquisition of subsidiaries	282	—	143	270	—	695
Disposals	(438)	(70)	(106)	(2,200)	(791)	(3,605)
At 31 December 2012 and 1 January 2013 (audited)	106,626	22,662	6,660	51,778	15,794	203,520
Additions	717	8,073	424	1,377	3,972	14,563
CIP transfer in/(out)	2,232	(5,816)	—	11	3,573	—
Disposals	(119)	(155)	(17)	(697)	(100)	(1,088)
At 30 June 2013 (unaudited)	109,456	24,764	7,067	52,469	23,239	216,995
Accumulated depreciation and impairment:						
At 1 January 2012	25,100	58	2,800	28,433	474	56,865
Depreciation charge for the year	5,071	—	927	6,658	559	13,215
Disposals	(232)	—	(77)	(2,102)	(38)	(2,449)
At 31 December 2012 and 1 January 2013 (audited)	29,939	58	3,650	32,989	995	67,631
Depreciation charge for the period (note 9)	2,618	—	532	3,587	459	7,196
Disposals	(72)	—	(7)	(540)	(82)	(701)
At 30 June 2013 (unaudited)	32,485	58	4,175	36,036	1,372	74,126
Net carrying amount:						
At 31 December 2012 (audited)	76,687	22,604	3,010	18,789	14,799	135,889
At 30 June 2013 (unaudited)	76,971	24,706	2,892	16,433	21,867	142,869

As at 30 June 2013, the process of obtaining the legal titles for the Group's properties and buildings with an aggregate net carrying value of RMB7,464 million (31 December 2012: RMB10,126 million) was still in progress. Management is of the view that the aforesaid matter would not affect the rights of the Group to these assets nor would it have any significant impact on the business operation of the Group.

As at 30 June 2013, the net carrying value of aircraft and vessels leased out by the Group under operating leases was RMB21,867 million (31 December 2012: RMB14,799 million).

(In RMB millions, unless otherwise stated)

24. DEFERRED INCOME TAX ASSETS AND LIABILITIES

(a) Analyzed by nature

	At 30 June 2013 (unaudited)		At 31 December 2012 (audited)	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets:				
Allowance for impairment losses	85,780	21,433	78,301	19,561
Change in fair value of available-for-sale financial assets	6,975	1,815	6,545	1,670
Change in fair value of financial instruments at fair value through profit or loss	(920)	(231)	(1,569)	(387)
Accrued staff costs	19,501	4,875	23,726	5,932
Others	(23,989)	(6,015)	(16,241)	(3,987)
	87,347	21,877	90,762	22,789

	At 30 June 2013 (unaudited)		At 31 December 2012 (audited)	
	Taxable/ (deductible) temporary differences	Deferred income tax liabilities/ (assets)	Taxable/ (deductible) temporary differences	Deferred income tax liabilities/ (assets)
Deferred income tax liabilities:				
Allowance for impairment losses	(47)	(12)	(235)	(45)
Change in fair value of available-for-sale financial assets	606	160	908	151
Others	987	247	1,944	446
	1,546	395	2,617	552

(b) Movements of deferred income tax

	At 1 January 2013	Recognised in profit or loss	Recognised in other comprehensive income	At 30 June 2013 (unaudited)
Deferred income tax assets:				
Allowance for impairment losses	19,561	1,872	—	21,433
Change in fair value of available-for-sale financial assets	1,670	—	145	1,815
Change in fair value of financial instruments at fair value through profit or loss	(387)	156	—	(231)
Accrued staff costs	5,932	(1,057)	—	4,875
Others	(3,987)	(1,929)	(99)	(6,015)
	22,789	(958)	46	21,877

(In RMB millions, unless otherwise stated)

24. DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

(b) Movements of deferred income tax (continued)

	At 1 January 2012	Recognised in profit or loss	Recognised in other comprehensive income	Acquisition of subsidiaries	At 31 December 2012 (audited)
Deferred income tax assets:					
Allowance for impairment losses	19,378	112	—	71	19,561
Change in fair value of available-for-sale financial assets	1,446	—	222	2	1,670
Change in fair value of financial instruments at fair value through profit or loss	(1,247)	837	—	23	(387)
Accrued staff costs	5,764	168	—	—	5,932
Others	(3,403)	(807)	(15)	238	(3,987)
	21,938	310	207	334	22,789

	At 1 January 2013	Recognised in profit or loss	Recognised in other comprehensive income	At 30 June 2013 (unaudited)
Deferred income tax liabilities:				
Allowance for impairment losses	(45)	33	—	(12)
Change in fair value of available-for-sale financial assets	151	—	9	160
Others	446	30	(229)	247
	552	63	(220)	395

	At 1 January 2012	Recognised in profit or loss	Recognised in other comprehensive income	Acquisition of subsidiaries	At 31 December 2012 (audited)
Deferred income tax liabilities:					
Allowance for impairment losses	(51)	6	—	—	(45)
Change in fair value of available-for-sale financial assets	78	—	73	—	151
Others	76	20	35	315	446
	103	26	108	315	552

The Group did not have significant unrecognised deferred income tax assets and liabilities at the end of the reporting period.

(In RMB millions, unless otherwise stated)

25. OTHER ASSETS

	30 June 2013 (unaudited)	31 December 2012 (audited)
Interest receivable	108,606	87,496
Precious metal	38,533	55,358
Land use rights	20,549	20,921
Advance payments	36,131	32,639
Settlement accounts	290,003	89,561
Goodwill	8,687	8,821
Repossessed assets	1,837	1,849
Others	9,978	15,706
	514,324	312,351

26. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	30 June 2013 (unaudited)	31 December 2012 (audited)
Structured deposits	(1)(a)	59,923	60,425
Wealth management products	(2)	270,345	205,064
Financial liabilities related to precious metals	(1)(b)	57,324	52,346
Debt securities	(1)(c)	1,841	1,907
Others		70	—
		389,503	319,742

(1) Certain structured deposits, debt securities and financial liabilities related to precious metals have been matched with derivatives or precious metals as part of a documented risk management strategy to mitigate market risk, such as interest rate risk. An accounting mismatch would arise if these financial liabilities were accounted for at amortised cost, whereas the related derivatives or precious metals were measured at fair value with movements in the fair value taken through the statement of income. By designating these financial liabilities at fair value through profit or loss, the movement in their fair values is recorded in the statement of income.

(a) As at 30 June 2013, the fair value of structured deposits was lower than the amount that the Group would be contractually required to pay to the holders of these structured deposits upon maturity by RMB14.60 million (31 December 2012: RMB81.73 million higher).

(b) As at 30 June 2013, the fair value of the financial liabilities related to precious metals was approximately the same as the amount that the Group would be contractually required to pay to the holders (31 December 2012: approximately the same).

(c) The debt securities were all issued by Singapore Branch at fixed rates and were classified as financial liabilities designated at fair value through profit or loss. The fair value of the debt securities was lower than the amount that the Group would be contractually required to pay to the holders of these debt securities upon maturity as at 30 June 2013 by RMB19.17 million.

(2) The principal guaranteed wealth management products issued by the Group and the financial assets invested by the aforesaid products form part of a group of financial instruments that are managed together on a fair value basis, and are classified as financial liabilities and financial assets designated at fair value through profit or loss, respectively. The fair value of the wealth management products was RMB65 million lower than the amount that the Group would be contractually required to pay to the holders of the wealth management products upon maturity as at 30 June 2013 (31 December 2012: RMB90 million higher).

There were no significant changes in the credit spread of the Bank and therefore the amounts of changes in fair value of the financial liabilities that were attributable to changes in credit risk were considered not significant during the period/year presented and cumulatively as at 30 June 2013 and 31 December 2012. The changes in fair value of the financial liabilities were mainly attributable to changes in other market factors.

(In RMB millions, unless otherwise stated)

27. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2013 (unaudited)	31 December 2012 (audited)
Deposits		
Banks and other financial institutions operating in Mainland China	875,501	1,218,829
Banks and other financial institutions operating outside Mainland China	30,700	13,794
	906,201	1,232,623
Money market takings		
Banks and other financial institutions operating in Mainland China	154,576	104,304
Banks and other financial institutions operating outside Mainland China	210,666	149,878
	365,242	254,182
	1,271,443	1,486,805

28. REPURCHASE AGREEMENTS

Repurchase agreements comprise repurchase of securities, bills, loans, and cash received as collateral on securities lending.

	30 June 2013 (unaudited)	31 December 2012 (audited)
Repurchase	320,563	226,098
Cash received as collateral on securities lending	17,308	11,666
	337,871	237,764
Repurchase analyzed by counterparty:		
Banks	93,113	16,517
Other financial institutions	227,450	209,581
	320,563	226,098
Repurchase analyzed by collateral:		
Securities	309,655	216,449
Bills	10,903	5,927
Loans	5	3,722
	320,563	226,098

29. CERTIFICATES OF DEPOSIT

Certificates of deposit were mainly issued by Tokyo Branch, Luxembourg Branch, New York Branch, Doha Branch, Sydney Branch, Abu Dhabi Branch, and the Bank's subsidiaries including ICBC Asia, ICBC Macau, ICBC Argentina and ICBC London, and were carried at amortised cost.

(In RMB millions, unless otherwise stated)

30. DUE TO CUSTOMERS

	30 June 2013 (unaudited)	31 December 2012 (audited)
Demand deposits:		
Corporate customers	3,954,207	3,993,173
Personal customers	3,007,246	2,800,169
Time deposits:		
Corporate customers	3,323,182	2,915,072
Personal customers	3,979,111	3,754,118
Others	244,656	180,378
	14,508,402	13,642,910

31. DEBT SECURITIES ISSUED

	Notes	30 June 2013 (unaudited)	31 December 2012 (audited)
Subordinated bonds issued by:			
The Bank	(1)(a)	183,101	183,000
A subsidiary	(1)(b)	4,551	4,589
		187,652	187,589
Convertible bonds	(2)	21,556	21,353
Other debt securities issued by:	(3)		
The Bank		19,260	9,691
Subsidiaries		21,735	13,553
		40,995	23,244
		250,203	232,186

(1) Subordinated bonds

(a) As approved by the PBOC and the CBRC, the Bank issued callable subordinated bonds through open market bidding in 2005, 2009, 2010, 2011 and 2012. These subordinated bonds were traded in the bond market among banks. The Bank has not had any defaults of principal or interest or other breaches with respect to the subordinated bonds during the period (six months ended 30 June 2012: None). The relevant information on these subordinated bonds is set out below:

Name	Issue date	Issue price (RMB)	Coupon rate	Value date	Maturity date	Circulation date	Issue amount (RMB)	Notes
05 ICBC 02 Bond	2005-8-19	100	3.77%	2005-9-6	2020-9-6	2005-10-11	13,000 million	(i)
09 ICBC 01 Bond	2009-7-16	100	3.28%	2009-7-20	2019-7-20	2009-8-20	10,500 million	(ii)
09 ICBC 02 Bond	2009-7-16	100	4.00%	2009-7-20	2024-7-20	2009-8-20	24,000 million	(iii)
09 ICBC 03 Bond	2009-7-16	100	Base rate +0.58%	2009-7-20	2019-7-20	2009-8-20	5,500 million	(iv)
10 ICBC 01 Bond	2010-9-10	100	3.90%	2010-9-14	2020-9-14	2010-11-3	5,800 million	(v)
10 ICBC 02 Bond	2010-9-10	100	4.10%	2010-9-14	2025-9-14	2010-11-3	16,200 million	(vi)
11 ICBC 01 Bond	2011-6-29	100	5.56%	2011-6-30	2031-6-30	2011-8-30	38,000 million	(vii)
11 ICBC 02 Bond	2011-12-29	100	5.50%	2011-12-30	2026-12-30	2012-1-17	50,000 million	(viii)
12 ICBC 01 Bond	2012-6-11	100	4.99%	2012-6-13	2027-6-13	2012-7-9	20,000 million	(ix)

(In RMB millions, unless otherwise stated)

31. DEBT SECURITIES ISSUED (CONTINUED)

(1) Subordinated bonds (continued)

(i) The Bank has the option to redeem all or part of the bonds at face value on 6 September 2015. If the Bank does not exercise this option, the annual coupon rate will increase by 300 basis points ("bps") thereafter.

(ii) The Bank has the option to redeem all or part of the bonds at face value on 20 July 2014. If the Bank does not exercise this option, the annual coupon rate will increase by 300 bps thereafter.

(iii) The Bank has the option to redeem all or part of the bonds at face value on 20 July 2019. If the Bank does not exercise this option, the annual coupon rate will increase by 300 bps thereafter.

(iv) The base rate for the bonds is the one-year lump-sum deposit and withdrawal time deposit rate published by the PBOC which is applicable on the date of issue or the first value date in each interest-bearing year. The spread in the first five interest-bearing years (i.e., initial spread) is 0.58%. The Bank has the option to redeem all or part of the bonds at face value on 20 July 2014. If the Bank does not exercise this option, the interest margin will increase by 300 bps thereafter.

(v) The Bank has the option to redeem all of the bonds on 14 September 2015 upon the approval of the relevant regulatory authorities.

(vi) The Bank has the option to redeem all of the bonds on 14 September 2020 upon the approval of the relevant regulatory authorities.

(vii) The Bank has the option to redeem all of the bonds on 30 June 2026 upon the approval of the relevant regulatory authorities.

(viii) The Bank has the option to redeem all of the bonds on 30 December 2021 upon the approval of the relevant regulatory authorities.

(ix) The Bank has the option to redeem all of the bonds on 13 June 2022 upon the approval of the relevant regulatory authorities.

(b) On 30 November 2010, ICBC Asia, a subsidiary of the Bank, issued a subordinated bond with aggregate nominal amount of USD500 million, bearing a fixed interest rate of 5.125% per annum. The bond was issued at the price fixed at 99.737% of the nominal amount with maturity due on 30 November 2020.

On 4 November 2011, ICBC Asia issued subordinated notes in an aggregate nominal amount of RMB1,500 million, with a fixed interest rate of 6% per annum. The subordinated notes were issued at the price fixed at 100% of the nominal amount maturing on 4 November 2021. The above subordinated bonds and notes are both listed on the Singapore Exchange Securities Trading Limited. ICBC Asia has not had any defaults of principal or interest or other breaches with respect to the subordinated bonds and notes during the period (six months ended 30 June 2012: Nil).

(2) Convertible bonds

As approved by the CBRC and the China Securities Regulatory Commission, the Bank issued RMB25 billion A share convertible bonds on 31 August 2010.

Name	Issue date	Issue price	Coupon rate	Value date	Maturity date	Circulation date	Issue amount
ICBC convertible bonds	31 August 2010	RMB100	Step-up interest rate	31 August 2010	31 August 2016	10 September 2010	RMB25 billion

The convertible bonds have a term of six years. From the first year to the sixth year, the bonds are paying annual coupon at the rates of 0.5%, 0.7%, 0.9%, 1.1%, 1.4% and 1.8%, respectively. The conversion period of the bonds commenced on 1 March 2011, which was the first trading day immediately following the expiry of the six-month period after the date of issuance of the convertible bonds, and ends on 31 August 2016, which is the maturity date of the bonds. Within five trading days after the maturity of the bonds, the Bank shall redeem all the outstanding convertible bonds which have not been converted into shares by then at 105% of the nominal value of these convertible bonds (including the interest last accrued). RMB2,435 million with an aggregate nominal amount of convertible bonds have been converted into shares from 1 March 2011 to 30 June 2013(1 March 2011 to 31 December 2012: RMB2,323 million).

