BANK OF CHINA

Delivering Growth and Excellence

Annual Report 2009

Bank of China Limited

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

Stock Code: 3988

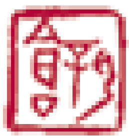
Integrity

Performance

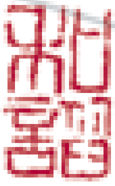
Bank of China was formally established in February 1912 following the approval of Dr. Sun Yat-sen. From 1912 to 1949, the Bank served consecutively as the country's central bank, international exchange bank and specialist foreign trade bank, and fulfilled its commitment to serving the public and developing China's financial services sector. Prudent management and progressive reforms resulted in many significant achievements across the Bank's diversified business operations. After the founding of the People's Republic of China, Bank of China became the state-designated specialist foreign exchange and foreign trade bank and contributed substantially to the development of China's foreign trade and national economy. Transformed from a specialist foreign exchange bank into a state-owned commercial bank in 1994, Bank of China began a joint stock restructuring in 2003, which resulted in Bank of China Limited being incorporated in August 2004 and listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange in June and July 2006 respectively, becoming the first A share and H share dual listed Chinese commercial bank.

Responsibility

As the most international and diversified bank in China, Bank of China provides a comprehensive range of financial services to customers across the Chinese mainland, Hong Kong, Macau and 29 overseas countries. The Bank's core business is commercial banking, including corporate banking, personal banking and financial markets services. BOC International Holdings Limited, one of its wholly-owned subsidiaries, is the Bank's investment banking arm. Bank of China Group Insurance Co., Ltd. and its subsidiary and affiliated companies run the Bank's insurance business. Bank of China Investment Management Co., Ltd, its controlling subsidiary, operates the Bank's fund management business. BOCG Investment Limited, a wholly-owned subsidiary, undertakes the Bank's direct investment and investment management business. BOC Aviation Private Limited is in charge of the Bank's aircraft leasing business. In terms of tier one capital, the Bank was ranked 11th among the world's top 1,000 banks by *The Banker* magazine in 2009.



Innovation



Harmony

Bank of China has upheld the spirit of "pursuing excellence" throughout its near hundred-year history. It is widely recognised within the industry and by its customers for its prudent operations and customer-centric business concepts. With historical opportunities now arising, Bank of China will stay true to its sustainable approach to development and remain focused on its goal of becoming a premier international bank.

Table of Contents


BOC Zambia
Xiamen Branch
BOC Brazil
成
Safe Deposit Box
Beijing Branch
Hainan Branch
BOC Hong Kong

Development Strategy

Strategic Goal

To be a leading international bank, delivering growth and excellence

Strategic Positioning

To be a large multinational banking group with a diversified and integrated cross-border business platform, based on a core business of commercial banking

Focusing on commercial banking while developing diversified business

With the commercial banking business acting as the central focus of the Group's development strategy, the Bank will improve its core competitiveness by expanding its business network, enlarging its customer base, promoting product innovation and enhancing brand recognition. Based on the underlying principle of unifying its strategy, brand, customers and channels, the Bank will make full use of the competitive advantages of its diversified services and capitalise on the synergies offered by its diversified business platform, providing its customers with a comprehensive and high quality financial services offering, including investment banking, investment funds, insurance, proprietary investment and leasing.

Focusing on the domestic market while integrating the development of domestic and overseas businesses

The Bank will accelerate the development of its domestic businesses so as to develop a larger and stronger local presence. At the same time, it will take advantage of business opportunities arising from economic globalisation and the increasingly closer links between China and the world economy. The Bank will proactively expand its cross-border operations and extend its service coverage in line with customer needs, so as to achieve integrated development of its domestic and overseas operations.

Becoming a large-sized banking group with a sustainable long-term development strategy

The Bank will expand the scale of its business while enhancing risk management and focusing on structural optimisation. At the same time, the Bank will further streamline business processes, improve operational efficiencies, accelerate channel development and emphasise the development of its professional workforce, thereby strengthening the foundation for further growth and enhancing long-term profitability and business sustainability.

Financial Highlights

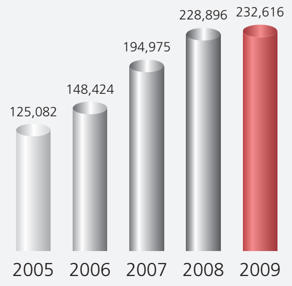
Note: This report is prepared in accordance with International Financial Reporting Standards (IFRS).

Unit: RMB million

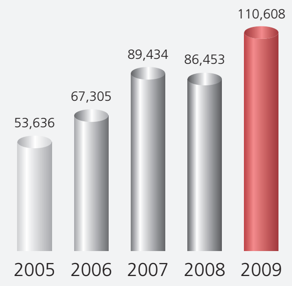
	Note	2009	2008	2007	2006	2005
Results of operations						
Net interest income		**158,881**	162,936	152,745	121,371	101,008
Non-interest income	1	**73,735**	65,960	42,230	27,053	24,074
Operating income	2	**232,616**	228,896	194,975	148,424	125,082
Operating expenses		**(107,021)**	(97,412)	(85,278)	(68,902)	(59,551)
Impairment losses on assets		**(14,987)**	(45,031)	(20,263)	(12,217)	(11,895)
Operating profit		**110,608**	86,453	89,434	67,305	53,636
Profit before income tax		**111,429**	87,179	90,697	67,937	53,811
Profit for the year		**85,598**	65,894	62,036	48,264	31,558
Profit attributable to the equity holders of the Bank		**81,068**	64,360	56,248	42,830	25,921
Total dividend		**35,537**	32,999	25,384	10,154	14,112
Financial position						
Total assets		**8,748,177**	6,951,680	5,991,217	5,327,653	4,740,048
Loans, net		**4,797,408**	3,189,652	2,754,493	2,337,726	2,152,112
Investment securities	3	**1,816,679**	1,646,208	1,712,927	1,892,482	1,683,313
Total liabilities		**8,206,549**	6,461,793	5,540,560	4,914,697	4,484,529
Due to customers		**6,620,552**	5,102,111	4,400,111	4,091,118	3,699,464
Capital and reserves attributable to the equity holders of the Bank		**511,226**	464,258	420,430	382,917	226,419
Share capital		**253,839**	253,839	253,839	253,839	209,427
Per share						
Earnings per share for profit attributable to the equity holders of the Bank (basic and diluted, RMB)		**0.32**	0.25	0.22	0.18	0.14
Dividend per share (before tax, RMB)	4	**0.14**	0.13	0.10	0.04	0.07
Net assets per share (RMB)	5	**2.01**	1.83	1.66	1.51	1.08
Key financial ratios						
Return on average total assets (%)	6	**1.09**	1.02	1.10	0.96	0.70
Return on average equity (%)	7	**16.62**	14.55	14.00	14.06	12.14
Net interest margin (%)	8	**2.04**	2.63	2.76	2.45	2.33
Non-interest income to operating income (%)	9	**31.70**	28.82	21.66	18.23	19.25
Cost to income (calculated under domestic regulations, %)	10	**37.15**	33.55	35.59	38.60	40.63
Capital adequacy ratios						
Core capital adequacy ratio (%)		**9.07**	10.81	10.67	11.44	8.08
Capital adequacy ratio (%)		**11.14**	13.43	13.34	13.59	10.42
Asset quality						
Identified impaired loans to total loans (%)	11	**1.55**	2.76	3.17	4.24	4.90
Non-performing loans to total loans (%)	12	**1.52**	2.65	3.12	4.04	4.62
Allowance for loan impairment losses to non-performing loans (%)	13	**151.17**	121.72	108.18	96.00	80.55
Credit cost (%)	14	**0.38**	0.55	0.31	0.53	0.52
Human resources & Organisations						
Number of employees of the Group	15	**262,566**	249,278	237,379	232,632	229,742
Number of employees in the Chinese mainland		**236,056**	222,829	215,334	212,428	211,305
Number of branches and outlets of the Group		**10,961**	10,789	10,834	11,241	11,646
Number of branches and outlets in the Chinese mainland		**9,988**	9,983	10,145	10,598	11,018
Exchange rate						
USD/RMB year-end middle rate		**6.8282**	6.8346	7.3046	7.8087	8.0702
EUR/RMB year-end middle rate		**9.7971**	9.6590	10.6669	10.2665	9.5797
HKD/RMB year-end middle rate		**0.8805**	0.8819	0.9364	1.0047	1.0403

Please refer to "Definitions – Notes to Financial Highlights" in this report for notes.

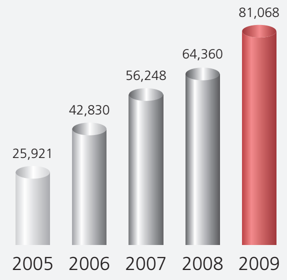
Operating income
RMB Million



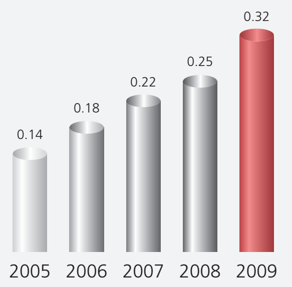
Operating profit
RMB Million



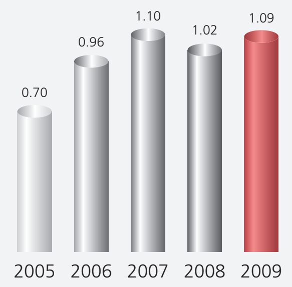
Profit attributable to the equity holders of the Bank
RMB Million



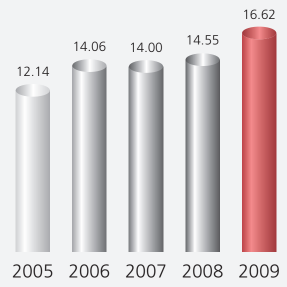
EPS (basic and diluted)
RMB



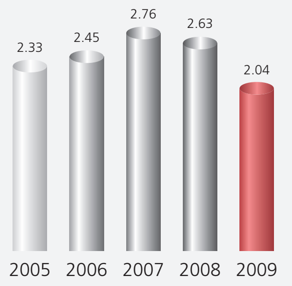
ROA
%



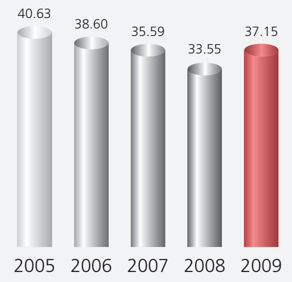
ROE
%



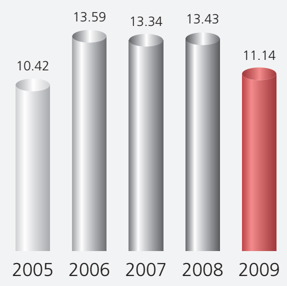
Net interest margin
%



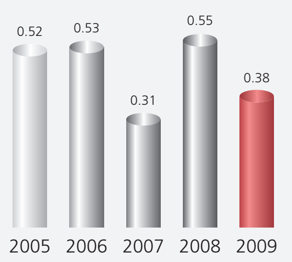
Cost to income (calculated under domestic regulations)
%



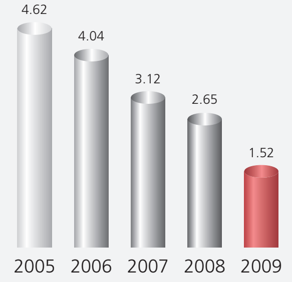
Capital adequacy ratio
%



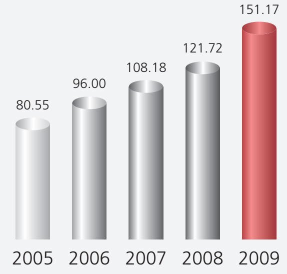
Credit cost
%



Non-performing loans to total loans
%



Allowance for loan impairment losses to non-performing loans
%



Honours and Awards

The Banker (UK)

Bank of the Year 2009 (China)

Euromoney

Best Private Banking 2009

Global Finance

Best Foreign Exchange Bank (China)

Trade Finance

Best Local Trade Bank in China

The Asset

Best Trade Finance Bank (China)

FinanceAsia

Best Private Banking (China)

Best Trade Finance Bank (China)

Best FX Trading Bank

Universum (Sweden)

Ranked 3rd in 2009 in Ideal Employer category, voted by Chinese university graduates

IR magazine

Best Annual Report/Formal Disclosure

League of American Communications Professionals

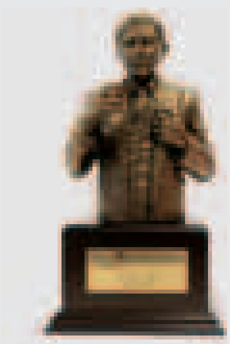
Gold award – Annual Report Competition

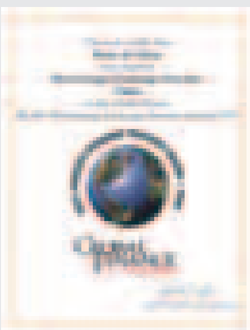
China Central Television (CCTV)

Top 60 Brand Names in the 60 years since the founding of the People's Republic of China

The Banker (China)

Best Corporate Image





21st Century Business Herald

Best Corporate Banking in Asia 2009

China Business News

Global Corporate Banking

– Best Corporate Banking Brand 2009

MasterCard

BOC-Southern Air Pearl Credit Card

– Best Co-Brand Bank Card 2008

Economic Observer

BOC VISA-Olympic Card

– Best Themed Credit Card 2008

Money Weekly

Best Electronic Banking 2009

ChinaHr.com

1st in the Financial Sector in the 7th Best Employers Awards, voted by Chinese university graduates

Southern Weekend

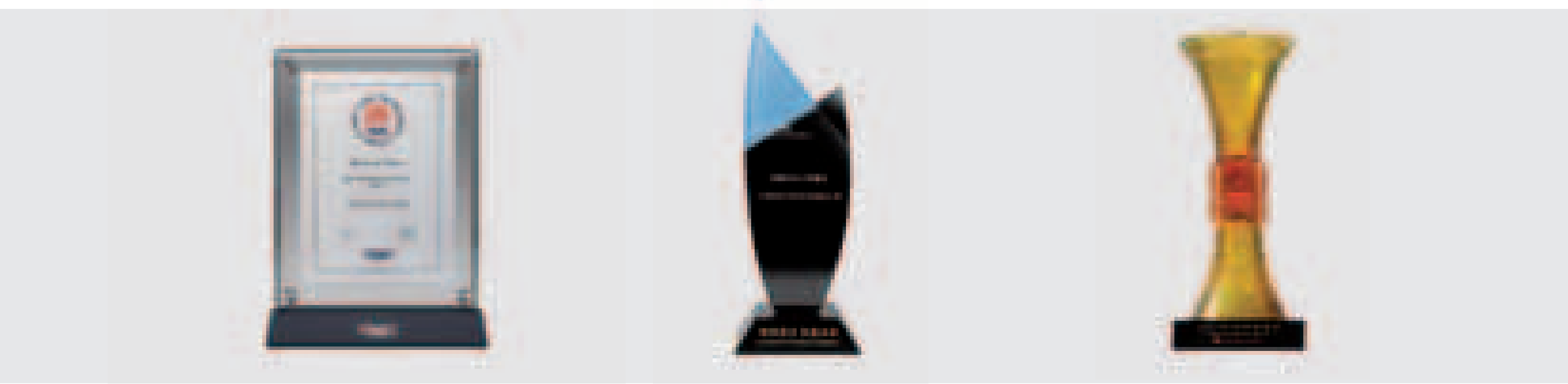
5th in the Corporate Social Responsibility Awards of China's Listed State-owned Companies

Shanghai Stock Exchange

Excellent Board of Directors 2009

China Academy of Social Sciences, Chinese Academy of Governance

2nd in Top 100 Corporate Governance Excellences among China's Listed Companies



Corporate Information

Registered Name in Chinese
中國銀行股份有限公司（"中國銀行"）

Registered Name in English
BANK OF CHINA LIMITED ("Bank of China")

Legal Representative and Chairman
XIAO Gang

Vice Chairman and President
LI Lihui

Secretary to the Board of Directors
ZHANG Bingxun

Office Address:
No.1 Fuxingmen Nei DaJie, Beijing, China
Telephone: (86)10-6659 2638
Facsimile: (86)10-6659 4568
E-mail: bocir@bank-of-china.com

Company Secretary
Cheung Ying YEUNG

Listing Affairs Representative
LUO Nan

Office Address:
No.1 Fuxingmen Nei DaJie, Beijing, China
Telephone: (86)10-6659 2638
Facsimile: (86)10-6659 4568
E-mail: bocir@bank-of-china.com

Registered Address of Head Office
No.1 Fuxingmen Nei DaJie, Beijing, China

Office Address
No.1 Fuxingmen Nei DaJie, Beijing, China, 100818
Telephone: (86)10-6659 6688
Facsimile: (86)10-6601 6871
Website: http://www.boc.cn
E-mail: bocir@bank-of-china.com

Place of Business in Hong Kong
Bank of China Tower, 1 Garden Road,
Central, Hong Kong

Selected Newspapers for Information Disclosure (A Share)
China Securities, Shanghai Securities, Securities Times.

Website designated by the CSRC to publish the Annual Report
http://www.sse.com.cn

Website designated by The Stock Exchange of Hong Kong Limited to publish the Annual Report
http://www.hkexnews.hk

Places where the Annual Report can be obtained
Major business locations

Domestic Legal Advisor
King & Wood PRC Lawyers

Hong Kong Legal Advisor
Baker & McKenzie

Auditors

Domestic auditor
PricewaterhouseCoopers Zhong Tian
Certified Public Accountants Limited Company
Address: 11th Floor, PricewaterhouseCoopers Center,
2 Corporate Avenue, 202 Hu Bin Road,
Luwan District, Shanghai, China, 200021

International auditor
PricewaterhouseCoopers
Address: 22/F, Prince's Building, Central, Hong Kong

Date of First Registration
31 October 1983

Modified Registration Date
26 August 2004

Authority of First Registration
State Administration of Industry and Commerce, PRC

Corporate Business Licence Serial Number
100000000001349

Financial Institution Licence Serial Number
B0003H111000001

Tax Registration Certificate Number
Jingshuizhengzi 110102100001342

Organisation Code
10000134-2

Stock Information

A Share: Shanghai Stock Exchange
Stock Name: Bank of China
Stock Code: 601988

H Share: The Stock Exchange of Hong Kong Limited
Stock Name: Bank of China
Stock Code: 3988

Investment Value Proposition

Unique competitive advantages

- One of the biggest commercial banks in China
- Well-recognised brand name and respected reputation
- Strong home market presence and high-quality customers base
- Extensive global network of business outlets
- Comprehensive and diversified business platform
- Leader in foreign exchange business with robust product innovation
- Proficient staff and experienced management team

High quality business growth

- Growing assets and liabilities with continuously optimised structure
- Fast expansion of domestic business evidenced by significantly increased share in deposits and loans markets
- Steady growth of fee-based business and increasing contribution of non-interest income
- Outstanding performance of overseas operations and solid diversified business platform

Strong financial results

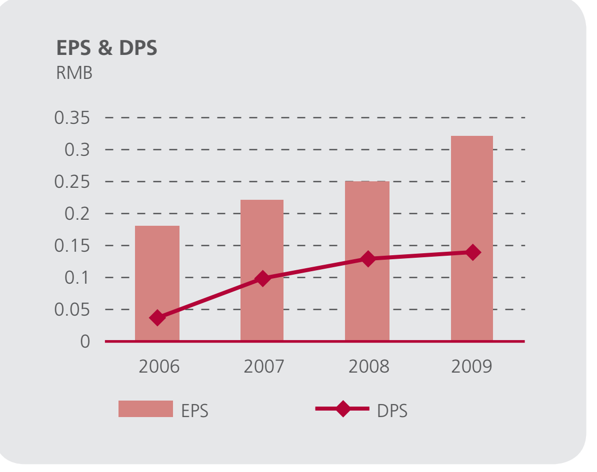
- Profits attributable to shareholders reached RMB81.068 billion, up 25.96% year-on-year
- ROE and ROA increased to 16.62% and 1.09%, respectively
- Core CAR and CAR held at 9.07% and 11.14%, respectively

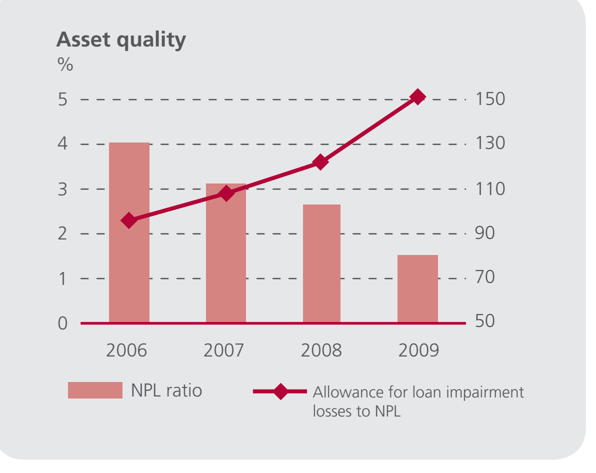
Effective risk management

- Centralised and comprehensive risk management system
- Well-defined and sophisticated risk management policy
- Professional risk management technology
- Highly-efficient internal control with three lines of defence
- Continuously improved asset quality

Strong commitment to shareholders

- Steady growth of shareholders return
- Committed to corporate social responsibilities





Source: Bloomberg

Integrity

Message from the Chairman

I am delighted to report to all our shareholders and the public our 2009 business results. The Group achieved a profit attributable to shareholders of the Bank for the year of RMB81.068 billion, a year-on-year increase of 25.96%. Earnings per share (EPS) also recorded an increase of RMB0.07 to RMB0.32. Return on average equity rose to 16.62%, up 2.07 percentage points from last year. At the same time, our asset quality continued to improve. Our total market capitalisation reached RMB1,051.084 billion at the end of 2009, making Bank of China the fifth largest listed bank in the world. The Board of Directors has proposed a cash dividend of RMB0.14 per share for 2009 for approval at the Annual General Meeting in May 2010.

At the start of 2009, the international financial crisis was continuing to spread throughout the global economy. In response, the major economies cut and maintained benchmark interest rates at historical lows while actively implementing various economic stimulus plans. Step by step, confidence returned to global financial markets and the world economy began to recover. The government maintained a proactive fiscal policy and a moderately easy monetary policy, continually optimising its economic stimulus package in response to new developments. As a result, the national economy experienced a strong rebound.

In the face of such unprecedented challenges and opportunities, the Bank has continued to take a scientific approach to development. We have comprehensively implemented our new strategic development plan and earnestly promoted our working guidelines of "scaling up, optimising structure, building brand, strengthening infrastructure, slashing cost and sharpening competitiveness". This approach has positively impacted the Bank's business development and risk management, sharpened our competitiveness and continuously enhanced our business results.

In the past year, the scale and structure of the Bank's assets and liabilities were further expanded and optimised. The Bank's major businesses enlarged their market shares significantly. We further enhanced our restructuring campaign, including the currency and term structure of our investment portfolio, which led to improved operational efficiency. Overseas operations revived their growth momentum and contributed a larger share in the Group's total income. Our IT Blueprint project achieved a milestone with its successful launch at the Hebei Branch. During the year, in a step towards promoting business restructuring with a "customer-centric" service approach, we established a dedicated Financial Markets Unit. We also began to consolidate the Bank's risk management function by planning to establish the Risk Management Unit, with a view to enhancing unified risk management.

The Bank's brand image has been further enhanced, with the Bank recognised as "Bank of the Year 2009 (China)" by the British magazine *The Banker*.

In 2009, the Bank further strengthened its corporate governance mechanism. Drawing upon the lessons of the global financial crisis, the Board played an active role in designing the Bank's strategic development plan in line with the Bank's prevailing conditions. The Board also actively guided the Bank to prevent systemic risk, improve decision-making in a scientific manner and fulfil its corporate social responsibilities. As a result, the Bank won the "Excellent Board of Directors 2009" award granted by the Shanghai Stock Exchange, the only awardee among the large-sized commercial banks in China.

I would like to thank the outgoing Mr. LIU Ziqiang, Chairman of the Board of Supervisors, for his valuable contributions to the Bank in the past years, and extend a warm welcome to Mr. LI Jun as his successor. As an experienced banker, Mr. LI Jun will bring fresh contributions to the Board of Supervisors and the Bank.

In 2010, the world economy is expected to recover and the international financial markets are expected to stabilise. In China, the foundations for economic recovery have been consolidated. Despite ongoing uncertainties, it is expected that the economic and financial climate at home and abroad will change for the better in 2010.

Faced with a complex operating environment, the Bank will optimise business structure while pursuing opportunities to expand its business scale, further enhance risk management and internal control, sharpen market competitiveness and increase profitability so as to achieve healthy, rapid and sustainable development.

On a final note, I would like to express my deep appreciation to colleagues across the globe for your diligent work, and members of the Board of Directors and Board of Supervisors for your significant contributions. I also wish to express my gratitude to our shareholders and the public for your kind support and trust. I believe that, driven by all of our joint efforts, the hundred-year old Bank of China will move unswervingly ahead, achieve sustainable growth and create a better future.

XIAO Gang
Chairman
23 March 2010

Message from the President

2009 was a truly eventful year, filled with unprecedented challenges and opportunities. The most turbulent financial crisis in a century, the toughest economic climate of the decade and the lowest interest rate levels in the past five years have imposed intense pressures on the Bank's operations. At the same time, however, the government's enormous stimulus package and moderately easy monetary policy have guided the domestic economy towards recovery and provided the Bank with a historic opportunity to accelerate its development.

During the past year, the Bank has been able to identify and exploit the opportunities contained within the crisis by taking a scientific approach to development. In keeping with the government's fiscal and monetary policies, the Bank pushed forward its development strategy according to the guidelines of "scaling up, optimising structure, building brand, strengthening infrastructure, slashing cost and sharpening competitiveness". Thanks to these efforts, the Bank has fulfilled its objectives and achieved sound results. As at the end of 2009, according to International Financial Reporting Standards, the Bank's total assets, liabilities and equity attributable to the shareholders of the Bank amounted to RMB8,748.177 billion, RMB8,206.549 billion and RMB511.226 billion respectively, representing a respective increase of 25.84%, 27.00% and 10.12% from the previous year end. The Bank achieved a profit after tax of RMB85.598 billion in 2009, a year-on-year increase of 29.90%, and a profit attributable to the shareholders of the Bank of RMB81.068 billion, up 25.96% from the previous year. The return on assets and return on equity were 1.09% and 16.62%, an increase of

0.07 percentage point and 2.07 percentage points respectively. The balance of impaired loans was RMB76.006 billion, a decrease of RMB14.873 billion, and the ratio of impaired loans stood at 1.55%, down 1.21 percentage points from the previous year end. The provision coverage ratio for non-performing loans reached 151.17%, an increase of 29.45 percentage points.

During the year, the management of the Bank earnestly implemented the resolutions of the Board of Directors, striving to advance the following strategic priorities:

Driving the rapid and healthy development of the Bank's businesses by expanding asset base and optimising structure

The corporate banking business boosted its core competitiveness by rapidly expanding its business scale and improving its structure. The corporate RMB deposits and loans of its domestic operations grew by RMB842.659 billion and RMB846.474 billion, or 49.22% and 50.25%, respectively, ranking first among its peers in terms of growth rate. The proportion of loans to customers rated at BB and above increased by 2.71 percentage points from the end of 2008.

The personal banking business focused heavily on improving service quality and expanding its customer base, with a particular emphasis on medium and high-end customers. This contributed to rapid growth, with personal RMB loans and deposits in the domestic operations increasing by RMB325.078 billion and RMB387.031 billion respectively, and the number of medium and high-end customers increasing by 30.30%.

The financial markets business focused on restructuring by further optimising the structure of its bond investments portfolio, consolidating its competitive advantage in businesses such as RMB-denominated bond trading and bullion trading, and expanding emerging businesses such as RMB-denominated wealth management and enterprise annuities.

The Bank's overseas operations achieved impressive growth amid adverse conditions and its diversification strategy was further entrenched. Both the overseas operations and non-commercial banking businesses made a bigger contribution to the Group's overall operating income.

Mitigating risk by reinforcing internal control and strengthening proactive risk management

According to the principles of comprehensive, proactive, professional and differentiated management, the Bank continued to push towards better integrated, more intensive, properly targeted and increasingly effective risk management and internal control. This includes the proactive management of credit risk, market risk, operational risk, liquidity risk and reputational risk. In response to changes in the macro-economic climate and government policy, the Bank redefined its risk preferences and industry mix in a timely manner and proactively adjusted customer and product structures. The Bank adjusted the industrial structure of its customer base by imposing credit caps on selected industries and monitoring them on a trial basis. The Bank also carried out in-depth risk management surveys and intensified internal inspection of new loans in order to identify and prevent risks. In addition, the Bank strengthened market risk management and monitoring at the group level, unified trading-related risk control and exchange-rate risk measurement standards and monitored bond risk at the group level. The Bank also pressed ahead with the implementation of the Basel II project and further integrated internal control measures so as to enhance internal control efficiency.