(In RMB millions, unless otherwise stated)

31. DEBT SECURITIES ISSUED (CONTINUED)

(2) Convertible bonds (continued)

During the conversion period of the convertible bonds, if the closing prices of the A Shares of the Bank in at least 15 trading days out of 30 consecutive trading days are equal to or higher than 130% of the prevailing conversion price, the Bank shall have the right to redeem all or any part of the outstanding convertible bonds which have not been converted into the shares, at a price equal to the nominal value of the convertible bonds plus the interest accrued. When the nominal value of the balance of the outstanding convertible bonds is less than RMB30 million, the board of the Bank shall have the right to decide whether to redeem all the outstanding convertible bonds at a price equal to the nominal value plus the interest accrued.

If, during the term of the convertible bonds, the closing prices of the A Shares of the Bank in any 15 trading days out of any 30 consecutive trading days are lower than 80% of the prevailing conversion price, the board of the Bank may propose a downward adjustment to the conversion price to the shareholders for their consideration and approval at a shareholders' general meeting.

The initial conversion price was RMB4.20 per share. The conversion price is subject to adjustment, upon the occurrence of certain events which affect the share capital of the Bank, such as distribution of share dividend, capitalisation, issuance of new shares, rights issue or distribution of cash dividend. During the period from the date of issuance to 30 June 2013, the conversion price was adjusted from RMB4.20 per share to RMB3.53 per share, as a result of the cash dividend distribution and rights issue of A share and H share.

The convertible bonds issued have been split into the liability and equity components, as follows:

	Liability component	Equity component	Total
Nominal value of convertible bonds	21,998	3,002	25,000
Direct transaction costs	(113)	(17)	(130)
Balance as at the issuance date	21,885	2,985	24,870
Accretion of interest	239	—	239
Balance as at 31 December 2010 (audited)	22,124	2,985	25,109
Conversion	(234)	(31)	(265)
Accretion of interest	718	—	718
Balance as at 31 December 2011 (audited)	22,608	2,954	25,562
Conversion	(1,916)	(246)	(2,162)
Accretion of interest	661	—	661
Balance as at 31 December 2012 (audited)	21,353	2,708	24,061
Conversion	(107)	(14)	(121)
Accretion of interest	310	—	310
Balance as at 30 June 2013 (unaudited)	21,556	2,694	24,250

(3) Other debt securities issued

As at 30 June 2013, other debt securities issued mainly include:

(a) Sydney Branch issued debt securities amounted to RMB13,684 million denominated in USD, EUR, HKD, AUD and RMB. These securities were issued at par value with maturities between 2013 and 2017 at fixed or floating interest rates;

(b) Singapore Branch issued Euro medium term notes amounted to RMB1,691 million denominated in USD. These notes were issued at par value with maturities in 2014 at floating interest rates;

(c) Tokyo Branch issued interest free commercial papers amounted to RMB2,885 million denominated in RMB and USD. These commercial papers were issued at a discount with maturities between 2013 and 2014;

(d) The Head Office issued fixed interest rate RMB bond in Hong Kong amounting to RMB1,000 million. The bond was issued at par value with maturity in 2015.

31. DEBT SECURITIES ISSUED (CONTINUED)

(3) Other debt securities issued (continued)

(e) ICBC Asia issued interest-free Equity Linked Notes at 99.989% to 99.998% of the nominal amount denominated in HKD, and Senior Notes at 99.365% to 100.000% of the nominal amount denominated in USD, HKD and RMB at fixed interest rates. These notes amounted to RMB13,297 million with maturity between 2013 and 2016;

(f) ICBC Thai issued debt securities amounted to RMB3,901 million denominated in THB. These securities were issued at par value with maturities between 2013 and 2017 at fixed interest rates;

(g) Skysea International Capital Management Limited, which is a structured entity of the Group, issued guaranteed notes of USD750 million with a fixed interest rate of 4.875%. The notes were guaranteed by Hong Kong Branch and were issued at the price fixed at 97.708% of the nominal amount with maturity amounted to RMB4,537 million due on 7 December 2021. By satisfying certain conditions, the structured entity has the option to redeem all of the notes at any time. The notes were listed on The Stock Exchange of Hong Kong Limited.

32. OTHER LIABILITIES

	30 June 2013 (unaudited)	31 December 2012 (audited)
Interest payable	193,156	164,451
Settlement accounts	280,779	138,141
Dividends payable	83,576	—
Salaries, bonuses, allowances and subsidies payables	13,557	16,394
Early retirement benefits	6,044	7,761
Sundry tax payables	11,158	11,240
Bank drafts	2,575	3,030
Others	86,799	43,457
	677,644	384,474

33. SHARE CAPITAL

	30 June 2013 (unaudited)		31 December 2012 (audited)	
	Number of shares (millions)	Nominal value	Number of shares (millions)	Nominal value
Issued and fully paid:				
H shares of RMB1 each	86,795	86,795	86,795	86,795
A shares of RMB1 each (i)	262,855	262,855	262,825	262,825
	349,650	349,650	349,620	349,620

Except for the dividends for H shares which are payable in Hong Kong dollars ("HK$"), all of the H shares and A shares rank pari passu with each other in respect of dividends.

(i) According to the "Announcement in Relation to the Conversion of ICBC Convertible Bonds", the 250 million convertible bonds (with a nominal value of RMB100 each and an aggregate amount of RMB25 billion) issued by the Bank on 31 August 2010 can be converted into the Bank's A shares from 1 March 2011. As of 30 June 2013, a total of 24,354,830 convertible bonds were converted into A shares of the Bank, resulting in an increase of 630,313,548 A shares since date of issuance. The number of the Bank's A shares amounted to 262,854,814,825 at the end of the period.

34. RESERVES

(a) Capital reserve

Capital reserve mainly includes share premium arising from the issuance of new shares at prices in excess of par value.

(b) Surplus reserve

(i) Statutory surplus reserve

The Bank is required to appropriate 10% of its profit for the year pursuant to the Company Law of the People's Republic of China and the Articles to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses of the Bank, if any, and may also be converted into capital of the Bank, provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before capitalisation.

(ii) Discretionary surplus reserve

After making the appropriation to the statutory surplus reserve, the Bank may also appropriate its profit for the year determined under PRC GAAP to the discretionary surplus reserve upon approval by the shareholders in general meeting. Subject to the approval by the shareholders, the discretionary surplus reserve may be used to offset accumulated losses of the Bank, if any, and may be converted into capital.

(iii) Other surplus reserve

The Bank's overseas entities appropriate their profits to the surplus reserve in accordance with the relevant regulations promulgated by the local regulatory bodies.

(c) General reserve

From 1 July 2012, the Bank is required by the MOF to maintain a general reserve within equity, through the appropriation of profit, which should not be less than 1.5% of the year-end balance of its risk assets.

The Bank's subsidiaries appropriate their profits to the general reserve according to the applicable local regulations.

(d) Investment revaluation reserve

The investment revaluation reserve records the fair value changes of available-for-sale financial assets.

(e) Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of the subsidiaries and branches incorporated outside Mainland China.

(f) Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the gain or loss on the hedging instrument.

(g) Other reserves

Other reserves represent reserves of subsidiaries and share of reserves of associates and joint ventures other than the items listed above.

(In RMB millions, unless otherwise stated)

35. COMPONENTS OF OTHER COMPREHENSIVE INCOME

	Six months ended 30 June	
	2013 (unaudited)	**2012 (unaudited)**
Available-for-sale financial assets:		
Changes in fair value recorded in other comprehensive (loss)/income	(1,072)	9,558
Less: Transfer to the statement of income arising from disposal/impairment	(384)	(145)
Income tax effect	234	(2,287)
	(1,222)	7,126
Cash flow hedges:		
(Loss)/gain during the period	(210)	109
Less: Income tax effect	36	(16)
	(174)	93
Share of other comprehensive income of associates and joint ventures	824	(77)
Foreign currency translation differences	(7,927)	(687)
Others	25	16
Less: Income tax effect	(4)	(3)
	21	13
	(8,478)	6,468

36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Analysis of balances of cash and cash equivalents

	Note	30 June 2013 (unaudited)	30 June 2012 (unaudited)
Cash on hand	14	74,899	64,086
Balances with central banks other than restricted deposits	14	206,316	304,077
Nostro accounts with banks and other financial institutions with original maturity of three months or less		208,560	580,171
Placements with banks and other financial institutions with original maturity of three months or less		416,950	163,136
Reverse repurchase agreements with original maturity of three months or less		224,967	495,871
		1,131,692	1,607,341

37. TRANSFERRED FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to structured entities. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

(In RMB millions, unless otherwise stated)

37. TRANSFERRED FINANCIAL ASSETS (CONTINUED)

Repurchase transactions and securities lending transactions

Transferred financial assets that do not qualify for derecognition mainly include debt securities held by counterparties as collateral under repurchase agreements and debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities sold under repurchase agreements in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may require or be required to pay additional cash collateral in certain circumstances. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

The following table analyzes the carrying amount of the above mentioned assets transferred to third parties that did not qualify for derecognition and their associated financial liabilities:

	30 June 2013 (unaudited)		31 December 2012 (audited)	
	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Repurchase agreements	2,700	2,660	590	539
Securities lending agreements	11,914	—	15,906	—
	14,614	2,660	16,496	539

Securitisation transactions

Transferred financial assets that achieved partial de-recognition mainly include financial assets transferred under securitisation transactions. The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors. The Group may retain interests in the form of subordinated tranches which would give rise to the Group's continuing involvement in the transferred assets. Those financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets.

As at 30 June 2013, loans with an original carrying amount of RMB3,592 million (31 December 2012: RMB8,011 million) have been securitised by the Group under arrangements in which the Group retains a continuing involvement in such assets. As at 30 June 2013, the carrying amount of assets that the Group continues to recognise was RMB182 million (31 December 2012: Nil), and the assets were classified as available-for-sale financial assets.

38. SHARE APPRECIATION RIGHTS PLAN

The Bank's share appreciation rights plan was approved in 2006, which allows share appreciation rights to be granted to eligible participants including directors, supervisors, senior management and other key personnel designated by the board of directors. The share appreciation rights will be granted and exercised based on the price of the Bank's H shares and will be valid for 10 years. As at the approval date of these financial statements, no share appreciation rights have been granted.

39. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

At the end of the reporting period, the Group had capital commitments as follows:

	30 June 2013 (unaudited)	31 December 2012 (audited)
Authorised, but not contracted for	261	952
Contracted, but not provided for	10,828	11,992
	11,089	12,944

(In RMB millions, unless otherwise stated)

39. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(b) Operating lease commitments

At the end of the reporting period, the Group leases certain of its office properties under operating lease arrangements, and the total future minimum lease payments in respect of non-cancellable operating leases are as follows:

	30 June 2013 (unaudited)	31 December 2012 (audited)
Within one year	4,857	4,166
Over one year but within five years	11,554	10,330
Over five years	1,354	1,516
	17,765	16,012

(c) Credit commitments

At any given time, the Group has outstanding commitments to extend credit. These commitments are in the form of approved loans and undrawn credit card limits.

The Group provides letters of credit and financial guarantees to guarantee the performance of customers to third parties.

Bank acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of credit commitments by category are set out below. The amounts disclosed in respect of loan commitments and undrawn credit card limit are under the assumption that the amounts will be fully advanced. The amounts for bank acceptances, letters of credit and guarantees represent the maximum potential losses that would be recognised at the end of the reporting period had the counterparties failed to perform as contracted.

	30 June 2013 (unaudited)	31 December 2012 (audited)
Bank acceptances	380,452	341,033
Guarantees issued		
Financing letters of guarantees	92,495	47,148
Non-financing letters of guarantees	227,347	213,874
Sight letters of credit	47,759	52,190
Usance letters of credit and other commitments	402,051	347,271
Loan commitments		
With an original maturity of under one year	167,874	214,370
With an original maturity of one year or over	424,489	453,520
Undrawn credit card limit	431,063	406,800
	2,173,530	2,076,206

	30 June 2013 (unaudited)
Credit risk weighted amount of credit commitments	815,256

(i) The credit risk weighted amount refers to the amount computed in accordance with "Regulations Governing Capital of Commercial Banks (Provisional)" promulgated by the CBRC. The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights ranged from 0% to 150% for credit commitments.

(ii) On 31 December 2012 the credit risk weighted amount was RMB817 billion in accordance with "Regulations Governing Capital Adequacy of Commercial Banks" and relevant requirements promulgated by the CBRC, which was superseded from 1 January 2013.

(In RMB millions, unless otherwise stated)

39. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(d) Legal proceedings

As at 30 June 2013, there were a number of legal proceedings outstanding against the Bank and/or its subsidiaries with a claimed amount of RMB1,954 million (31 December 2012: RMB1,559 million).

In the opinion of management, the Group has made adequate allowance for any probable losses based on the current facts and circumstances, and the ultimate outcome of these lawsuits will not have a material impact on the financial position or operations of the Group.

(e) Redemption commitments of government bonds

As an underwriting agent of the Government, the Bank underwrites certain PRC government bonds and sells the bonds to the general public, in which the Bank is obliged to redeem these bonds at the discretion of the holders at any time prior to maturity. The redemption price for the bonds is based on the nominal value of the bonds plus any interest accrued up to the redemption date. As at 30 June 2013, the Bank had underwritten and sold bonds with an accumulated amount of RMB104,893 million (31 December 2012: RMB99,861 million) to the general public, and these government bonds have not yet matured nor been redeemed. Management expects that the amount of redemption of these government bonds through the Bank prior to maturity will not be material.

The MOF will not provide funding for the early redemption of these government bonds on a back-to-back basis but is obliged to repay the principal and the respective interest upon maturity.

(f) Underwriting obligations

As at 30 June 2013, the Group had no unexpired securities underwriting obligations (31 December 2012: Nil).

40. DESIGNATED FUNDS AND LOANS

	30 June 2013 (unaudited)	31 December 2012 (audited)
Designated funds	800,635	730,140
Designated loans	799,983	729,451

The designated loans represent the loans granted to specific borrowers designated by the trustors on their behalf according to the entrust agreements signed by the Group and the trustors. The Group does not bear any risk.

The designated funds represent the funding that the trustors have instructed the Group to use to make loans to third parties as designated by them. The credit risk remains with the trustors.

41. ASSETS PLEDGED

Financial assets of the Group including securities, bills and loans have been pledged as collateral for liabilities or contingent liabilities, mainly the repurchase agreements and derivative contracts. As at 30 June 2013, the carrying value of the financial assets of the Group pledged as collateral amounted to approximately RMB100,154 million (31 December 2012: RMB13,341 million).

42. FIDUCIARY ACTIVITIES

The Group provides custody, trust and asset management services to third parties. Revenue from such activities is included in "net fee and commission income" set out in note 4 above. Those assets held in a fiduciary capacity are not included in the Group's consolidated statement of financial position.

(In RMB millions, unless otherwise stated)

43. RELATED PARTY DISCLOSURES

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the period:

(a) Shareholders with significant influence

(i) The MOF

The MOF is a ministry under the State Council, primarily responsible for, among others, state fiscal revenues, expenses and taxation policies. As at 30 June 2013, the MOF directly owned approximately 35.27% (31 December 2012: approximately 35.27%) of the issued share capital of the Bank. The Group enters into banking transactions with the MOF in its normal course of business, including the subscription and redemption of government bonds issued by the MOF. Details of the material transactions are as follows:

	30 June 2013 (unaudited)	31 December 2012 (audited)
Balances at end of the period/year:		
The PRC government bonds and the special government bond	1,021,151	831,417

	Six months ended 30 June	
	2013 (unaudited)	2012 (unaudited)
Transactions during the period:		
Subscription of the PRC government bonds	148,005	36,035
Redemption of the PRC government bonds	42,012	53,117
Interest income on the PRC government bonds	17,280	16,328

	%	%
Interest rate ranges during the period are as follows:		
Bond investments	1.77 to 6.34	0.93 to 6.34

As at 30 June 2013, the Group holds a series of long term bonds issued by Huarong, which is under the control of the MOF, with an aggregate amount of RMB175,096 million (31 December 2012: RMB175,096 million). The details of Huarong bonds are included in note 21.

Other related party transactions between the Group and enterprises under the control or joint control of the MOF are disclosed in note 43(g) "transactions with state-owned entities in the PRC".

(In RMB millions, unless otherwise stated)

43. RELATED PARTY DISCLOSURES (CONTINUED)

(a) Shareholders with significant influence (continued)

(ii) Huijin

As at 30 June 2013, Central Huijin Investment Ltd. ("Huijin") directly owned approximately 35.46% (31 December 2012: approximately 35.46%) of the issued share capital of the Bank. Huijin is a state-owned investment company established on 16 December 2003 under the Company Law of the PRC. Huijin has a total registered and paid-in capital of RMB828,209 million, and its legal representative is Mr. Lou Jiwei. Huijin is a wholly-owned subsidiary of China Investment Corporation, and in accordance with the authorisation by the State, Huijin makes equity investments in the key state-owned financial institutions, and shall, to the extent of its capital contribution, exercise the rights and perform the obligations as an investor on behalf of the State in accordance with applicable laws to achieve the goal of preserving and enhancing the value of state-owned financial assets. Huijin does not engage in other business activities, and does not intervene in the day-to-day business operations of the key state-owned financial institutions it controls.

As at 30 June 2013, the Huijin Bonds held by the Bank were of an aggregate face value of RMB21.63 billion (31 December 2012: RMB18.13 billion), with the terms ranging from 5 to 30 years and coupon rate ranging from 3.14% to 4.20% per annum. The Huijin Bonds are government-backed and the Bank's subscription of the Huijin Bonds was conducted in the ordinary course of business, in compliance with relevant regulatory requirements and the corporate governance of the Bank.

The Group entered into banking transactions with Huijin in the ordinary course of business under normal commercial terms and at the market rates. Details of the material transactions are as follows:

	30 June 2013 (unaudited)	31 December 2012 (audited)
Balances at end of the period/year:		
Debt securities purchased	20,574	17,288
Interest receivable	618	190
Deposits	448	10,236
Interest payable	0	16

	Six months ended 30 June	
	2013 (unaudited)	2012 (unaudited)
Transactions during the period:		
Interest income on debt securities purchased	375	381
Interest expense on deposits	112	3

	%	%
Interest rate ranges during the period are as follows:		
Debt securities purchased	3.14 to 4.20	3.14 to 4.20
Deposits	0.35 to 1.15	0.02 to 1.30

(In RMB millions, unless otherwise stated)

43. RELATED PARTY DISCLOSURES (CONTINUED)

(a) Shareholders with significant influence (continued)

(ii) Huijin (continued)

Huijin has equity interests in certain other banks and financial institutions under the direction of the Government. The Group enters into transactions with these banks and financial institutions in the ordinary course of business under normal commercial terms. Management considers that these banks and financial institutions are competitors of the Group. Significant transactions during the period conducted with these banks and financial institutions, and the corresponding balances as at 30 June 2013 are as follows:

	30 June 2013 (unaudited)	31 December 2012 (audited)
Balances at end of the period/year:		
Debt securities purchased	1,040,797	979,291
Due from these banks and financial institutions	58,708	142,413
Loans to these banks and financial institutions	35	—
Derivative financial assets	917	809
Due to these banks and financial institutions	57,359	115,434
Derivative financial liabilities	1,161	1,754

	Six months ended 30 June	
	2013 (unaudited)	2012 (unaudited)
Transactions during the period:		
Interest income on debt securities purchased	19,203	16,404
Interest income on amounts due from these banks and financial institutions	359	577
Interest income on loans to these banks and financial institutions	0	118
Interest expense on amounts due to these banks and financial institutions	339	655

	%	%
Interest rate ranges during the period are as follows:		
Debt securities purchased	2.68 to 6.30	1.01 to 8.25
Due from these banks and financial institutions	0 to 9.38	0 to 9.00
Loans to these banks and financial institutions	0.94 to 2.41	0.95 to 5.80
Due to these banks and financial institutions	0.0001 to 10.00	0.0001 to 7.40

The interest rates disclosed above vary across product groups and transactions depending on the maturity date, credit risk of counterparty and currency. In particular, given local market conditions, the spread of certain significant or long dated transactions can vary across the market.

(In RMB millions, unless otherwise stated)

43. RELATED PARTY DISCLOSURES (CONTINUED)

(b) Subsidiaries

	30 June 2013 (unaudited)	31 December 2012 (audited)
Balances at end of the period/year:		
Debt securities purchased	11,879	14,029
Due from banks and other financial institutions	231,502	105,779
Loans and advances to customers	6,681	5,784
Derivative financial assets	696	887
Due to banks and other financial institutions	232,617	41,466
Derivative financial liabilities	366	764
Commitments	105,886	116,423

	Six months ended 30 June	
	2013 (unaudited)	2012 (unaudited)
Transactions during the period:		
Interest income on debt securities purchased	44	69
Interest income on amounts due from banks and other financial institutions	329	460
Interest expense on amounts due to banks and other financial institutions	184	167
Net trading expense	49	56
Net fee and commission income	51	57

	%	%
Interest rate ranges during the period are as follows:		
Debt securities purchased	0.45 to 3.15	0.75 to 1.55
Due from banks and other financial institutions	0 to 4.00	0 to 7.66
Due to banks and other financial institutions	0 to 5.00	0 to 6.00

The material balances and transactions with subsidiaries have been eliminated in the consolidated financial statements.

(c) Associates and affiliates

	30 June 2013 (unaudited)	31 December 2012 (audited)
Balances at end of the period/year:		
Due from banks	247	334
Loans to associates	108	3,100
Other receivables	—	209
Due to banks	177	3,341
Deposits	—	125

(In RMB millions, unless otherwise stated)

43. RELATED PARTY DISCLOSURES (CONTINUED)

(c) Associates and affiliates (continued)

	Six months ended 30 June 2013 (unaudited)	Six months ended 30 June 2012 (unaudited)
Transactions during the period:		
Interest income on amounts due from banks	—	1
Interest income on loans to associates	1	43
Interest expense on amounts due to banks	1	28

	%	%
Interest rate ranges during the period are as follows:		
Due from banks	0.01 to 0.13	5.40
Loans to associates	1.63	1.47 to 2.70
Due to banks	0.92 to 2.25	0.50 to 1.65

The major transactions between the Group and the associates and their affiliates mainly comprised taking and placing interbank balances, lending and deposit taking and the corresponding interest income and interest expense. In the opinion of management, the transactions between the Group and the associates and their affiliates were conducted under normal commercial terms and conditions.

(d) Joint ventures and affiliates

	30 June 2013 (unaudited)	31 December 2012 (audited)
Balances at end of the period/year:		
Deposits	54	264
Loans to joint ventures	98	—

	Six months ended 30 June 2013 (unaudited)	Six months ended 30 June 2012 (unaudited)
Transactions during the period:		
Interest expense on deposits	—	2
Interest income on loans to joint ventures	1	—

	%	%
Interest rates during the period are as follows:		
Deposits	0.35 to 1.05	0.50 to 1.05
Loans to joint ventures	2.68	—

In the opinion of management, the transactions between the Group and the aforementioned parties were conducted in the ordinary course of business under normal terms and conditions and at market rates.

(In RMB millions, unless otherwise stated)

43. RELATED PARTY DISCLOSURES (CONTINUED)

(e) Key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group, directly or indirectly, including members of the board of directors, the supervisory board and executive officers.

The aggregate compensation for the period is as follows:

	Six months ended 30 June	
	2013 (unaudited)	2012 (unaudited)
Short term employment benefits	7,989	7,353
Post-employment benefits	223	511
	8,212	7,864

Companies or corporations of which the key management of the Group or their close relatives are shareholders or key management personnel who are able to exercise control directly or indirectly are also considered as related parties of the Group.

The transactions between the Group and the aforementioned parties for the period/year are as follows:

	30 June 2013 (unaudited)	31 December 2012 (audited)
Loans	—	687

In the opinion of management, the transactions between the Group and the aforementioned parties were conducted in the ordinary course of business under normal terms and conditions and at market rates.

(f) Annuity Fund

Apart from the obligations for defined contributions to the Annuity Fund, Annuity Fund holds the convertible bonds issued by the Group with an amount of RMB47.70 million (six months ended 30 June 2012: RMB36.07 million).

(g) Transactions with state-owned entities in the PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the Government through its authorities, affiliates or other organisations (collectively the "state-owned entities"). During the period, the Group entered into extensive banking transactions with these state-owned entities including, but not limited to, lending and deposit taking, taking and placing of interbank balances, entrusted lending and the provision of intermediary services, the sale, purchase, underwriting and redemption of bonds issued by other state-owned entities, and the sale, purchase, and leasing of properties and other assets.

Management considers that transactions with state-owned entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those state-owned entities are ultimately controlled or owned by the Government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are state-owned entities.

44. SEGMENT INFORMATION

(a) Operating segments

For management purposes, the Group is organised into different operating segments, namely corporate banking, personal banking and treasury operations, based on internal organisational structure, management requirement and internal reporting system.

Corporate banking

The corporate banking segment covers the provision of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, trade financing, deposit-taking activities, corporate wealth management services, custody activities and various types of corporate intermediary services.

Personal banking

The personal banking segment covers the provision of financial products and services to individual customers. The products and services include personal loans, deposit-taking activities, card business, personal wealth management services and various types of personal intermediary services.

Treasury operations

The treasury operations segment covers the Group's treasury operations which include money market transactions, investment securities, foreign exchange transactions and the holding of derivative positions, for its own accounts or on behalf of customers.

Others

This represents the assets, liabilities, income and expenses that are not directly attributable or cannot be allocated to a segment on a reasonable basis.

Management monitors the operating results of the Group's business units separately for the purpose of making decisions about resources allocation and performance assessment. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Group.

Transactions between segments mainly represent the provision of funding to and from individual segments. These transactions are conducted on terms determined with reference to the average cost of funding and have been reflected in the performance of each segment. Net interest income and expense arising on internal fund transfer are referred to as "internal net interest income/expense". Net interest income and expense relating to third parties are referred to as "external net interest income/expense".

Segment revenues, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The basis for allocation is mainly based on occupation of or contribution to resources. Income taxes are managed on a group basis and are not allocated to operating segments.

(In RMB millions, unless otherwise stated)

44. SEGMENT INFORMATION (CONTINUED)

(a) Operating segments (continued)

	Six months ended 30 June 2013 (unaudited)				
	Corporate banking	Personal banking	Treasury operations	Others	Total
External net interest income/(expense)	135,075	(2,844)	83,487	171	215,889
Internal net interest income/(expense)	(30,984)	74,362	(43,378)	—	—
Net fee and commission income	43,567	23,577	682	(444)	67,382
Other income, net (i)	566	2	3,900	3,737	8,205
Operating income	148,224	95,097	44,691	3,464	291,476
Operating expenses	(42,683)	(38,159)	(7,752)	(3,155)	(91,749)
Impairment losses on:					
Loans and advances to customers	(17,465)	(4,462)	—	—	(21,927)
Others	(130)	1	139	(24)	(14)
Operating profit/(loss)	87,946	52,477	37,078	285	177,786
Share of profits and losses of associates and joint ventures	—	—	—	1,055	1,055
Profit before tax	87,946	52,477	37,078	1,340	178,841
Income tax expense					(40,364)
Profit for the period					138,477
Other segment information:					
Depreciation	3,199	2,587	1,301	109	7,196
Amortisation	493	303	194	12	1,002
Capital expenditure	6,986	5,528	2,802	219	15,535

	As at 30 June 2013 (unaudited)				
	Corporate banking	Personal banking	Treasury operations	Others	Total
Segment assets	7,077,766	2,573,779	8,932,623	139,185	18,723,353
Including: Investments in associates and joint ventures	—	—	—	28,983	28,983
Property and equipment	52,857	42,423	21,188	26,401	142,869
Other non-current assets (ii)	14,594	7,266	4,764	9,904	36,528
Segment liabilities	7,723,774	7,145,414	2,548,931	130,141	17,548,260
Other segment information:					
Credit commitments	1,742,467	431,063	—	—	2,173,530

(i) Includes net trading expense, net loss on financial assets and liabilities designated at fair value through profit or loss, net gain on financial investments and net other operating income.

(ii) Includes long term receivables, intangible assets, goodwill, long term deferred expenses and other non-current assets.

(In RMB millions, unless otherwise stated)

44. SEGMENT INFORMATION (CONTINUED)

(a) Operating segments (continued)

	Six months ended 30 June 2012 (unaudited)				
	Corporate banking	Personal banking	Treasury operations	Others	Total
External net interest income/(expense)	139,489	(5,242)	69,811	—	204,058
Internal net interest income/(expense)	(29,025)	66,384	(37,359)	—	—
Net fee and commission income	35,190	19,420	194	—	54,804
Other income, net (i)	286	2	2,759	919	3,966
Operating income	145,940	80,564	35,405	919	262,828
Operating expenses	(40,849)	(33,729)	(7,924)	(2,029)	(84,531)
Impairment losses on:					
Loans and advances to customers	(13,177)	(5,852)	—	—	(19,029)
Others	(147)	(2)	(49)	(10)	(208)
Operating profit/(loss)	91,767	40,981	27,432	(1,120)	159,060
Share of profits and losses of associates and joint ventures	—	—	—	1,152	1,152
Profit before tax	91,767	40,981	27,432	32	160,212
Income tax expense					(36,971)
Profit for the period					123,241
Other segment information:					
Depreciation	2,815	2,290	1,256	110	6,471
Amortisation	383	250	163	11	807
Capital expenditure	3,945	3,164	1,743	148	9,000

	As at 31 December 2012 (audited)				
	Corporate banking	Personal banking	Treasury operations	Others	Total
Segment assets	6,495,908	2,320,534	8,591,801	133,974	17,542,217
Including: Investments in associates and joint ventures	—	—	—	33,284	33,284
Property and equipment	49,902	40,056	21,514	24,417	135,889
Other non-current assets (ii)	13,911	7,611	4,958	9,439	35,919
Segment liabilities	7,275,642	6,704,125	2,376,936	57,055	16,413,758
Other segment information:					
Credit commitments	1,669,406	406,800	—	—	2,076,206

(i) Includes net trading expense, net loss on financial assets and liabilities designated at fair value through profit or loss, net gain on financial investments and net other operating income.

(ii) Includes long term receivables, intangible assets, goodwill, long term deferred expenses and other non-current assets.

44. SEGMENT INFORMATION (CONTINUED)

(b) Geographical information

The Group operates principally in Mainland China, and also has branches and subsidiaries operating outside Mainland China (including: Hong Kong, Macau, Singapore, Frankfurt, Luxembourg, Seoul, Busan, Tokyo, London, Almaty, Jakarta, Moscow, Doha, Dubai, Abu Dhabi, Sydney, Toronto, Kuala Lumpur, Hanoi, Bangkok, New York, Karachi, Mumbai, Phnom Penh, Vientiane, Islamabad, Chicago, Lima, Buenos Aires and Sao Paulo).

The distribution of the geographical areas is as follows:

Mainland China (Head Office and domestic branches):

Head Office ("HO"): the HO business division (including institutions directly controlled by the HO and their offices);

Yangtze River Delta: including Shanghai, Jiangsu, Zhejiang, Ningbo and Suzhou;

Pearl River Delta: including Guangdong, Shenzhen, Fujian and Xiamen;

Bohai Rim: including Beijing, Tianjin, Hebei, Shandong and Qingdao;

Central China: including Shanxi, Henan, Hubei, Hunan, Anhui, Jiangxi and Hainan;

Western China: including Chongqing, Sichuan, Guizhou, Yunnan, Guangxi, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang, Inner Mongolia and Tibet; and

Northeastern China: including Liaoning, Heilongjiang, Jilin and Dalian.