Building firm foundations by constructing and strengthening infrastructure

The Bank's IT Blueprint project achieved significant progress in 2009. The 1.0 version of the project is being rolled out across the Bank after being successfully launched at the Hebei Branch. The integration of business architecture continued steadily, while the Bank's shift to a customer-centric service mode took shape across its operations. The Bank also made fresh progress in channel building, evidenced by further improvements in the distribution and service function of the Bank's outlets. In addition, the Bank upgraded online banking functionality via the launch of the 3.0 version of its online banking service, which led to a large increase in the number of online banking customers.

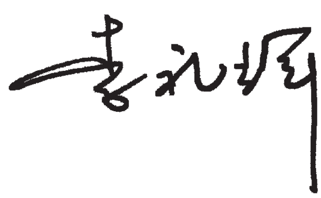
Enhancing strategic execution capability by strengthening leadership and cultivating talent

Senior management teams at all levels were strengthened with a focus on enhancing strategic management and execution capabilities. The Bank also made great efforts to enhance employee talent with an emphasis on improving professional expertise. Frontline staff at the retail outlets developed more efficient operational skills and stronger aptitude. The Bank continued to develop its corporate culture according to the corporate value of "pursuing excellence", and strived to build a harmonious and stable environment for growth.

The global economic depression has for the most part come to an end, while the domestic economy continues to recover. It is expected that 2010 will see the continuation of an important period of strategic opportunity for the banking sector. At the same time, there are still uncertainties in the economic and financial situation, and the question of how to achieve balanced and sustainable development continues to pose a huge challenge for the sector.

In 2010, the Bank will accelerate restructuring and strengthen risk management to ensure its sustainable development; build the infrastructure needed to realise its development potential; increase coordination at the group level to promote the rapid development of its overseas operations and cultivate talent to ensure the effective execution of its development strategies. The Bank will further consolidate its core competitiveness and strive towards its strategic objective to become a first-class international bank.

On behalf of the management of the Bank, I would like to take this opportunity to express our sincere gratitude to the Board of Directors and the Board of Supervisors for your guidance and support. I also wish to thank our investors and the public for your trust and support, and our colleagues for your diligence and commitment. I believe that, with our concerted efforts and hard work, Bank of China will continue its success in the future.



LI Lihui
President
23 March 2010

Chairman of the Board of Supervisors

In 2009, the Board of Supervisors actively advanced the Bank's corporate governance in strict accordance with the state laws and the Bank's Articles of Association. It supervised the Bank's financial activities, operational decisions, risk management and internal control through on-site inspection and investigation, promoting lawful operation and safeguarding the interests of the Bank and its shareholders.

Performance

Management Discussion and Analysis — Financial Review

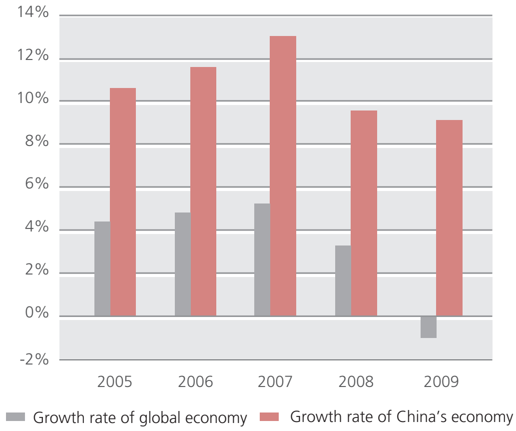
Economic and Financial Environment

In 2009, due to the impact of the international financial crisis, major economies, such as the US, Euro zone and Japan, suffered economic downturns, meanwhile emerging economies and developing countries were faced with a slowdown of growth. The global economy experienced negative growth for the first time since the World War II. According to a report from the International Monetary Fund, the global economic growth rate was negative 0.8% compared with that of positive 3.0% in 2008. In the second half of the year, governments around the world launched massive stimulus plans which helped to stabilise the global economy. Major economic indicators showed positive signs of improvement, market confidence restored and the global stock markets rebounded strongly. However, the impact of the financial crisis did not disappear completely and there were still a lot of uncertainties, considering that the global trade volumes continued to shrink, the unemployment rates of major economies remained high and their fiscal deficits remained a problem.

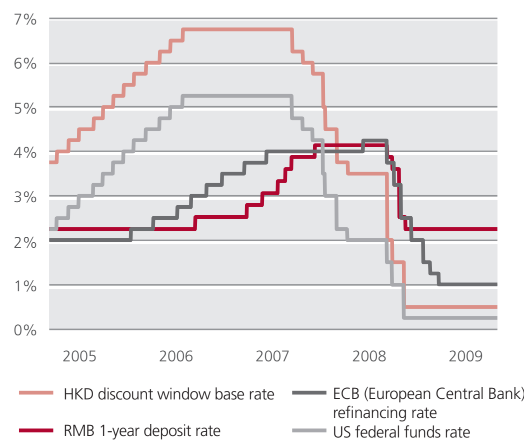
In 2009, faced with the severe challenges posed by the global financial crisis and an extremely complex environment, the central government implemented a set of policies to address the effects of the crisis, and curbed the rapid decline in the economic growth rate. By taking effective measures to maintain economic growth, adjust structures, promote reforms and benefit people's livelihood, the national economy regained its momentum of sound development. Gross Domestic Product (GDP) grew by 8.7%, while the Consumer Price Index (CPI) fell by 0.7%. Total Fixed Asset Investment (TFAI) increased by 30.1%, and the Total Retail Sales of Consumer Goods (TRSCG) rose by 15.5%. Imports and exports recovered in the second half of the year, and industrial production restored significantly. At the same time, the price of real estate rose sharply, and inflation expectation strengthened.

In 2009, the central government continued to pursue a moderately easy monetary policy, guiding financial institutions to support the national economic development under the precondition of effective control of risk. Using the strength of its abundant liquidity and the rapid expansion of credit, the financial market continued to operate in a stable manner. In 2009, broad money supply (M2) grew by 27.7%, while the increment of RMB-denominated loans of financial institutions was RMB9.6 trillion, RMB4.7 trillion more than that of 2008. The stock market went up and the Shanghai Stock Exchange (SSE) composite index rose by 80%, leading to a growth of 101% in market capitalisation and expanded transaction volume. The bonds were issued on a large scale and the market capitalisation of various RMB-denominated bonds amounted to

Growth of Global and China's Economy from 2005 to 2009



Changes of Interest Rates of Major Countries/Regions from 2005 to 2009

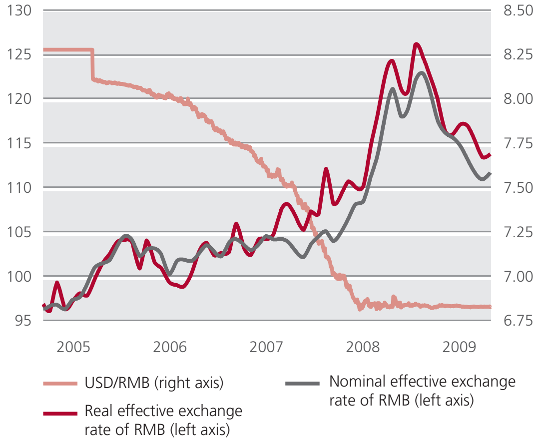


RMB17.9 trillion at the end of 2009, up by 11.4%. The exchange rate of RMB against US Dollar was, on the whole, stable.

In 2009, China further enhanced its financial supervision and the regulatory authorities took a series of measures to ensure the healthy development of China's banking sector, urging commercial banks to set aside adequate provisions and solidify capital bases within risk controls. These efforts helped commercial banks realise a "dual-decrease" in low-level non-performing loans (NPLs) and further improvement of high-level risk prevention capabilities, resulting in the successful survival from the international financial crisis with no serious problems encountered. In 2009, the NPLs of domestic commercial banks totalled RMB497.33 billion, a decrease of RMB62.98 billion compared with the prior year-end. The NPL ratio was 1.58%, down by 0.84 percentage point compared with the prior year-end. Allowances for loan impairment losses to NPLs ratio reached 155.02%, a significant increase of 38.57 percentage points from the prior year-end.

Looking forward to 2010, it is forecasted that the domestic and global economic situation will be stronger than 2009, but a number of uncertainties cannot be ignored. The central government will continue with its macroeconomic policies, strengthen flexibility and pertinence, and accelerate transformation of economic development and restructuring to achieve a sound and fast development.

Movements of RMB Exchange Rates from 2005 to 2009

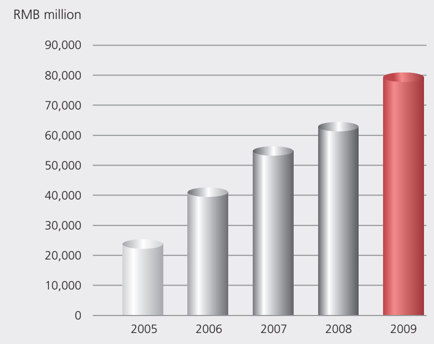


Growth of Chinese Money and Loans from 2005 to 2009

Summary of Financial Position and Results of Operations of the Group for 2009

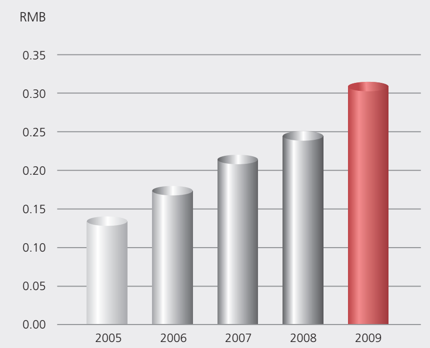
Profit attributable to the equity holders of the Bank

Profit attributable to the equity holders of the Bank amounted to RMB81.068 billion, an increase of RMB16.708 billion or 25.96%.



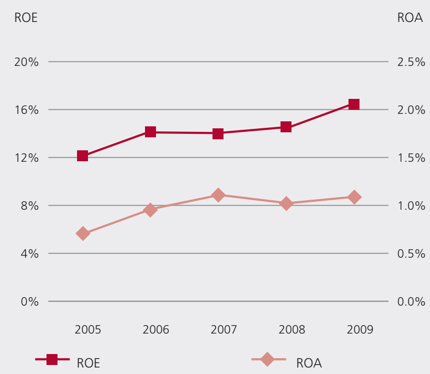
Earnings per share

In 2009, both basic and diluted earnings per share attributable to the Bank's equity holders were RMB0.32, an increase of RMB0.07 compared with the prior year. The Bank's earnings per share showed steady growth.



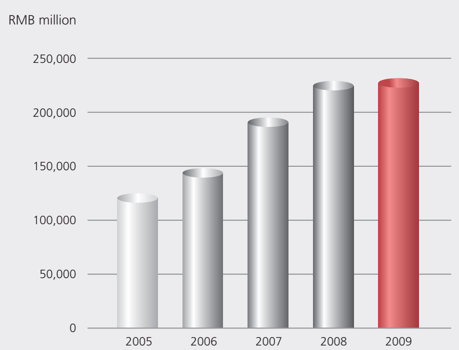
ROA & ROE

In 2009, the Group's return on average total assets was 1.09%, an increase of 0.07 percentage point compared with the prior year. Return on average equity was 16.62%, an increase of 2.07 percentage points compared with the prior year.



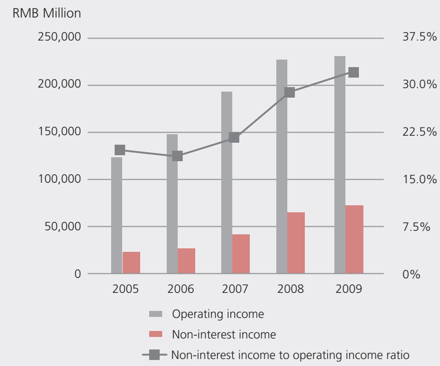
Revenue growth

The Group achieved operating income of RMB232.616 billion, an increase of RMB3.720 billion or 1.63% compared with the prior year. This increase was primarily due to steady growth in non-interest income. Please refer to the "Non-interest Income" section for more detailed information.



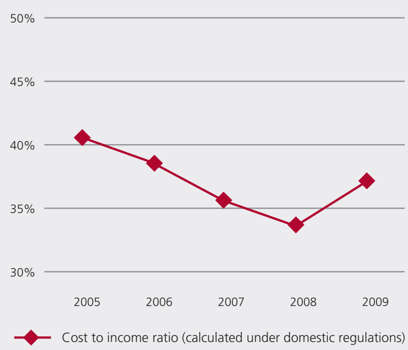
Non-interest income to operating income ratio

The Group recognised non-interest income of RMB73.735 billion, an increase of RMB7.775 billion or 11.79% compared with the prior year, mainly attributable to a rapid increase in fee and commission income. The ratio of non-interest income to operating income was 31.70%. Please refer to the "Non-interest Income" section for more detailed information.



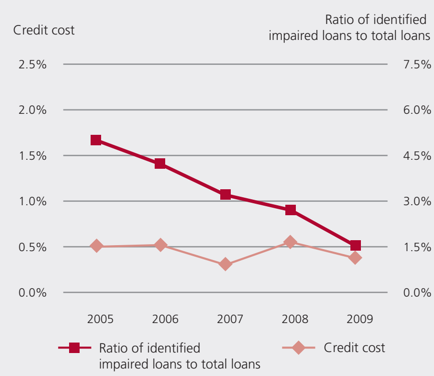
Cost to income ratio

The cost to income ratio calculated under domestic regulations was 37.15%, an increase of 3.60 percentage points compared with the prior year. Please refer to the "Operating Expenses" section for more detailed information.



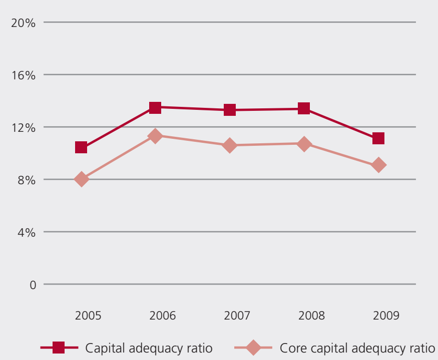
Asset quality

At the end of 2009, the ratio of identified impaired loans to total loans was 1.55%, a decrease of 1.21 percentage points compared with the prior year-end. The ratio of non-performing loans to total loans was 1.52%, a decrease of 1.13 percentage points compared with the prior year-end, and the ratio of allowance for loan impairment losses to non-performing loans was 151.17%, up by 29.45 percentage points from the prior year-end. In 2009, the credit cost of the Group was 0.38%, down by 0.17 percentage point from the prior year. Please refer to the "Risk Management" section for more detailed information.



Capital adequacy ratio

At the end of 2009, the Group's capital adequacy ratio was 11.14% and its core capital adequacy ratio was 9.07%, lower compared with those of the prior year-end.



Income Statement Analysis

Despite the most turbulent international financial crisis in a century, the Group achieved a strong operating result and continued rapid growth in all business lines by thoroughly practicing the scientific outlook on development and diligently implementing its strategic development plan. The Group earned a profit attributable to the equity holders of RMB81.068 billion, an increase of RMB16.708 billion or 25.96% compared with 2008. Return on average total assets and return on average equity stood at 1.09% and 16.62%, an increase of 0.07 percentage point and 2.07 percentage points compared with 2008, respectively.

The principal components of the Group's consolidated income statement are set out below:

Unit: RMB million

Items	**2009**	2008	2007	2006	2005
Net interest income	**158,881**	162,936	152,745	121,371	101,008
Non-interest income	**73,735**	65,960	42,230	27,053	24,074
Including: net fee and commission income	**46,013**	39,947	35,535	20,566	14,388
Operating income	**232,616**	228,896	194,975	148,424	125,082
Operating expenses	**(107,021)**	(97,412)	(85,278)	(68,902)	(59,551)
Impairment losses on assets	**(14,987)**	(45,031)	(20,263)	(12,217)	(11,895)
Operating profit	**110,608**	86,453	89,434	67,305	53,636
Profit before income tax	**111,429**	87,179	90,697	67,937	53,811
Income tax expense	**(25,831)**	(21,285)	(28,661)	(19,673)	(22,253)
Profit for the year	**85,598**	65,894	62,036	48,264	31,558
Profit attributable to the equity holders of the Bank	**81,068**	64,360	56,248	42,830	25,921

Net Interest Income and Net Interest Margin

In 2009, the Group earned net interest income of RMB158.881 billion, a decrease of RMB4.055 billion or 2.49% compared with 2008. Domestic RMB businesses contributed net interest income of RMB122.797 billion, an increase of RMB13.723 billion or 12.58% compared with 2008. The net interest income is affected by the average balances and average interest rates of interest-earning assets and interest-bearing liabilities. In 2009, the expansion in average interest-earning assets volume increased the net interest income by RMB45.941 billion, while the reduction in average interest rates decreased the net interest income by RMB49.996 billion.

The average balances[1] and average interest rates of major interest-earning assets and interest-bearing liabilities of the Group and its domestic RMB and foreign currency businesses are summarised in the following table:

1 Average balances of interest-earning assets and interest-bearing liabilities are average daily balances derived from the Bank's management accounts (unaudited).

Unit: RMB million, except percentages

Items	2009 Average balance	2009 Average interest rate	2008 Average balance	2008 Average interest rate	Change Average balance	Change Average interest rate
Group						
Interest-earning assets						
Loans	**4,208,830**	**4.44%**	3,185,227	6.12%	1,023,603	(168) BPs
Investment debt securities[1]	**1,828,354**	**2.73%**	1,649,727	3.63%	178,627	(90) BPs
Balances with central banks[2]	**1,208,659**	**1.42%**	965,065	1.91%	243,594	(49) BPs
Due from banks and other financial institutions	**545,836**	**1.34%**	391,235	3.50%	154,601	(216) BPs
Total	**7,791,679**	**3.36%**	6,191,254	4.63%	1,600,425	(127) BPs
Interest-bearing liabilities						
Due to customers[3]	**6,089,784**	**1.44%**	4,830,665	2.16%	1,259,119	(72) BPs
Due to banks and other financial institutions and due to central banks	**1,042,479**	**1.04%**	738,623	1.97%	303,856	(93) BPs
Other borrowed funds[4]	**119,200**	**3.61%**	117,582	4.24%	1,618	(63) BPs
Total	**7,251,463**	**1.41%**	5,686,870	2.18%	1,564,593	(77) BPs
Net interest margin		**2.04%**		2.63%		(59) BPs
Domestic RMB businesses						
Interest-earning assets						
Loans	**3,093,483**	**5.22%**	2,148,649	7.01%	944,834	(179) BPs
Investment debt securities	**1,245,095**	**2.79%**	986,710	3.28%	258,385	(49) BPs
Balances with central banks	**969,277**	**1.64%**	802,371	2.09%	166,906	(45) BPs
Due from banks and other financial institutions	**259,481**	**1.37%**	107,102	3.80%	152,379	(243) BPs
Total	**5,567,336**	**3.88%**	4,044,832	5.04%	1,522,504	(116) BPs
Interest-bearing liabilities						
Due to customers	**4,797,307**	**1.70%**	3,657,761	2.30%	1,139,546	(60) BPs
Due to banks and other financial institutions and due to central banks	**553,047**	**1.46%**	364,608	2.06%	188,439	(60) BPs
Other borrowed funds	**77,004**	**4.27%**	63,828	4.82%	13,176	(55) BPs
Total	**5,427,358**	**1.72%**	4,086,197	2.32%	1,341,161	(60) BPs
Net interest margin		**2.21%**		2.70%		(49) BPs
				Unit: USD million, except percentages		
Domestic foreign currency businesses						
Interest-earning assets						
Loans	**67,990**	**2.25%**	54,660	5.07%	13,330	(282) BPs
Investment debt securities	**29,713**	**2.92%**	47,399	4.13%	(17,686)	(121) BPs
Due from banks and other financial institutions[5]	**47,891**	**1.04%**	49,513	2.96%	(1,622)	(192) BPs
Total	**145,594**	**1.99%**	151,572	4.09%	(5,978)	(210) BPs
Interest-bearing liabilities						
Due to customers	**55,385**	**0.72%**	47,405	1.97%	7,980	(125) BPs
Due to banks and other financial institutions and due to central banks	**44,527**	**0.70%**	35,355	1.99%	9,172	(129) BPs
Other borrowed funds	**4,269**	**2.18%**	4,942	3.64%	(673)	(146) BPs
Total	**104,181**	**0.77%**	87,702	2.07%	16,479	(130) BPs
Net interest margin		**1.44%**		2.89%		(145) BPs

Notes:

1. Investment debt securities include available for sale debt securities, held to maturity debt securities, debt securities classified as loans and receivables, trading debt securities and debt securities designated at fair value through profit or loss.
2. Balances with central banks include the mandatory reserve fund, the surplus reserve fund, balance under reverse repo agreements and other deposits.
3. Due to customers includes structured deposits.
4. Other borrowed funds include bonds issued and other borrowings.
5. This item includes balances with central banks.

The impact of volume and interest rate changes on the consolidated interest income and expense of the Group, domestic RMB businesses and domestic foreign currency businesses is summarised in the following table:

Unit: RMB million

Items	2009	2008	Change	Analysis of net interest income variances[1] Volume	Interest rate
Group					
Interest income					
Loans	**186,982**	194,916	(7,934)	62,645	(70,579)
Investment debt securities	**49,966**	59,915	(9,949)	6,484	(16,433)
Balances with central banks	**17,155**	18,388	(1,233)	4,653	(5,886)
Due from banks and other financial institutions	**7,321**	13,708	(6,387)	5,411	(11,798)
Total	**261,424**	286,927	(25,503)	79,193	(104,696)
Interest expense					
Due to customers	**87,444**	104,429	(16,985)	27,197	(44,182)
Due to banks and other financial institutions and due to central banks	**10,794**	14,580	(3,786)	5,986	(9,772)
Other borrowed funds	**4,305**	4,982	(677)	69	(746)
Total	**102,543**	123,991	(21,448)	33,252	(54,700)
Net interest income	**158,881**	162,936	(4,055)	45,941	(49,996)
Domestic RMB businesses					
Interest income					
Loans	**161,634**	150,652	10,982	66,233	(55,251)
Investment debt securities	**34,759**	32,382	2,377	8,475	(6,098)
Balances with central banks	**15,930**	16,786	(856)	3,488	(4,344)
Due from banks and other financial institutions	**3,560**	4,067	(507)	5,790	(6,297)
Total	**215,883**	203,887	11,996	83,986	(71,990)
Interest expense					
Due to customers	**81,730**	84,210	(2,480)	26,210	(28,690)
Due to banks and other financial institutions and due to central banks	**8,065**	7,527	538	3,882	(3,344)
Other borrowed funds	**3,291**	3,076	215	635	(420)
Total	**93,086**	94,813	(1,727)	30,727	(32,454)
Net interest income	**122,797**	109,074	13,723	53,259	(39,536)
Domestic foreign currency businesses					Unit: USD million
Interest income					
Loans	**1,528**	2,772	(1,244)	676	(1,920)
Investment debt securities	**867**	1,959	(1,092)	(730)	(362)
Due from banks and other financial institutions[2]	**499**	1,466	(967)	(48)	(919)
Total	**2,894**	6,197	(3,303)	(102)	(3,201)
Interest expense					
Due to customers	**397**	935	(538)	157	(695)
Due to banks and other financial institutions and due to central banks	**311**	703	(392)	183	(575)
Other borrowed funds	**93**	180	(87)	(24)	(63)
Total	**801**	1,818	(1,017)	316	(1,333)
Net interest income	**2,093**	4,379	(2,286)	(418)	(1,868)

Notes:

1. The impact of changes in volume on interest income and expense is calculated based on the changes in average balances of interest-earning assets and interest-bearing liabilities during the reporting period. The impact of changes in interest rate on interest income and expense is calculated based on the changes in the average interest rates of interest-earning assets and interest-bearing liabilities during the reporting period. The impact relating to the combined changes in both volume and interest rate has been classified as changes in interest rates.

2. This item includes balances with central banks.

The average balances and average interest rates of domestic loans and due to customers, classified by business type, are summarised in the following table:

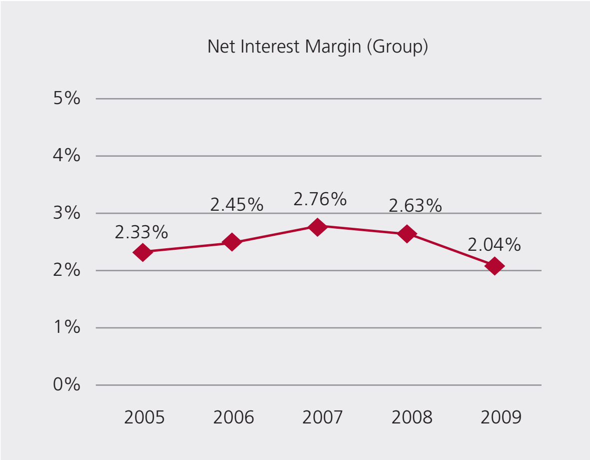
Unit: RMB million, except percentages

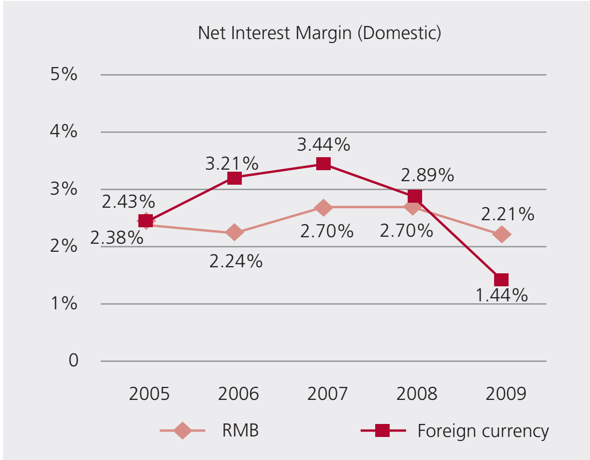
Items	2009 Average balance	2009 Average interest rate	2008 Average balance	2008 Average interest rate	Change Average balance	Change Average interest rate
Domestic RMB businesses						
Loans						
Corporate loans	**2,036,833**	**5.65%**	1,428,475	7.08%	608,358	(143) BPs
Personal loans	**798,309**	**5.18%**	625,625	6.92%	172,684	(174) BPs
Trade bills	**258,341**	**2.03%**	94,549	6.49%	163,792	(446) BPs
Total	**3,093,483**	**5.22%**	2,148,649	7.01%	944,834	(179) BPs
Including:						
Medium and long-term loans	**1,916,658**	**5.59%**	1,325,841	7.09%	590,817	(150) BPs
Short term loans within 1 year and others	**1,176,825**	**4.63%**	822,808	6.89%	354,017	(226) BPs
Due to customers						
Corporate demand deposits	**1,348,578**	**0.68%**	1,014,362	0.97%	334,216	(29) BPs
Corporate time deposits	**817,214**	**2.42%**	571,402	3.44%	245,812	(102) BPs
Personal demand deposits	**649,348**	**0.36%**	536,358	0.63%	112,990	(27) BPs
Personal time deposits	**1,626,446**	**2.71%**	1,282,272	3.48%	344,174	(77) BPs
Other	**355,721**	**1.77%**	253,367	2.64%	102,354	(87) BPs
Total	**4,797,307**	**1.70%**	3,657,761	2.30%	1,139,546	(60) BPs

Unit: USD million, except percentages

Items	2009 Average balance	2009 Average interest rate	2008 Average balance	2008 Average interest rate	Change Average balance	Change Average interest rate
Domestic foreign currency businesses						
Loans	**67,990**	**2.25%**	54,660	5.07%	13,330	(282) BPs
Due to customers						
Corporate demand deposits	**18,239**	**0.09%**	14,480	1.00%	3,759	(91) BPs
Corporate time deposits	**5,234**	**1.15%**	6,216	3.51%	(982)	(236) BPs
Personal demand deposits	**9,614**	**0.09%**	7,414	0.63%	2,200	(54) BPs
Personal time deposits	**19,105**	**1.34%**	15,341	2.30%	3,764	(96) BPs
Other	**3,193**	**1.77%**	3,954	4.35%	(761)	(258) BPs
Total	**55,385**	**0.72%**	47,405	1.97%	7,980	(125) BPs

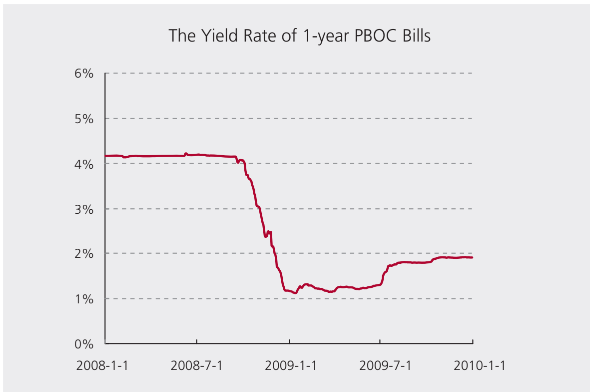
In 2009, the Group's net interest margin decreased by 59 basis points to 2.04% compared with 2008, however, the second half of the year witnessed a trend of stabilisation and recovery. The net interest margin for domestic RMB business was 2.21%, a decrease of 49 basis points compared with 2008. There was a persistent increase in net interest margin for domestic RMB business from July 2009 by 3 basis points compared with the first half of the year. Meanwhile, the net interest margin for domestic foreign currency business was 1.44%, a decrease of 145 basis points compared with 2008, but the rate of decline slowed in the second half of the year.

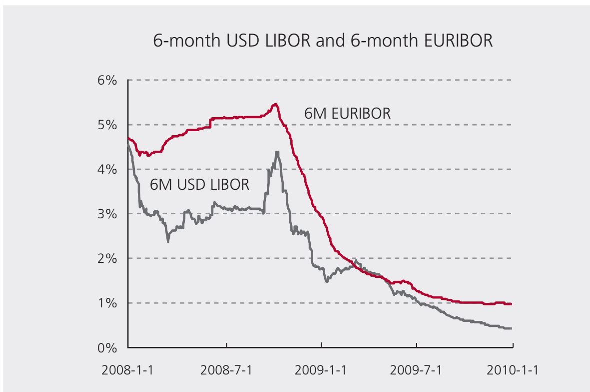




The decrease in net interest margin was caused primarily by the following factors:

(1) Significant decrease in RMB benchmark and market interest rates. From September to December in 2008, the PBOC cut interest rates in quick succession, leading to the decrease of the 1-year rate of RMB deposits and loans by 1.89 and 2.16 percentage points respectively. The interest rate cut in loans was greater than that in deposits, resulting in a narrowed spread. In 2009, the impact of the interest rate cut on the interest rates of interest-earning assets and interest-bearing liabilities was fully realised throughout the year. In addition, the market interest rates experienced a sharp decline. In 2009, the average yield of 7-day RMB SHIBOR was 1.24% and that of 1-year PBOC bills was 1.50%, down by 1.68 and 2.17 percentage points compared with 2008, respectively.





(2) Significant market interest rate cuts in foreign currencies. In response to the global financial crisis, major global economies maintained benchmark interest rates at historical low level and their market interest rates also experienced a sharp decline. In 2009, the US federal funds rate was maintained within the target range of zero to 0.25%, the ECB refinancing rate at 1% and the Bank of England benchmark rate at 0.5%. As at the end of 2009, the 6-month USD LIBOR and 6-month EURIBOR stood at 0.43% and 0.99%, respectively, down by 1.32 and 1.98 percentage points compared with the prior year-end.

(3) The domestic interest rate on small-amount deposits in foreign currencies remained largely unchanged for the year, and the decrease of average interest rates for foreign currency interest-bearing liabilities was lower than that of foreign currency interest-earning assets, leading to a narrower interest spread. In 2009, the average yield for domestic foreign currency interest-earning assets decreased by 2.10 percentage points year-on-year, while the interest rates for foreign currency interest-bearing liabilities decreased by 1.30 percentage points year-on-year. The foreign currency net interest spread was 1.22%, a decrease of 0.80 percentage point year-on-year.

In 2009, responding to the changes in the operating environment, the Group enhanced its proactive management of assets and liabilities, and further optimised its assets and liabilities portfolio in order to increase net interest income and improve net interest margin.

(1) Continuously expanding the interest-earning assets to promote the growth of net interest income. 2009 saw a significant increase in the Group's loan portfolio. The average balance of interest-earning assets increased by 25.85% year-on-year, resulting in the growth of net interest income, partly offsetting the impact of decreasing interest rates on net interest income.

(2) Rationalising the currency mix of assets to increase the proportion of RMB-denominated assets. In 2009, in response to changes in the global and domestic financial markets, the Bank made timely adjustments to its foreign currency business, reduced some high-risk investment securities, and maintained the scale of foreign currency assets at an appropriate level. In addition, according to its strategic development plan, the Bank took advantage of opportunities in the domestic market to rapidly expand its RMB-denominated business, resulting in significant growth in both the scale of RMB-denominated assets and the proportion to total assets. As at the end of 2009, the Group's RMB-denominated assets increased by 39.73% to RMB6.34 trillion with a proportion of 72.44%, up by 7.20 percentage points compared with the prior year-end.

(3) Restructuring interest-earning assets to steadily expand the proportion of loans. In 2009, the Bank adhered to the state's proactive fiscal policy and moderately easy monetary policy, and appropriately granted more loans with strict risk management, resulting in a growth in the volume and proportion of loans and a significant improvement in the efficiency of use of funds. As at the end of 2009, the Group's loans amounted to RMB4.91 trillion, an increase of RMB1.61 trillion or 48.97% compared with the end of 2008. The proportion of loans to assets was 56.13%, an increase of 8.71 percentage points compared with the end of 2008.

(4) Focusing on increasing low-cost deposits to proactively cut down the cost of its interest-bearing liabilities. In 2009, along with China's macroeconomic recovery, domestic enterprises and residents were more willing to engage in investment. Responding to this situation, the Bank actively expanded RMB-denominated demand deposits to lower the related cost. As at the end of 2009, the proportion of domestic RMB-denominated demand deposits was 44.31%, an increase of 1.50 percentage points compared with the prior year-end.

Non-interest Income

Unit: RMB million

Items	2009	2008	2007	2006	2005
Net fee and commission income	**46,013**	39,947	35,535	20,566	14,388
Net trading gains/(losses)	**5,849**	5,045	(8,709)	(7,787)	(858)
Net gains/(losses) on investment securities	**1,337**	2,009	(3,263)	1,178	(606)
Other operating income	**20,536**	18,959	18,667	13,096	11,150
Total	**73,735**	65,960	42,230	27,053	24,074

The Group reported non-interest income of RMB73.735 billion in 2009, an increase of RMB7.775 billion or 11.79%. This represented 31.70% of operating income, an increase of 2.88 percentage points compared with the prior year. The main components of non-interest income are as follows:

Net Fee and Commission Income

Unit: RMB million

Items	2009	2008	2007	2006	2005
Group					
Agency commissions	**11,211**	8,440	14,383	4,621	2,735
Credit commitment fees	**8,364**	6,411	3,590	3,064	2,693
Settlement and clearing fees	**7,481**	7,912	4,849	3,848	2,941
Spread income from foreign exchange business	**7,264**	9,360	8,047	6,243	5,141
Bank card fees	**6,091**	4,828	3,721	2,937	2,340
Other	**9,823**	6,761	5,011	2,669	1,989
Fee and commission income	**50,234**	43,712	39,601	23,382	17,839
Fee and commission expense	**(4,221)**	(3,765)	(4,066)	(2,816)	(3,451)
Net fee and commission income	**46,013**	39,947	35,535	20,566	14,388
Domestic					
Agency commissions	**5,049**	4,068	6,742	1,406	823
Credit commitment fees	**6,039**	5,447	2,839	2,164	1,784
Settlement and clearing fees	**6,508**	6,544	3,542	2,402	1,745
Spread income from foreign exchange business	**6,938**	9,012	7,648	5,938	4,861
Bank card fees	**4,503**	3,353	2,636	2,080	1,540
Other	**8,309**	5,367	3,145	1,541	1,112
Fee and commission income	**37,346**	33,791	26,552	15,531	11,865
Fee and commission expense	**(1,099)**	(1,000)	(970)	(964)	(1,797)
Net fee and commission income	**36,247**	32,791	25,582	14,567	10,068

In 2009, the Group earned net fee and commission income of RMB46.013 billion, an increase of RMB6.066 billion or 15.19% compared with the prior year. In 2009, the Group enhanced product innovation and intensified its traditional advantages, maintaining the leading market position in international settlement, foreign exchange settlement, precious metals and foreign currency-based financial products. At the same time, the Bank developed RMB business and new business to promote the optimisation of its revenue structure, resulting in rapid growth in bank card fee, financial advisory fee, and agency commissions and increasing contribution to the Group's profit. Please refer to Note V.2 to the Consolidated Financial Statements for detailed information.

Net Trading Gains/(Losses)

Unit: RMB million

Items	**2009**	2008	2007	2006	2005
Net gains/(losses) from foreign exchange and foreign exchange products	**4,497**	10,971	(8,995)	(7,739)	(2,915)
Net gains/(losses) from interest rate products	**367**	(5,324)	(1,290)	(302)	1,753
Net gains/(losses) from equity products	**573**	(827)	1,442	324	130
Net gains/(losses) from precious metals and other commodity products	**412**	225	134	(68)	150
Other	**–**	–	–	(2)	24
Total	**5,849**	5,045	(8,709)	(7,787)	(858)

In 2009, the Group recorded net trading gains of RMB5.849 billion, an increase of RMB0.804 billion or 15.94% year-on-year. Details are set out below:

(1) The Group earned a net gain from foreign exchange and foreign exchange products of RMB4.497 billion, a decrease of RMB6.474 billion or 59.01% year-on-year. This was mainly due to steadier exchange rates of the major foreign currencies, such as USD, EUR, in 2009 than in 2008, resulting in a decrease of gains from foreign exchange transaction year-on-year.

(2) Interest rates products realised a net gain of RMB0.367 billion, a favourable result. This was mainly attributable to the differences in prevailing conditions existing in 2008 and 2009. In 2008, successive USD interest cuts caused losses in the valuation of the Bank's USD interest rate swaps. In 2009, such valuation was improved significantly due to the increasing USD forward swap rate. In addition, as the domestic and global macroeconomic and financial situations gradually improved, securities markets rebounded and fair value losses on trading debts valuation decreased.

Please refer to Note V.3 to the Consolidated Financial Statements for more detailed information.

Operating Expenses

Unit: RMB million

Items	**2009**	2008	2007	2006	2005
Staff costs	**45,474**	39,365	36,261	30,896	27,106
General operating and administrative expenses	**26,911**	23,932	21,736	16,378	14,801
Depreciation and amortisation	**8,395**	7,816	7,094	6,026	6,314
Business and other taxes	**11,645**	11,367	8,726	6,462	5,680
Insurance benefits and claims	**8,195**	8,243	9,837	7,484	4,153
Other	**6,401**	6,689	1,624	1,656	1,497
Total	**107,021**	97,412	85,278	68,902	59,551

In 2009, the Group recorded operating expenses of RMB107.021 billion, an increase of RMB9.609 billion or 9.86% compared with the prior year. The main reasons for the increase in operating expenses were as follows: (1) To support long-term development, the Bank expanded its professional workforce and frontline staff at retail outlets on a reasonable scale, resulting in an increase of staff costs and the related mandatory social security expenses; (2) The Group provided more funds to support infrastructure construction, marketing and key businesses in accordance with its strategic development plan, thus increasing general operating and administrative expenses, depreciation and amortisation; and (3) The charge for the Lehman Brothers Minibonds made by BOCHK was equivalent to RMB2.889 billion.

In 2009, along with the rapid business growth, the Group continued to control the administrative expenses, and as a result, domestic administrative expenses, operating expenses and transportation expenses decreased by RMB0.344 billion compared with the prior year. Furthermore, the sales of Olympic-licensed products were completed in the first quarter of 2009, resulting in a sharp decrease in related cost year-on-year.

Please refer to Notes V.5, 6 to the Consolidated Financial Statements for more details.

Impairment Losses on Assets

Impairment Losses on Loans and Advances

In 2009, the Group's impairment losses on loans and advances amounted to RMB15.445 billion, a decrease of RMB1.347 billion compared with the prior year. The credit cost was 0.38%, a decrease of 0.17 percentage point. For more information on loan quality and allowance for loan impairment losses, please refer to the "Risk Management – Credit Risk" section and Note V.8 and Note VI.3 to the Consolidated Financial Statements.

Impairment Losses on Other Assets

In 2009, the impairment loss on other assets was net reversal of RMB0.458 billion, mainly affected by factors such as the rebound in prices of foreign currency bonds resulting in the reversal of impairment losses on debt securities in 2009 amounting to RMB0.865 billion. For more details, please refer to Note V.8 and Note VI.3 to the Consolidated Financial Statements.

Income Tax Expense

In 2009, the Group incurred income tax expense of RMB25.831 billion, an increase of RMB4.546 billion or 21.36% compared with the prior year. The effective tax rate was 23.18%.The increase was mainly attributable to the rapid growth in operating profit. The reconciliation of the statutory income tax rate to the effective income tax rate is set forth in Note V.9 to the Consolidated Financial Statements.

Financial Position Analysis

At the end of 2009, the Group's total assets were RMB8,748.177 billion, an increase of RMB1,796.497 billion or 25.84% from the prior year-end. The Group's total liabilities amounted to RMB8,206.549 billion, an increase of RMB1,744.756 billion or 27.00% from the prior year-end.

The principal components of the Group's consolidated statement of financial position are set out below:

Unit: RMB million

	As at 31 December				
Items	**2009**	2008	2007	2006	2005
Assets					
Loans, net	**4,797,408**	3,189,652	2,754,493	2,337,726	2,152,112
Investment securities[1]	**1,816,679**	1,646,208	1,712,927	1,892,482	1,683,313
Balances with central banks	**1,111,351**	1,207,613	751,344	379,631	316,941
Due from banks and other financial institutions	**618,199**	525,509	423,904	407,840	344,537
Other assets	**404,540**	382,698	348,549	309,974	243,145
Total	**8,748,177**	6,951,680	5,991,217	5,327,653	4,740,048
Liabilities					
Due to customers	**6,620,552**	5,102,111	4,400,111	4,091,118	3,699,464
Due to banks and other financial institutions and due to central banks	**1,152,424**	859,343	663,815	368,059	376,898
Other borrowed funds[2]	**113,984**	108,231	116,099	123,571	112,343
Other liabilities	**319,589**	392,108	360,535	331,949	295,824
Total	**8,206,549**	6,461,793	5,540,560	4,914,697	4,484,529

Notes:

1. Investment securities include available for sale securities, held to maturity securities, securities classified as loans and receivables, and financial assets at fair value through profit or loss.

2. Other borrowed funds include bonds issued and other borrowings.

Loans and Advances to Customers

The Group's loans and advances to customers amounted to RMB4,910.358 billion, an increase of RMB1,614.212 billion or 48.97% compared with the prior year-end. This included RMB-denominated loans of RMB3,525.018 billion, which increased by RMB1,170.564 billion or 49.72% from the prior year-end. Foreign currency-denominated loans were RMB1,385.340 billion, an increase of RMB443.648 billion or 47.11%.

In 2009, capitalising on the market opportunities arising from the government policies directed at expanding domestic demand and stimulating economic development, the Bank strengthened its marketing activities to attract high-quality customers and projects, optimised the customer structure and business mix, and achieved significant growth in its loan portfolio while addressing related risk management considerations, thus strongly supporting domestic economic growth. During the second half of 2009, the Bank arranged timely credit supply, focused on adjusting its loan structures, and promoted the healthy development of its loan businesses.

The Group further intensified proactive risk management and loan quality continued to improve. As at the end of 2009, the ratio of identified impaired loans to total loans was 1.55%, a decrease of 1.21 percentage points from the prior year-end. The ratio of non-performing loans to total loans was 1.52%, a decrease of 1.13 percentage points from the prior year-end. The ratio of allowance for loan impairment losses to non-performing loans was 151.17%, up by 29.45 percentage points from the prior year-end. For details about loan quality, please refer to "Risk Management-Credit Risk" section.

Investment Securities

At the end of 2009, the Group held investment securities of RMB1,816.679 billion, an increase of RMB170.471 billion or 10.36% from the prior year-end. RMB-denominated investment securities amounted to RMB1,280.337 billion, an increase of RMB249.412 billion or 24.19% from the prior year-end. The amount of foreign currency-denominated investment securities amounted to RMB536.342 billion, a decrease of RMB78.941 billion or 12.83% from the prior year-end.

In an environment with generally high levels of liquidity, the Bank actively sought investment opportunities in RMB-denominated investment securities, strengthened RMB-denominated debt investment, and focused on the investments of treasury bonds, PBOC bills and high credit rating products in order to improve the efficient use of funds. As to foreign currency-denominated investment securities, the Bank took the initiative to reduce the scale of foreign currency-denominated debt in accordance with global financial market situation, and optimised its structure, resulting in a decreasing risk exposure.

The classification of the Group's investment securities portfolio at the end of 2009 is shown below:

Unit: RMB million, except percentages

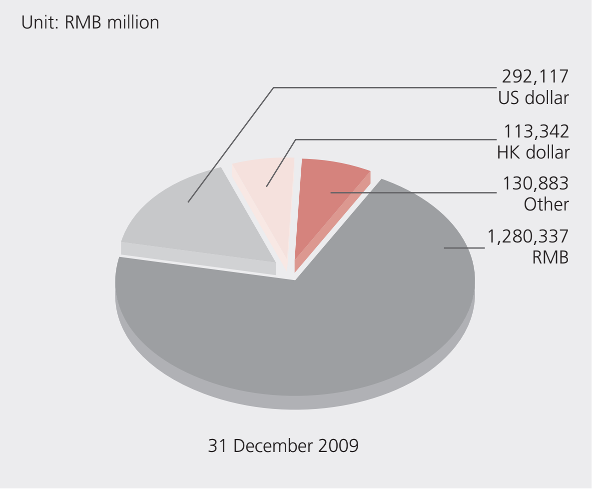
	As at 31 December									
	2009		2008		2007		2006		2005	
Items	**Amount**	**% of total**	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
Financial assets at fair value through profit or loss	**61,897**	**3.40%**	87,814	5.33%	124,665	7.28%	115,828	6.12%	111,782	6.64%
Securities available for sale	**622,307**	**34.26%**	752,602	45.72%	682,995	39.87%	815,178	43.07%	602,221	35.77%
Securities held to maturity	**744,693**	**40.99%**	365,838	22.22%	446,647	26.08%	461,140	24.37%	607,459	36.09%
Securities classified as loans and receivables	**387,782**	**21.35%**	439,954	26.73%	458,620	26.77%	500,336	26.44%	361,851	21.50%
Total	**1,816,679**	**100.00%**	1,646,208	100.00%	1,712,927	100.00%	1,892,482	100.00%	1,683,313	100.00%

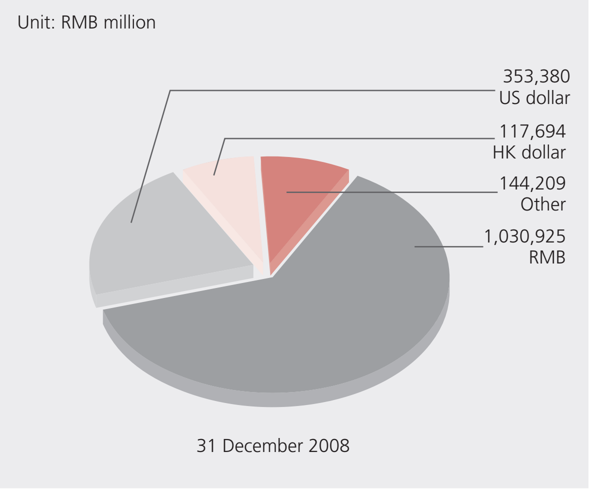
Investment Securities by Issuer Type

Unit: RMB million

	As at 31 December	
Items	**2009**	2008
Chinese mainland issuers		
Government	**743,721**	672,199
Public sector and quasi-governments	**15,021**	2,307
Policy banks	**240,884**	185,926
Financial institutions	**42,239**	12,532
Corporate	**109,480**	22,516
China Orient Asset Management Corporation	**160,000**	160,000
Sub-total	**1,311,345**	1,055,480
Overseas issuers		
Governments	**138,030**	144,683
Public sector and quasi-governments	**71,643**	117,260
Financial institutions	**231,753**	246,800
Corporate	**43,335**	67,372
Sub-total	**484,761**	576,115
Equity securities	**19,325**	13,191
Other	**1,248**	1,422
Total	**1,816,679**	1,646,208

Investment Securities by Currency





In 2009, the US mortgage related debt securities market trended towards stability. As at 31 December 2009, the carrying value of US subprime mortgage related debt securities, US Alt-A mortgage-backed securities and Non-Agency US mortgage-backed securities held by the Group amounted to USD4.106 billion (or RMB28.040 billion), and the related impairment allowance was USD3.475 billion (or RMB23.728 billion).

From late 2009, the credit crisis in certain European countries resulted in growing concerns over debt securities issued by Portugal, Ireland, Italy, Greece and Spain. As at 31 December 2009, the debt securities issued by these countries and held by the Group are summarised in the following table by carrying value. At the end of 2009, the total carrying value of these debt securities held by the Group exceeded cost. The Group will continue to follow the developments of the related issues.

Unit: RMB million

	Issuers				
Country	**Governments**	**Public sector and quasi-governments**	**Financial institutions**	**Corporate**	**Total**
Italy	2,360	–	2,064	–	4,424
Spain	–	280	202	110	592
Ireland	–	–	1,633	279	1,912
Portugal	–	–	92	–	92
Greece	–	–	–	–	–
Total	2,360	280	3,991	389	7,020

Due to Customers

At the end of 2009, the Group's deposits from customers amounted to RMB6,620.552 billion, an increase of RMB1,518.441 billion or 29.76% from the prior year-end. This included RMB-denominated deposits of RMB5,347.679 billion, an increase of RMB1,387.148 billion or 35.02% compared with the prior year-end. Foreign currency-denominated deposits were RMB1,272.873 billion, an increase of RMB131.293 billion or 11.50% from the prior year-end.

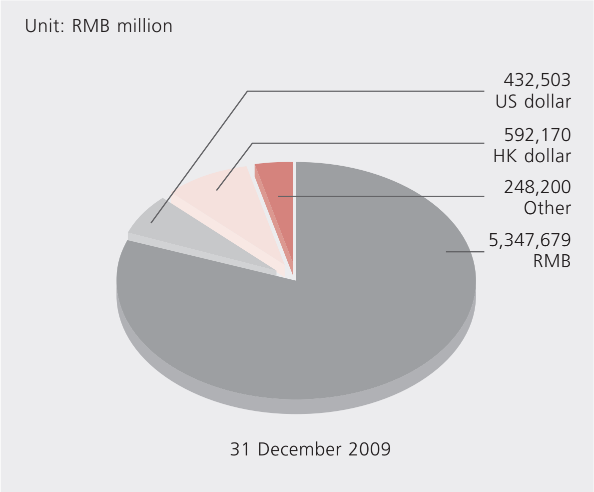
In 2009, the Bank expanded customer base, promoted the construction of outlets and e-channels, enhanced the efficiency of outlets, perfected its e-channel system, and consolidated the carriers of customer services. Through these measures, customer deposits achieved rapid growth, providing funds to support the development of assets business.

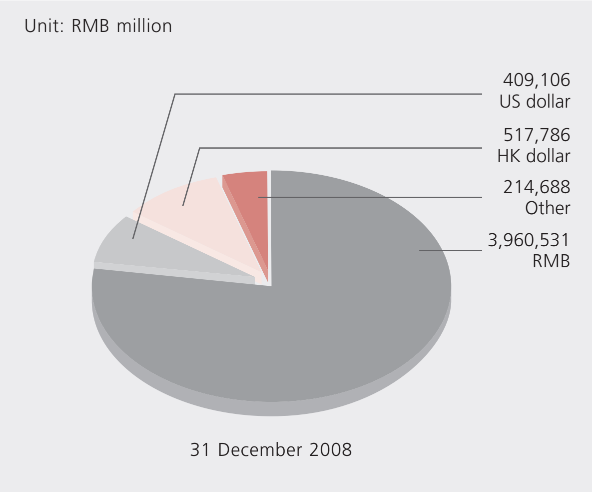
The following table sets forth the principal components of the Group and the domestic deposits from customers:

Unit: RMB million, except percentages

	As at 31 December									
	2009		2008		2007		2006		2005	
Items	**Amount**	**% of total**	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
Group										
Corporate deposits										
Demand deposits	**1,948,036**	**29.42%**	1,375,251	26.96%	1,174,722	26.70%	979,653	23.95%	836,763	22.62%
Time deposits	**1,125,487**	**17.00%**	786,896	15.42%	694,995	15.79%	549,118	13.42%	511,983	13.84%
Sub-total	**3,073,523**	**46.42%**	2,162,147	42.38%	1,869,717	42.49%	1,528,771	37.37%	1,348,746	36.46%
Personal deposits										
Demand deposits	**1,194,533**	**18.04%**	901,188	17.66%	810,720	18.43%	770,583	18.83%	667,957	18.05%
Time deposits	**1,985,352**	**29.99%**	1,822,323	35.72%	1,545,001	35.11%	1,645,914	40.23%	1,554,369	42.02%
Sub-total	**3,179,885**	**48.03%**	2,723,511	53.38%	2,355,721	53.54%	2,416,497	59.06%	2,222,326	60.07%
Security and margin deposits	**367,144**	**5.55%**	216,453	4.24%	174,673	3.97%	145,850	3.57%	128,392	3.47%
Total	**6,620,552**	**100.00%**	5,102,111	100.00%	4,400,111	100.00%	4,091,118	100.00%	3,699,464	100.00%
Domestic										
Corporate deposits										
Demand deposits	**1,737,659**	**30.58%**	1,219,355	28.66%	1,053,269	29.85%	871,331	26.65%	734,140	25.08%
Time deposits	**983,424**	**17.31%**	631,905	14.85%	517,173	14.65%	420,017	12.85%	393,394	13.44%
Sub-total	**2,721,083**	**47.89%**	1,851,260	43.51%	1,570,442	44.50%	1,291,348	39.50%	1,127,534	38.52%
Personal deposits										
Demand deposits	**819,522**	**14.42%**	628,279	14.77%	579,372	16.42%	544,974	16.67%	470,508	16.07%
Time deposits	**1,786,548**	**31.45%**	1,568,024	36.86%	1,214,757	34.42%	1,295,672	39.62%	1,208,176	41.27%
Sub-total	**2,606,070**	**45.87%**	2,196,303	51.63%	1,794,129	50.84%	1,840,646	56.29%	1,678,684	57.34%
Security and margin deposits	**354,520**	**6.24%**	206,707	4.86%	164,409	4.66%	137,815	4.21%	121,344	4.14%
Total	**5,681,673**	**100.00%**	4,254,270	100.00%	3,528,980	100.00%	3,269,809	100.00%	2,927,562	100.00%

Customer Deposits by Currency





Equity

As at the end of 2009, the Group's total equity was RMB541.628 billion, an increase of RMB51.741 billion or 10.56% from the prior year-end. This change was mainly attributable to:

(1) The profit for the year of RMB85.598 billion, with profit attributable to the equity holders of the Bank of RMB81.068 billion; and

(2) A cash dividend of RMB32.999 billion paid in respect of the 2008 profit approved by the equity holders of the Bank at the Annual General Meeting.

Please refer to the Consolidated Statement of Changes in Equity in the Consolidated Financial Statements for more detailed information on equity movements.

Off-balance Sheet Items

Off-balance sheet items include derivative financial instruments, contingent liabilities and commitments.

The Group entered into various foreign currency exchange rate, interest rate, equity, precious metals and other commodity related derivative financial instruments, principally for trading, assets and liabilities management and on behalf of customers. Please refer to Note V.15 to the Consolidated Financial Statements for the contractual/notional amounts and fair values of derivative instruments.

Contingent liabilities and commitments are in respect of credit commitments, legal proceedings, assets pledged, collateral accepted, capital commitments, operating leases, treasury bonds redemption commitments and securities underwriting obligations. Credit commitments were the largest component of off-balance sheet items, totalling RMB1,875.399 billion at the end of 2009. Please refer to Note V.41 to the Consolidated Financial Statements for more detailed information on contingent liabilities and commitments.

Cash Flow Analysis

At the end of 2009, the balance of the Group's cash and cash equivalents was RMB586.319 billion, a net decrease of RMB335.088 billion compared with the prior year-end. It was mainly attributable to the growth in its loan portfolio and strengthened RMB-denominated debt securities.

Please refer to the "Risk Management" section for more detailed information on liquidities management.