Overseas and others: branches located outside Mainland China, domestic and overseas subsidiaries, and investments in associates and joint ventures.

(In RMB millions, unless otherwise stated)

44. SEGMENT INFORMATION (CONTINUED)

(b) Geographical information (continued)

	Mainland China (HO and domestic branches)									
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and others	Eliminations	Total
Six months ended 30 June 2013 (unaudited)										
External net interest income	83,460	29,734	20,951	15,072	19,944	30,458	8,352	7,918	—	215,889
Internal net interest income/(expense)	(70,056)	12,239	5,759	30,566	9,401	6,828	4,980	283	—	—
Net fee and commission income	2,986	16,317	10,578	11,347	10,835	9,886	2,539	2,943	(49)	67,382
Other income/(expense), net (i)	1,923	115	533	2,981	96	148	(1)	2,410	—	8,205
Operating income	18,313	58,405	37,821	59,966	40,276	47,320	15,870	13,554	(49)	291,476
Operating expenses	(7,061)	(15,679)	(11,516)	(15,903)	(14,120)	(16,102)	(6,054)	(5,363)	49	(91,749)
Impairment losses on:										
Loans and advances to customers	(1,030)	(7,860)	(2,717)	(2,812)	(2,455)	(3,254)	(917)	(882)	—	(21,927)
Others	114	(5)	1	(52)	(1)	(8)	—	(63)	—	(14)
Operating profit	10,336	34,861	23,589	41,199	23,700	27,956	8,899	7,246	—	177,786
Share of profits and losses of associates and joint ventures	—	—	—	—	—	—	—	1,055	—	1,055
Profit before tax	10,336	34,861	23,589	41,199	23,700	27,956	8,899	8,301	—	178,841
Income tax expense										(40,364)
Profit for the period										138,477
Other segment information:										
Depreciation	780	1,083	747	976	1,137	1,297	536	640	—	7,196
Amortisation	414	120	59	61	121	120	32	75	—	1,002
Capital expenditure	1,771	1,018	376	659	1,126	1,239	218	9,128	—	15,535

(i) Includes net trading expense, net loss on financial assets and liabilities designated at fair value through profit or loss, net gain on financial investments and net other operating income.

	Mainland China (HO and domestic branches)									
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and others	Eliminations	Total
As at 30 June 2013 (unaudited)										
Assets by geographical area	8,555,966	3,348,098	2,131,995	4,178,493	2,262,955	2,611,501	992,380	1,429,627	(6,809,539)	18,701,476
Including: Investments in associates and joint ventures	—	—	—	—	—	—	—	28,983	—	28,983
Property and equipment	12,657	22,808	11,904	17,440	18,222	20,970	9,675	29,193	—	142,869
Other non-current assets (i)	11,450	5,643	2,206	3,738	4,857	4,376	1,482	2,776	—	36,528
Unallocated assets										21,877
Total assets										18,723,353
Liabilities by geographical area	7,652,703	3,311,630	2,106,360	4,135,759	2,237,343	2,580,845	981,168	1,319,386	(6,809,539)	17,515,655
Unallocated liabilities										32,605
Total liabilities										17,548,260
Other segment information:										
Credit commitments	460,613	431,676	340,380	317,723	134,986	159,992	67,118	261,042	—	2,173,530

(i) Includes long term receivables, intangible assets, goodwill, long term deferred expenses and other non-current assets.

(In RMB millions, unless otherwise stated)

44. SEGMENT INFORMATION (CONTINUED)

(b) Geographical information (continued)

	Mainland China (HO and domestic branches)									
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and others	Eliminations	Total
Six months ended 30 June 2012 (unaudited)										
External net interest income	78,061	31,627	19,215	16,421	18,861	26,400	8,017	5,456	—	204,058
Internal net interest income/(expense)	(59,114)	9,088	6,352	25,769	7,309	6,215	4,462	(81)	—	—
Net fee and commission income	1,506	13,012	9,219	9,962	8,565	7,602	2,619	2,355	(36)	54,804
Other income/(expense), net (i)	4,000	(537)	26	412	(110)	(248)	(312)	735	—	3,966
Operating income	24,453	53,190	34,812	52,564	34,625	39,969	14,786	8,465	(36)	262,828
Operating expenses	(7,249)	(15,018)	(10,243)	(15,025)	(13,564)	(14,788)	(5,964)	(2,716)	36	(84,531)
Impairment losses on:										
Loans and advances to customers	(2,196)	(5,154)	(2,603)	(2,374)	(2,437)	(3,019)	(811)	(435)	—	(19,029)
Others	(95)	(8)	—	(105)	7	(2)	(3)	(2)	—	(208)
Operating profit	14,913	33,010	21,966	35,060	18,631	22,160	8,008	5,312	—	159,060
Share of profits and losses of associates and joint ventures	—	—	—	—	—	—	—	1,152	—	1,152
Profit before tax	14,913	33,010	21,966	35,060	18,631	22,160	8,008	6,464	—	160,212
Income tax expense										(36,971)
Profit for the period										123,241
Other segment information:										
Depreciation	735	1,036	709	914	1,068	1,182	500	327	—	6,471
Amortisation	339	106	57	59	107	109	28	2	—	807
Capital expenditure	2,219	693	602	834	712	992	352	2,596	—	9,000

(i) Includes net trading expense, net loss on financial assets and liabilities designated at fair value through profit or loss, net gain on financial investments and net other operating income.

	Mainland China (HO and domestic branches)									
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and others	Eliminations	Total
As at 31 December 2012 (audited)										
Assets by geographical area	8,224,142	3,294,148	2,296,600	3,902,655	2,095,440	2,466,885	923,766	1,234,420	(6,918,628)	17,519,428
Including: Investments in associates and joint ventures	—	—	—	—	—	—	—	33,284	—	33,284
Property and equipment	11,154	23,167	12,356	17,969	18,701	21,393	10,046	21,103	—	135,889
Other non-current assets (i)	11,014	5,731	2,320	4,041	4,869	4,257	1,681	2,006	—	35,919
Unallocated assets										22,789
Total assets										17,542,217
Liabilities by geographical area	7,410,679	3,237,528	2,259,922	3,839,768	2,064,592	2,428,238	909,743	1,124,442	(6,918,628)	16,356,284
Unallocated liabilities										57,474
Total liabilities										16,413,758
Other segment information:										
Credit commitments	418,897	390,236	337,265	321,305	120,188	162,835	59,386	266,094	—	2,076,206

(i) Includes long term receivables, intangible assets, goodwill, long term deferred expenses and other non-current assets.

45. FINANCIAL INSTRUMENT RISK MANAGEMENT

A description and an analysis of the major risks faced by the Group are as follows:

The board of directors (the "Board") has the ultimate responsibility for the risk management and oversees the Group's risk management functions through the Risk Management Committee and the Audit Committee of the Board.

The President supervises the risk management strategies and reports directly to the Board. He chairs two management committees including the Risk Management Committee and the Asset and Liability Management Committee. These two committees formulate and make recommendations in respect of risk management strategies and policies through the President to the Risk Management Committee of the Board. The Chief Risk Officer assists the President to supervise and manage various risks.

The Group has also assigned departments to monitor financial risks within the Group, including the Credit Management Department to monitor credit risk, the Risk Management Department together with the Asset and Liability Management Department to monitor market and liquidity risks, and the Internal Control and Compliance Department to monitor operational risk. The Risk Management Department is primarily responsible for coordinating and establishing a comprehensive risk management framework, preparing consolidated reports on credit risk, market risk and operational risk and reporting directly to the Chief Risk Officer.

The Bank maintains a dual-reporting line structure at the branch level for risk management purposes. Under this structure, the risk management departments of the branches report to risk management departments of both the head office and the management of the relevant branches.

(a) Credit risk

Credit risk is the risk of loss arising from a borrower's or counterparty's inability to meet its obligations. Credit risk can also arise from operational failures that result in an unauthorised or inappropriate guarantee, commitment or investment of funds. The Group is exposed to credit risk primarily due to loans, guarantees and other credit related commitments.

The principal features of the Group's credit risk management function include:

- Centralised credit management procedures;
- Risk management rules and procedures that focus on risk control throughout the entire credit business process, including customer investigation and credit rating, granting of credit limits, loan evaluation, loan review and approval, granting of loan and post-disbursement loan monitoring;
- Stringent qualification system for the loan approval officers; and
- Information management systems designed to enable a real time risk monitoring.

To enhance the credit risk management practices, the Group also launches training programs periodically for credit officers at different levels.

In addition to the credit risk exposures on credit-related assets and amounts due from or lending to banks and other financial institutions, credit risk also arises in other areas. For instance, credit risk exposure also arises from derivative financial instruments which are, however, limited to those with positive fair values, as recorded in the statement of financial position. In addition, the Group also makes available to its customers guarantees which may require the Group to make payments on their behalf. Such payments are collected from customers based on the terms of the agreements signed. They expose the Group to similar risks as loans and these are mitigated by the same control processes and policies.

The Group will normally sign an International Swaps and Derivatives Association ("ISDA") Master Agreement, a China Interbank Market Financial Derivatives Master Agreement ("NAFMII master agreement") with its counterparties for documenting over-the-counter derivatives activities. Each of these master agreements provides the contractual framework within which derivatives dealing activities are conducted. Under each of these master agreements, close-out netting shall be applied across all outstanding transactions covered by the agreement if either party defaults.

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Risk concentration

Credit risk is often greater when counterparties are concentrated in one single industry or geographical location or have comparable economic characteristics.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or whether there are any liquidity problems of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed impairment and collectively assessed impairment.

Individually assessed loans

All corporate loans and discounted bills are individually reviewed for objective evidence of impairment and classified based on a five-tier classification system. Corporate loans and discounted bills that are classified as substandard, doubtful or loss are assessed individually for impairment.

If there is objective evidence that an impairment loss on a loan or advance has incurred on an individual basis, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The allowance for impairment loss is deducted in the carrying amount. The impairment loss is recognised in the statement of income. In determining allowances on an individual basis, the following factors are considered:

- The sustainability of the counterparty's business plan;
- The borrower's ability to improve performance once a financial difficulty has arisen;
- Projected receipts and the expected payout should bankruptcy ensue;
- The availability of other financial support and the realisable value of collateral; and
- The timing of the expected cash flows.

It may not be possible to identify a single, discrete event that caused the impairment, but it may be possible to identify impairment through the combined effect of several events. The impairment losses are evaluated at the end of each reporting period, unless unforeseen circumstances require more careful attention.

Collectively assessed loans

Loans that are assessed for impairment losses on a collective basis include the following:

- Homogeneous groups of loans, including all personal loans; and
- All loans for which no impairment can be identified individually, either due to the absence of any loss events or due to an inability to measure reliably the impact of potential loss events on future cash flows.

For the purpose of collective assessment, assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

Objective evidence of impairment losses on a collective basis consists of observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans since the initial recognition of those loans, including:

- Adverse changes in the payment status of borrowers in the Group of loans; and
- National or local economic conditions that correlate with defaults on assets in the portfolio of loans.

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Impairment assessment (continued)

Homogenous groups of loans not considered individually significant

For homogeneous groups of loans, the Group uses a collective assessment approach for impairment losses. The approach analyzes historical trends of probability of default and the amount of the consequential loss, as well as evaluates current economic conditions that may have a consequential impact on inherent losses in the portfolio.

Individually assessed loans with no objective evidence of impairment

Individually assessed loans with no objective evidence of impairment are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. The collective impairment loss is assessed after taking into account:

- Historical loss experience in portfolios of similar risk characteristics; and
- The current economic and credit environment and, whether these, in management's experience, indicate that the actual level of incurred but not yet identified losses is likely to be greater or less than that suggested by historical experience.

As soon as information that specifically identifies objective evidence of impairment on individual assets in a pool is available, those assets are excluded and individually assessed. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment for impairment.

Collateral

The amount and type of collateral required depend on the assessment of the credit risk of the counterparty. Guidelines are in place specifying the types of collateral and valuation parameters which can be accepted.

Reverse repurchase business is mainly collateralised by bills, loans or investment securities. As part of the reverse repurchase agreements, the Group has received securities that it is allowed to sell or repledge in the absence of default by their owners. Fair value of collateral is shown in note 19.

Corporate loans are mainly collateralised by properties or other assets. As at 30 June 2013, the carrying value of corporate loans amounted to RMB6,896,402 million (31 December 2012: RMB6,516,589 million), of which credit exposure of corporate loans covered by collateral amounted to RMB3,169,009 million (31 December 2012: RMB2,907,405 million).

Retail loans are mainly collateralised by residential properties. As at 30 June 2013, the carrying value of retail loans amounted to RMB2,541,240 million (31 December 2012: RMB2,287,103 million), of which credit exposure of retail loans covered by collateral amounted to RMB2,158,472 million (31 December 2012: RMB1,952,522 million).

The Group prefers more liquid collateral with relatively stable market value and does not accept collateral that is illiquid, with difficulties in registration or high fluctuations in market value. The value of collateral should be assessed and confirmed by the Group or valuation agents identified by the Group. The value of collateral should adequately cover the outstanding balance of a loan. The loan-to-value ratio depends on types of collateral, usage condition, liquidity, price volatility and realisation cost. All collateral has to be registered in accordance with the relevant laws and regulations. The credit officers inspect the collateral and assess the changes in the value of collateral regularly.

Although collateral can be an important mitigation of credit risk, the Group grants loans based on the assessment of the borrowers' ability to meet obligations out of their cash flow, instead of the value of collateral. The necessity of a collateral is dependent on the nature of the loan. In the event of default, the Group might sell the collateral for repayment. The fair value of collateral of past due but not impaired loans and impaired loans are disclosed in note 45(a)(iii).

Management monitors the market value of collateral periodically and requests additional collateral in accordance with the underlying agreement when it is considered necessary.

It is the Group's policy to dispose of repossessed assets in an orderly manner. In general, the Group does not occupy repossessed assets for business use.

(In RMB millions, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(i) Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

As at the end of the reporting period, the maximum credit risk exposure of the Group without taking account of any collateral and other credit enhancements is set out below:

	30 June 2013 (unaudited)	31 December 2012 (audited)
Balances with central banks	3,226,092	3,098,883
Due from banks and other financial institutions	641,073	636,450
Financial assets held for trading	43,771	20,317
Financial assets designated at fair value through profit or loss	268,216	201,208
Derivative financial assets	26,949	14,756
Reverse repurchase agreements	462,000	544,579
Loans and advances to customers	9,202,023	8,583,289
Financial investments		
— Receivables	369,542	364,715
— Held-to-maturity investments	2,674,164	2,576,562
— Available-for-sale financial assets	1,022,800	917,143
Others	439,054	220,183
	18,375,684	17,178,085
Credit commitments	2,173,530	2,076,206
Total maximum credit risk exposure	20,549,214	19,254,291

(ii) Risk concentrations

Credit risk is often greater when counterparties are concentrated in one single industry or geographic location or have comparable economic features. In addition, different geographic areas and industrial sectors have their unique characteristics in terms of economic development, and could present a different credit risk.

(In RMB millions, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(ii) Risk concentrations (continued)

By geographical distribution

The following tables set out the breakdown of the Group's maximum credit risk exposure as categorised by geographical distribution without taking account of any collateral and other credit enhancements.