Segment Reporting by Geography

The Group conducts its business activities in the Chinese mainland, Hong Kong and Macau and other overseas locations. The geographical analysis of profit attributable to business activities, and the related assets and liabilities are set forth in the following table:

Unit: RMB million

	Chinese mainland		Hong Kong & Macau		Other overseas locations		Elimination		The Group	
Items	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Net interest income	**137,107**	139,412	**17,636**	19,429	**4,138**	4,095	**–**	–	**158,881**	162,936
Non-interest income	**45,862**	46,909	**25,849**	18,413	**2,455**	921	**(431)**	(283)	**73,735**	65,960
Including: net fee and commission income	**36,247**	32,791	**8,223**	6,085	**1,781**	1,175	**(238)**	(104)	**46,013**	39,947
Operating expenses	**(80,997)**	(75,683)	**(24,384)**	(20,023)	**(2,071)**	(1,935)	**431**	229	**(107,021)**	(97,412)
Impairment losses on assets	**(15,545)**	(30,357)	**1,014**	(12,645)	**(456)**	(2,029)	**–**	–	**(14,987)**	(45,031)
Profit before income tax	**86,427**	80,281	**20,936**	6,007	**4,066**	1,052	**–**	(161)	**111,429**	87,179
Income tax expense	**(21,796)**	(19,502)	**(3,041)**	(1,372)	**(994)**	(411)	**–**	–	**(25,831)**	(21,285)
Profit for the year	**64,631**	60,779	**17,895**	4,635	**3,072**	641	**–**	(161)	**85,598**	65,894
At the year-end										
Assets	**7,360,298**	5,570,992	**1,330,004**	1,250,309	**426,799**	585,365	**(368,924)**	(454,986)	**8,748,177**	6,951,680
Liabilities	**6,960,958**	5,198,840	**1,203,524**	1,144,774	**410,830**	573,004	**(368,763)**	(454,825)	**8,206,549**	6,461,793

As at the end of 2009, total assets[2] of the Chinese mainland segment amounted to RMB7,360.298 billion, an increase of RMB1,789.306 billion or 32.12% from the prior year-end. This represented 80.73% of the Group's total assets as at 31 December 2009. In 2009, this segment recorded a profit of RMB64.631 billion, an increase of RMB3.852 billion or 6.34% compared with the prior year, representing 75.51% of the Group's profit for the year.

[2] The figures for the segment assets, segment profit for the year and their respective percentages are prior to intra-group elimination.

Total assets of the Hong Kong and Macau segment amounted to RMB1,330.004 billion, an increase of RMB79.695 billion or 6.37% compared with the prior year-end, representing 14.59% of the Group's total assets. This segment achieved a profit for the year 2009 of RMB17.895 billion, a significant increase of 286.08% compared with the prior year. For details, please refer to the "Business Review – Hong Kong, Macau and Overseas Commercial Banking Business" section.

The assets of the other overseas locations segment amounted to RMB426.799 billion, decreasing compared with the prior year-end. This segment achieved a profit for the year 2009 of RMB3.072 billion, a remarkable increase of 379.25% compared with the prior year.

Please refer to the "Business Review" section for more detailed information on business segments.

Critical Accounting Estimates and Judgements

The Group makes estimates and judgements that affect the reported amounts of assets and liabilities within the next fiscal year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The management believes that the accounting estimates and judgements made properly reflected the economic conditions in which the Group was operating. Please refer to Notes II and III to the Consolidated Financial Statements for more detailed information related to the Group's accounting policies and accounting estimates.

Fair Value Measurement

The Bank has in place sound internal control systems for fair value measurement. In accordance with the *Guidelines on Market Risk Management in Commercial Banks, Chinese Accounting Standards* and *International Financial Reporting Standards (IFRS)*, with reference to the *New Basel Capital Accord*, and drawing on good practices on valuation by leading international banks, the Bank formulated *Bank of China Limited Policy for Valuation and Price Verification of Financial Instruments* to standardise the fair value measurement of financial instruments and enable timely and accurate financial information disclosure.

The risk-taking departments evaluate the fair value of financial instruments for trading or investment purposes. The financial management departments obtain quoted market prices or use valuation techniques for initial and subsequent measurement of the fair value of financial instruments in accordance with the accounting standards. The risk management departments are responsible for the review and verification of valuation models. With regard to the fair value of new products, the measurement method, sources of information, valuation model, market prices and model inputs, among other things, are determined by the risk-taking departments, the financial management departments and the risk management departments and submitted to the senior management for approval. Operation and verification mechanism, valuation movement monitoring mechanism, valuation result communication mechanism between the risk-taking departments and the fair value measurement departments, and model inputs reviewing mechanism are established in the process of fair value measurement.

If a financial instrument has an active market, the quoted market price in the active market is used to determine its fair value. If the market for a financial instrument is not active, valuation techniques are used to establish its fair value. These valuation techniques are commonly used by market participants and demonstrated to provide reliable estimates of prices obtained in actual market transactions. Inputs to these valuation techniques are generally market observable. Of which:

(1) The fair value of debt securities denominated in RMB and foreign currencies is largely based on market prices.

(2) The fair value of foreign exchange spots, forwards and swaps is measured using spot or forward exchange rates.

(3) The fair value of interest rate swaps and cross-currency interest rate swaps is established using a discounted cash flow model on the basis of the yield curve of each currency.

(4) The fair value of interest rate and currency options is established using option valuation models (e.g. the Black-Scholes model).

For exotic treasury products, such as complex structured debt securities, the risk-taking departments shall analyse and assess fair values by obtaining quoted prices from multiple sources, including open market, counterparties or pricing service agencies. If there are indications of impairment, impairment allowances will be assessed. The risk management departments and the financial management departments respectively re-assess and verify the results from the risk measurement and the accounting measurement perspective.

Please refer to Note VI.6 to the Consolidated Financial Statements for more detailed information related to the Group's fair value measurement.

Other Financial Information

The reconciliation of equity and net profit of the Group prepared in accordance with IFRS to that prepared in accordance with CAS is set forth in "Supplementary Information – Financial Statements Prepared in Accordance with CAS".

Management Discussion and Analysis
— Business Review

In 2009, adhering to the guiding principles of a scientific outlook on development, the Group continued to steadfastly implement its strategic development plan in a measured manner. This has led to rapid and healthy growth across the Group's business lines, increased effectiveness in proactive risk management, steady advancement in infrastructure construction and continuous improvement in core competitiveness. The following table sets forth the profit before tax for each line of business:

Unit: RMB million, except percentages

	2009		2008	
Items	**Amount**	**% of total**	Amount	% of total
Commercial banking business				
Including:				
Corporate banking business	**67,798**	**60.84%**	58,204	66.76%
Personal banking business	**24,723**	**22.19%**	23,447	26.90%
Treasury operations	**14,243**	**12.78%**	8,389	9.62%
Investment banking and insurance	**2,270**	**2.04%**	(583)	–
Others and elimination	**2,395**	**2.15%**	(2,278)	–
Total	**111,429**	**100.00%**	87,179	100.00%

Note: The Group reviews the internal reporting in order to assess performance and allocate resources. Segment information is presented on the same basis as the Group's management and internal reporting. Adoption of IFRS 8 resulted in a reclassification of certain services from corporate banking to treasury operations based on the Group's reporting. Comparatives for 2008 have been reclassified.

A detailed review of the Group's principal deposits and loans as at the end of 2009 is summarised in the following table:

Unit: RMB million, except percentages

Items	**As at 31 December 2009**	As at 31 December 2008	Change
Corporate deposits			
Domestic: RMB	**2,554,742**	1,712,083	49.22%
Foreign currency	**166,341**	139,177	19.52%
Overseas	**352,440**	310,887	13.37%
Sub-total	**3,073,523**	2,162,147	42.15%
Savings deposits			
Domestic: RMB	**2,407,931**	2,020,900	19.15%
Foreign currency	**198,139**	175,403	12.96%
Overseas	**573,815**	527,208	8.84%
Sub-total	**3,179,885**	2,723,511	16.76%
Security and margin deposits			
Domestic: RMB	**348,728**	198,662	75.54%
Foreign currency	**5,792**	8,045	(28.00%)
Overseas	**12,624**	9,746	29.53%
Sub-total	**367,144**	216,453	69.62%
Financial institution deposits			
Domestic: RMB	**545,594**	308,701	76.74%
Foreign currency	**274,613**	188,327	45.82%
Sub-total	**820,207**	497,028	65.02%
Corporate loans			
Domestic: RMB	**2,531,164**	1,684,690	50.25%
Foreign currency	**655,084**	323,881	102.26%
Overseas	**576,628**	484,143	19.10%
Sub-total	**3,762,876**	2,492,714	50.95%
Personal loans			
Domestic: RMB	**979,072**	653,994	49.71%
Foreign currency	**393**	239	64.44%
Overseas	**168,017**	149,199	12.61%
Sub-total	**1,147,482**	803,432	42.82%

Note: Financial institution deposits herein are included in "Due to banks and other financial institutions", and corporate deposits, savings deposits, security and margin deposits are included in "Due to customers" in the Consolidated Financial Statements.

Commercial Banking Business

Domestic Commercial Banking Business

In 2009, China declared and improved a set of plans to address the international financial crisis and maintain rapid but stable economic development. By capitalising on this opportunity, the Bank expanded business scale, enlarged customer base, optimised structures and increased market share, resulting in a significant achievement in business development and a substantial growth in operating performance. Commercial banking business in domestic operations realised a profit before tax of RMB86.232 billion, an increase of RMB6.144 billion or 7.67% compared with the prior year. The principal components are set forth below:

Unit: RMB million, except percentages

	2009		2008	
Items	**Amount**	**% of total**	Amount	% of total
Corporate banking business	**60,234**	**69.85%**	50,707	63.31%
Personal banking business	**19,878**	**23.05%**	18,331	22.89%
Treasury operations	**5,999**	**6.96%**	11,445	14.29%
Others	**121**	**0.14%**	(395)	–
Total profit before tax	**86,232**	**100.00%**	80,088	100.00%

Corporate Banking Business

In support of the government's policy of expanding domestic demand, revitalising industry and investing in key strategic projects, the Bank accelerated its business development, optimised its business structures, strengthened product innovation, expanded customer base and enhanced the core competitiveness in corporate banking. In 2009, the domestic corporate banking business recorded a profit before tax of RMB60.234 billion, an increase of RMB9.527 billion, or 18.79%, compared with the prior year.

The Bank promoted restructuring in line with the expansion of assets scale. In 2009, the Bank's RMB-denominated corporate loans in domestic operations increased by RMB846.474 billion or 50.25%, and the foreign currency-denominated corporate loans in domestic operations increased by RMB331.203 billion or 102.26% compared with the prior year, respectively. Their market shares in all financial institutions stood at 7.54% and 25.27%, an increase of 1.00 percentage point and 5.82 percentage points compared with the prior year-end, respectively. In 2009, the Bank extended more credit to customers with high credit rating, leading to an increase of 2.71 percentage points in the proportion of loans extended to customers rated at BB and above. The Bank also adjusted the industry mix of its loan portfolio. As a result, the proportion of outstanding loans to industries related to infrastructure construction increased, including transportation, water conservation, leasing and commercial services, whereas that to manufacturing and other industries with over capacity such as iron, steel and cement decreased.

The Bank coordinated the development of liabilities business with that of fee-based business. In 2009, the RMB and foreign currency-denominated corporate deposits in domestic operations increased by RMB842.659 billion and RMB27.164 billion, or 49.22% and 19.52%, compared with the prior year-end respectively. Their market shares in all financial institutions stood at 9.60% and 23.02%, increased by 1.20 and 3.77 percentage points compared with the prior year-end, respectively. The RMB-denominated and foreign currency-denominated deposits of financial institutions increased by RMB236.893 billion and RMB86.286 billion, or 76.74% and 45.82%, respectively. In 2009, the corporate banking business realised fee and commission income of RMB22.377 billion, an increase of 8.06% year-on-year.

The Bank expanded both the large and small enterprises business rapidly. It continuously expanded the customer base of large enterprises and increased the scale of high quality customers. The number of large corporate customers increased by 32.99% compared with the prior year-end. Outstanding loans extended to large corporate customers increased by 46.60% and the NPL ratio decreased by 0.18 percentage point compared with the prior year-end. The number of key corporate customers graded as the Head Office VIP was more than 1000, about double the number of the prior year-end. In 2009, the Bank made a significant breakthrough in key project marketing and served as the major partner bank of numerous large-scale projects in China, such as Hong Kong-Zhuhai-Macau Bridge and Shanghai-Nanjing Inter-city Railway. The Bank was also one of the major banks for "Going-Global" projects of China Petrolchemical Corporation, China National Offshore Oil Corporation, Huaneng Tuas Power and Yanzhou Coal Mining Company Limited and many other Chinese firms. Small enterprises business also developed rapidly. By the end of 2009, the number of small enterprises customers reached 16.7 thousand, an increase of 50.09% from the prior year-end. The Bank's outstanding loans extended to small enterprises increased by 129.91% to RMB177.157 billion from the prior year-end, and the non-performing loans were RMB9.813 billion, a decrease of RMB0.913 billion compared with the prior year-end.

Financial institutions business advanced steadily. In 2009, the Bank took the lead in rolling out such new products as RMB settlement for cross-border trade, pre-purchase of RMB and other initiatives. The Bank signed a number of cooperative agreements with six overseas correspondent banks, strongly supporting Chinese enterprises' "Going-Global" plans. The Bank also reinforced collaboration with foreign correspondent banks, resulting in a market-leading business volume of USD447.7 billion from its correspondent banks. So far, the Bank has forged correspondent relationships with 86% of the world's top 1000 banks. The number of the Bank's partner brokerage firms in SSE B-Share clearing totalled 86, ranking first in the market. The scale of third-party custody business continuously expanded with the number of customers reaching 6.66 million, an increase of 1.45 million from the prior year-end. While quickening the pace of cooperation with small and medium-sized banks, the Bank also boasted a 65% penetration rate with large-scale banks, insurance companies and securities firms.

The Bank's international settlement and trade finance business consolidated its market-leading advantages. In 2009, the transaction volume of the international settlement business conducted by the Bank reached USD1.43 trillion, enabling the Bank to maintain its global leading position in this field. The transaction volume of the international trade settlement business conducted by the Bank's domestic operations stood at USD640 billion, representing a market share of 30.36% as reported in the statistics of the SAFE and continuing to rank first in the domestic market. The Bank also enjoyed prominent advantages in its guarantee and factoring businesses. In 2009, the transaction volume of foreign currency guarantees in domestic operations was USD22.3 billion, allowing the Bank to maintain its leading position among its peers. The transaction volume of RMB-denominated guarantees increased by almost 20% year-on-year, and the Bank's overall balance of financing guarantees approved by the SAFE was the highest in China. The transaction volume of the international factoring business conducted by the Bank was USD10.3 billion, of which the volume of two-factor import product and two-factor export product both increased year-on-year.

The Bank had the first-mover advantage in the cross-border RMB settlement business. In 2009, the Bank conducted the first domestic cross-border RMB trade settlement business, partnered with 40% of the pilot enterprises to be their main reporting bank and opened 80 RMB clearing accounts for overseas correspondent banks, the number of such accounts ranking first in the market. In 2009, it completed 147 cross-border RMB trade settlement transactions totalling RMB1.6 billion, leading its peers by market share.

The summary of the Bank's domestic institution trade finance business is as follows:

Items	**Year 2009 Transaction volume**	**Change**	**Year 2009 Balance**	**Change**
FX Trade finance (USD billion)	80.7	57%	44.7	196%
RMB Trade finance (RMB billion)	161.7	89%	78.4	133%

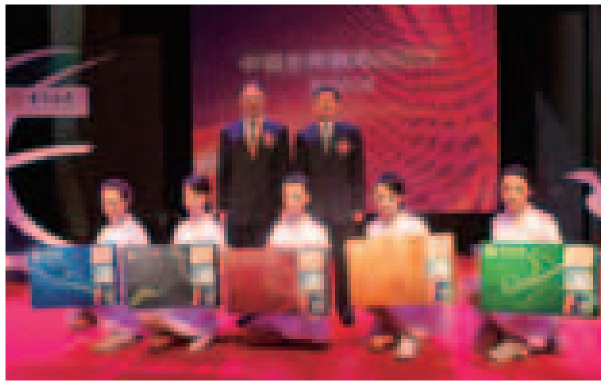
The Bank pushed forward improvements in products and services. By strengthening product innovation in 2009, the Bank successfully delivered the first export buyer's credit with financing lease structure and also the first ship buyer's credit insured by China Export & Credit Insurance Corporation in China. The range of domestic settlement products was significantly broadened, resulting in a comprehensive product system containing 7 categories with nearly 50 types of products. The Bank reinforced its promotion of competitive international settlement products. "*Da*" series of trade finance products saw a rapid development. The Bank also continuously expanded its products, such as syndicated guarantee, maritime guarantee, leasing factoring and factoring pool financing without credit insurance. The promotion of supply chain financing "1+N" mode sped up and the TSU Leading Bank Plan continued. Cooperation with international financial institutions was further consolidated. The Bank successfully conducted the first trade finance transaction among Chinese banks with Asian Development Bank, signed a Memorandum of Comprehensive Cooperation with Inter-American Development Bank, with which the Bank completed the first domestic pre-export trade finance transaction. The Bank also successfully carried out the first financing risk participation business under bank promissory notes in China with the Netherlands' Credit Europe Bank.

The Bank's brand image was continuously enhanced. It was awarded the "Best Corporate Banking in Asia 2009" by *21st Century Business Herald*, the "Global Corporate Banking – Best Corporate Banking Brand 2009" by *China Business News*, the "Best Trade Finance Bank (China)" by *The Asset*, "Best Trade Finance Bank" by *Finance Asia* and many other honours.

Personal Banking Business

In 2009, the Bank achieved rapid growth in personal banking business by improving service quality, enhancing product innovation, accelerating service model transformation and expanding customer base focused on middle and high-end customers. In 2009, the Bank's domestic personal banking business realised a profit before tax of RMB19.878 billion, an increase of RMB1.547 billion or 8.44% from 2008.

By capitalising on IT construction and product innovation, the Bank strengthened cross-business cooperation and continually enhanced the core competitiveness of its savings deposits, achieving stable growth in RMB-denominated savings deposits. Meanwhile, proactively coping with the fluctuations in RMB exchange rates, the Bank consolidated its competitive advantage in foreign currency savings deposits by focusing on remittance products and foreign exchange products. In 2009, domestic RMB and foreign currency savings deposits increased by RMB387.031 billion and RMB22.736 billion, or 19.15% and 12.96% respectively. The market share of RMB savings deposits in all financial institutions stood at 9.26%, basically the same as the prior year-end, while the market share of foreign currency savings deposits in all financial institutions was 51.41%, an increase of 2.93 percentage points from the prior year-end.



The Bank realised stable growth in personal loan business by promoting "Ideal Home" brand and the strength of "Direct Marketing" mode of operations, optimising marketing processes and pushing ahead management innovation. In 2009, domestic RMB personal loans grew by RMB325.078 billion, an increase of 49.71% from the prior year-end, which in turn increased the Bank's market share in all financial institutions by 0.27 percentage point to 16.33%. The mortgage loans increased rapidly. The market shares of auto loans and government-sponsored student loans rose continually, ranking first among peers.

The Bank vigorously promoted its fee-based personal banking business in an effort to diversify income streams. Building on its traditional strengths in international settlement, the Bank developed businesses such as personal domestic settlement, payroll service and third-party custody. The Bank signed a comprehensive cooperation agreement with MoneyGram International Ltd., the world's second largest remittance company, to extend its personal international remittance channel. The Bank pushed forward the exploration of individual foreign exchange settlement and sale through its online banking service, and accelerated its popularisation on a pilot basis. The Bank was also active in developing its wealth management business, with the sales volume of personal wealth management products increasing sharply year-on-year.

In view of expanding personal customer base and optimising customer structures, the Bank implemented customer segmentation strategy in line with the development of a differentiated three-tier wealth management model. In 2009, oriented to the development of middle and high-end customers and the synergies of a three-tier wealth management service system, the Bank fully promoted the "BOC Wealth Management" brand. In 2009, the number of wealth management centres and prestigious wealth management centres reached more than 700 and 70 respectively. The number of middle and high-end customers increased by 30.30% and their related financial assets under management also saw a rapid growth of 39.18%. Supported by a strong global franchise and a "private banker + investment advisor" model, the Bank's private banking business provided comprehensive, diversified and unique onshore and offshore value-added services to high-end customers. As at the end of 2009, the Bank's private banking business covered 15 key cities with the number of customers increasing by 88.9% and their financial assets under management exceeding RMB150 billion.

The Bank perfected functions and services of bank cards to achieve forward-leaping development in card business. In 2009, the Bank further diversified its bank cards systems by issuing different kinds of debit cards such as co-branded card, campus card and theme card. For special occasions, the Bank issued Great Wall Animal Sign Card, Great Wall National Fitness Card, and the 60th National Celebration of China Debit Card. It also successfully issued debit cards in overseas branches, such as Frankfurt and Tokyo Branch. The Bank also improved its basic card functions and successfully upgraded the functions of Great Wall credit card. The Bank promoted platinum cards and business cards synergies, and introduced a series of systems to meet the needs of corporate customers, such as the business card supporting system for central budget administrative units, the online banking corporation credit card service platform and the business card audit and reimbursement system. For personal customers, the Bank promoted various theme cards, such as BOC Titanium Lady Card, National Fitness Card, BOC Fortune Cat Card and the 60th National Celebration of China Great Wall Credit Card. The Bank endeavoured to increase its market share of high-yield acquiring business by developing Easypay, Merchant instalment and Specific-purposed instalment business, resulting in rapid growth of bank card fee-based business. The Bank developed BOC prepaid card and consumer finance business by its special corporate mode. BOC ExpressPay Co., Ltd. was established in Shanghai and BOC Consumer Finance Company Ltd. was approved by the CBRC. In 2009, the bank cards consumption amounted to RMB567.852 billion, a year-on-year increase of 81.28%. The volume of RMB card merchant acquiring transactions reached RMB616.821 billion, a year-on-year increase of 96.38%. The volume of FX card merchant acquiring transactions amounted to RMB14.406 billion, maintaining the largest market share.

Number of bank cards issued:

Units: ten thousand, except percentages

Item	**As at 31 December 2009**	As at 31 December 2008	Change
Credit card (Domestic)	**2,247.26**	1,578.61	42.36%
Including: Revolving credit card	**1,669.12**	972.26	71.67%
Debit card (Domestic and overseas)	**14,310.18**	12,757.40	12.17%
Including: Overseas debit card	**22.41**	5.83	284.39%

Financial Markets Business

In 2009, the Bank achieved a healthy and sustainable growth by actively promoting restructuring, consolidating its traditional advantages and at the same time accelerating business expansion to those emerging areas. The Bank maintained a market-leading position in foreign currency and RMB exchange transactions, bullion trading and RMB bonds trading. The Bank's foreign currency wealth management business also continued to lead the market, while the RMB wealth management business made a remarkable progress. The Bank also improved its market rankings by one place with respect to the underwriting volume of short-term corporate financing bills and medium-term notes, the number of annuity accounts and the annuity value under custody, indicating the continued and rapid growth of custody business scale.

Securities Investments

The securities investments of the Bank comprise both RMB-denominated and foreign currency-denominated investments. As at the end of 2009, the Bank held debt securities totalling RMB1,796.106 billion, up by RMB164.511 billion compared with the prior year-end.

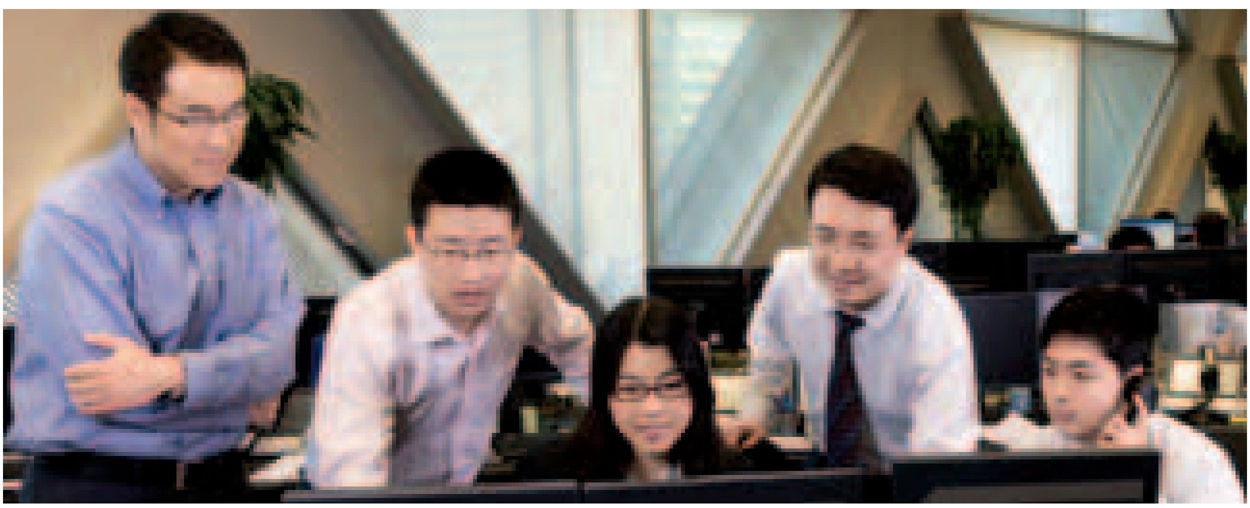
The RMB-denominated investments of the Bank are mainly comprised of Treasury bonds, PBOC bills, financial institutions bonds and debenture bonds. In 2009, the Bank continued to make more RMB-denominated investments, dynamically optimised its investment structure and made efforts to improve its investment management aiming at a reasonable balance between profitability and liquidity. As at the end of 2009, the Bank's outstanding RMB-denominated debt securities totalled RMB1,279.232 billion, up by RMB248.320 billion or 24.09% from the prior year-end, and its proportion to overall securities investment reached 71.22%, an increase of 8.04 percentage points compared with the prior year-end.

The foreign currency-denominated investments of the Bank are mainly comprised of government bonds, debenture bonds and structured bonds. Amid the turbulent external financial environment, and in line with the principles of "streamlining structure, reducing risk, scaling down positions and strengthening management", the Bank dynamically adjusted the structure of its foreign currency-denominated investments and further reduced its holdings of structured and debenture bonds. The Bank's outstanding foreign currency-denominated debt securities decreased by RMB83.809 billion from the prior year-end. By increasing its investments in government bonds of major western countries, supranational bonds and large-scale financial institutions bonds, the Bank's foreign currency-denominated investment structure was further optimised. As a result of the gradual recovery of the market environment, the risks of the Bank's structured and debenture bonds were mitigated and the prices rose, resulting in reversal of impairment allowance. The overall risks of the Bank's foreign currency-denominated investments reduced.

Trading

Global trading undertaken by the Bank primarily consists of proprietary and market-making businesses.

The Bank's trading business is one of its great strengths. In 2009, the Bank further strengthened its leading position in the domestic market of foreign exchange settlement and sales, precious metals trading and RMB-denominated bonds trading. The Bank increased the profit contribution of the market-making business to the overall trading business by continuing to strive for wider quotation coverage and more competitive pricing. The Bank formally launched its proprietary business for the U.S. dollar against the Rouble and embarked on the study of currencies quotation of other emerging markets. The Bank engaged in both RMB purchase and sales and RMB inter-bank lending and borrowing, along with its newly-launched RMB settlement business for cross-border trade.



The Bank has committed itself to extending its traditional strength in proprietary to market-making business. In 2009, gold leasing and other precious metal value preservation businesses achieved significant advancements. In addition, the Bank launched the dual-way Foreign Exchange (Gold) Dealings for Account of Individuals and its physical gold trading business, laying a foundation for the cultivation of new profit sources. In order to support customers' "Going-Global" strategies, the Bank provided risk-avoidance plans and transaction services, cutting down currency exchange cost for its customers.

Client Business

In 2009, driven by energetic innovation, the Bank strived to enhance core competitiveness in its wealth management business by maintaining its market advantage in foreign currency-denominated products and promoting rapid development in RMB-denominated products. As at the end of 2009, the sales volume of RMB and foreign currency wealth management products was equivalent to RMB1.54 trillion, up by 56.76% year-on-year and the Bank issued 824 types of wealth management products, up by 55.18% year-on-year. Leveraging the existing "Huijubao" and "Bo•Yi" brands, the Bank launched and marketed another two new wealth management brands, "BOC Stable" and "BOC Progress", as well as successfully developing star products such as "Weekend Wealth Management", "7-day Automatic Renewal Wealth Management" and "Daily Purchase & Redemption", and releasing new wealth management series such as the BOC Select Fund. In addition, the Bank further reinforced its customer-oriented innovation concept. It streamlined product information channels, provided differentiated product development, service and quotation models for different customers, and bolstered efforts in the customised products with 240 types issued in 2009.

In 2009, the Bank continued to optimise customer structure in its bond underwriting business. Focusing on developing customer relationships with large-sized firms, the Bank underwrote short-term financing bills and medium-term notes for a group of state-owned enterprises, e.g. the Ministry of Railways, China National Petroleum Corporation, State Grid, and COFCO Corporation, and successfully underwrote the first USD-denominated medium-term notes in domestic market valued USD1 billion for China National Petroleum Corporation. The Bank acted as the lead underwriter or joint lead underwriter for 44 issues of short-term financing bills and medium-term notes, totalling RMB102.65 billion, and the market share stood at 8.93% this year, up by 3.13 percentage points compared with the prior year, moving up one place in the market rankings.

With a view to strict business risk control, the Bank took advantage of market opportunities to promote plain vanilla interest rate swap transactions, providing interest rate risk management services. The Bank actively developed innovative business models, offered financial risk management advisory services, and fostered a long-term cooperation with customers.

Custody Business

The Bank actively marketed quality customers and continuously promoted product innovation, delivering sustainable growth in its custody and fund distribution business. In 2009, the Bank cooperated closely with dozens of fund companies and provided more than 20 wealth management products for Collective Separately Managed Accounts, achieving the largest market share through its innovative and pioneering approach. The Bank developed the linked fund jointly with E-Fund Management Co., Ltd. and provided innovative custody services for securities firms' Separately Managed Accounts, infrastructure investment and independent supervision for insurance plans, and banks' collective investment plans, resulting in significant increase in the scale of assets under custody. In addition, the Bank increased efforts to expand custody and fund distribution business by developing cooperative relationships with well-known fund companies, the National Council for Social Security Fund, large insurance companies, and other large institutional investors. With the product innovation and successful achievement in attracting large-sized enterprises, the Bank achieved healthy development in custody and fund distribution business. In 2009, the Bank distributed 449 funds and other collective products, with sales amounts exceeding RMB234 billion. The Bank served 224 custody clients, including fund companies, securities firms, insurance companies, the National Council for Social Security Fund and enterprise annuities, with RMB890 billion of total assets under custody, up by 40.8% compared with the prior year-end.

Annuity Business

The Bank's annuity business grew rapidly over the past year. At the end of 2009, personal annuity accounts under custody reached 888.5 thousand in number, an increase of 249.6% compared with the prior year-end. The total amount of annuity under custody reached RMB17.49 billion, an increase of 77.7% compared with the prior year-end, while the number of annuity accounts and the annuity value under custody both climbed one place in the market rankings. The growth rate of the Bank's annuity account management service ranked first among its peers.

Hong Kong, Macau and Overseas Commercial Banking Business

In 2009, by leveraging the resources and competitive advantages of the overall Group, Hong Kong, Macau and overseas institutions responded actively to the financial crisis and were able to achieve remarkable growth in a deeply challenging market situation. Loan volumes increased with notable improvement in market share. RMB businesses were expanded and cross-border RMB trade settlement transactions grew rapidly. Co-operation across the Group was enhanced and improvements were made to the Global Relationship Manager Programme, cross-border cash management, retail financial products, financial market products and bank cards, etc. BOCHK navigated successfully the severe challenges from the post-crisis market environment and restored a high-level operating profit. Business scope of the Bank's other regional institutions rapidly expanded, with offshore RMB-denominated businesses fully extended to ASEAN countries. Expansion of the overseas network was expedited. A satisfactory performance was recorded in the year.

Bank of China (Hong Kong)

In 2009, BOCHK approached the financial crisis positively, leveraging its fundamental strengths to combat adverse effects. As the market recovered, BOCHK refined its business strategies accordingly to take advantage of new opportunities and consolidate its market position. Profitability improved markedly, after-tax profit reaching RMB12.582 billion, a considerable increase of 345.22% compared with 2008.

BOCHK proactively expanded its core banking businesses and consolidated its leading position in the market. In 2009, total loans grew rapidly with significant improvement in market share. BOCHK maintained its leading position in both the Hong Kong-Macau syndicated loan market and Hong Kong residential mortgage market. It also outperformed the market with respect to financial services in trade finance, underwriting of RMB-denominated bonds, credit cards and stock broking. In 2009, BOCHK successfully acted as a joint lead manager and bookrunner for the issue of the first RMB-denominated sovereign bonds in Hong Kong and worked together with the Hong Kong Chinese Enterprises Association and China UnionPay to launch the BOC HKCEA Dual Currency Credit Card. BOCHK was granted a number of awards, such as the "SME's Best Partner Award 2009" and the "2009 Hong Kong Call Centre Awards".

In 2009, BOCHK continued to adopt a strict and effective approach to risk management by implementing proactive measures and hence maintaining a solid asset quality. In response to changes in financial markets, it actively reduced its exposure in higher-risk securities, optimised its debt securities investment portfolio and reduced the overall credit risk. Loan quality continued to improve consistently, outperforming its peers.

BOCHK continued to expand its offshore RMB businesses, reinforcing its leading position in the market. It captured opportunities arising from the pilot scheme for Settlement of Cross-Border Trade in RMB and its role as the RMB clearing bank to further expand its offshore RMB businesses to other ASEAN and foreign countries. BOCHK pioneered the first RMB trade settlement and the first cross-border RMB trade finance transaction in Hong Kong and maintained its leading position in Hong Kong RMB deposits market. It also acted as the joint lead manager, bookrunner and placing bank for the majority of RMB-denominated bonds issued in Hong Kong.

BOCHK optimised its branch network and fully expanded its banking business in the Chinese mainland. With five new branches and sub-branches established last year, BOCHK's branch network in the Chinese mainland now extends to a total of 23 branches and sub-branches, further strengthening its business capacities. Nanyang Commercial Bank (China) now acts as BOCHK's major business platform in the Chinese mainland, providing comprehensive banking services including cross-border trade services, cross-border attestation services, distinguished mortgage products, wealth management products and debit cards.

In 2009, BOCHK strengthened its cooperation with the Group and continuously improved its service capabilities. Being the lead arranger of the "Asia-Pacific Syndicated Loan Centre" of the Group, BOCHK was responsible for the overall development of syndicated loans business in the Asia-Pacific region. In addition, BOCHK implemented the Global Relationship Manager Programme and Global Unified Facilities Arrangement, enhancing the Group's global financial service capabilities to high-end corporate customers. BOCHK also collaborated with domestic institutions to develop the "Wealth Express" service, improving service quality for domestic high-end retail customers. Furthermore, BOCHK integrated its online cash management service platform with systems of domestic branches, introducing cross-border fund transfers and balance enquiry functions.

(For further details of BOCHK's business results and related information, please refer to its annual report for the same period.)

Commercial Banking Business in Other Regions

The Group has maintained strong momentum in the development of its commercial banking business in other regions. Customer base structure and product portfolios have been substantially adjusted and capital self-sufficiency has been enhanced. In 2009, customer deposits increased by RMB49.901 billion and customer loans increased by RMB58.695 billion, up by 36.74% and 27.21% respectively year-on-year. Profit after tax amounted to RMB4.353 billion, an increase of 105.83% compared with 2008.

Overseas RMB business made significant progress and the integrated global financial service proved to be highly effective. Macau Branch, Bangkok Branch and Bank of China (Brazil) Limited successfully transacted the first cross-border RMB settlement business in their respective markets. The Global Relationship Manager Programme was established to facilitate domestic and overseas vertical marketing system, with 38 enterprises selected for the first stage of the programme roll-out. The Group has focused on large-scale projects, particularly in resource-related industries such as steel, non-ferrous metal, petroleum, petrochemicals and electricity, among others. The Group played an important role in "Going-Global" projects of Chinese firms. The Asia-Pacific retail financial products R&D Centre was established and has successfully launched 11 new products.

Network building improved rapidly in the Asia-Pacific region and steadily in Europe and North America. In 2009, the Group set up 10 new branches worldwide (excluding those in Hong Kong). With the establishment of Bank of China (Brazil) Limited, the first Chinese financial institution in South America, the Group is now operating in all five continents. At present, the Group's overseas network covers Hong Kong, Macau and 29 countries.

The Group has been proactively promoting the integration of domestic and overseas operations. Substantial progress has been made in launching the Global Relationship Manager Programme, promoting cross-border fund management, and integrating personal banking, financial markets and bank cards products. A database has been established for sharing information of "Going-Global" enterprises and projects, and Global Unified Facilities Arrangement has been promoted to enhance co-operations among the Group's domestic and overseas operations. A regional fund pool has been built in the Asia-Pacific area and capital arrangements have been made in terms of specially designated budgets for overseas operations. Investments in capital and fixed assets have been significantly increased and foreign exchange funds have been gathered through various channels in support of overseas business development.

International and Diversified Business

In 2009, in accordance with the Group's strategic development plan, subsidiaries exploited their competitive advantages to deliver strong revenue performances and maximise value for the Group. The diversified businesses, including investment banking, insurance and direct investment, among others, continued to provide the Group with diversified income streams. The contribution of non-commercial banking business to the Group's overall operating income increased further.

Investment Banking Business

BOCI

The Bank conducts investment banking business through BOC International Holdings Limited ("BOCI"). BOCI, through its offices in the Chinese mainland, Hong Kong, Singapore, the US and the UK, offers clients a comprehensive range of investment banking products and services, including listings, debt financing, mergers and acquisitions, financial advisory, securities sales and trading, fixed income, direct investment, asset management, leveraged and structured finance and private wealth management, among others.

In response to the highly volatile capital market and severe competition in 2009, BOCI enhanced its sales and marketing approach, strengthened its product innovation and reinforced its risk management. This enabled it to achieve a healthy and steady business growth in 2009, with an after-tax profit of RMB1.677 billion, a significant increase of RMB1.215 billion compared with the prior year.

BOCI continued to develop its IPO and placement business, while its client-driven fixed income and bond issuance business grew steadily and its leveraged and structured finance business broadened. In 2009, BOCI assumed the roles of bookrunner and lead underwriter in the IPO for Minsheng Banking Corporation and also successfully executed share placement and rights issuance for Poly (Hong Kong), among others. In terms of underwriting volume, BOCI ranked fifth in the Hong Kong IPO and placement market, and held the highest position among Chinese investment banks in Hong Kong. BOCI was one of the leading participants in terms of cash equity transaction volume in 2009. BOCI was also a pioneer among Chinese financial institutions in Hong Kong in providing high-end clients with private banking products and services. In addition, BOCI further expanded its equity derivatives business by launching 16 exchange-traded callable bull/bear contracts, becoming the first Chinese investment bank to launch such products in Hong Kong. BOCI successfully offered financial advisory and funding support for listings, leveraged merger and acquisition financing to a number of enterprises, such as Ausnutria Dairy Corporation. BOCI also acted as financial advisor for project financing of a number of coal, chemical and petrochemical enterprises.

BOCI achieved rapid growth in asset management. BOCI Prudential, a joint venture asset management company of BOCI, maintained its top-five market position in Hong Kong's Mandatory Provident Fund market and its leading position in the Macau pension market. BOCI Prudential achieved a breakthrough in cross-border exchange-traded fund (ETF) business by launching the "W.I.S.E. Polaris CSI 300" fund jointly with the Taiwan-based Polaris International Securities Investment Trust, which was the first ETF approved for cross-listing on the Taiwan Stock Exchange.

BOCI steadily improved its business in the Chinese mainland. BOCI conducts business in the Chinese mainland through BOC International (China) Limited ("BOCI China"). In 2009, BOCI China achieved steady growth. It ranked third in stock and bond underwriting in terms of total underwriting amount and ranked first in terms of the volume of treasury bonds underwritten. It also ranked top among all securities firms in the Chinese mainland in underwriting corporate bonds, policy bank bonds, inter-bank bonds and in retail brokerage in terms of turnover volume per branch. BOCI China underwrote a corporate bond issue for China Communications Construction Company Ltd., the largest Chinese corporate bond issue in terms of underwriting amount in 2009. BOCI China also launched two collective asset management programmes in 2009, namely "China Red Number 1" and "China Red Fund-of-Funds". During 2009, BOCI China expanded its network by establishing branches in various locations including Qingdao, Nanchang and Fuzhou. In addition, BOC International Futures Limited, a wholly owned subsidiary of BOCI China, was incorporated to engage in equity investment.

BOCIM

In 2009, BOCIM made active efforts to cope with the drastic market fluctuations and the overall redemption trend in the fund management industry and achieved sound operation performance. This year, BOCIM successfully launched two new funds – BOC Enhanced Sector Allocation Fund and BOC CSI 100 Index Fund, while making great efforts to promote on-going sales of existing funds. As at 31 December 2009, total assets under management amounted to RMB30 billion.

BOCIM made progress in business innovation by successfully launching the first Collective Investment Management service in the domestic market, becoming the first fund management company to manage a Collective Investment Management Account in China. In 2009, BOCIM was awarded the prize of the "Best Risk Control Fund Management Company in China" for the third consecutive year and as "The Rising Star Fund Management Company in China". The "BOC China Opportunities Fund" was awarded the "Leading Balanced Open Fund in China" and "Golden Fund – Active Allocation Fund" for the third year running.

Insurance Business

The Bank conducts its insurance business through BOCG Insurance, its wholly-owned subsidiary registered in Hong Kong. BOCG Insurance mainly engages in general insurance as well as life assurance through BOCG Life, which is jointly owned with BOCHK (Holdings). In addition, BOCG Insurance conducts property insurance business in the Chinese mainland through its wholly-owned subsidiary BOC Insurance. At present, BOCG Insurance has six branches in Hong Kong and holds a dominant position in the Hong Kong property insurance market.

BOCG Insurance continuously strengthened its marketing efforts and took various measures to promote its sustainable growth of premium income. In 2009, it recorded gross premium income of HKD1.518 billion (RMB1.337 billion), an increase of 7.20% compared with the prior year.

BOCG Insurance deepened its cooperation with agent banks, reinforced sales at banks, strengthened the marketing efforts to property insurance and proactively promoted low-risk, high-return personal insurance products. It continued to push forward the marketing of different insurance products to one customer, expanded the relative business scope and attracted valuable customers to renew their insurance contracts. Low risk business was also actively promoted and the growth of low risk insurance products boosted. Direct selling technique was enhanced to promote personal insurance product, with business coverage expanded. In addition, BOCG Insurance launched professional insurance products, endeavouring to explore reinsurance channel, and underwrote the liability insurance for large-scale construction. Emphasis was placed on launching business plans with Hong Kong Association of Traditional Chinese Medicine and Hong Kong Registered Chinese Medicine Practitioners Association to explore Chinese Medical Practitioners' Liability Insurance. BOCG Insurance focused on the development of Chinese enterprises in Hong Kong, targeted new customers through agent banks, enhanced cross selling to valuable customers and consolidated the insurance business with Chinese institutions in Hong Kong. It attracted many high quality Chinese enterprises as customers including Yue Xiu Group, China International Water & Electric Corp., China Road and Bridge Corporation, among others.

In 2009, BOCG Life achieved remarkable growth by adopting more proactive distribution and marketing strategies. The company established a new "Financial Planning Team" and implemented the "need based selling" model, providing differentiated life insurance products to meet customers' needs at different life phases. Total new business standard premium income in 2009 was HKD2.177 billion, a significant increase of 117% compared with 2008.

In 2009, as part of the target to promote the rapid development of bancassurance, BOC Insurance accelerated the transformation of its development strategy and model, improved the policy system of its bancassurance business, stepped up the R&D of bancassurance products and carried out innovative bancassurance marketing practices. BOC Insurance reinforced efforts to optimise its business structure to an industry-leading standard, developing profitable insurance and non-automobile insurance. It also provided a large amount of support to "Going-Global" Chinese enterprises, successfully underwrote the investment projects of large state-owned enterprises such as China Petroleum Engineering & Construction Corp., China Railway Engineering Construction Co., Ltd. in Africa, the Middle East, Central Asia and Central and South America. It also participated in underwriting the Turkmenistan-China Central Asia Natural Gas Pipeline Project, China's largest overseas natural gas project. BOC Insurance registered gross premium income of RMB2.024 billion in 2009, a year-on-year increase of 17.54%. Its market share ranked 18th of 52 domestic property insurance companies.

Investment Business

BOCG Investment

The Bank is engaged in direct investment and investment management business through its wholly-owned subsidiary BOCG Investment. Based in Hong Kong, BOCG Investment conducts its business mainly in the Chinese mainland while exploring business opportunities all over the world. Its business scope includes equity investment, non-performing asset ("NPA") investment, real estate investment and management.

In 2009, following the Group's overall strategic development plan, BOCG Investment widened its investment scope and steadily built up new investment categories. The business developed well and profitability was enhanced enormously. As at 31 December 2009, BOCG Investment recorded an after-tax profit of RMB2.476 billion, a significant increase of RMB2.227 billion compared with the prior year.

Given the recovery of global economy, restored investor confidence in the financial markets and increased activity in capital markets, BOCG Investment took full advantage of the opportunities to expand its equity investment business, enhance the disposal of NPAs and increase the volume of its property investment volume. In 2009, its equity investment stood at HKD7 billion, purchases and sales of NPA investment were HKD1 billion and HKD1.8 billion respectively, and the volume of real estate investment increased compared with the prior year.

BOC Aviation

In 2009, BOC Aviation adhered to a counter-cyclical strategy as a response to the global economic situations, actively developed airline customers with sound financial positions, enhanced its operating performance and improved the credit quality of its asset portfolio. BOC Aviation achieved a record after-tax profit of USD137 million, a significant increase of 28% compared with the prior year. BOC Aviation took delivery of 48 aircraft, continuously

increasing the number of aircraft. In 2009, BOC Aviation's fleet comprised 142 aircraft, of which 118 were owned and 24 managed, with the total assets exceeding USD5 billion for the first time. It was also the first time since its establishment in 1993 that BOC Aviation held more than 100 aircraft. BOC Aviation entered into purchase and lease-back deals with six airlines including Air France, Alaska Airlines, Cathay Pacific and Southwest Airlines, covering 29 aircraft with a total value of more than USD2 billion.

Channel Management

In 2009, adhering to the strategic development plan, the Bank steadily pushed forward its channel construction with an emphasis on solidifying foundations and strengthening infrastructure. Traditional outlets and electronic channels were developed in a coordinated manner, bringing significant improvement in both efficiency and quality of services to its customers.

The Bank continued to transform its retail outlets and fully enhanced the abilities of value creation and market competitiveness of outlets. In 2009, the Bank further optimised distributions of outlets and strengthened its outlet construction. During the year, 44 outlets were newly established, 872 upgraded and 822 relocated. The Bank accelerated the outlets transformation with 2,339 outlets renovated in line with a standardised model. The Bank also took steps to bolster its specialised marketing teams in which there are now 7,793 full-time lobby managers stationed across the outlet network with a coverage ratio reaching 78%, an increase of 25 percentage points compared with the prior year-end. Following the successful outlets transformation with respect to personal banking services, the Bank launched another transformation plan for the corporate banking business in 2009, further enhancing its outlets' overall performance.

The Bank has established and perfected its e-banking channels comprising on-line banking, telephone banking, mobile banking and self-service banking to provide customers with safe, convenient and integrated online financial services. As at the end of 2009, the number of e-banking customers stood at 53.84 million, up by 39% compared with the prior year-end, while e-banking transaction volume accounted for 42% of its overall transaction volume.

In 2009, the Bank fully upgraded its online banking system with the launch of "Version 3.2", which contributed to a remarkable increase in available functions and transaction volume of online banking service. As at the end of 2009, the volume of corporate online banking transactions exceeded RMB26 trillion and the Bank's Online Payment of Customs Duties Service maintained its leading market share; and the number of personal online banking customers approached 12.55 million, up by 271% from the prior year-end. The Bank improved a range of service functions to better meet its corporate customers' diverse needs. These included global cash management services to group customers, cross-border remittance, agency batch collection, agency batch issuance of cards of other banks, regular account inquiry, inquiry on remaining overdraft line, accumulated points reset and B2B payment products. For personal customers, the Bank launched a VIP personal online banking service, providing exclusive services for middle and high-end customers, such as inter-bank large remittance, card-bankbook transfer, personal foreign exchange settlement and sale and online sales of wealth management products. Furthermore, the Bank improved the online payment process to offer a convenient, fast and safe online payment platform for personal customers. Overseas online banking was also improved and its service range expanded. As at the end of 2009, local and cross-border inquiry services covered 19 countries and regions. The Bank also successfully connected its online banking system with that of BOCHK, further strengthening its competitive advantages in cross-border online banking service.

The Bank actively promoted its telephone banking system, providing 24-hour support and a special hotline for online banking queries with a view to enhancing service quality. As at the end of 2009, the total number of telephone banking customers reached 41.11 million, and telephone banking transaction volume totalled RMB170 billion.

In January 2010, the Bank launched a brand-new WAP-based mobile banking service offering a wide range of financial services for customers, including account management, transfer and remittance, credit cards, bill payment, investment and wealth management and mobile remote payment. The Bank collaborated with China Mobile, China Unicom, and China Telecom, and became the first bank in China to allow customers to use their mobile phone number as their default user name. The Bank also took the lead in using E-token as a security authentication tool, effectively upgrading the convenience and safety of its mobile banking service.

The Bank continued to set up more self-service facilities, including ATMs and self-service terminals, as well as upgraded their functions. This resulted in stable migration from counter-based service. As at the end of 2009, the Bank had 18,061 in-service ATMs (up by 22.46% from the prior year-end) and 11,722 self-service terminals (up by 29.77% from the prior year-end). Over 120 off-bank self-service outlets were established during the year, increasing the total number of such outlets to more than 5,400. The Bank initiated the ATM deposit and transfer project, successfully rolling out such functions as bank card transfer, deposit and repayment via ATM nationwide. Major branches successfully implemented the BOC Self-service Express offering, whereby the Bank's multifunctional self-service terminals are equipped to handle counter-based non-cash services, thus achieving effective extension of counter-based services.

In 2009, the Bank won many significant awards, including the "Safest Product Award in 2009" and the "Top Ten Online Banking Award in 2009" from the China Electronic Finance Industrial Alliance; the "Comprehensive Development Award of Online Banking in 2009" from the China Financial Certification Authority; and the "Best User Value Award of Online Banking in 2009" and the "Best Global Service Award of Online Banking in 2009" from Hexun.com.

IT Blueprint

In 2009, the Bank achieved a breakthrough in implementing its IT Blueprint project. At the beginning of October 2009, IT Blueprint version 1.0 (including the core banking system and peripheral applications) was successfully launched in the Hebei Branch. To date, the core banking system and peripheral applications have operated smoothly and received a positive customer response. The new core banking system, a further reflection of the Bank's customer-centric operating concept, is a business processing system serving customers and driven by transactions, and provides more convenient and efficient financial services to its customers through integrated and uniform management of information relating to customers, accounts and transactions. The implementation of IT Blueprint version 2.0 was initiated in the second half of 2009 and was successfully upgraded in the Hebei Branch in the first quarter of 2010, laying the solid foundation for the promotion of IT Blueprint version in selected subsequent pilot branches.

The implementation of IT Blueprint resulted in not only the transformation of the Bank's IT system, but also a thorough reengineering of its business processes and fundamental transformation of its operating pattern and management concept from account-oriented to client-oriented via the changes to the core systems. After the roll-out of IT Blueprint, with more standardised operations, more simplified processes, more convenient services and stricter risk control, the Bank will be able to better fulfil its commitment to providing its customers with reliable financial products and efficient financial services.

The Bank has made plans to promote IT Blueprint version in selected subsequent pilot branches and has steadily pushed forward the promotion as scheduled.

Management Discussion and Analysis — Risk Management

In 2009, the Bank further enhanced the integrity, intensiveness, pertinency and effectiveness of its risk management and internal control in a "comprehensive, proactive, professional and differentiated" manner, bearing copious fruits in proactive risk management.

The Bank's primary risk management objective is to maximise the value for its shareholders, with the precondition of maintaining risk within acceptable parameters and satisfying the requirements of the Bank's prudent and stable operations by the regulatory authorities, its depositors and other interest groups. The Bank seeks to maintain a moderate risk appetite and a balance between risk and return in a rational, stable and prudent manner.

The risk management framework of the Bank mainly comprises the Board of Directors and the Risk Policy Committee under the Board, Internal Control Committee, Anti-Money Laundering Committee and Assets Disposal Committee under senior management, Risk Management Department, Credit Administration Department, Financial Management Department and Legal & Compliance Department and other related departments. The Bank manages the risks in branches through its vertical management model and the risks in business department through the window management model. The Bank monitors and controls risk in subsidiaries by appointing certain members of their boards of directors or risk management committees. The Bank will steadily push forward the integration of the risk management framework, establish Group Committee of Risk Management and Internal Control with the responsibility to supervise the overall risk management and internal control of the Group, and integrate the function of Risk Management Department, Credit Administration Department and Legal & Compliance Department to set up Risk Management Unit.

Credit Risk

Credit risk is the risk that a customer or counterparty may be unable or unwilling to meet a repayment obligation that it has entered into with the Bank. The Bank's major credit risks come from the loans, trade finance and treasury businesses.

In 2009, the Bank continued to exercise centralised management over credit approval, credit rating and risk classification. While accelerating development of its credit business, the Bank adhered to the principles and criteria of its credit approval to ensure the quality of new loans.

With respect to corporate banking, closely following the macro-economic situations and adjustments to national industrial policy, the Bank adjusted its risk appetite and credit policies in a timely and forward-looking manner. This included revising customer and product policies and placing greater emphasis on reducing industry risk. The Bank introduced industry-based portfolio management of domestic corporate credit assets, pushed forward limit supervision of different industries, controlled the scale of its credit exposure to high-risk industries and optimised the industry structure of its credit portfolio to avoid excessive industry concentration. In restructuring its portfolio, the Bank encouraged the growth of some sectors while discouraging the expansion of others. On one hand, it extended more credit support to SMEs and such projects as infrastructure construction, post-disaster reconstruction, enterprise merger and acquisitions and the independent innovation of enterprises. On the other hand, the Bank strictly controlled credit extension to industries of high energy consumption, high pollution and resource consumption and those suffering from overcapacity. The Bank strongly supported the Chinese "Going-Global" enterprises by providing them with a full spectrum of financial services, implementing global risk manager system, and studiously developing a risk management model for the credit support granted to these enterprises. The Bank perfected its multidimensional and differentiated authorisation system, strengthened its risk monitoring and pre-warning systems, reinforced its major risk event reporting system, and made the rating and inspection of high-risk customers more frequent. The Bank further regulated the identification, credit management and risk monitor of its group customer, created a customer risk pre-warning database and implemented more rigorous monitoring on credits to local government financing platforms, the real estate industry and industries with overcapacity. The management policy of proactive withdrawal from high-risk customers was reinforced, and the Bank withdrew, in an orderly manner, from customers who posed high risks in terms of finance, business management, bank-enterprise cooperation, energy conservation and environmental protection. The Bank also conducted a special self-examination of its credit business to scrutinize potential risks and actively implemented rectification measures.

In terms of personal banking, the Bank further improved its risk management policy and credit management guidelines. The Bank continued to enhance a differentiated credit management approach in order to promote the development of the middle and high-end customer assets business. In personal credit approval, the Bank introduced tools such as scorecard to identify risks and approve credit more efficiently. The Bank undertook a project to standardise financial risk management practices across all parts of its personal credit business. The Bank strengthened the monitoring and analysis of personal loan quality by continuing to implement the pre-warning and suspension mechanism, strictly monitoring the risk situation of personal customers and paying great attention to personal housing loans.

The Bank generally measured and managed the quality of credit risk-bearing assets based on the *Guidelines for Loan Credit Risk Classification* issued by the CBRC, which requires Chinese commercial banks to classify loans into the following five asset quality categories: pass, special-mention, substandard, doubtful and loss, among which loans classified in the substandard, doubtful and loss categories are regarded as non-performing loans. For the overseas operations of the Bank, if applicable local regulations and requirements are stricter than the *Guidelines for Loan Credit Risk Classification*, the Bank classifies the assets according to the local regulations and requirements. In 2009, the Bank made progress in centralising the management of loan classification in its domestic operations where all corporate loan classifications are reviewed and approved by the Head Office and tier-one branches. In classifying the loans, consideration was given to various factors that affect the quality of loans with the core criteria of the probability of asset recovery and the extent of loss. To obtain a loan's final risk classification, the Bank must perform standardised processes of classifying, checking, reviewing and approving. The loan classification may be revised when there are significant changes to its loan risk status.

As at the end of 2009, the Group's non-performing loans totalled RMB74.718 billion, representing a decrease of RMB12.772 billion from the prior year-end; and the ratio of non-performing loans to total loans dropped by 1.13 percentage points to 1.52% compared with the prior year-end. As at the end of 2009, the Group's allowance for impairment losses on loans and advances was RMB112.950 billion, representing an increase of RMB6.456 billion from the prior year-end. Allowance for loan impairment losses to non-performing loans ratio was 151.17%, an increase of 29.45 percentage points compared with the prior year-end. Non-performing loans of domestic operations totalled RMB71.793 billion, representing a decrease of RMB11.512 billion from the prior year-end; and the ratio of non-performing loans to total loans dropped by 1.41 percentage points to 1.72% compared with the prior year-end. The Group's outstanding special-mention loans amounted to RMB139.067 billion, a decrease of RMB20.921 billion compared with the prior year-end, accounting for 2.83% of total loans outstanding, down by 2.02 percentage points compared with the prior year-end.