30 June 2013 (unaudited)

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and others	Total
Balances with central banks	2,829,877	63,136	41,069	164,275	21,670	33,960	10,638	61,467	3,226,092
Due from banks and other financial institutions	297,388	29,681	32,377	156,997	17,995	3,750	19,136	83,749	641,073
Financial assets held for trading	42,336	—	—	—	—	—	—	1,435	43,771
Financial assets designated at fair value through profit or loss	267,298	131	97	165	63	110	20	332	268,216
Derivative financial assets	19,576	919	2,056	729	220	834	190	2,425	26,949
Reverse repurchase agreements	165,234	11,178	1,484	9,996	12,293	2,484	15,961	243,370	462,000
Loans and advances to customers	331,794	1,968,113	1,259,786	1,609,094	1,231,414	1,613,269	531,982	656,571	9,202,023
Financial investments									
— Receivables	360,388	300	300	2,560	2,180	1,488	120	2,206	369,542
— Held-to-maturity investments	2,573,686	55,167	27,276	8,334	—	—	1,000	8,701	2,674,164
— Available-for-sale financial assets	571,344	57,250	35,691	230,283	14,186	14,004	4,251	95,791	1,022,800
Others	308,078	18,353	11,931	17,363	10,913	12,871	4,837	54,708	439,054
	7,766,999	2,204,228	1,412,067	2,199,796	1,310,934	1,682,770	588,135	1,210,755	18,375,684
Credit commitments	460,613	431,676	340,380	317,723	134,986	159,992	67,118	261,042	2,173,530
Total maximum credit risk exposure	8,227,612	2,635,904	1,752,447	2,517,519	1,445,920	1,842,762	655,253	1,471,797	20,549,214

The compositions of each geographical distribution above are set out in note 44(b).

(In RMB millions, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(ii) Risk concentrations (continued)

By geographical distribution (continued)

31 December 2012 (audited)

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and others	Total
Balances with central banks	2,792,670	48,293	32,904	110,108	19,753	31,345	8,301	55,509	3,098,883
Due from banks and other financial institutions	291,330	49,415	61,071	52,112	16,588	20,166	37,278	108,490	636,450
Financial assets held for trading	18,064	—	—	—	—	—	—	2,253	20,317
Financial assets designated at fair value through profit or loss	200,778	2	—	—	4	—	2	422	201,208
Derivative financial assets	9,923	362	433	841	88	109	139	2,861	14,756
Reverse repurchase agreements	222,043	24,603	4,587	52,565	7,355	6,028	2,188	225,210	544,579
Loans and advances to customers	303,625	1,887,989	1,208,518	1,518,202	1,158,116	1,485,267	499,870	521,702	8,583,289
Financial investments									
— Receivables	358,110	300	220	2,224	1,860	1,398	120	483	364,715
— Held-to-maturity investments	2,481,924	44,108	26,543	10,853	—	—	1,000	12,134	2,576,562
— Available-for-sale financial assets	518,842	54,141	26,764	214,574	13,535	13,404	4,187	71,696	917,143
Others	122,366	15,199	6,106	13,004	7,440	8,248	2,636	45,184	220,183
	7,319,675	2,124,412	1,367,146	1,974,483	1,224,739	1,565,965	555,721	1,045,944	17,178,085
Credit commitments	418,897	390,236	337,265	321,305	120,188	162,835	59,386	266,094	2,076,206
Total maximum credit risk exposure	7,738,572	2,514,648	1,704,411	2,295,788	1,344,927	1,728,800	615,107	1,312,038	19,254,291

The compositions of each geographical distribution above are set out in note 44(b).

(In RMB millions, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(ii) Risk concentrations (continued)

By industry distribution

The credit risk exposures of the Group mainly comprise loans and advances to customers and investments in securities. Details of the composition of the Group's investments in debt securities are set out in note 45(a)(iv) to the financial statements. The composition of the Group's gross loans and advances to customers by industry is analyzed as follows:

	30 June 2013 (unaudited)	31 December 2012 (audited)
Manufacturing	1,526,064	1,455,792
Transportation, storage and postal services	1,256,854	1,154,071
Wholesale and retail	865,125	816,650
Production and supply of electricity, heating, gas and water	610,352	617,734
Real estate	544,272	562,563
Water, environment and public utility management	480,156	468,526
Leasing and commercial services	435,416	398,359
Mining	261,139	243,289
Construction	170,294	153,701
Lodging and catering	182,860	162,971
Science, education, culture and sanitation	95,560	87,450
Others	282,655	211,472
Subtotal for corporate loans and advances	6,710,747	6,332,578
Personal mortgage and business loans	1,871,012	1,660,600
Others	670,228	626,503
Subtotal for personal loans	2,541,240	2,287,103
Discounted bills	185,655	184,011
Total for loans and advances to customers	9,437,642	8,803,692

(iii) Loans and advances to customers

The total credit risk exposures of loans and advances to customers are summarised as follows:

	30 June 2013 (unaudited)	31 December 2012 (audited)
Neither past due nor impaired	9,285,459	8,672,503
Past due but not impaired	70,415	56,614
Impaired	81,768	74,575
	9,437,642	8,803,692
Less: Allowance for impairment losses	(235,619)	(220,403)
	9,202,023	8,583,289

(In RMB millions, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(ii) Loans and advances to customers (continued)

Neither past due nor impaired

The loans and advances to customers of the Group that are neither past due nor impaired are classified as "Pass" or "Special Mention" under the five-tier loan classification system maintained by the Group. Management of the Group considers that these loans are exposed to normal business risk and there was no identifiable objective evidence of impairment for these loans which may incur losses to the Group at the end of the reporting period.

The following table presents the types of loans and advances to customers which are neither past due nor impaired as at the end of the reporting period:

	30 June 2013 (unaudited)			31 December 2012 (audited)		
	Pass	Special Mention	Total	Pass	Special Mention	Total
Unsecured loans	2,649,656	40,920	2,690,576	2,626,242	50,142	2,676,384
Guaranteed loans	1,273,492	38,713	1,312,205	1,197,403	42,074	1,239,477
Loans secured by mortgages	4,000,824	70,948	4,071,772	3,610,019	69,638	3,679,657
Pledged loans	1,188,150	22,756	1,210,906	1,052,280	24,705	1,076,985
	9,112,122	173,337	9,285,459	8,485,944	186,559	8,672,503

Past due but not impaired

The following tables present the ageing analysis of each type of loans and advances to customers of the Group subject to credit risk which are past due but not impaired as at the end of the reporting period:

	30 June 2013 (unaudited)			31 December 2012 (audited)		
	Corporate loans and advances	Personal loans	Total	Corporate loans and advances	Personal loans	Total
Past due for:						
Less than one month	22,488	32,344	54,832	12,010	31,814	43,824
One to two months	73	7,994	8,067	192	7,478	7,670
Two to three months	246	7,270	7,516	53	5,060	5,113
Over three months	—	—	—	5	2	7
Total	22,807	47,608	70,415	12,260	44,354	56,614
Fair value of collateral held	19,824	100,162	119,986	13,313	93,568	106,881

Impaired

Impaired loans and advances are defined as those loans and advances having objective evidence of impairment as a result of one or more events that occur after initial recognition and that event has an impact on the estimated future cash flows of loans and advances that can be reliably estimated. These loans and advances include corporate loans and personal loans which are graded as "Substandard", "Doubtful" or "Loss".

The fair values of collateral that the Group hold relating to loans individually determined to be impaired as at 30 June 2013 amounted to RMB19,830 million (31 December 2012: RMB13,994 million). The collateral mainly consists of land and buildings, equipment and others.

(In RMB millions, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iii) Loans and advances to customers (continued)

Renegotiated loans and advances to customers

The Group has formulated a set of loan restructuring policies to renegotiate the contractual terms with customers, to maximise the collectability of loans and to manage customer relationships.

The carrying amount of renegotiated loans and advances to customers is as follows:

	30 June 2013 (unaudited)	31 December 2012 (audited)
Renegotiated loans and advances to customers	7,932	7,188
Impaired loans and advances to customers included in above	4,022	4,761

Collateral repossessed

During the period, the Group took possession of collateral held as security with a carrying amount of RMB510 million (six months ended 30 June 2012: RMB139 million). Such collateral mainly comprises land and buildings, equipment and others.

(iv) Debt securities

The credit risk of debt securities mainly arises from the risk that the issuer might default on a payment or go into liquidation. Debt securities by different types of issuers are generally subject to different degrees of credit risk.

The following tables present an analysis of the Group's total credit risk exposures of debt securities by type of issuer and by investment:

30 June 2013 (unaudited)

	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets held-for-trading	Financial assets designated at fair value through profit or loss	Total
Neither past due nor impaired						
Governments and central banks	95,104	1,264,856	97,404	1,453	1,965	1,460,782
Policy banks	35,090	1,359,114	326,058	540	33,544	1,754,346
Public sector entities	2,020	14,212	48,446	2,248	2,332	69,258
Banks and other financial institutions	183,127	14,144	147,272	1,651	4,887	351,081
Corporate entities	54,201	21,795	393,342	37,879	43,604	550,821
Subtotal	369,542	2,674,121	1,012,522	43,771	86,332	4,186,288
Impaired (i)						
Banks and other financial institutions	—	172	80	—	—	252
Corporate entities	—	30	—	—	—	30
	—	202	80	—	—	282
Less: Allowance for impairment losses	—	(159)	—	—	—	(159)
Subtotal	—	43	80	—	—	123
Total	369,542	2,674,164	1,012,602	43,771	86,332	4,186,411

(In RMB millions, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iv) Debt securities (continued)

The following tables present an analysis of the Group's total credit risk exposures of debt securities by type of issuer and by investment (continued):

31 December 2012 (audited)

	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets held-for-trading	Financial assets designated at fair value through profit or loss	Total
Neither past due nor impaired						
Governments and central banks	101,276	1,260,176	149,997	1,525	1,118	1,514,092
Policy banks	35,090	1,271,887	252,416	516	28,040	1,587,949
Public sector entities	2,500	22,508	66,048	190	3,354	94,600
Banks and other financial institutions	204,406	12,165	116,975	890	5,738	340,174
Corporate entities	21,443	9,533	328,802	17,196	65,210	442,184
Subtotal	364,715	2,576,269	914,238	20,317	103,460	3,978,999
Impaired (i)						
Banks and other financial institutions	—	723	—	—	—	723
Corporate entities	—	30	106	—	—	136
	—	753	106	—	—	859
Less: Allowance for impairment losses	—	(460)	—	—	—	(460)
Subtotal	—	293	106	—	—	399
Total	364,715	2,576,562	914,344	20,317	103,460	3,979,398

(i) Impaired debt securities above are all determined based on individual assessments. In determining whether a debt security is impaired, the Group considers the evidence of a loss event and the decreases in estimated future cash flows. No collateral was held by the Group as security of the impaired debt securities.

(b) Liquidity risk

Liquidity risk is the risk that capital will not be sufficient or funds will not be raised at a reasonable cost in a timely manner to meet the need of asset growth or repayment of debts due, although the Group remains solvent. This may arise from amount or maturity mismatches of assets and liabilities.

The Group manages its liquidity risk through the Asset and Liability Management Department and aims at:

- Optimising the structure of assets and liabilities;
- Maintaining the stability of the deposit base;
- Projecting cash flows and evaluating the level of current assets; and
- In terms of liquidity of the branches, maintaining an efficient internal fund transfer mechanism.

(In RMB millions, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

The Group expects the remaining maturity of its financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

(i) Analysis of the remaining maturity of the Group's assets and liabilities is set out below:

30 June 2013 (unaudited)

	Overdue/ repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated (iii)	Total
Assets:								
Cash and balances with central banks	557,934	—	—	—	—	—	2,743,057	3,300,991
Due from banks and other financial institutions (i)	256,323	433,656	210,352	181,259	20,324	1,159	—	1,103,073
Financial assets held for trading	—	1,686	5,843	32,130	3,337	775	164	43,935
Financial assets designated at fair value through profit or loss	588	46,458	84,104	12,320	102,632	9,527	12,587	268,216
Derivative financial assets	—	3,979	9,814	10,335	2,044	777	—	26,949
Loans and advances to customers	25,756	686,717	869,002	2,271,339	2,113,226	3,195,891	40,092	9,202,023
Financial investments	—	98,462	167,481	380,246	2,021,829	1,398,365	3,730	4,070,113
Investments in associates and joint ventures	—	—	—	—	—	—	28,983	28,983
Property and equipment	—	—	—	—	—	—	142,869	142,869
Others	138,539	219,485	53,540	58,773	11,689	12,734	41,441	536,201
Total assets	979,140	1,490,443	1,400,136	2,946,402	4,275,081	4,619,228	3,012,923	18,723,353
Liabilities:								
Due to central banks	—	—	—	100	617	—	—	717
Financial liabilities designated at fair value through profit or loss	57,323	228,335	97,861	4,143	1,841	—	—	389,503
Derivative financial liabilities	—	4,006	9,125	7,485	1,951	1,284	—	23,851
Due to banks and other financial institutions (ii)	660,546	475,021	283,702	159,937	19,462	10,646	—	1,609,314
Certificates of deposit	—	8,750	28,215	14,254	4,801	—	—	56,020
Due to customers	7,465,105	971,315	1,098,734	3,475,094	1,479,208	18,946	—	14,508,402
Debt securities issued	462	1,550	8,794	15,991	66,033	157,373	—	250,203
Others	150,152	316,666	43,608	177,221	8,894	13,709	—	710,250
Total liabilities	8,333,588	2,005,643	1,570,039	3,854,225	1,582,807	201,958	—	17,548,260
Net liquidity gap	(7,354,448)	(515,200)	(169,903)	(907,823)	2,692,274	4,417,270	3,012,923	1,175,093

(i) Includes reverse repurchase agreements.

(ii) Includes repurchase agreements.

(iii) Includes loans and advances to customers and bond investments that are impaired or not impaired but overdue for more than one month.

(In RMB millions, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

(i) Analysis of the remaining maturity of the Group's assets and liabilities is set out below: (continued)

31 December 2012 (audited)

	Overdue/ repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated (iii)	Total
Assets:								
Cash and balances with central banks	596,027	—	—	—	—	—	2,578,916	3,174,943
Due from banks and other financial institutions (i)	106,092	647,390	206,587	112,412	108,213	335	—	1,181,029
Financial assets held for trading	—	488	2,467	10,815	6,091	456	146	20,463
Financial assets designated at fair value through profit or loss	9	29,380	47,522	17,518	87,014	10,469	9,296	201,208
Derivative financial assets	105	1,189	3,194	5,703	2,785	1,780	—	14,756
Loans and advances to customers	17,189	599,599	746,692	2,308,352	1,946,681	2,927,776	37,000	8,583,289
Financial investments	—	29,975	57,999	766,932	1,709,631	1,293,623	4,056	3,862,216
Investments in associates and joint ventures	—	—	—	—	—	—	33,284	33,284
Property and equipment	—	—	—	—	—	—	135,889	135,889
Others	165,191	35,938	28,595	50,748	6,789	12,931	34,948	335,140
Total assets	884,613	1,343,959	1,093,056	3,272,480	3,867,204	4,247,370	2,833,535	17,542,217
Liabilities:								
Due to central banks	—	219	18	50	846	—	—	1,133
Financial liabilities designated at fair value through profit or loss	52,346	160,691	103,980	818	1,907	—	—	319,742
Derivative financial liabilities	11	2,396	1,448	4,595	3,024	1,787	—	13,261
Due to banks and other financial institutions (ii)	581,632	746,416	190,709	138,616	64,405	2,791	—	1,724,569
Certificates of deposit	—	6,323	2,895	27,376	1,415	—	—	38,009
Due to customers	7,076,646	818,534	1,222,968	2,964,264	1,533,049	27,449	—	13,642,910
Debt securities issued	—	581	2,516	7,970	63,721	157,398	—	232,186
Others	182,562	48,284	29,809	129,488	40,764	11,041	—	441,948
Total liabilities	7,893,197	1,783,444	1,554,343	3,273,177	1,709,131	200,466	—	16,413,758
Net liquidity gap	(7,008,584)	(439,485)	(461,287)	(697)	2,158,073	4,046,904	2,833,535	1,128,459

(i) Includes reverse repurchase agreements.