Five-category loan classification

Unit: RMB million, except percentages

	As at 31 December 2009		As at 31 December 2008		As at 31 December 2007	
	Amount	**% of total**	Amount	% of total	Amount	% of total
Group						
Pass	**4,696,573**	**95.65%**	3,048,668	92.50%	2,616,768	91.80%
Special-mention	**139,067**	**2.83%**	159,988	4.85%	144,991	5.08%
Substandard	**35,858**	**0.73%**	39,411	1.20%	35,105	1.23%
Doubtful	**26,148**	**0.53%**	35,212	1.06%	40,897	1.43%
Loss	**12,712**	**0.26%**	12,867	0.39%	12,800	0.46%
Total	**4,910,358**	**100.00%**	3,296,146	100.00%	2,850,561	100.00%
NPLs	**74,718**	**1.52%**	87,490	2.65%	88,802	3.12%
Domestic						
Pass	**3,965,698**	**95.20%**	2,436,838	91.51%	2,089,139	90.21%
Special-mention	**128,222**	**3.07%**	142,661	5.36%	139,555	6.03%
Substandard	**33,752**	**0.81%**	36,585	1.38%	34,216	1.48%
Doubtful	**25,655**	**0.62%**	34,354	1.29%	40,308	1.74%
Loss	**12,386**	**0.30%**	12,366	0.46%	12,487	0.54%
Total	**4,165,713**	**100.00%**	2,662,804	100.00%	2,315,705	100.00%
NPLs	**71,793**	**1.72%**	83,305	3.13%	87,011	3.76%

Migration ratio (%)

	2009	2008	2007
Group			
Pass	**2.40**	3.65	2.62
Special-mention	**10.07**	8.02	10.79
Substandard	**25.60**	33.51	32.62
Doubtful	**9.76**	7.89	5.00

In accordance with IAS 39, loans and advances to customers are considered impaired, and allowances are made accordingly, if there is objective evidence of impairment resulting in a measurable decrease in estimated future cash flows from loans and advances. As at the end of 2009, the Group reported identified impaired loans totalling RMB76.006 billion, a decrease of RMB14.873 billion compared with the prior year-end. The Group's impaired loans to total loans ratio decreased by 1.21 percentage points to 1.55% compared with the prior year-end.

Domestic operations reported identified impaired loans totalling RMB73.680 billion, a decrease of RMB13.672 billion compared with the prior year-end. The domestic impaired loans to total loans ratio was 1.77%, representing a reduction of 1.51 percentage points compared with the prior year-end. Overseas operations reported identified impaired loans of RMB2.326 billion and impaired loans to total loans ratio of 0.31%, down by RMB1.201 billion and 0.25 percentage point compared with the prior year-end, respectively.

Movement of identified impaired loans

Unit: RMB million

	2009	2008	2007
Group			
Balance at the beginning of the year	**90,879**	90,317	103,232
Increase during the year	**28,676**	32,352	33,006
Reduction during the year	**(43,549)**	(31,790)	(45,921)
Balance at the end of the year	**76,006**	90,879	90,317
Domestic			
Balance at the beginning of the year	**87,352**	89,437	98,649
Increase during the year	**27,519**	30,478	31,814
Reduction during the year	**(41,191)**	(32,563)	(41,026)
Balance at the end of the year	**73,680**	87,352	89,437

Loans and identified impaired loans by currency

Unit: RMB million

	2009		2008		2007	
	Loans	**Impaired loans**	Loans	Impaired loans	Loans	Impaired loans
Group						
RMB	**3,525,018**	**65,506**	2,354,454	76,599	1,968,119	80,209
Foreign Currency	**1,385,340**	**10,500**	941,692	14,280	882,442	10,108
Total	**4,910,358**	**76,006**	3,296,146	90,879	2,850,561	90,317
Domestic						
RMB	**3,510,236**	**64,950**	2,338,684	75,035	1,955,638	80,209
Foreign Currency	**655,477**	**8,730**	324,120	12,317	360,067	9,228
Total	**4,165,713**	**73,680**	2,662,804	87,352	2,315,705	89,437

The Bank makes adequate allowances for impairment losses in a timely manner and in accordance with prudent and established principles. Allowances for impairment losses on loans consist of two components, individually assessed and collectively assessed allowances. For a further discussion of the accounting policy in relation to allowances for impairment losses, please refer to Notes II 4, VI 3 to the Consolidated Financial Statements.

In 2009, the Group's impairment losses on loans and advances were RMB15.445 billion, a decrease of RMB1.347 billion compared with the prior year, and the credit cost was 0.38%, a decrease of 0.17 percentage point compared with the prior year. Impairment losses on loans and advances in domestic operations totalled RMB15.061 billion, an increase of RMB0.805 billion compared with the prior year, with the credit cost of 0.44%, a decrease of 0.13 percentage point compared with the prior year.

The Bank continued to focus on controlling borrower concentration risk and was in full compliance with the regulatory requirements on borrower concentration.

Main regulatory ratios	Regulatory standard	**As at 31 December 2009**	As at 31 December 2008	As at 31 December 2007
Loan concentration ratio of the largest single borrower (%)	≤10	**3.8**	3.4	3.4
Loan concentration ratio of the ten largest borrowers (%)	≤50	**28.0**	17.6	16.1

Notes:

1. Loan concentration ratio of the largest single borrower = total outstanding loans to the largest single borrower/net regulatory capital

2. Loan concentration ratio of the ten largest borrowers = total outstanding loans to the top ten borrowers/net regulatory capital

For information regarding loan classification, classification of identified impaired loans and allowance for loan impairment losses, please refer to Notes V.16, VI.3 to the Consolidated Financial Statements.

The following table sets forth the ten largest individual borrowers as at 31 December 2009.

Unit: RMB million

	Industry	Outstanding loans	% of total loans
Customer A	Water, environment and public utility management	22,000	0.45%
Customer B	Water, environment and public utility management	20,000	0.41%
Customer C	Mining	18,887	0.38%
Customer D	Mining	17,380	0.35%
Customer E	Mining	16,251	0.33%
Customer F	Transportation and logistics	15,051	0.31%
Customer G	Public utilities	13,101	0.27%
Customer H	Transportation and logistics	12,800	0.26%
Customer I	Transportation and logistics	12,794	0.26%
Customer J	Commerce and services	12,488	0.25%

Market Risk

The Bank is exposed to market risks that may cause losses in both on and off-balance sheet assets and liabilities as a result of adverse changes in market prices (interest rates, exchange rates, stock prices and commodity prices). Market risk arises from the trading and banking books. The trading book consists of positions in financial instruments and commodities that are held with trading intent or in order to hedge other risks of the trading book. The banking book consists of financial instruments not included in the trading book (including those financial instruments purchased with surplus funds and managed in the investment book).

The Board of Directors of the Bank takes the responsibility to approve market risk management policies and procedures and determine market risk tolerance. Senior management is responsible for implementing market risk management policies ensuring that the level of market risk is within the risk appetite determined by the Board of Directors, while meeting the Group's business objectives. The Risk Management Department is dedicated to identifying, measuring, monitoring, controlling and reporting market risk at the group level. Each business unit is responsible for monitoring and reporting market risk within its respective business unit.

In 2009, global and domestic financial markets continued to fluctuate, exposing financial institutions to high levels of market risk. As a result, the Bank continued to actively strengthen the Group's market risk management on a uniform basis. The Bank unified market risk monitoring for the Group's trading and investment business, enhanced the comprehensive risk management of the Group's bond investment business, and gradually increased the monitoring frequency of the Group's trading and investment business to improve the quality of information reporting. The Bank continued to improve various investment policies and processes. The Securities Investment Management Committee played a more active role in strengthening the proactive risk management of bond investment, and adjusted investment strategy in line with market changes so as to mitigate market risk. The Bank promoted specialised and differentiated market risk management practices according to the nature and product characteristics of its different businesses; further improved its market risk limit-setting mechanism and adjusted those limits according to market changes; steadily implemented the risk module of the Basel II, improved the design of stress testing scenarios and carried out overall model verification within the scope of the Bank's regulatory capital for market risk. The Bank continued to accumulate data in order to improve post-inspection.

As to market risk management for the trading book, the Bank added stress testing limits, in line with market changes, so as to assess the influence of a simultaneous change of market price and volatility on trading market value, improving the ability to resist the market risk. The Bank monitored the overall VaR, stress testing and exposure limits of the trading book and tracked the implementation of various risk limits by trading desks and traders on a daily basis. The Bank, BOCHK and BOCI calculate VaR using a confidence level of 99% (1% statistical probability that actual losses could exceed the VaR estimate) and a historical simulation approach. For details of information on the VaR of the Bank's trading book, please refer to Note VI.4 to the Consolidated Financial Statements.

Market risk in the banking book mainly comprises interest rate risk and exchange rate risk, with the interest rate risk being dominant. Interest rate risk arises mainly from mismatches in the maturities, re-pricing periods or benchmark interest rates of assets and liabilities. The Bank manages the interest rate risk of the banking book primarily through interest rate re-pricing gap analysis. The data generated by gap analysis is used to perform sensitivity analysis, scenario analysis and stress testing, and assist decision making regarding the re-pricing of the interest-earning assets and interest-bearing liabilities. Limits of the net interest income change are set as a percentage of the net interest income budget for domestic operations and are approved by the Board of Directors and monitored by the Risk Management Department periodically. The Bank closely follows domestic and foreign currency interest rate trends and promptly adjusts interest rates of its local and foreign currency deposits and loans in accordance with the change of benchmark interest rates and market interest rates. For details of interest rate re-pricing gaps, please refer to Note VI.4 to the Consolidated Financial Statements.

Assuming that yield curves of all major currencies shift up or down 25 basis points in parallel, the Group's sensitivity analysis of net interest income on major currencies was as follows[3]:

Group

Unit: RMB million

	As at 31 December 2009			As at 31 December 2008		
	RMB	**USD**	**HKD**	RMB	USD	HKD
Up 25 BPs	**(2,179)**	**177**	**(251)**	(1,084)	(304)	(85)
Down 25 BPs	**2,179**	**(177)**	**251**	1,084	304	85

Exchange rate risk management covers both trading and non-trading exchange rate risks. Trading exchange rate risk mainly arises from foreign exchange transactions in which the Bank is engaged on its own account or on behalf of customers. Non-trading exchange rate risk mainly arises from foreign currency profit or loss and investment in overseas subsidiaries. The Bank manages and controls exchange rate risk by way of FX transactions or hedging to ensure currency matching in assets and liabilities, maintaining FX exposure within specified limits.

Liquidity Risk

Liquidity risk is the risk that the Bank is unable to obtain funds at a reasonable cost in a certain period of time when required to meet repayment obligations or sustain its assets business. The Bank's objective in liquidity risk management is to maintain liquidity at a reasonable level according to the Bank's business development strategy, and to ensure the Bank has adequate funds to meet business development needs and ensure due debt repayment, whether under normal business conditions or under stress.

In 2009, pursuing a moderately easy monetary policy, PBOC guided financial institutions to expand credit quota and optimise credit structure, strengthening the financial support to economic development, with abundant liquidity in the banking system. The CBRC promulgated the *Guidelines on Liquidity Risk Management of Commercial Banks*, further strengthening its liquidity risk supervision over commercial banks.

3 The analysis above adopts the methods stipulated by the CBRC, including all off-balance-sheet positions. The sensitivity analysis is used for illustrative purpose only, and is based on the Group's gap position at the end of 2009 and does not take into consideration any change in customer behaviour, basis risk or any prepayment options on debt securities. Since major currencies' interest rates are at a relatively low level, this analysis only lists the potential impact on the Group's profit of the interest rate shifting up or down 25 basis points.

In 2009, the Bank improved the liquidity stress testing plan by differentiating two independent scenarios of own crisis and market crisis and analysing the cash flow gap and the shortest survival period under stress scenarios, thereby preparing the countermeasures to ensure the Bank's ability to pay under stress scenarios. Taking into account the domestic and global economic situations, the Bank has revised the *Contingency Plans of Liquidity Management of Bank of China Limited* and the *Liquidity Portfolio Guidelines of Bank of China Limited*. In addition, the Bank enhanced forward-looking and proactive management of liquidity, improved the measurement and assessment of accuracy of positions forecast, and controlled the impact of large fluctuations of funds on liquidity.

In 2009, the Bank intensified the funds management of its overseas institutions, gradually set up a centralised and integrated overseas fund pool, and established the Fund Control Centre in Macau to collect surplus funds in Hong Kong and Macau, which underpinned the Group's assets business growth.

In 2009, the Bank endeavoured to increase core deposits, improving the stability of liabilities. It also reduced those assets with low or nil yields, enhanced the efficiency of the usage of funds, and cut down the cost of liquidity so as to achieve a balance between liquidity and profitability.

As of 31 December 2009, the Bank's liquidity position, as shown in the table below, met regulatory requirements. (Liquidity ratio is the indicator of the Group's liquidity; loan to deposit ratio, excess reserve ratio and inter-bank ratios are the indicators of liquidity of the Bank's domestic operations in the Chinese mainland):

Major regulatory ratios		Regulatory standard	**As at 31 December 2009**	As at 31 December 2008	As at 31 December 2007
Liquidity ratio (%)	RMB	≥25	**45.3**	48.8	32.6
	Foreign Currency	≥25	**55.6**	76.6	75.9
Loan to deposit ratio (%)	RMB & Foreign Currency	≤75	**70.3**	61.3	64.0
Excess reserve ratio (%)	RMB	–	**2.7**	3.5	3.1
	Foreign Currency	–	**10.3**	20.5	20.7
Inter-bank ratio (%)	Inter-bank borrowings ratio	≤4	**1.04**	1.91	1.3
	Inter-bank loans ratio	≤8	**2.82**	1.67	0.7

Notes:

1. Liquidity ratio = current assets/current liabilities. Liquidity ratio is calculated in accordance with the relevant provisions of the PBOC and CBRC.

2. Loan to deposit ratio = outstanding loans/balance of deposits.

3. RMB excess reserve ratio = (reserve in excess of the mandatory requirements + cash)/(balance of deposits + remittance payables)

4. Foreign currency excess reserve ratio = (reserve in excess of the mandatory requirements + cash + due from banks and due from overseas branches and subsidiaries)/balance of deposits

5. Inter-bank borrowings ratio = total RMB inter-bank borrowings from other banks and financial institutions/total RMB deposits

6. Inter-bank loans ratio = total RMB inter-bank loans to other banks and financial institutions/total RMB deposits

Liquidity gap analysis is one of the methods used by the Bank to assess liquidity risk. Liquidity gap results are periodically calculated and monitored and used for sensitivity analysis and stress testing. As of 31 December 2009, the Bank's liquidity gap situation was as follows: (for details of the liquidity position, please refer to Note VI.5 to the Consolidated Financial Statements.)

Group

Unit: RMB million

	Overdue	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2009	14,912	(3,357,812)	307,603	(70,044)	132,759	1,745,794	1,768,416	541,628
As at 31 December 2008	26,276	(2,594,579)	500,863	(45,953)	4,134	1,425,507	1,173,639	489,887

Note: Liquidity gap = assets that mature in a certain period – liabilities that mature in the same period

Internal Control and Operational Risk Management

In 2009, the Bank strengthened the overall coordination of its internal control efforts, improved monitoring measures, and further reinforced the three internal control defence lines in a reasonable, necessary, rigorous and effective manner, in line with the Bank's commitment to disciplined and effective corporate governance. The operational efficiency and risk prevention abilities of the three internal control defence lines were thus continuously enhanced.

Branches, business departments and staff at various levels of the Bank are the first line of defence, responsible for internal control when promoting business development. In 2009, the Bank enhanced the effectiveness of internal control efforts at this level, and strengthened daily monitoring at the grass-roots level in order to improve self-control capacity at the first line of defence.

The Legal and Compliance Department, together with various management departments, are the second line of defence, responsible for the overall planning of internal control policies, directing, examining, monitoring and assessing the work of the first line of defence. In 2009, the Bank applied operational risk management tools such as RACA and KRI to enhance the capacity to identify, assess and monitor operational risk, implemented clearly defined operational risk management reporting framework, promoted consistent risk language and improved the communication and integration of operational risk management information throughout the Bank. In 2009, the Bank enhanced the inspection process by strengthening the frequency of off-site inspections and upgrading inspection technology to make inspections more efficient and effective. The Bank streamlined rules and regulations concerning internal control and optimised measures to enhance the efficiency of internal controls. The Bank also standardised the rectification follow-up mechanism to strengthen supervision over the progress and effectiveness of rectification efforts.

The Internal Audit Department serves as the third line of defence for internal control, responsible for reviewing and assessing the adequacy and effectiveness of the Bank's risk management, internal control and corporate governance. In 2009, the Bank increased its focus on risk, and conducted internal audits with an emphasis on areas significantly affected by the global economic and financial situations, as well as areas closely related to the implementation of the Bank's strategies. Inspection activities covered bank-wide risk management policies and their implementation, changes and migration of asset quality, the Group's investment strategies and profitability, improvements in the internal control of grass-roots institutions, overseas institutions' management and control of risks, the implementation of the Basel II and IT Blueprint, and information security situations. The Bank organised and conducted internal audits on eight key business lines including group credit, trade finance, trading on behalf of customers, financial management, retail loans, outlets transformation, corporate accounts and clearing accounts, further promoting the effectiveness of internal control. In addition, the Bank proactively identified account management risks and paid special attention to new potential risks, so as to promote the construction of a sound and effective operating mechanism.

The Bank continued its dedicated efforts to establish a comprehensive, systematic, dynamic, proactive and verifiable framework of internal control in accordance with the *Basic Rules on Enterprise Internal Control*, the implementation of the Basel II programme, and the construction and promotion of IT Blueprint. Specific measures included: (1) further promoting the integrity and intensiveness of internal control by further improving the environment and organisational structure of internal control and reinforcing training concerning various risk areas and team building; (2) further improving the efficiency of internal control by integrating internal control measures, standardising business processes at grass-roots levels and optimising the tools and methods of inspections; (3) further enhancing the management of credit risk, market risk, operational risk, liquidity risk and other risks by improving the Bank's ability to identify, assess and monitor risk factors both internally and externally.

With respect to anti-money laundering ("AML"), the Bank is committed to effectively implementing the *Administrative Measures on AML & CTF Customer Due Diligence and Risk Classification of Bank of China* (the "Measures"). In accordance with the Measures, domestic branches undertook risk rating and customer re-identification as necessary in order to renew customer identity information for customers booked after 1 August 2007, and exercised risk rating and timely identification for customers booked after 1 January 2009. Overseas institutions conducted risk-based customer due diligence ("CDD") in line with the Measures. The Bank carried out specific examinations focused on CDD and risk classification of domestic institutions, reported the results bank-wide and urged related branches at all levels to make rectifications. To enhance IT support for CDD and risk classification, the Bank has proposed measures for updating the domestic AML system and business systems, added a "High-risk Customer Processing Module" to the AML system, and rolled out an updated version of the BOC2000 AML system to overseas institutions with newly added and optimised functions of risk classification of customers and monitoring of transactions. At the same time, the Bank has renewed the 2007 version of the AML manual and distributed it throughout the organisation so as to provide its staff with easier access to the relevant knowledge. Multi-level AML training was provided, with an emphasis on CDD and risk classification, which was aimed at improving its employees' AML awareness and professional capabilities.

Basel II Implementation

In 2009, the Bank further sped up the implementation of Basel II in line with its ongoing implementation plan based on the principle of "adaptability and applicability". The Bank's Basel II-related projects were productive, resulting in the continual optimisation of the Bank's risk management system and processes and improved risk management technology and tools. As a result, the Bank's risk management was fully enhanced.

In respect of credit risk, the Bank established a uniform internal rating framework, perfected credit risk management related policies and procedures, and also set up a preliminary independent validation system. For corporate customers, the Bank upgraded its existing probability of default model, successfully completed its facility rating system, and established a two-dimensional internal ratings-based framework. The results from the Bank's internal rating process have been widely utilised in different areas including credit approval, risk monitoring, limit setting, credit policy and risk reporting.

The construction of the market risk and operational risk management system went ahead as scheduled. The internal models approach for market risk was continuously optimised and partially verified. In respect of operational risk, the Bank continued to improve the operational risk framework, optimised and applied the management tools in the Group, and established a series of policies to measure operational risk regulatory capital under the Basel II Standardised Approach. The Bank also carried out risk identification and measurement in some branches on a trial basis. The construction of a risk-weighted assets (RWA) engine was accelerated. The Bank also made remarkable progress in areas related to Pillar II and III and continuously enhanced its capital management.

Capital Management

The Bank follows the principles below with regard to capital management:

- Maintain high asset quality and adequate capital to support the implementation of the strategic development plan and meet the regulatory requirements.

- Fully identify, quantify, monitor, mitigate and control all kinds of major risks, and maintain adequate capital for the Bank's risk exposure and risk management needs; and

- Optimise assets structure and allocate economic capital in a reasonable manner to ensure the sustainable development of the Bank.

After careful consideration of the relevant regulatory requirements, the Bank's strategic development plan, the risk appetite, and the impact of the Basel II implementation, the Bank established its 2010-2012 capital management targets by referring to leading international banks' capital adequacy ratios. The Bank is committed to establish an internal capital assessment process to review its capital adequacy ratio target regularly in line with regulatory requirements.

In 2009, the Bank's capital adequacy ratio decreased. This was principally due to: (1) the Bank capitalised on business expansion opportunities in accordance with its strategic development plan, gradually increasing the scale of risk weighted assets; (2) The Bank's outstanding RMB-denominated subordinated bonds, issued by the Bank during 2004-2005 and amounted to RMB60 billion, entered into redemption period from July 2009. In order to avoid rising interest costs and declining proportion of subsidiary capital to total capital, the Bank redeemed RMB14.07 billion and RMB12 billion on 20 July 2009 and 16 November 2009, respectively; (3) on 18 October 2009, the CBRC issued the *Notice on Improvement of Commercial Banks Capital Replenishment Mechanism* (Y.J.F [2009] No.90), which required commercial banks to deduct the full amount of the long-term subordinated debts of other banks held by the Group after 1 July 2009 when calculating capital adequacy ratios.

The Bank took a series of steps to reduce capital pressures and solidify its capital base. Guided by the principles of "optimising structure, saving capital, refining management and improving profit", the Bank adjusted its assets structure, reduced capital charges, intensified its capital budgeting and assessment to introduce a capital constraint concept bank-wide and encourage proactive efforts to optimise business structure. It also explored various financing channels so as to replenish its capital, and issued RMB40 billion of RMB-denominated subordinated bonds in China's inter-bank bond market in July 2009, which included RMB26.07 billion for replacing the afore-mentioned expired subordinated bonds.

Management Discussion and Analysis — Organisational Management, Human Resources Development and Management

Organisational Management

As at the end of 2009, the Bank had a total of 10,961 domestic and overseas branches, subsidiaries and outlets, including 9,988 branches, subsidiaries and outlets in the Chinese mainland and 973 branches, subsidiaries and representative offices in Hong Kong, Macau and other countries, an increase of 172 compared with the prior year-end. For the commercial banking business in the Chinese mainland, there were 37 tier-one and direct branches, 285 tier-two branches and 9,663 outlets. Hong Kong, Macau, overseas branches and subsidiaries accounted for 684 operating outlets (including 161 domestic business operations) and 289 non-operating outlets.

In 2009, the Bank further reengineered and restructured its organisation framework. The Bank set up the Corporate Banking Unit, Personal Banking Unit, Financial Markets Unit and Operation Service Unit at the Head Office with the structure further optimised, and carried out functional integration of financial management, risk management, internal control and information technology. Thanks to these efforts, the Bank's management efficiency has been continuously improved. After completion of business restructuring in tier-one branches of the Chinese mainland, a new customer-centric service mode was introduced, and a flat and focused operating mechanism was established.

Geographic distribution of organisations and employees

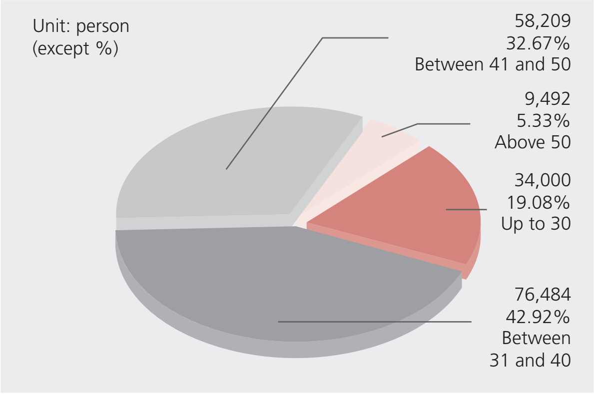
	Assets		Organisations		Employees	
Items	Total assets (RMB million)	% of total	Number of branches and outlets	% of total	Number of employees	% of total
Northern China	3,654,453	34.70	1,451	13.24	42,324	16.12
Northeastern China	454,723	4.32	890	8.12	23,118	8.80
Eastern China	2,292,805	21.78	3,388	30.92	77,811	29.64
Central and Southern China	1,637,997	15.55	2,688	24.52	62,134	23.67
Western China	734,067	6.97	1,571	14.33	30,669	11.68
Hong Kong and Macau	1,330,004	12.63	862	7.86	24,297	9.25
Other overseas operations	426,799	4.05	111	1.01	2,213	0.84
Elimination	(1,782,671)					
Total	8,748,177	100.00	10,961	100.00	262,566	100.00

Note: the proportion of geographic assets was based on the data before elimination.

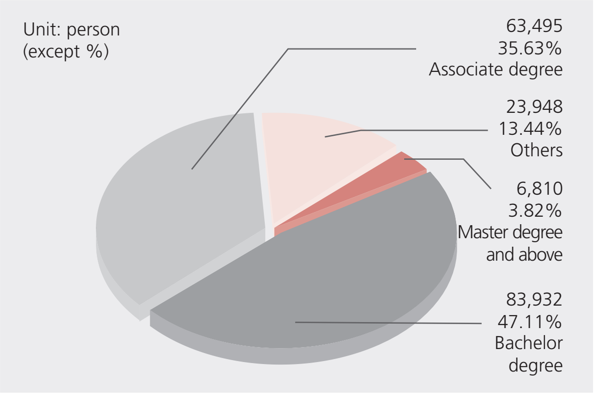
Human Resources Development and Management

As at the end of 2009, the Bank had 262,566 employees (including 57,748 external contractual staff in the domestic commercial banking business), of which 26,633 were employed in branches, subsidiaries and representative offices in Hong Kong, Macau and other countries (including 9,108 staff in domestic business operations). By the end of 2009, the Bank had incurred retirement expenses for a total of 6,923 retirees.

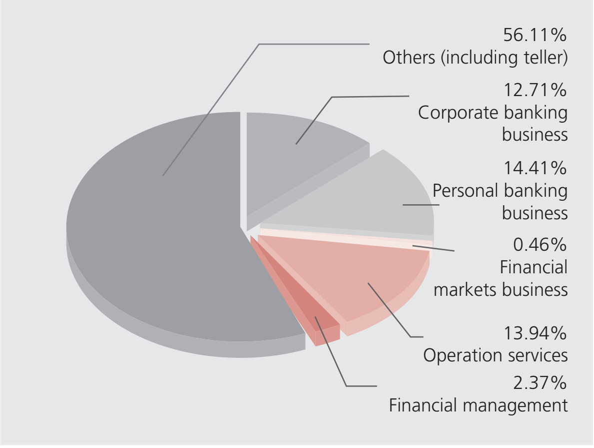
Contracted staff composition in the Bank's commercial banking business in the Chinese mainland in terms of age at the end of the year was as follows:



Contracted staff composition in the Bank's commercial banking business in the Chinese mainland in terms of educational background at the end of the year was as follows:



Staff composition in the Bank's commercial banking business in the Chinese mainland in terms of function at the end of the year was as follows:



In 2009, the Bank continued to deepen its human resources reforms in line with the requirements of the strategic development plan of the Group. The Bank set up the strategy-oriented resource allocation mechanism and channeled the resources of the staff and funds to key regions and business fields. In addition, the Bank continued to improve the human resources systems, resulting in optimising the market-oriented incentives and restraint mechanisms and enhancing the satisfaction and engagement of employees. The Bank also improved the human resources management mechanisms of overseas branches and subsidiaries, further strengthening the centralised human resources management of the Group.

In 2009, the Bank strengthened the cultivation and development of three groups of talents in accordance with the needs of strategy, business and talent development. It further optimised the structure of the senior executives in domestic and overseas branches, subsidiaries and outlets, built up the successor talent team, placed emphasis on enhancing the strategic leadership and execution capabilities of the senior executives, developed professional processes and structures of key business lines such as corporate banking, personal banking and risk management, promoted qualification training of professional development and cultivated a group of middle and high-level professionals. In order to promote the transformation of the outlets, the Bank continued the staff allocation optimisation programme, delivered a series of IT Blueprint training sessions and increased training opportunities to enhance the comprehensive skills of frontline tellers in the outlets. During the year, 45,328 training sessions were offered to 1,585,087 participants.

In 2009, the Bank launched phase-2 e-HR system, and established the Group's on-line training website covering both domestic and overseas branches, subsidiaries and outlets, enhancing IT applications within human resources management.

Management Discussion and Analysis — Corporate Social Responsibilities

In 2009, the Bank continued to implement the scientific outlook on development, earnestly performed its corporate social responsibilities and actively participated in the construction of a harmonious society. It played an important role in helping the country weather the financial crisis to maintain growth momentum and stability. The Bank also contributed to combating disasters and providing relief, giving aid to the poor and needy, supporting the development of the arts, sports, science and technology, helping young people enter into business ventures or employment, protecting the environment and promoting economic research and academic communication.

In 2009, the Bank actively implemented the central government's macro-economic policy by appropriately increasing effective credit quota and strengthening the credit support to the real economy. The Group's loans increased by RMB1.61 trillion or 48.97% during the year. The Bank actively supported domestic enterprises' "Going-Global" businesses by consolidating its integrated domestic and overseas service network and taking full advantages of its diversified business platform. In 2009, the Bank's international settlement volume reached USD1.43 trillion, continuing to rank first in the world. The Bank customised financial products and services for small enterprises to meet their financing needs. Outstanding loans granted to small enterprises increased by 129.91% compared with the prior year-end.

In 2009, the Bank continued to participate in efforts to combat disasters, provide disaster relief and support the poor and needy. The Bank launched its "charitable deposits" business, raising donations of RMB10 million. The fund was used to build a modern charitable primary school in Jinzishan Town, Qingchuan County, Sichuan, which can withstand an 8.0-magnitude earthquake, helping children deprived of schooling return to education. The Bank donated RMB5 million to Typhoon Morakot-affected areas in Taiwan via the Association for Relations across the Taiwan Straits, and joined hand in hand with compatriots in Taiwan to alleviate the situation. The Bank also contributed to building motor vehicle salvage depots in poverty-stricken pastoral areas in Tibet, so as to solve the difficulties Tibetans faced in the repair of farm and animal husbandry vehicles, creating favourable conditions for Tibetans to increase their production and income.

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1. The Bank started to offer state-subsidised student loans in 1999. Since then, nearly one million students have realised their dream of higher education.
2. The Bank's Zhejiang Branch helped construct an elementary school with RMB10 million raised from the charitable deposits business "Deposit of Care and Love".
3. BOCHK offers active support to local public welfare activities.
4. The Bank's New York Branch sponsored the "Day of Health for the Chinese Community", in which free medical examinations were provided to local Chinese expatriates.
5. To facilitate services to hearing impaired customers, the Bank's Shandong Branch trained its staff in sign language.

5

In 2009, the Bank continued to fully support the development of the arts, sports, science and technology. The Bank joined forces with the National Centre for the Performing Arts to launch a ticket sales agency for the centre via the Bank's selected 50 outlets in Beijing, as well as sponsoring the "Let Arts Enter the Life of Everyone" campaign to popularise arts to the public. The Bank assisted the United Nations Development Programme and Ms. ZHU Zheqin, a famous Chinese musician, in sponsoring "Show the World – the Culture-based Development Goodwill Action for the Ethnic Minorities in China", a programme to promote the culture of Chinese ethnic minorities to the world. The Bank worked with Peking University and the *Caijing* magazine to jointly sponsor a scholarship project for outstanding journalists, which serves as a platform of study and exchange for China's outstanding financial and economic journalists and editors. The Bank built a strategic partnership with the General Administration of Sport of China to support publicity and promotion activities surrounding the launch of the first "National Fitness Day" in China, and donated RMB5 million to support the promotion and popularisation of national fitness activities. The Bank also teamed up with the Chinese Academy of Social Sciences to hold the "Tan Kah Kee Science Awards Seminar", which aimed to popularise scientific and technological knowledge among the public.

In 2009, the Bank continued to increase its contributions to social programmes. The Bank sponsored the China Foundation for Youth Entrepreneurship and Employment, donating RMB10 million in support of the entrepreneurship and employment of the young people. The Bank donated RMB5 million to the Hubei Western Ecological Health Foundation for the construction of an ecological environment demonstration pilot in Danjiangkou, which aims to protect the sustainability and quality of Beijing's water source. The Bank also donated RMB5 million to the China International Economic Study and Exchange Foundation to help it research significant national development strategies.

The Bank vigorously supported overseas social public-welfare activities and Sino-foreign cultural exchange. BOCHK allocated HKD90 million to set up the BOCHK's "Caring Hong Kong – A Heart Warming Campaign" for over 300 subordinate member institutions of the Community Chest and Hong Kong Council of Social Service to apply for financial aid. New York Branch financially contributed to the social activities organised by the local Chinese and overseas students; Macau Branch established the Bank of China Macau Charitable Foundation; London Branch and the Soong Ching Ling Foundation jointly held the "Sino-British Celebration through Stamps" exhibition; Seoul Branch hosted the "Bank of China Cup" Chinese speech contest organised by the Korean Confucius Institute; BOC Canada sponsored the special performance of the art group of China Federation of Literary and Art Circles at Art Theatre of University of Toronto, contributing to the Sino-Canada cultural exchange.

Management Discussion and Analysis — Outlook

The macroeconomic environment of 2010 is expected to be more favourable than that of 2009, considering that the downturn of global economy has been roughly over while China's economy is stabilising and recovering continuously. Therefore, 2010 will be another year of strategic opportunities for the banking sector.

However, a number of uncertainties will still persist and cannot be ignored. Firstly, the foundations for the global recovery remain relatively weak. The risk in financial sector has not been eliminated thoroughly. The commodities' price and major currencies' exchange rate are likely to fluctuate drastically. Trading protectionism begins to emerge obviously and there still exist a lot of unstable and uncertain issues. Secondly, restructuring is getting tougher given the insufficient endogenous impetus for China's economy growth and explicit overcapacity in some industries. The potential fiscal and financial risks increase, and there still exist serious problems in economic growth.

In view of this complex and uncertain operating environment, in 2010, the Bank will continue to thoroughly carry out its strategic development plan under the guidance of the scientific outlook on development, in accordance with the spirit of the Central Economic Work Conference's plan, the state's proactive fiscal and moderately easy monetary policy. The Bank will be devoted to optimising structure, expanding scale and managing risk, in order to enhance its competitive ability and profitability and deliver sound and rapid development.

Accelerate restructuring efforts so as to ensure a sustainable development of the Bank

In 2010, with a view to seizing the opportunities arising from the nation's economic transformation, the Bank will deal comprehensively and appropriately with the relationship between business development, structure adjustment and risk control and achieve a healthy and sustainable growth in a synergistic and measured manner. Focusing on expanding its core deposits, the Bank will endeavour to optimise the structure of its liabilities portfolio and achieve an extraordinary growth of deposits. Focusing on optimising its credit distribution, the Bank will endeavour to maintain a stable growth of credit business through management of the pace, timing and magnitude of extending loans. In 2010, the Bank's RMB-denominated loans are expected to grow by 17% approximately. Focusing on product and service innovation, the Bank will endeavour to promote a rapid growth in fee-based business and enhance its market competitiveness. Focusing on improving customer relationship management, the Bank will endeavour to optimise its customer-centric service mode and enlarge its customer base.

Strengthen centralised and uniform management at the group level so as to ensure accelerating growth in its overseas business

In 2010, in accordance with the principle of focusing on domestic market and pursuing an integrated development of domestic and overseas operations, the Bank will provide its overseas operations with more support of strategic resources, promote the transformation of their operating mode and increase profile in local market in order to achieve a forward-leaping growth in overseas business. The Bank will focus on the Asia-Pacific region to enlarge its fund sources from overseas regions and enable a sustainable development, focus on its support to "Going-Global" Chinese enterprises to promote synergies between its domestic and overseas operations, and also leverage the unique opportunities of the cross-border RMB settlement business to further enhance its overseas RMB business.

Reinforce risk management so as to ensure the quality of business development

The Bank will endeavour to enhance the integrity, intensiveness, pertinency and effectiveness of its risk management in 2010 to enable a healthy and sustainable business development. The Bank will intensify its proactive risk management with the focus on industry-based portfolio management, its whole-process risk management with the core of post-lending management, its integrated risk management at the group level with an emphasis on consolidated management, and its risk management technique and process with the milestone implementation of Basel II. In addition, the Bank will endeavour to perfect its internal control to prevent fraud.

Enhance infrastructure construction so as to ensure a solid foundation for further business development

In 2010, the Bank will coordinate business development with infrastructure construction and focus more on solidifying the foundations of business development and future returns. The Bank will make full preparations for the successful implementation of IT Blueprint version 2.0, promote the transformation of its retail outlets to improve their operating performance, strengthen the construction of its e-channels to win more online banking customers, and further enhance its operational service platforms to raise its operational efficiency.

Promote the construction of talent team so as to ensure the implementation of its strategic development plan

In 2010, the Bank will focus on talent development to improve its structure of senior executives at all levels and its employee team, with the aim to provide sufficient talent for strategy implementation and sustainable development. It will also enhance professional processes and develop a series of qualification criteria, remuneration mechanisms and performance appraisal modes suitable for professional talents. The Bank will capitalise on its overseas presence to accelerate the cultivation of internationally adaptive talents.

Changes in Share Capital and Shareholdings of Substantial Shareholders

Disclosure of Shareholding under A-Share Regulation

Changes in Share Capital during the Reporting Period

Unit: Share

	1 January 2009		Increase/decrease during the reporting period					31 December 2009	
	Number of shares	Percentage	Issue of new shares	Bonus shares	Shares transferred from the surplus reserve	Others	Sub-total	Number of shares	Percentage
I. Shares subject to selling restrictions	**179,702,746,069**	**70.79%**	**–**	**–**	**–**	**(179,702,746,069)**	**(179,702,746,069)**	**–**	**–**
1. State-owned shares	179,702,746,069	70.79%				(179,702,746,069)	(179,702,746,069)	–	–
2. Shares held by state-owned legal persons									
3. Shares held by other domestic investors									
Including:									
Shares held by domestic legal persons									
Shares held by domestic natural persons									
4. Shares held by foreign investors									
Including:									
Shares held by foreign legal persons									
Shares held by foreign natural persons									
II. Shares not subject to selling restrictions	**74,136,415,940**	**29.21%**	**–**	**–**	**–**	**179,702,746,069**	**179,702,746,069**	**253,839,162,009**	**100.00%**
1. RMB-denominated ordinary shares	6,493,506,000	2.56%				171,325,404,740	171,325,404,740	177,818,910,740	70.05%
2. Domestically listed foreign shares									
3. Overseas listed foreign shares	67,642,909,940	26.65%				8,377,341,329	8,377,341,329	76,020,251,269	29.95%
4. Others									
III. Total	**253,839,162,009**	**100.00%**	**–**	**–**	**–**	**–**	**–**	**253,839,162,009**	**100.00%**

Notes:

1. As at 31 December 2009, the Bank had issued a total of 253,839,162,009 shares, including 177,818,910,740 A Shares and 76,020,251,269 H Shares.

2. The selling restriction on the 171,325,404,740 A Shares held by Central Huijin Investment Ltd. expired on 5 July 2009, and the aforesaid shares became tradable on 6 July 2009. Thereafter, all the 177,818,910,740 A Shares are no longer subject to selling restrictions.

3. The selling restriction on the 8,377,341,329 H Shares held by National Council for Social Security Fund PRC expired on 13 March 2009. Thereafter, all the 76,020,251,269 H Shares are no longer subject to selling restrictions.

4. "Shares subject to selling restrictions" refers to shares held by shareholders who are subject to restrictions on transfer in accordance with laws, regulations and rules or commitments.

Changes in Shares Subject to Selling Restrictions

Unit: Share

No.	Name of shareholders	Number of shares subject to selling restrictions at the year beginning	Number of shares released from restrictions in 2009	Number of shares subject to selling restrictions at the year end	Expiry date of selling restrictions	Reason for restrictions	Type of shares
1	Central Huijin Investment Ltd.	171,325,404,740	171,325,404,740	–	5 July 2009	Company commitment	A
2	National Council for Social Security Fund PRC	8,377,341,329	8,377,341,329	–	13 March 2009	Lock-up period	H

Notes:

1. Central Huijin Investment Ltd. ("Huijin") undertook that, within three years of the Bank's A-Share listing, it would not transfer the A Shares of the Bank directly or indirectly held by itself or entrust other persons to manage the shares, nor would it allow the Bank to repurchase such shares, with the exception of those allowed to be converted into H Shares following approval of the China Securities Regulatory Commission and other authorised securities approval authorities of the State Council. Any withdrawal of Huijin's shares that are deposited with the China Securities Depository and Clearing Corporation Limited and re-registration of such shares as H Shares would not affect any pre-existing restrictions on the sale or transfer applicable to the shares held by Huijin.

2. The selling restriction on the 171,325,404,740 A Shares held by Huijin expired on 5 July 2009, and the aforesaid shares became tradable on 6 July 2009 (5 July is a non-trading day). Please refer to the *Announcement on the Commencement of Trading of Shares Held by Central Huijin Investment Ltd*. published by the Bank on 1 July 2009.

Issue and Listing of Securities

The Bank successfully listed H Shares on the Hong Kong Stock Exchange on 1 June 2006, including 25,568,590,000 shares issued in the IPO and 3,835,288,000 shares issued pursuant to the exercise of the over-allotment option on 9 June 2006. The number of H Shares issued, at an offer price of HKD2.95 per share, accounted for 11.89% of the Bank's total equity after the offering. The Bank raised approximately HKD86.7 billion in the offering. Thereafter, the Bank successfully offered A Shares from 19 to 23 June 2006 at an issue price of RMB3.08 per share, and was listed on the Shanghai Stock Exchange on 5 July 2006. 6,493,506,000 A Shares were issued in the IPO, accounting for approximately 2.56% of the enlarged equity. Approximately RMB20 billion was raised in the offering. The IPOs of H Shares and A Shares accounted for 14.14% of the total enlarged share capital of the Bank. After the IPOs, the issued share capital of the Bank increased to RMB253,839,162,009, in 253,839,162,009 shares.

Please refer to Note V.30 to the Consolidated Financial Statements for details of the issue of subordinated bonds by the Bank.

The Bank issued RMB3 billion of RMB-denominated bonds in Hong Kong in September 2007, the first ever issue by a mainland commercial bank. Following that, the Bank issued another RMB3 billion of RMB-denominated bonds in Hong Kong in September 2008. Please refer to Note V.30 to the Consolidated Financial Statements for details.

No shares issued by the Bank have been placed with its employees.

Number of Shareholders and Shareholdings

Number of shareholders: 1,311,744 (including 1,059,838 A-Share Holders and 251,906 H-Share Holders)

Top ten shareholders as at 31 December 2009 Unit: Share

No.	Name of shareholder	Type of shareholder	Type of shares	Percentage in total share capital	Number of shares held	Number of shares subject to selling restrictions	Number of shares pledged or frozen
1	Central Huijin Investment Ltd.	State	A	67.53%	171,412,138,186	–	None
2	HKSCC Nominees Limited	Foreign legal person	H	24.69%	62,680,658,150	–	Unknown
3	National Council for Social Security Fund PRC	State	H	3.30%	8,377,341,329	–	Unknown
4	Li Ka Shing	Foreign natural person	H	1.21%	3,066,790,989	–	Unknown
5	Asian Development Bank	Foreign legal person	H	0.20%	506,679,102	–	Unknown
6	The Bank of Tokyo-Mitsubishi UFJ Ltd.	Foreign legal person	H	0.19%	473,052,000	–	Unknown
7	Hui Tian Fu Shanghai Composite Index Security Investment Fund	Domestic non-state-owned legal person	A	0.04%	101,913,091	–	None
8	China Asset Management Mixed Dividend Open-ended Security Investment Fund	Domestic non-state-owned legal person	A	0.04%	100,074,426	–	None
9	China Southern Power Grid Co., Ltd.	State-owned legal person	A	0.04%	90,909,000	–	None
9	Aluminum Corporation of China	State-owned legal person	A	0.04%	90,909,000	–	None
9	Shenhua Group Corporation Limited	State-owned legal person	A	0.04%	90,909,000	–	None

The number of shares held by H-Share Holders was recorded in the Register of Members as kept by the H-Share Registrar of the Bank. The number of shares held by National Council for Social Security Fund PRC does not include the shares it held under HKSCC Nominees Limited.

During the reporting period, Huijin increased its shareholding in the Bank by 10,126,029 A Shares. The Bank published an announcement on 11 October 2009 on the planned increase of shareholding in the Bank by Huijin in its own name from the secondary market within the subsequent twelve months.

RBS China Investments S.à.r.l. held 20,942,736,236 H Shares in the Bank as at 31 December 2008, representing 8.25% of the Bank's total issued share capital. According to the Report of Change in Shareholding signed by RBS China Investments S.à.r.l. on 15 January 2009, the 20,942,736,236 H Shares held by RBS China Investments S.à.r.l. were transferred or sold on 7 and 14 January 2009 respectively.

The Bank is not aware of any connected relations or concerted actions among the aforesaid shareholders.

Disclosure of Shareholding under H-Share Regulation

Substantial Shareholder Interests

The register maintained by the Bank pursuant to section 336 of the *Securities and Futures Ordinance*, Hong Kong, (the "SFO") recorded that, as at 31 December 2009, the following corporations were substantial shareholders (as defined in the SFO) having the following interests in the Bank:

Name of shareholder	Capacity	Number of shares held/Number of underlying shares	Type of shares	Percentage in total issued A Shares	Percentage in total issued H Shares	Percentage in total issued share capital
Central Huijin Investment Ltd.	Beneficial owner	171,325,404,740	A	96.35%	–	67.49%
National Council for Social Security Fund PRC	Beneficial owner	11,317,729,129	H	–	14.89%	4.46%
Temasek Holdings (Private) Limited[1]	Attributable interest	10,481,591,118	H	–	13.79%	4.13%
JP Morgan Chase & Co.[2]	Beneficial owner	285,672,400	H	–	0.38%	0.11%
		157,538,451(S)[3]	H	–	0.21%	0.06%
	Investment manager	1,045,115,000	H	–	1.37%	0.41%
	Custodian corporation/ approved lending agent	2,486,224,118(P)[3]	H	–	3.27%	0.98%
	Total	3,817,011,518	H	–	5.02%	1.50%
		157,538,451(S)[3]	H	–	0.21%	0.06%
		2,486,224,118(P)[3]	H	–	3.27%	0.98%

Notes:

1. Temasek Holdings (Private) Limited ("Temasek") holds the entire issued share capital of Fullerton Management Pte. Ltd. ("Fullerton Management"), which in turn holds the entire issued share capital of Fullerton Financial Holdings Pte. Ltd. ("Fullerton Financial"). Accordingly, Temasek and Fullerton Management are deemed to have the same interests in the Bank as Fullerton Financial under the SFO. Fullerton Financial holds 10,471,575,118 H Shares of the Bank. Temasek also has an interest in 10,016,000 H Shares of the Bank through other corporations controlled by it.

2. JP Morgan Chase & Co. holds the entire issued share capital of JP Morgan Chase Bank, N.A. Accordingly, JP Morgan Chase & Co. is deemed to have the same interests in the Bank as JP Morgan Chase Bank, N.A. under the SFO. JP Morgan Chase Bank, N.A. holds 2,503,757,118 H Shares of the Bank. Meanwhile, JP Morgan Chase & Co. also holds a long position in 1,313,254,400 H Shares and a short position in 157,538,451 H Shares of the Bank through other corporations controlled by it. Among the aggregate interests in the long position in 3,817,011,518 H Shares, 2,486,224,118 H Shares are held in the lending pool and 33,206,744 H Shares are held through derivatives. Among the aggregate interests in the short position in 157,538,451 H Shares, 54,548,780 H Shares are held through derivatives.

3. "S" denotes short position; "P" denotes lending pool.

All the interests stated above represented long positions except where stated otherwise. Save as disclosed above, as at 31 December 2009, no other interests or short positions were recorded in the register maintained by the Bank under section 336 of the SFO.

Controlling Shareholder of the Bank

Central Huijin Investment Ltd.

Central Huijin Investment Ltd. ("Huijin") is a wholly state-owned company incorporated in accordance with the *Company Law of the People's Republic of China*. Established on 16 December 2003, Huijin has a registered capital of RMB552.117 billion and paid-in capital of RMB552.117 billion. Its legal representative is Mr. LOU Jiwei. Wholly-owned by China Investment Corporation, Huijin makes equity investments in key state-owned financial institutions, as authorised by the State Council. On behalf of the state, Huijin exercises the rights and fulfils the obligations of an investor, in accordance with laws aimed at the preservation and appreciation of state financial assets. Huijin does not engage in other business activities.

Please refer to the *Announcement on Matters related to the Incorporation of China Investment Corporation* published on 9 October 2007 by the Bank for details of China Investment Corporation.

As at 31 December 2009, no other legal-person shareholders held 10% or more of the shares issued by the Bank (excluding HKSCC Nominees Limited).

Responsibility

Directors, Supervisors and Senior Management

Basic Information

Name	Age	Gender	Position	Term of office
XIAO Gang	51	Male	Chairman	From August 2004 to the date of the Annual General Meeting in 2010
LI Lihui	57	Male	Vice Chairman and President	From August 2004 to the date of the Annual General Meeting in 2010
LI Zaohang	54	Male	Executive Director and Executive Vice President	From August 2004 to the date of the Annual General Meeting in 2010
ZHOU Zaiqun	57	Male	Executive Director and Executive Vice President	From February 2008 to the date of the Annual General Meeting in 2010
ZHANG Jinghua	53	Male	Non-executive Director	From August 2004 to the date of the Annual General Meeting in 2010
HONG Zhihua	57	Female	Non-executive Director	From August 2004 to the date of the Annual General Meeting in 2010
HUANG Haibo	57	Female	Non-executive Director	From August 2004 to the date of the Annual General Meeting in 2010
CAI Haoyi	55	Male	Non-executive Director	From August 2007 to the date of the Annual General Meeting in 2010
WANG Gang	56	Male	Non-executive Director	From August 2007 to the date of the Annual General Meeting in 2010
LIN Yongze	58	Male	Non-executive Director	From January 2008 to the date of the Annual General Meeting in 2010
SEAH Lim Huat Peter	63	Male	Non-executive Director	From June 2006 to the date of the Annual General Meeting in 2012
Anthony Francis NEOH	63	Male	Independent Non-executive Director	From August 2004 to the date of the Annual General Meeting in 2010
Alberto TOGNI	71	Male	Independent Non-executive Director	From June 2006 to the date of the Annual General Meeting in 2012
HUANG Shizhong	47	Male	Independent Non-executive Director	From August 2007 to the date of the Annual General Meeting in 2010
HUANG Danhan	60	Female	Independent Non-executive Director	From November 2007 to the date of the Annual General Meeting in 2010
LI Jun	53	Male	Chairman of the Board of Supervisors	From March 2010 to the date of the Annual General Meeting in 2013
WANG Xueqiang	52	Male	Supervisor	From August 2004 to the date of the Annual General Meeting in 2010
LIU Wanming	51	Male	Supervisor	From August 2004 to the date of the Annual General Meeting in 2010
LI Chunyu	50	Male	Employee Supervisor	From December 2004 to the date of Employee Delegates' Meeting in 2011
JIANG Kuiwei	41	Male	Employee Supervisor	From May 2008 to the date of Employee Delegates' Meeting in 2011
ZHANG Yanling	58	Female	Executive Vice President	From August 2004
ZHANG Lin	53	Female	Secretary of Party Discipline Committee	From August 2004
WANG Yongli	45	Male	Executive Vice President	From August 2006
CHEN Siqing	49	Male	Executive Vice President	From June 2008
CHIM Wai Kin	49	Male	Chief Credit Officer	From March 2007 to March 2011
NG Peng Khian	54	Male	Chief Audit Officer	From April 2007 to April 2011
ZHANG Bingxun	60	Male	Secretary to the Board of Directors	From May 2008

Notes:

1. Directors are elected by the Annual General Meeting for a term of three years. The term of office starts as of the approval date of the CBRC.

2. Mr. LI Jun's position is subject to the approval by the CBRC.

3. During the reporting period, no Director, Supervisor or senior management member held any shares of the Bank.

4. The information listed in the above table pertains to the incumbent Directors, Supervisors and senior management members.

Compensation for Directors, Supervisors and Senior Management Members in 2009

Unit: RMB thousand

Name	Fees	Remuneration paid	Contribution by the employer to compulsory insurances, housing allowances, etc	Total (before tax)	Whether also compensated by a controlling shareholder company or other associated companies
XIAO Gang	–	495	264	759	No
LI Lihui	–	491	264	755	No
LI Zaohang	–	464	259	723	No
ZHOU Zaiqun	–	464	255	719	No
ZHANG Jinghua	–	–	–	–	Yes
HONG Zhihua	–	–	–	–	Yes
HUANG Haibo	–	–	–	–	Yes
CAI Haoyi	–	–	–	–	Yes
WANG Gang	–	–	–	–	Yes
LIN Yongze	–	–	–	–	Yes
SEAH Lim Huat Peter	300	–	–	300	No
Anthony Francis NEOH	550	–	–	550	No
Alberto TOGNI	450	–	–	450	No
HUANG Shizhong	550	–	–	550	No
HUANG Danhan	350	–	–	350	No
LIU Ziqiang	–	464	283	747	No
WANG Xueqiang	–	316	193	509	No
LIU Wanming	–	314	193	507	No
LI Chunyu	–	211	179	390	No
JIANG Kuiwei	–	263	169	432	No
ZHANG Yanling	–	441	256	697	No
ZHANG Lin	–	441	246	687	No
ZHU Min	–	367	212	579	No
WANG Yongli	–	441	236	677	No
CHEN Siqing	–	441	271	712	No
CHIM Wai Kin	–	5,804	708	6,512	No
NG Peng Khian	–	1,805	483	2,288	No
ZHANG Bingxun	–	392	222	614	No

Full compensation for Chairman of the Board of Directors, Chairman of the Board of Supervisors, Executive Directors and senior management members has not been finalised in accordance with the most recent policies. Their remaining compensation details will be disclosed when determined.

The Bank compensates Directors, Supervisors and senior management members who are employed by the Bank with salaries, bonuses, employer's contribution to compulsory insurances, housing allowances, etc. Independent Non-executive Directors receive director's fees and allowances. Other Directors are not compensated by the Bank. Chairman of the Board of Directors, Executive Directors and senior management members do not receive director's fees from the Bank or the Bank's subsidiaries.

Notes:

1. Non-executive Directors receive compensation in accordance with the Resolution of the 2007 Annual General Meeting. Compensation for Independent Non-executive Directors and Supervisors representing shareholders is proposed by the Personnel and Remuneration Committee under the Board of Directors, reviewed by the Board of Directors and approved by the Shareholders' Meeting. Employee Supervisors receive compensation as staff in accordance with the staff compensation scheme of the Bank.

2. Non-executive Directors ZHANG Jinghua, HONG Zhihua, HUANG Haibo, CAI Haoyi, WANG Gang and LIN Yongze signed an agreement in 2009 to waive their 2009 director's fees.

3. Compensation for ZHU Min is calculated on the basis of his actual time working with the Bank in 2009.

4. RMB14.5 thousand was paid to The Royal Bank of Scotland Group plc with respect of Sir Frederick Anderson GOODWIN's services to the Bank during the reporting period.

5. Chairman of the Board of Supervisors LI Jun did not receive compensation from the Bank during the reporting period.

The Bank has incurred RMB20,507 thousand in compensation for its Directors, Superiors and senior management members' services in 2009.

Positions held in Shareholding Companies by Directors, Supervisors and Senior Management Members

Non-executive Director Mr. CAI Haoyi serves as Director of the Bank of China Equity Investment Division of the Banking Department, Central Huijin Investment Ltd. Non-executive Director Mr. SEAH Lim Huat Peter serves as Deputy Chairman of Fullerton Financial Holdings Pte. Ltd.

Save as those disclosed above, in 2009, none of the Bank's Directors, Supervisors or senior management members held any position in the shareholding companies of the Bank.

Directors

Working Experience and Other Positions held by Directors, Supervisors and Senior Management Members

1 CHEN Muhua

Honorary Chairperson

Honorary Chairperson of the Board of Directors since August 2004. Madam CHEN is the former Vice Chairperson of the Standing Committee of the National People's Congress of China.

Note: Under PRC law, an honorary director is not a member of the Board of Directors and does not have the power or right to vote on matters considered by the Board of Directors of the Bank.

2 XIAO Gang

Chairman

Chairman of the Board of Directors since March 2003. He also served as President of the Bank from March 2003 to August 2004. From October 1996 to March 2003, Mr. XIAO served as Assistant Governor and Deputy Governor of the People's Bank of China ("PBOC"). During this period, he was also Director General of the Fund Planning Department and the Monetary Policy Department of the PBOC, Governor of the Guangdong Branch of the PBOC and Governor of the Guangdong Branch of the State Administration of Foreign Exchange ("SAFE"). From May 1989 to October 1996, Mr. XIAO held various positions at the PBOC, including Deputy Director General, Director General of the Policy Research Office, General Manager of the China Foreign Exchange Trading Centre and Director General of the Fund Planning Department. Mr. XIAO graduated from the Finance Department of Hunan Institute of Finance and Economics in 1981, and was awarded a Master's degree in International Economic Law by Renmin University of China in 1996. Mr. XIAO has been serving as Chairman of the Board of Directors of BOCHK (Holdings) since May 2003.