(ii) Includes repurchase agreements.

(iii) Includes loans and advances to customers and bond investments that are impaired or not impaired but overdue for more than one month.

(In RMB millions, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

(ii) Maturity analysis of contractual undiscounted cash flows

The tables below summarise the maturity profile of the Group's financial instruments based on the contractual undiscounted cash flows. The balances of some items in the tables below are different from the balances on the statement of financial position as the tables below incorporate all cash flows relating to both principal and interest. The Group's expected cash flows on these instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

30 June 2013 (unaudited)

	Overdue/ repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated (iii)	Total
Non-derivative cash flows:								
Financial assets:								
Cash and balances with central banks	557,934	—	1,234	—	—	—	2,743,057	3,302,225
Due from banks and other financial institutions (i)	256,668	444,879	212,992	185,191	22,451	1,364	—	1,123,545
Financial assets held for trading	—	1,979	5,915	33,691	3,185	1,012	164	45,946
Financial assets designated at fair value through profit or loss	588	154,323	36,758	14,949	62,925	10,601	12,587	292,731
Loans and advances to customers (ii)	26,289	746,068	1,008,036	2,723,134	3,564,539	4,620,560	87,434	12,776,060
Financial investments	—	118,926	206,876	524,216	2,319,467	1,668,004	3,730	4,841,219
Others	159,055	207,829	527	1,280	451	13	8,898	378,053
	1,000,534	1,674,004	1,472,338	3,482,461	5,973,018	6,301,554	2,855,870	22,759,779

(i) Includes reverse repurchase agreements.

(ii) The maturity profile of the renegotiated loans' contractual undiscounted cash flows is determined according to the negotiated terms.

(iii) Includes loans and advances to customers and bond investments that are impaired or not impaired but overdue for more than one month.

(In RMB millions, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

(ii) Maturity analysis of contractual undiscounted cash flows (continued)

30 June 2013 (unaudited)

	Overdue/ repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Non-derivative cash flows:								
Financial liabilities:								
Due to central banks	—	—	—	103	688	—	—	791
Financial liabilities designated at fair value through profit or loss	57,323	229,094	98,473	4,255	2,023	—	—	391,168
Due to banks and other financial institutions (i)	661,170	489,368	295,270	164,357	21,403	12,791	—	1,644,359
Certificates of deposit	—	8,773	28,516	14,459	5,353	—	—	57,101
Due to customers	7,467,110	982,988	1,127,993	3,605,412	1,615,313	22,310	—	14,821,126
Debt securities issued	462	3,074	10,310	22,834	99,335	227,893	—	363,908
Others	85,162	2,739	509	39,984	273	5,662	—	134,329
	8,271,227	1,716,036	1,561,071	3,851,404	1,744,388	268,656	—	17,412,782
Derivative cash flows:								
Derivative financial instruments settled on net basis	—	3	(3)	309	(74)	(499)	—	(264)
Derivative financial instruments settled on gross basis								
— Cash inflow	—	470,842	397,586	634,373	113,778	1,770	—	1,618,349
— Cash outflow	—	(468,852)	(371,476)	(631,902)	(112,574)	(1,768)	—	(1,586,572
	—	1,990	26,110	2,471	1,204	2	—	31,777

(i) Includes repurchase agreements.

(In RMB millions, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

(ii) Maturity analysis of contractual undiscounted cash flows (continued)

31 December 2012 (audited)

	Overdue/ repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated (iii)	Total
Non-derivative cash flows:								
Financial assets:								
Cash and balances with central banks	596,027	—	1,316	—	—	—	2,578,916	3,176,259
Due from banks and other financial institutions (i)	106,650	648,657	208,535	115,129	118,200	433	—	1,197,604
Financial assets held for trading	—	500	2,605	11,578	7,098	521	146	22,448
Financial assets designated at fair value through profit or loss	9	29,844	48,967	21,752	99,404	11,757	9,296	221,029
Loans and advances to customers (ii)	17,944	677,978	881,125	2,749,973	3,172,666	4,522,308	76,275	12,098,269
Financial investments	—	35,160	79,114	891,374	2,057,438	1,539,585	4,926	4,607,597
Others	154,899	11,269	10,440	8,124	371	4,009	664	189,776
	875,529	1,403,408	1,232,102	3,797,930	5,455,177	6,078,613	2,670,223	21,512,982

(i) Includes reverse repurchase agreements.

(ii) The maturity profile of the renegotiated loans' contractual undiscounted cash flows is determined according to the negotiated terms.

(iii) Includes loans and advances to customers and bond investments that are impaired or not impaired but overdue for more than one month.

31 December 2012 (audited)

	Overdue/ repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Non-derivative cash flows:								
Financial liabilities:								
Due to central banks	—	220	22	55	852	—	—	1,149
Financial liabilities designated at fair value through profit or loss	52,346	161,202	104,881	822	1,952	—	—	321,203
Due to banks and other financial institutions (i)	582,655	748,231	192,119	140,817	65,406	4,054	—	1,733,282
Certificates of deposit	—	6,378	3,108	27,674	1,531	—	—	38,691
Due to customers	7,079,079	838,220	1,258,654	3,069,964	1,660,171	30,817	—	13,936,905
Debt securities issued	—	605	2,546	17,789	98,579	199,755	—	319,274
Others	160,629	29	23	225	1,021	10,325	—	172,252
	7,874,709	1,754,885	1,561,353	3,257,346	1,829,512	244,951	—	16,522,756
Derivative cash flows:								
Derivative financial instruments settled on net basis	—	2	(44)	(128)	77	(83)	—	(176)
Derivative financial instruments settled on gross basis								
— Cash inflow	30,968	388,784	311,498	537,367	53,489	—	—	1,322,106
— Cash outflow	(30,735)	(382,958)	(308,246)	(535,419)	(53,933)	—	—	(1,311,291)
	233	5,826	3,252	1,948	(444)	—	—	10,815

(i) Includes repurchase agreements.

(In RMB millions, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

(iii) Analysis of credit commitments by contractual expiry date

Management does not expect all of the commitments will be drawn before the expiry of the commitments.

	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Total
30 June 2013 (unaudited)							
Credit commitments	786,844	154,587	275,870	555,103	285,438	115,688	2,173,530
31 December 2012 (audited)							
Credit commitments	635,824	143,048	278,689	510,723	287,642	220,280	2,076,206

(c) Market risk

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk arises from both the Group's trading and non-trading businesses.

The Group is primarily exposed to structural interest rate risk arising from commercial banking and position risk arising from treasury transactions. Interest rate risk largely arises from mismatches between the repricing dates of interest-generating assets and interest-bearing liabilities.

The Group's currency risk mainly results from the risk arising from exchange rate fluctuations on its foreign exchange exposures. Foreign exchange exposures include the mismatch of foreign exchange assets and liabilities, and off-balance sheet foreign exchange positions arising from derivative transactions.

The Group considers the market risk arising from stock prices fluctuations in respect of its investment portfolios as immaterial.

Sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major market risk management tools used by the Group. The Bank monitors market risk separately in respect of trading and other non-trading portfolios. The Value-at-risk ("VaR") analysis is a major tool used by the Bank to measure and monitor the market risk of its trading portfolios. The following sections include a VaR analysis by risk type of the Group's trading portfolios including Head Office and all overseas branches and a sensitivity analysis based on the Group's currency risk exposure and interest rate risk exposure (both trading and non-trading portfolios) (six months ended 30 June 2012: VaR was calculated at the Head Office and six overseas branches including Singapore Branch, New York Branch, Seoul Branch, Tokyo Branch, Hanoi Branch, and Sydney Branch).

(In RMB millions, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(i) VaR

VaR analysis is a statistical technique which estimates the potential maximum losses that could occur on risk positions taken due to movements in interest rates, foreign exchange rates and commodity prices over a specified time horizon and at a given level of confidence. The Bank adopts a historical simulation model to calculate and monitor trading portfolio VaR with 250 days' historical market data (with a 99% confidence level, and one-day holding period) on a daily basis.

A summary of VaR by risk type of the Group's trading portfolios is as follows:

	Six months ended 30 June 2013 (unaudited)			
	30 June 2012	**Average**	**Highest**	**Lowest**
Interest rate risk	74	26	78	13
Foreign exchange risk	37	29	51	18
Commodity risk	1	3	12	0
Total portfolio VaR	68	37	80	26

	Six months ended 30 June 2012 (unaudited)			
	30 June 2012	**Average**	**Highest**	**Lowest**
Interest rate risk	36	34	43	27
Foreign exchange risk	31	17	37	3
Commodity risk	14	9	20	1
Total portfolio VaR	47	36	48	29

VaR for each risk factor is the derived largest potential loss due to fluctuations solely in that risk factor. As there was a diversification effect due to the correlation amongst the risk factors, the individual VaR did not add up to the total portfolio VaR.

Although VaR is an important tool for measuring market risk under normal market environment, the assumptions on which the model is based do give rise to some limitations, mainly including the following:

(1) VaR does not reflect liquidity risk. In the VaR model, a one-day holding period assumes that it is possible to hedge or dispose of positions within that period without restriction, the price of the financial instruments will fluctuate in the given range, and the correlation between these market prices will remain unchanged. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully;

(2) Even though positions may change throughout the day, VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level; and

(3) VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, especially those of an exceptional nature due to significant market moves.

(In RMB millions, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(ii) Currency risk

The Group conducts it businesses mainly in RMB, with certain transactions denominated in USD, HK$ and, to a lesser extent, other currencies. Transactions in foreign currencies mainly arise from the Group's treasury operations, foreign exchange dealings and overseas investments.

The exchange rate of RMB to USD is managed under a floating exchange rate system. The HK$ exchange rate has been pegged to the USD and therefore the exchange rate of RMB to HK$ has fluctuated in line with the changes in the exchange rate of RMB to USD.

The Group manages its currency risk through various methods, including limitation management and risk hedging to hedge foreign exchange risk, and performing currency risk sensitivity analysis and stress testing regularly.

The tables below indicate a sensitivity analysis of exchange rate changes of the currencies to which the Group had significant exposure on its monetary assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement in the currency rates against RMB, with all other variables held constant, on profit before tax and equity. A negative amount in the table reflects a potential net reduction in profit before tax or equity, while a positive amount reflects a potential net increase. This effect, however, is based on the assumption that the Group's foreign exchange exposures as at the period/year end are kept unchanged and, therefore, have not incorporated actions that would be taken by the Group to mitigate the adverse impact of this foreign exchange risk.

		Effect on profit before tax		Effect on equity	
Currency	Change in currency rate	30 June 2013 (unaudited)	31 December 2012 (audited)	30 June 2013 (unaudited)	31 December 2012 (audited)
USD	-1%	(104)	(172)	(58)	(58)
HK$	-1%	342	62	(496)	(375)

While the table above indicates the effect on profit before tax and equity of 1% depreciation of USD and HK$, there will be an opposite effect with the same amount if the currencies appreciate by the same percentage.

(In RMB millions, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(ii) Currency risk (continued)

A breakdown of the assets and liabilities analyzed by currency is as follows:

30 June 2013 (unaudited)

	RMB	USD (equivalent to RMB)	HK$ (equivalent to RMB)	Others (equivalent to RMB)	Total
Assets:					
Cash and balances with central banks	3,222,786	42,626	18,263	17,316	3,300,991
Due from banks and other financial institutions (i)	667,160	366,437	5,775	63,701	1,103,073
Financial assets held for trading	41,810	999	483	643	43,935
Financial assets designated at fair value though profit or loss	267,297	333	—	586	268,216
Derivative financial assets	11,131	15,437	24	357	26,949
Loans and advances to customers	8,333,884	671,234	115,706	81,199	9,202,023
Financial investments	3,969,844	74,536	3,992	21,741	4,070,113
Investments in associates and joint ventures	108	122	68	28,685	28,983
Property and equipment	126,137	14,571	722	1,439	142,869
Others	440,597	31,539	2,535	61,530	536,201
Total assets	17,080,754	1,217,834	147,568	277,197	18,723,353
Liabilities:					
Due to central banks	100	—	—	617	717
Financial liabilities designated at fair value through profit or loss	330,332	1,858	1	57,312	389,503
Derivative financial liabilities	5,566	17,115	48	1,122	23,851
Due to banks and other financial institutions (ii)	1,026,819	512,246	8,467	61,782	1,609,314
Certificates of deposit	15,624	28,635	3,265	8,496	56,020
Due to customers	13,931,127	284,704	169,052	123,519	14,508,402
Debt securities issued	215,093	21,476	1,277	12,357	250,203
Others	676,399	18,313	2,576	12,962	710,250
Total liabilities	16,201,060	884,347	184,686	278,167	17,548,260
Net position	879,694	333,487	(37,118)	(970)	1,175,093
Credit commitments	1,625,032	422,539	64,943	61,016	2,173,530

(i) Includes reverse repurchase agreements.

(ii) Includes repurchase agreements.

(In RMB millions, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(ii) Currency risk (continued)

A breakdown of the assets and liabilities analyzed by currency is as follows (continued):

31 December 2012 (audited)

	RMB	USD (equivalent to RMB)	HK$ (equivalent to RMB)	Others (equivalent to RMB)	Total
Assets:					
Cash and balances with central banks	3,099,725	36,778	10,617	27,823	3,174,943
Due from banks and other financial institutions (i)	725,041	371,620	15,730	68,638	1,181,029
Financial assets held for trading	18,458	460	991	554	20,463
Financial assets designated at fair value though profit or loss	200,777	340	82	9	201,208
Derivative financial assets	7,186	2,373	171	5,026	14,756
Loans and advances to customers	7,827,810	575,977	108,872	70,630	8,583,289
Financial investments	3,772,068	63,498	3,980	22,670	3,862,216
Investments in associates and joint ventures	121	719	184	32,260	33,284
Property and equipment	118,917	15,490	488	994	135,889
Others	220,571	44,129	7,503	62,937	335,140
Total assets	15,990,674	1,111,384	148,618	291,541	17,542,217
Liabilities:					
Due to central banks	68	219	—	846	1,133
Financial liabilities designated at fair value through profit or loss	265,489	1,906	1	52,346	319,742
Derivative financial liabilities	2,017	10,132	71	1,041	13,261
Due to banks and other financial institutions (ii)	1,175,996	450,420	1,034	97,119	1,724,569
Certificates of deposit	10,646	14,116	4,444	8,803	38,009
Due to customers	13,076,332	250,042	137,219	179,317	13,642,910
Debt securities issued	209,050	18,420	549	4,167	232,186
Others	389,533	34,441	4,164	13,810	441,948
Total liabilities	15,129,131	779,696	147,482	357,449	16,413,758
Net position	861,543	331,688	1,136	(65,908)	1,128,459
Credit commitments	1,566,440	298,301	140,770	70,695	2,076,206

(i) Includes reverse repurchase agreements.

(ii) Includes repurchase agreements.

(In RMB millions, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(iii) Interest rate risk

The Group's interest rate risk mainly arises from the mismatches between the repricing dates of interest-generating assets and interest-bearing liabilities. The Group's interest-generating assets and interest-bearing liabilities are mainly denominated in RMB.

The Group manages its interest rate risk by:

- Regularly monitoring the macroeconomic factors that may have impact on the PBOC benchmark interest rates;
- Optimising the differences in timing between contractual repricing (maturities) of interest-generating assets and interest-bearing liabilities; and
- Managing the deviation of the pricing of interest-generating assets and interest-bearing liabilities from the PBOC benchmark interest rates.

A principal part of the Group's management of interest rate risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modeling). The Group aims to mitigate the impact of prospective interest rate movements which could reduce future net interest income, while balancing the cost of such hedging on the current revenue.

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's net interest income and equity.

The effect on the net interest income is the effect of the assumed changes in interest rates on the net interest income, arising from the financial assets and financial liabilities held at period/year end that are subject to repricing within the coming year, including the effect of hedging instruments. The effect on equity is the effect of the assumed changes in interest rates on other comprehensive income, calculated by revaluing fixed rate available-for-sale financial assets held at period/year end, including the effect of any associated hedges.

	Effect on net interest income		Effect on equity	
Change in basis points	**30 June 2013 (unaudited)**	**31 December 2012 (audited)**	**30 June 2013 (unaudited)**	**31 December 2012 (audited)**
+100 basis points	(15,624)	(6,994)	(26,343)	(22,489)
- 100 basis points	15,624	6,994	28,068	23,851

The interest rate sensitivities set out in the tables above are for illustration only and are based on simplified scenarios. The figures represent the effect of the pro forma movements in net interest income and equity based on the projected yield curve scenarios and the Group and the Bank's current interest rate risk profile. This effect, however, does not incorporate actions that would be taken by management to mitigate the impact of interest rate risk. The projections above also assume that interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on net interest income and equity in the case where some rates change while others remain unchanged.

(In RMB millions, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(iii) Interest rate risk (continued)

The tables below summarise the contractual repricing or maturity date, whichever is earlier, of the Group's assets and liabilities:

30 June 2013 (unaudited)

	Less than three months	Three months to one year	One to five years	More than five years	Non-interest-bearing	Total
Assets:						
Cash and balances with central banks	2,895,226	—	—	—	405,765	3,300,991
Due from banks and other financial institutions (i)	912,954	166,876	18,636	614	3,993	1,103,073
Financial assets held for trading	8,372	32,130	2,544	725	164	43,935
Financial assets designated at fair value through profit or loss	141,198	12,320	96,260	5,264	13,174	268,216
Derivative financial assets	—	—	—	—	26,949	26,949
Loans and advances to customers	3,429,902	5,441,816	122,676	169,085	38,544	9,202,023
Financial investments	650,896	351,091	1,743,810	1,320,708	3,608	4,070,113
Investments in associates and joint ventures	—	—	—	—	28,983	28,983
Property and equipment	—	—	—	—	142,869	142,869
Others	34,297	1,000	17	1	500,886	536,201
Total assets	8,072,845	6,005,233	1,983,943	1,496,397	1,164,935	18,723,353
Liabilities:						
Due to central banks	—	100	617	—	—	717
Financial liabilities designated at fair value through profit or loss	326,196	4,143	1,841	—	57,323	389,503
Derivative financial liabilities	—	—	—	—	23,851	23,851
Due to banks and other financial institutions (ii)	1,404,503	169,883	12,271	3,206	19,451	1,609,314
Certificates of deposit	36,965	14,254	4,801	—	—	56,020
Due to customers	9,219,014	3,479,864	1,484,809	16,273	308,442	14,508,402
Debt securities issued	35,434	17,825	39,555	157,389	—	250,203
Others	—	—	—	—	710,250	710,250
Total liabilities	11,022,112	3,686,069	1,543,894	176,868	1,119,317	17,548,260
Interest rate mismatch	(2,949,267)	2,319,164	440,049	1,319,529	N/A	N/A

(i) Includes reverse repurchase agreements.

(ii) Includes repurchase agreements.

(In RMB millions, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(iii) Interest rate risk (continued)

The tables below summarise the contractual repricing or maturity date, whichever is earlier, of the Group's assets and liabilities (continued):

31 December 2012 (audited)

	Less than three months	Three months to one year	One to five years	More than five years	Non-interest-bearing	Total
Assets:						
Cash and balances with central banks	2,736,423	—	—	—	438,520	3,174,943
Due from banks and other financial institutions (i)	979,890	166,681	31,010	335	3,113	1,181,029
Financial assets held for trading	3,831	10,707	5,493	286	146	20,463
Financial assets designated at fair value through profit or loss	84,272	19,330	77,366	7,502	12,738	201,208
Derivative financial assets	—	—	—	—	14,756	14,756
Loans and advances to customers	5,041,876	3,363,398	22,392	117,512	38,111	8,583,289
Financial investments	276,967	939,062	1,446,678	1,195,889	3,620	3,862,216
Investments in associates and joint ventures	—	—	—	—	33,284	33,284
Property and equipment	—	—	—	—	135,889	135,889
Others	30,406	813	—	—	303,921	335,140
Total assets	9,153,665	4,499,991	1,582,939	1,321,524	984,098	17,542,217
Liabilities:						
Due to central banks	237	50	846	—	—	1,133
Financial liabilities designated at fair value through profit or loss	266,578	818	—	—	52,346	319,742
Derivative financial liabilities	—	—	—	—	13,261	13,261
Due to banks and other financial institutions (ii)	1,523,838	172,359	9,461	1,199	17,712	1,724,569
Certificates of deposit	22,360	14,359	1,290	—	—	38,009
Due to customers	8,873,020	2,962,878	1,527,808	23,100	256,104	13,642,910
Debt securities issued	7,218	9,460	92,442	123,066	—	232,186
Others	—	—	—	—	441,948	441,948
Total liabilities	10,693,251	3,159,924	1,631,847	147,365	781,371	16,413,758
Interest rate mismatch	(1,539,586)	1,340,067	(48,908)	1,174,159	N/A	N/A

(i) Includes reverse repurchase agreements.

(ii) Includes repurchase agreements.

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

(d) Capital management

The Group's objectives on capital management are:

- Maintain reasonable capital adequacy ratio to continuously meet regulatory requirements on capital. Keeping stable capital base to ensure the Group's business growth and the implementation of business development and strategic plan in order to achieve comprehensive, coordinated and sustainable development;
- Comply with laws and regulations regarding capital, gradually adopt the advanced measurement approaches, improve the internal capital adequacy assessment process (ICAAP), disclose information on capital management, cover all types of risks, and ensure the stable operation of the Group;
- Integrated the quantified results of various risks into daily management, establish a bank value management system with economic capital as the core tool, improve the policy, process and application management system, strengthen the capital constraint and incentive mechanism, enhance the product pricing and decision-making capabilities, and improve the capital allocation efficiency; and
- Make reasonable use of various capital instruments, continuously enhance capital strengths, refine capital structure, improve capital quality, reduce capital cost, and maximize shareholder returns.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the risk profile of its activities. In order to maintain or adjust the capital structure, the Group may adjust its profit distribution policy, issue or repurchase own shares, other tier-one capital instruments, qualifying tier-two capital instruments and convertible bonds, etc.

The Group's Management monitors the capital adequacy and the use of regulatory capital regularly based on regulations issued by the CBRC. The required information is respectively filed with the CBRC by the Group and the Bank semi-annually and quarterly.

From 1 January 2013, the Group commenced to calculate the capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and other relevant regulations promulgated by the CBRC. As at 31 December 2012, the Group calculated the capital adequacy ratios in accordance with "Regulations Governing Capital Adequacy of Commercial Banks" and other relevant regulations promulgated by the CBRC.

The CBRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)". For systematically important banks, CBRC requires minimum core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio of 8.50%, 9.50% and 11.50%, respectively. For non-systematically important banks, CBRC requires corresponding minimum ratios of 7.50%, 8.50% and 10.50%, respectively. In addition, overseas entities are directly regulated by local banking regulatory commissions, and the requirements of capital adequacy ratios differ by countries.

The risk-weighted assets of on-balance sheet exposures are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantee. The similar calculation is adopted for off-balance sheet exposures, with adjustments made to reflect the more contingent nature of any potential loss. The risk-weighted assets of counterparty credit risk for over-the-counter (OTC) derivatives are the summation of default risk and credit value adjustment (CVA) risk capital charges. Market risk-weighted assets are calculated using the standardized approach. Basic indicator approach is used to calculate the risk weighted assets of operational risk.

The Group calculates the following core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and relevant requirements promulgated by the CBRC. The requirements pursuant to these regulations may have certain differences comparing to those applicable in Hong Kong and other jurisdictions.

The capital adequacy ratios and related components of the Group are calculated in accordance with the statutory financial statements of the Group prepared under PRC GAAP. During the period, the Group has complied in full with all its externally imposed capital requirements.

(In RMB millions, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

(d) Capital management (continued)

The capital adequacy ratios calculated in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and relevant requirements promulgated by the CBRC are as follows:

	30 June 2013 (unaudited)
Core tier-one capital	1,173,434
Paid-in capital	349,650
Valid portion of capital reserve	128,086
Surplus reserve	98,195
General reserve	189,296
Retained profits	427,043
Valid portion of non-controlling interests	1,831
Others (i)	(20,667)
Core tier-one capital deductions:	8,735
Goodwill	8,209
Other intangible assets other than land use right	1,704
Cumulative cash flow hedge reserves that relate to the hedging of items that are not fair valued on the balance sheet	(3,877)
Investments in core tier-one capital instruments issued by financial sector entities that are under control but not subject to consolidation	2,699
Net core tier-one capital	1,164,699
Other tier-one capital (ii)	23
Net tier-one capital	1,164,722
Tier-two capital	312,226
Valid portion of tier-two capital instruments issued and related premium	186,842
Surplus provision for loan impairment	125,301
Valid portion of non-controlling interests	83
Tier-two capital deductions	20,400
Significant capital investments in tier-two capital instruments issued by financial sector entities that are not subject to consolidation	20,400
Net capital base	1,456,548
Risk-weighted assets	11,108,508
Core tier-one capital adequacy ratio	10.48%
Tier-one capital adequacy ratio	10.48%
Capital adequacy ratio	13.11%

(i) Others are foreign currency translation reserve.

(ii) As at 30 June 2013, the Group's other tier-one capital is the valid portion of non-controlling interests.

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

(d) Capital management (continued)

The Group calculates the capital adequacy ratios as at 31 December 2012 in accordance with "Regulations Governing Capital Adequacy of Commercial Banks" and relevant requirements promulgated by the CBRC.

	31 December 2012 (audited)
Core capital adequacy ratio	10.62%
Capital adequacy ratio	13.66%

46. FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

(In RMB millions, unless otherwise stated)

46. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments recorded at fair value

The following tables show an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	30 June 2013 (unaudited)			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Financial assets held for trading				
Equity investments	164	—	—	164
Debt securities	1,743	42,028	—	43,771
	1,907	42,028	—	43,935
Financial assets designated at fair value through profit or loss				
Debt securities	—	86,332	—	86,332
Other debt instruments	—	133,569	—	133,569
Others	—	48,315	—	48,315
	—	268,216	—	268,216
Derivative financial assets				
Exchange rate contracts	—	13,158	123	13,281
Interest rate contracts	—	1,549	875	2,424
Commodity derivatives and others	—	11,181	63	11,244
	—	25,888	1,061	26,949
Available-for-sale financial assets				
Equity investments	1,800	624	—	2,424
Debt securities	89,301	921,035	2,266	1,012,602
Other debt instruments	—	10,198	—	10,198
	91,101	931,857	2,266	1,025,224
	93,008	1,267,989	3,327	1,364,324
Financial liabilities:				
Financial liabilities designated at fair value through profit or loss				
Wealth management products	—	270,345	—	270,345
Structured deposits	—	59,923	—	59,923
Financial liabilities related to precious metals	—	57,324	—	57,324
Other debt securities issued	—	1,841	—	1,841
Others	—	70	—	70
	—	389,503	—	389,503
Derivative financial liabilities				
Exchange rate contracts	—	11,038	182	11,220
Interest rate contracts	—	1,810	878	2,688
Commodity derivatives and others	—	9,880	63	9,943
	—	22,728	1,123	23,851
	—	412,231	1,123	413,354

(In RMB millions, unless otherwise stated)

46. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments recorded at fair value (continued)

The following tables show an analysis of financial instruments recorded at fair value by level of the fair value hierarchy (continued):

	31 December 2012 (audited)			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets held for trading				
Equity investments	146	—	—	146
Debt securities	1,955	18,362	—	20,317
	2,101	18,362	—	20,463
Financial assets designated at fair value through profit or loss				
Debt securities	341	103,119	—	103,460
Other debt instruments	—	85,010	—	85,010
Others	—	12,738	—	12,738
	341	200,867	—	201,208
Derivative financial assets				
Exchange rate contracts	—	10,674	178	10,852
Interest rate contracts	—	2,422	896	3,318
Commodity derivatives and others	—	277	309	586
	—	13,373	1,383	14,756
Available-for-sale financial assets				
Equity investments	2,479	176	—	2,655
Debt securities	54,237	859,092	1,015	914,344
Other debt instruments	—	2,799	—	2,799
	56,716	862,067	1,015	919,798
	59,158	1,094,669	2,398	1,156,225
Financial liabilities:				
Financial liabilities designated at fair value through profit or loss				
Wealth management products	—	205,064	—	205,064
Structured deposits	—	60,425	—	60,425
Financial liabilities related to precious metals	—	52,346	—	52,346
Other debt securities issued	—	1,907	—	1,907
	—	319,742	—	319,742
Derivative financial liabilities				
Exchange rate contracts	—	8,017	180	8,197
Interest rate contracts	—	2,735	943	3,678
Commodity derivatives and others	—	1,310	76	1,386
	—	12,062	1,199	13,261
	—	331,804	1,199	333,003

46. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments recorded at fair value (continued)

The following is a description of the fair value of the financial instruments recorded at fair value which are determined using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Financial investments

Financial investments valued using a valuation technique consists of certain debt securities and asset-backed securities. The Group values such securities in use of a discounted cash flow analysis which incorporates either only observable data or both observable and non-observable data. Observable inputs include assumptions regarding current interest rates; unobservable inputs include assumptions regarding expected future default rates, prepayment rates and market liquidity discounts.

A majority of the debt securities classified as level 2 are RMB bonds. The fair value of these bonds are determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd., which are determined based on a valuation technique for which all significant inputs are observable market data.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps contracts, forward and swap contracts, etc. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate yield curves.

Derivatives valued using a valuation technique with significant non-market observable inputs are primarily certain structured products. These derivatives are valued using models. Which calculate present value such as the binomial model for options. The models incorporate various non-observable assumptions such as market rate volatilities.

Other liabilities designated at fair value through profit or loss

For unquoted other liabilities designated at fair value through profit or loss, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity adjusted for market liquidity and credit spreads.

(In RMB millions, unless otherwise stated)

46. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Movement in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing balance of level 3 financial assets and liabilities which are recorded at fair value and the movement during the period:

	As at 1 January 2013	Total gains/(losses) recorded in profit or loss	Total losses recorded in other comprehensive income	Additions	Disposals	Settlements	Transfers to level 2 from level 3	As at 30 June 2013 (unaudited)
Financial assets:								
Derivative financial assets								
Exchange rate contracts	178	(53)	—	—	—	(2)	—	123
Interest rate contracts	896	(40)	—	44	—	(20)	(5)	875
Commodity derivatives and others	309	37	—	1	—	(234)	(50)	63
	1,383	(56)	—	45	—	(256)	(55)	1,061
Available-for-sale financial assets								
Debt securities	1,015	—	351	940	(36)	—	(4)	2,266
	1,015	—	351	940	(36)	—	(4)	2,266
	2,398	(56)	351	985	(36)	(256)	(59)	3,327
Financial liabilities:								
Derivative financial liabilities								
Exchange rate contracts	(180)	(6)	—	—	—	4	—	(182)
Interest rate contracts	(943)	37	—	(44)	—	67	5	(878)
Commodity derivatives and others	(76)	(37)	—	(1)	—	1	50	(63)
	(1,199)	(6)	—	(45)	—	72	55	(1,123)

	As at 1 January 2012	Total gains/(losses) recorded in profit or loss	Total losses recorded in other comprehensive income	Additions	Disposals	Settlements	Transfers to level 2 from level 3	As at 31 December 2012 (audited)
Financial assets:								
Derivative financial assets								
Exchange rate contracts	716	(296)	—	—	—	(242)	—	178
Interest rate contracts	1,796	(266)	—	—	—	(377)	(257)	896
Commodity derivatives and others	542	(261)	—	29	—	(1)	—	309
	3,054	(823)	—	29	—	(620)	(257)	1,383
Available-for-sale financial assets								
Debt securities	2,040	—	(311)	647	(953)	(408)	—	1,015
	5,094	(823)	(311)	676	(953)	(1,028)	(257)	2,398
Financial liabilities:								
Derivative financial liabilities								
Exchange rate contracts	(731)	294	—	—	—	257	—	(180)
Interest rate contracts	(2,329)	283	—	—	—	416	687	(943)
Commodity derivatives and others	(2)	(76)	—	—	—	2	—	(76)
	(3,062)	501	—	—	—	675	687	(1,199)

(In RMB millions, unless otherwise stated)

46. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Movement in level 3 financial instruments measured at fair value (continued)

Gains or losses on level 3 financial instruments included in the statement of income for the period comprise:

	30 June 2013 (unaudited)		
	Realised	Unrealised	Total
Total gains/(losses) for the period	18	(81)	(63)

	30 June 2012 (unaudited)		
	Realised	Unrealised	Total
Total losses for the period	(49)	(273)	(322)

(c) Transfers between level 1 and level 2

During the period, the transfers between level 1 and level 2 of the fair value hierarchy for financial assets and liabilities of the Group were immaterial.

(d) Fair value of financial assets and liabilities not carried at fair value

The following table summarises the carrying values and the fair values of receivables, held-to-maturity investments, subordinated bonds and convertible bonds whose fair values have not been presented or disclosed above:

	Carrying value	Fair value
30 June 2013 (unaudited)		
Receivables	369,542	369,497
Held-to-maturity investments	2,674,164	2,677,377
Subordinated bonds	187,652	184,545
Convertible bonds	21,556	24,648
31 December 2012 (audited)		
Receivables	364,715	364,669
Held-to-maturity investments	2,576,562	2,566,959
Subordinated bonds	187,589	183,135
Convertible bonds	21,353	20,472

46. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Fair value of financial assets and liabilities not carried at fair value (continued)

Subject to the existence of an active market, such as an authorised securities exchange, the market value is the best reflection of the fair value of financial instruments. As there is no available market value for certain of the financial assets and liabilities held and issued by the Group, the discounted cash flow method or other valuation methods described below are adopted to determine the fair values of these assets and liabilities:

(i) The receivables are not quoted in an active market. The fair values of those receivables relating to the restructuring of the Bank are estimated on the basis of the stated interest rates and the consideration of the relevant special clauses of the instruments evaluated in the absence of any other relevant observable market data, and the fair values approximate to their carrying amounts. The fair values of receivables other than those relating to the restructuring of the Bank are estimated on the basis of pricing models or discounted cash flows.

(ii) The fair values of held-to-maturity investments, subordinated bonds and convertible bonds are determined with reference to the available market values. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows.

All of the above-mentioned assumptions and methods provide a consistent basis for the calculation of the fair values of the Group's assets and liabilities. However, other institutions may use different assumptions and methods. Therefore, the fair values disclosed by different financial institutions may not be entirely comparable.

Those financial instruments for which their carrying amounts are the reasonable approximations of their fair values because, for example, they are short term in nature or repriced at current market rates frequently, are as follows:

Assets	Liabilities
Balances with central banks	Due to banks and other financial institutions
Due from banks and other financial institutions	Repurchase agreements
Reverse repurchase agreements	Due to customers
Loans and advances to customers	Other financial liabilities
Other financial assets	

47. OTHER EVENTS

On 2 April 2013, the Bank entered into a share subscription agreement with SinoPac Financial Holdings Company Limited ("SPH") and Bank SinoPac Co., Ltd. ("BSP") regarding to subscribing for 20% shares of SPH or BSP. Completion of the transaction is conditional upon the obtaining of necessary regulatory approvals from the relevant regulatory authorities.

48. AFTER THE REPORTING PERIOD EVENT

Up to the date of this report, the Group had no material events that require disclosure in or adjustments of the interim financial report after the reporting date.

49. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current period's presentation.

50. APPROVAL OF THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 29 August 2013.

Industrial and Commercial Bank of China Limited
Consolidated Statement of Income — Prepared in accordance with IFRSs
For the nine months ended 30 September 2013
(In RMB millions, unless otherwise stated)

	Three months ended 30 September 2013 (unaudited)	**Nine months ended 30 September 2013 (unaudited)**	Three months ended 30 September 2012 (unaudited)	Nine months ended 30 September 2012 (unaudited)
Interest income	**194,262**	**566,769**	182,795	537,317
Interest expense	**(82,515)**	**(239,133)**	(75,484)	(225,948)
NET INTEREST INCOME	**111,747**	**327,636**	107,311	311,369
Fee and commission income	**31,186**	**103,698**	27,348	86,184
Fee and commission expense	**(3,065)**	**(8,195)**	(2,465)	(6,497)
NET FEE AND COMMISSION INCOME	**28,121**	**95,503**	24,883	79,687
Net trading income	**1,069**	**731**	616	368
Net loss on financial assets and liabilities designated at fair value through profit or loss	**(2,092)**	**(2,002)**	(3,211)	(4,674)
Net gain on financial investments	**311**	**919**	162	616
Other operating income, net	**1,842**	**9,687**	1,151	6,374
OPERATING INCOME	**140,998**	**432,474**	130,912	393,740
Operating expenses	**(48,979)**	**(140,728)**	(45,697)	(130,228)
Impairment losses on:				
— Loans and advances to customers	**(6,337)**	**(28,264)**	(5,707)	(24,736)
— Others	**(342)**	**(356)**	(515)	(723)
OPERATING PROFIT	**85,340**	**263,126**	78,993	238,053
Share of profits of associates and joint ventures	**468**	**1,523**	635	1,787
PROFIT BEFORE TAX	**85,808**	**264,649**	79,628	239,840
Income tax expense	**(18,514)**	**(58,878)**	(17,158)	(54,129)
PROFIT FOR THE PERIOD	**67,294**	**205,771**	62,470	185,711

Industrial and Commercial Bank of China Limited
Consolidated Statement of Income — Prepared in accordance with IFRSs (continued)
For the nine months ended 30 September 2013
(In RMB millions, unless otherwise stated)

	Three months ended 30 September 2013 (unaudited)	**Nine months ended 30 September 2013 (unaudited)**	Three months ended 30 September 2012 (unaudited)	Nine months ended 30 September 2012 (unaudited)
Attributable to:				
Equity holders of the parent company	**67,186**	**205,533**	62,442	185,602
Non-controlling interests	**108**	**238**	28	109
	67,294	**205,771**	62,470	185,711
EARNINGS PER SHARE				
— Basic *(RMB yuan)*	**0.19**	**0.59**	0.18	0.53
— Diluted *(RMB yuan)*	**0.19**	**0.58**	0.18	0.52

Jiang Jianqing	**Yi Huiman**	**Shen Rujun**
Chairman	*Vice Chairman, President*	*General Manager of the Finance and Accounting Department*

Industrial and Commercial Bank of China Limited

Consolidated Statement of Comprehensive Income — Prepared in accordance with IFRSs

For the nine months ended 30 September 2013

(In RMB millions, unless otherwise stated)

	Three months ended 30 September 2013 (unaudited)	**Nine months ended 30 September 2013 (unaudited)**	Three months ended 30 September 2012 (unaudited)	Nine months ended 30 September 2012 (unaudited)
Profit for the period	**67,294**	**205,771**	62,470	185,711
Other comprehensive income (after-tax, net):				
Items that may be reclassified subsequently into profit or loss:				
Net (loss)/gain on available-for-sale financial assets	**(9,198)**	**(10,420)**	(5,526)	1,600
Net (loss)/gain on cash flow hedges	**(3)**	**(177)**	32	125
Share of other comprehensive income of associates and joint ventures	**161**	**985**	154	77
Foreign currency translation differences	**(1,115)**	**(9,042)**	(70)	(757)
Others	**—**	**21**	(4)	9
Subtotal of other comprehensive income for the period	**(10,155)**	**(18,633)**	(5,414)	1,054
Total comprehensive income for the period	**57,139**	**187,138**	57,056	186,765
Total comprehensive income attributable to:				
Equity holders of the parent company	**57,096**	**187,064**	57,032	186,651
Non-controlling interests	**43**	**74**	24	114
	57,139	**187,138**	57,056	186,765

Jiang Jianqing	**Yi Huiman**	**Shen Rujun**
Chairman	*Vice Chairman, President*	*General Manager of the Finance and Accounting Department*

Industrial and Commercial Bank of China Limited

Consolidated Statement of Financial Position — Prepared in accordance with IFRSs

30 September 2013

(In RMB millions, unless otherwise stated)

	30 September 2013 (unaudited)	31 December 2012 (audited)
ASSETS		
Cash and balances with central banks	**3,360,532**	3,174,943
Due from banks and other financial institutions	**636,745**	636,450
Financial assets held for trading	**43,888**	20,463
Financial assets designated at fair value through profit or loss	**327,935**	201,208
Derivative financial assets	**19,600**	14,756
Reverse repurchase agreements	**406,661**	544,579
Loans and advances to customers	**9,409,635**	8,583,289
Financial investments	**4,007,765**	3,862,216
Investments in associates and joint ventures	**28,534**	33,284
Property and equipment	**148,343**	135,889
Deferred income tax assets	**24,401**	22,789
Other assets	**328,509**	312,351
TOTAL ASSETS	**18,742,548**	17,542,217

Industrial and Commercial Bank of China Limited

Consolidated Statement of Financial Position — Prepared in accordance with IFRSs (continued)
30 September 2013
(In RMB millions, unless otherwise stated)

	30 September 2013 (unaudited)	31 December 2012 (audited)
LIABILITIES		
Due to central banks	**792**	1,133
Financial liabilities designated at fair value through profit or loss	**451,565**	319,742
Derivative financial liabilities	**15,932**	13,261
Due to banks and other financial institutions	**1,219,635**	1,486,805
Repurchase agreements	**335,071**	237,764
Certificates of deposit	**88,648**	38,009
Due to customers	**14,692,718**	13,642,910
Income tax payable	**44,640**	56,922
Deferred income tax liabilities	**437**	552
Debt securities issued	**246,881**	232,186
Other liabilities	**410,840**	384,474
TOTAL LIABILITIES	**17,507,159**	16,413,758
EQUITY		
Equity attributable to equity holders of the parent company		
Share capital	**350,572**	349,620
Equity component of convertible bonds	**2,306**	2,708
Reserves	**384,767**	400,128
Retained profits	**494,094**	372,541
	1,231,739	1,124,997
Non-controlling interests	**3,650**	3,462
TOTAL EQUITY	**1,235,389**	1,128,459
TOTAL EQUITY AND LIABILITIES	**18,742,548**	17,542,217

Jiang Jianqing	**Yi Huiman**	**Shen Rujun**
Chairman	*Vice Chairman, President*	*General Manager of the Finance and Accounting Department*

Industrial and Commercial Bank of China Limited
Consolidated Statement of Cash Flows — Prepared in accordance with IFRSs
For the nine months ended 30 September 2013
(In RMB millions, unless otherwise stated)

	Nine months ended 30 September 2013 (unaudited)	Nine months ended 30 September 2012 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**264,649**	239,840
Adjustments for:		
Share of profits of associates and joint ventures	**(1,523)**	(1,787)
Depreciation	**10,691**	9,465
Amortisation	**1,477**	1,282
Amortisation of financial investments	**(215)**	(2,850)
Impairment losses on loans and advances to customers	**28,264**	24,736
Impairment losses on assets other than loans and advances to customers	**356**	723
Unrealised foreign exchange loss	**4,729**	3,142
Interest expense on debt securities issued	**8,138**	7,204
Accreted interest on impaired loans	**(1,479)**	(646)
Gain on disposal of available-for-sale financial assets, net	**(820)**	(583)
Net trading loss/(gain) on equity investments	**83**	(24)
Net loss on financial assets and liabilities designated at fair value through profit or loss	**2,002**	4,674
Net gain on disposal of property and equipment and other assets (other than repossessed assets)	**(493)**	(426)
Dividend income	**(99)**	(33)
	315,760	284,717
Net decrease/(increase) in operating assets:		
Due from central banks	**(342,618)**	(112,314)
Due from banks and other financial institutions	**82,152**	(55,007)
Financial assets held for trading	**(23,564)**	3,354
Financial assets designated at fair value through profit or loss	**(126,788)**	(17,166)
Reverse repurchase agreements	**13,473**	(6,277)
Loans and advances to customers	**(867,484)**	(854,641)
Other assets	**(16,955)**	(79,765)
	(1,281,784)	(1,121,816)

Industrial and Commercial Bank of China Limited

Consolidated Statement of Cash Flows — Prepared in accordance with IFRSs (continued)
For the nine months ended 30 September 2013
(In RMB millions, unless otherwise stated)

	Nine months ended 30 September 2013 (unaudited)	Nine months ended 30 September 2012 (unaudited)
Net increase/(decrease) in operating liabilities:		
Financial liabilities designated at fair value through profit or loss	**131,603**	75,097
Due to central banks	**(341)**	137
Due to banks and other financial institutions	**(261,286)**	237,898
Repurchase agreements	**97,307**	16,395
Certificates of deposit	**51,138**	3,770
Due to customers	**1,060,148**	1,373,053
Other liabilities	**26,912**	78,910
	1,105,481	1,785,260
Net cash flows from operating activities before tax	**139,457**	948,161
Income tax paid	**(69,626)**	(64,457)
Net cash flows from operating activities	**69,831**	883,704
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment and other assets	**(26,814)**	(17,720)
Proceeds from disposal of property and equipment and other assets (other than repossessed assets)	**493**	826
Purchases of financial investments	**(1,176,389)**	(817,072)
Proceeds from sale and redemption of financial investments	**1,012,866**	669,238
Acquisition of subsidiaries	**—**	(1,830)
Investments in associates and joint ventures	**—**	(13)
Proceeds from disposal of associates and joint ventures	**487**	—
Dividends received	**645**	815
Net cash flows from investing activities	**(188,712)**	(165,756)

Industrial and Commercial Bank of China Limited

Consolidated Statement of Cash Flows — Prepared in accordance with IFRSs (continued)
For the nine months ended 30 September 2013
(In RMB millions, unless otherwise stated)

	Nine months ended 30 September 2013 (unaudited)	Nine months ended 30 September 2012 (unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital injection by non-controlling shareholders	**155**	—
Repayments of bonds issued	**(12,893)**	—
Proceeds from issuance of subordinated bonds	**—**	20,000
Proceeds from issuance of other debt securities	**31,114**	11,668
Interest paid on debt securities	**(6,878)**	(5,426)
Dividends paid on ordinary shares	**(83,565)**	(70,912)
Dividends paid to non-controlling shareholders	**(40)**	(41)
Net cash flows from financing activities	**(72,107)**	(44,711)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(190,988)**	673,237
Cash and cash equivalents at beginning of the period	**1,201,647**	848,308
Effect of exchange rate changes on cash and cash equivalents	**(8,002)**	(1,282)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**1,002,657**	1,520,263
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:		
Interest received	**555,843**	518,055
Interest paid	**(192,559)**	(186,003)

Jiang Jianqing	**Yi Huiman**	**Shen Rujun**
Chairman	*Vice Chairman, President*	*General Manager of the Finance and Accounting Department*

ISSUER

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