3 LI Lihui

Vice Chairman and President

Vice Chairman of the Board of Directors and President of the Bank since August 2004. From September 2002 to August 2004, Mr. LI served as Deputy Governor of Hainan Province, and from July 1994 to September 2002 Mr. LI was an Executive Vice President of Industrial and Commercial Bank of China ("ICBC"). From January 1989 to July 1994, he served in a number of positions at ICBC, including Deputy General Manager of the Fujian Branch, Chief Representative of the Singapore Representative Office and General Manager of the International Business Department. Mr. LI graduated from the Economics Department of Xiamen University in 1977 and obtained a Doctorate in Economics from the Guanghua School of Management of Peking University in 1999. Since June 2005, Mr. LI has been serving as Chairman of the Board of Directors of BOCI. Mr. LI has been serving as Chairman of Bohai Industry Investment Management Ltd. since December 2006. Mr. LI has also served as Vice Chairman of the Board of Directors of BOCHK (Holdings) since June 2009.

4 LI Zaohang
Executive Director and Executive Vice President

Executive Director of the Bank since August 2004. He joined the Bank in November 2000 and has served as Executive Vice President since then. From November 1980 to November 2000, Mr. LI served in various capacities at China Construction Bank, including branch general manager, General Manager of various departments of the head office, and Executive Vice President. Mr. LI graduated from Nanjing University of Information Science and Technology in 1978. Since June 2002, Mr. LI has been serving as a Non-executive Director of BOCHK (Holdings).

5 ZHOU Zaiqun
Executive Director and Executive Vice President

Executive Director of the Bank since February 2008. He joined the Bank in November 2000 and has served as Executive Vice President of the Bank since then. Mr. ZHOU has also served as Executive Vice President and Director of MasterCard International, Asia-Pacific since March 2004. Prior to joining the Bank, Mr. ZHOU was the General Manager of the Beijing Branch of ICBC from December 1999 to November 2000 and the General Manager of the Accounting Department and Financial Planning Department of ICBC from January 1997 to December 1999. Mr. ZHOU graduated from Shanxi College of Finance and Economics in 1977 and received a Master's degree from the China Northeast University of Finance and Economics in 1997. Since June 2002, Mr. ZHOU has been serving as a Non-executive Director of BOCHK (Holdings).

6 ZHANG Jinghua

Non-executive Director

Non-executive Director of the Bank since August 2004. Mr. ZHANG worked with the China Securities Regulatory Commission ("CSRC") from January 1993 to August 2004 in various capacities, including Director General of the Listed Companies Department, Director General of the Market Supervision Department, Director General of the Fund Supervision Department, Director General of the International Cooperation Department and as a member of the Planning and Development Committee. Mr. ZHANG graduated from the China Northeast Forestry Institute in 1982 and obtained an MBA from the State University of New York in 1988.

7 HONG Zhihua

Non-executive Director

Non-executive Director of the Bank since August 2004. Ms. HONG previously worked with the SAFE from January 1982 to August 2004 in various capacities, including Deputy Director General of the Policy and Regulation Department, Deputy Director General of the International Balance Department and Inspector of the General Affairs Department. Ms. HONG is a senior economist and graduated from Yunnan University with a Bachelor's degree in Chinese Literature in 1982.

8 HUANG Haibo

Non-executive Director

Non-executive Director of the Bank since August 2004. Ms. HUANG worked with the PBOC from August 1977 to August 2004 in various capacities, including Deputy Director General of the Treasury Bureau. Ms. HUANG graduated from the Accounting Department of Shanxi Finance University. She is a senior accountant and Certified Public Accountant of the Chinese Institute of Certified Public Accountants.

Directors

Working Experience and Other Positions held by Directors, Supervisors and Senior Management Members

9 CAI Haoyi

Non-executive Director

Non-executive Director of the Bank since August 2007. Mr. CAI worked in several positions in the PBOC from 1986 to 2007, including Deputy Director of the Graduate School of the PBOC, Deputy Director General of the Financial Research Institute of the PBOC, Deputy Director General of the Research Bureau, Secretary General of the Monetary Policy Committee and Deputy Director General of the Monetary Policy Department. Mr. CAI holds the professional title of Research Fellow, and currently serves as a tutor for postgraduate students of the Financial Research Institute of the PBOC, a tutor for doctoral students of the China University of International Business and Economics, and as a member of the China Society for Finance and Banking. He graduated from the Economics Department of Peking University in 1983 with a Bachelor's degree in Economics. In 1986, he graduated from the Graduate School of the PBOC with a Master's degree in Economics. In 1995, he continued his doctoral programme in Economics in the Graduate School of the PBOC and obtained his Ph.D. in 2001. He was awarded the Government Special Allowance by the State Council in 2003.

10 WANG Gang

Non-executive Director

Non-executive Director of the Bank since August 2007. Mr. WANG worked in several positions in the Ministry of Finance from 1989 to 2007, including Deputy Director of the International Tax Division, Director of the Turnover Tax Division of the Tax Policy Department, and Deputy Inspector of the Tax Policy Department, as well as other positions in the Income Tax Division and the Tax Policy Division. Mr. WANG graduated from the Finance Department of China Central University of Finance and Economics in 1983, majoring in Public Finance. He received a Master's degree in Economics from the Tax Department of China Central University of Finance and Economics in 1988 and a Master's degree in Taxation from the School of Business and Public Administration of George Washington University in 1998.

11 LIN Yongze

Non-executive Director

Non-executive Director of the Bank since January 2008. Mr. LIN worked in several positions in the Ministry of Finance from 1986 to July 2007, including Deputy Director, Director and Researcher positions in the Agricultural Finance Department, Agricultural Taxation Department, Tax System and Rule Department and Tax Policy Department, member of the Rural Tax and Fee Reform Working Group Office of the State Council, Deputy Director General of the Tax Policy Department, Deputy Director General of the Xinjiang Finance Department, and Deputy Inspector of the Tariff Policy Department. Mr. LIN graduated from Sun Yat-sen University in 1976 with a Bachelor's degree.

12 SEAH Lim Huat Peter

Non-executive Director

Non-executive Director of the Bank since June 2006. Mr. SEAH is currently a member of the Temasek Advisory Panel of Temasek Holdings Pte. Ltd. Mr. SEAH served as President and Chief Executive Officer of Singapore Technologies Pte. Ltd. from 2001 to 2004. Prior to that, Mr. SEAH built up his career in the banking industry over a 32-year period. Mr. SEAH held various key positions at Singapore's Overseas Union Bank Limited, including Chief Executive Officer from 1991 to 2001. He was Executive Director and Chief Executive of International Bank of Singapore Ltd. from 1985 to 1991. Mr. SEAH graduated from the University of Singapore in 1968 with a Bachelor's degree (Honours) in business administration. Mr. SEAH has also been a Director of Capitaland Limited since 2001, SembCorp Industries Ltd. since 1998, StarHub Ltd. since 2002, Global Crossing Limited since 2003 and STATS ChipPAC Ltd. since 2002, all of which are companies listed on the securities exchanges of Singapore, and/or the United States.

13 Anthony Francis NEOH

Independent Non-executive Director

Independent Non-executive Director of the Bank since August 2004. Mr. NEOH currently serves as a member of the International Consultation Committee of the CSRC. Mr. NEOH previously served as Chief Advisor to the CSRC, a member of the Basic Law Committee of the Hong Kong Special Administrative Region under the Standing Committee of the National People's Congress of China, Chairman of the Hong Kong Securities and Futures Commission, a member of the Hong Kong Stock Exchange Council and its Listing Committee, Deputy Judge of the Hong Kong High Court, and Administrative Officer of the Hong Kong Government. From 1996 to 1998, Mr. NEOH was Chairman of the Technical Committee of the International Organisation of Securities Commissions. Mr. NEOH was appointed as Queen's Counsel (since retitled as Senior Counsel) in Hong Kong in 1990. Mr. NEOH graduated from the University of London with an honours degree in Law in 1976. Mr. NEOH is a barrister of England and Wales and admitted to the State Bar of California. In 2003, Mr. NEOH was conferred the degree of Doctor of Laws, *honoris causa* by the Chinese University of Hong Kong. He was elected Honorary Fellow of the Hong Kong Securities Institute and Academician of the International Euro-Asian Academy of Sciences in 2009. Mr. NEOH was a Non-Executive Director of Global Digital Creations Holdings Limited from November 2002 to December 2005, and an Independent Non-executive Director of the Link Management Limited, Manager of the Link Real Estate Investment Trust, from September 2004 to March 2006. Since November 2004, Mr. NEOH has been serving as Independent Non-executive Director of China Shenhua Energy Co., Limited. Global Digital Creations Holdings Limited is listed on the Growth Enterprise Market of the Hong Kong Stock Exchange. China Shenhua Energy Co., Limited and the units of the Link Real Estate Investment Trust, respectively, are listed on the Main Board of the Hong Kong Stock Exchange.

14 Alberto TOGNI

Independent Non-executive Director

Independent Non-executive Director of the Bank since June 2006. Mr. TOGNI joined Swiss Bank Corporation, the predecessor of UBS AG, in 1959 and, after the establishment of UBS AG through the merger of Swiss Bank Corporation and Union Bank of Switzerland in 1998, continued in UBS AG's employment until his retirement in April 2005. Mr. TOGNI served in various capacities during his 46-year career with Swiss Bank Corporation and (after 1998) UBS AG. From 1998 to 2005, he was Executive Vice Chairman of UBS AG overseeing the risk profile of the group. From 1994 to 1997, he was group Chief Credit Officer and group Chief Risk Officer at Swiss Bank Corporation. Prior to 1994, he held various positions at Swiss Bank Corporation overseeing the bank's worldwide credit portfolio. Mr. TOGNI holds a banking certificate from the Swiss Business School. He graduated in 1965 from the New York Institute of Finance with a degree in investment analysis.

15 HUANG Shizhong

Independent Non-executive Director

Independent Non-executive Director since August 2007. Mr. HUANG currently serves as Vice President of the Xiamen National Accounting Institute and professor of the Accounting Department of Xiamen University. Mr. HUANG graduated in 1986 from Dalhousie University in Canada with an MBA, and received his Ph.D. of Economics (with accounting focus) in 1993 from Xiamen University. He has served as Managing Partner of Pan-China Xiamen CPA firm and as Deputy Dean of the Management School of Xiamen University. Currently, Mr. HUANG also serves as a member of the Education Steering Committee of the National Master Programme of Professional Accounting, as an adviser to the Accounting Standards Committee of the Ministry of Finance, and as a member of both the Standing Committee of the Chinese Accounting Association and the Auditing Standards Committee of the Chinese Institute of Certified Public Accountants. He serves as an Independent Non-executive Director of Xiamen International Port Co., Ltd. and Sinosteel Co., Ltd.

16 HUANG Danhan

Independent Non-executive Director

Independent Non-executive Director since November 2007. Ms. HUANG graduated from the Law School of Robert Schuman University of Strasbourg, France with a State Doctor's degree in Law in 1987, being the first PRC scholar receiving such a degree in France in a social science discipline. Since returning to China, Ms. HUANG has successively worked in the Ministry of Foreign Trade and Economic Cooperation (now the Ministry of Commerce), universities, law firms and state-owned foreign trade companies and financial institutions, including General Manager of the Legal Department of China Construction Bank from August 1999 to March 2001, and General Counsel of China Galaxy Securities Company Limited from April 2001 to September 2004. Ms. HUANG also served as a member of the First Session of the Public Offering Examination and Approval Commission under the CSRC from 1993 to 1995 and as Senior Advisor in trade in services to the EU-China Trade Project (2004-2009). Ms. HUANG currently is a Partner of Sinobridge PRC Lawyers. Ms. HUANG has been serving as the PRC Director of West African Development Bank since September 2007 and her current term of office will expire in August 2011.

Supervisors

Working Experience and Other Positions held by Directors, Supervisors and Senior Management Members





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4	5	

1 LI Jun

Chairman of the Board of Supervisors

Chairman of the Board of Supervisors of the Bank since March 2010 and Vice Party Secretary of the Bank since December 2009. Mr. LI has served in several positions in Bank of Communications, including Vice Chairman of the Board of Directors and President from September 2006 to December 2009, Vice President from November 2000 to August 2006, Executive Director from June 2000 to December 2009, Controller General from April 1998 to April 2001, and Vice President and President of the Wuhan Branch of Bank of Communications from October 1990 to April 1998. Mr. LI is a senior economist and received a Master's degree in Economics from Huazhong University of Science and Technology in 1995.

2 WANG Xueqiang

Supervisor

Director General Supervisor of the Bank since August 2004 and Head of the Office of Board of Supervisors since April 2005. Mr. WANG served as Deputy Director General Supervisor and Director General Supervisor of the Bank from July 2003 to August 2004 before the Bank's corporate restructuring. Mr. WANG served as Deputy Director General Supervisor at Agricultural Development Bank of China from October 2001 to July 2003, and worked with the Central Financial Working Commission from October 2000 to October 2001. From November 1996 to September 2000, Mr. WANG worked with Hong Kong Gang Ao International (Holdings) Co., Ltd. and Hong Kong Fujian Group Limited in succession. Prior to that, Mr. WANG worked with the Ministry of Finance from August 1985 to October 1996. Mr. WANG is a senior accountant and Certified Public Accountant qualified by the Chinese Institute of Certified Public Accountants. Mr. WANG graduated from China Central University of Finance and Economics in 1985 and obtained his Doctorate in Economics from Public Finance Institute of the Ministry of Finance in 2008.

3 LIU Wanming

Supervisor

Deputy Director General Supervisor of the Bank since August 2004. From November 2001 to August 2004, Mr. LIU was designated by the State Council to serve as a Director Supervisor and a Deputy Director General Supervisor at Bank of Communications and the Bank. From August 1984 to November 2001, Mr. LIU worked with the National Audit Office, Agricultural Development Bank of China and the Central Financial Working Commission. Mr. LIU received a Bachelor's degree in Economics from Jiangxi University of Finance and Economics in 1984.

4 LI Chunyu

Employee Supervisor

Employee Supervisor of the Bank since December 2004. Since August 2000, Mr. LI has served as Chairman of the Labour Union of the Bank's Head Office. From 1992 to July 2000, he worked in the Human Resources Department of the Bank. Mr. LI holds a Bachelor's degree.

5 JIANG Kuiwei

Employee Supervisor

Employee Supervisor of the Bank since May 2008. Since 1989, Mr. JIANG has worked in the Changzhou Sub-branch of the Bank, the Taizhou Division of the PBOC and the Jiangsu Branch of the Bank. He is currently Assistant General Manager of the Jiangsu Branch of the Bank. He obtained a Bachelor's degree in Engineering from Zhejiang University in 1989.

Senior Management

Working Experience and Other Positions held by Directors, Supervisors and Senior Management Members










1	2	3
4	5	6
7	8	9
10		

1 LI Lihui

Vice Chairman and President

Please refer to the section "Directors".

2 LI Zaohang

Executive Director and Executive Vice President

Please refer to the section "Directors".

3 ZHOU Zaiqun

Executive Director and Executive Vice President

Please refer to the section "Directors".

4 ZHANG Yanling

Executive Vice President

Executive Vice President of the Bank since March 2002. Ms. ZHANG joined the Bank in 1977. From October 2000 to March 2002, she was an Executive Assistant President of the Bank. From April 1997 to August 2002, Ms. ZHANG successively served as General Manager of the Banking Department, General Manager of the Milan Branch and General Manager of the Legal Affairs Department. Ms. ZHANG has also served as Vice Chairperson of the International Chamber of Commerce Banking Commission since July 2003. Since June 2002, Ms. ZHANG has been serving as a Non-executive Director of BOCHK (Holdings). Since September 2003, Ms. ZHANG has successively served as Chairperson and Vice Chairperson of the Board of Directors in BOCI. Ms. ZHANG began to serve as Chairperson of Bank of China (UK) Limited in November 2007 and Chairperson of BOC Aviation in December 2008. Ms. ZHANG graduated from Liaoning University in 1977 and received a Master's degree from Wuhan University in 1999.

5 ZHANG Lin

Secretary of Party Discipline Committee

Secretary of Party Discipline Committee of the Bank since August 2004. Prior to joining the Bank, Ms. ZHANG held various positions in the Export and Import Bank of China, including Assistant President from June 2002 to August 2004 and Deputy Director General and Director General of the Personnel Education Department from August 1998 to July 2002. Majoring in Economics and Political Sciences, Ms. ZHANG graduated from the Party School of the Inner Mongolia Autonomous Region's Communist Party Committee in 1983.

6 WANG Yongli

Executive Vice President

Executive Vice President of the Bank since August 2006. Mr. WANG joined the Bank in 1989 and served as Executive Assistant President of the Bank from November 2003 to August 2006. From April 1999 to January 2004, Mr. WANG held various positions in the Bank, including General Manager of the Asset-Liability Management Department, Acting Deputy General Manager and General Manager of the Fujian Branch, and General Manager of the Hebei Branch. Mr. WANG graduated from Renmin University of China with a Master's degree in 1987. He also obtained a Doctor's degree from Xiamen University in 2005.

7 CHEN Siqing

Executive Vice President

Executive Vice President of the Bank since June 2008. Mr. CHEN joined the Bank in 1990 and worked in the Hunan Branch of the Bank before he was seconded to the Hong Kong Branch of China and South Sea Bank Ltd. as Assistant General Manager. Mr. CHEN held various positions in the Bank from June 2000 to May 2008, including Assistant General Manager, Vice General Manager of the Fujian Branch, General Manager of the Risk Management Department of the Head Office and General Manager of the Guangdong Branch. Mr. CHEN graduated from Hubei College of Finance and Economics in 1982. He obtained an MBA from Murdoch University, Australia in 1999.

8 CHIM Wai Kin

Chief Credit Officer

Chief Credit Officer of the Bank since March 2007. Prior to joining the Bank, Mr. CHIM held various positions at Standard Chartered Bank, Bankers Trust Company and Deutsche Bank. While working with Deutsche Bank, Mr. CHIM served as Managing Director and Chief Credit Officer (non-Japan Asia). Mr. CHIM graduated from the Chinese University of Hong Kong with a Bachelor of Science in 1983, and obtained an MBA from Indiana State University, United States in 1985.

9 NG Peng Khian

Chief Audit Officer

Chief Audit Officer since April 2007. Prior to joining the Bank, Mr. NG worked at DBS Bank as Managing Director and Chief Internal Auditor, and served as Senior Vice President and Head of Internal Audit at CISCO Security Pte. Ltd. Mr. NG graduated from Nanyang University, Singapore, with a Bachelor of Science in 1980. Mr. NG is a Certified Internal Auditor and Certified Information Systems Auditor.

10 ZHANG Bingxun

Secretary to the Board of Directors

Secretary to the Board of Directors of the Bank since May 2008. Mr. ZHANG joined the Bank in 1997 and has held various positions, including General Manager of the Financial Institutions Department and General Manager of the Board Secretariat. Mr. ZHANG graduated from Renmin University of China with a Master's degree in 1985. He also obtained a doctorate from the London School of Economics in 1992.

Changes in Directors, Supervisors and Senior Management

During the reporting period, changes in the Bank's Directors were as follows:

Sir Frederick Anderson GOODWIN ceased to serve as Non-executive Director of the Bank as of 22 January 2009.

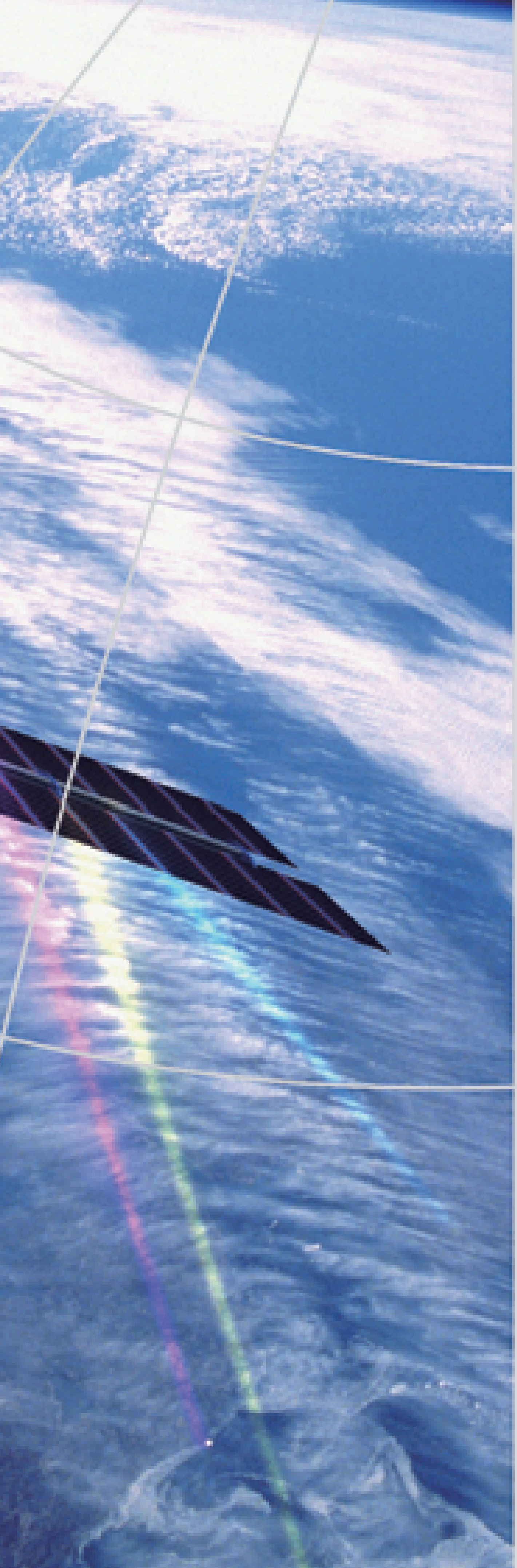
During the reporting period, changes in the Bank's Supervisors were as follows:

1. Mr. LI Jun was elected Chairman of Board of Supervisors at the first Extraordinary General Meeting in 2010. His term of office will end until the date of the Bank's Annual General Meeting in 2013. Mr. LI Jun was elected Chairman of the Board of Supervisors at the first Meeting of the Bank's second Board of Supervisors.

2. Mr. LIU Ziqiang resigned from Supervisor and Chairman of the Board of Supervisors due to the age requirement in accordance with the relevant rules. His resignation came into effect as of 19 March 2010.

During the reporting period, changes in the Bank's senior management were as following:

Mr. ZHU Min resigned from the position of Executive Vice President for job transfer on 16 October 2009.



Innovation

Corporate Governance

In 2009, the Bank drew upon the lessons learned from the global financial crisis in order to optimise its corporate governance mechanism in line with the prevailing conditions within the Bank and in China as a whole. As a result, the Bank took steps to better prevent systemic risks and strived to improve its scientific decision-making capabilities in line with the laws, regulations and regulatory rules.

1. **Clarifying strategy and developing implementation plans**

   During the reporting period, the Bank conducted a thorough analytical study of the domestic and international situation, as well as the Bank's own condition. On this basis, the Board of Directors clarified the Bank's strategic positioning as "to be a large multinational banking group with a diversified and integrated cross-border business platform, based on a core business of commercial banking" with the strategic objective of "to be a leading international bank delivering growth and excellence". The Board put forward explicit strategic guidelines for the Group's development in the form of the new *Strategic Development Plans of Bank of China Limited*. Guided by the national policies of "maintaining growth, expanding domestic demand and promoting restructuring", the senior management implemented these guidelines by further subdividing the strategic objectives and implementing them in line with the resolutions and assignments of the Board of Directors. In 2009, the Bank progressed with its strategy implementation and achieved sustained growth in operating results.

2. **Improving governance mechanism and efficiency**

   During the reporting period, the Bank revised its Articles of Association, approved the *Supplemental Delegation of Authorities by the Shareholders' Meeting to the Board of Directors of Bank of China Limited* and amended *the Administrative Measures of Bank of China Limited on Approval of Investment*, which define the responsibilities of the shareholders' meeting, the Board of Directors and the senior management. These steps further improved the efficiency and quality of the Bank's decision-making process. In accordance with the changes of relevant regulatory rules, the Bank revised and improved its *Management Rules on Securities Transactions by Directors, Supervisors and Senior Management Personnel of Bank of China Limited* in a timely manner, further enhancing governance of the conduct and duty performance of Directors, Supervisors and senior management members. Moreover, the Bank promoted the culture and practice of corporate governance across the Group by providing training to the management personnel of key branches.

3. **Restructuring business proactively and guarding against various risks**

Faced with the adverse impact of the international financial crisis, the Bank's Board of Directors took the timely decision to downsize the Group's foreign currency bond investment and restructure its business mix. Seizing the new development opportunities created by the national macro-economic restructuring, the Bank made more credit available to key sectors and industries and made every effort to support the expansion of domestic demand. It also promoted credit restructuring and improved financial services to meet the needs of the real economy. In the meantime, the Bank reinforced its focus on risk prevention and control, establishing a comprehensive risk management system. The Bank strived to develop various businesses with a view to maximising shareholders' long-term interests.

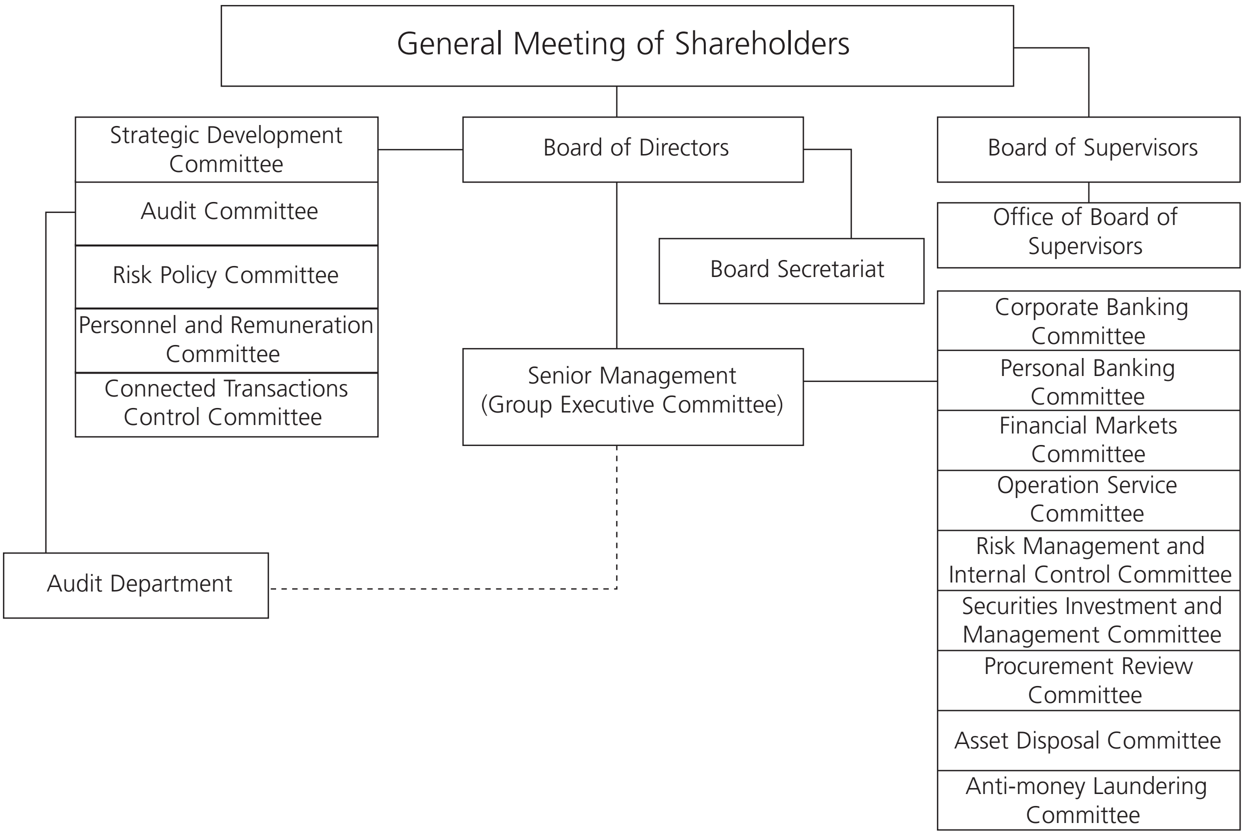
4. **Strengthening the management of information disclosure and improving information disclosure transparency**

During the reporting period, the Bank continued to enhance its information disclosure management system with a view to ensuring the timeliness, fairness, truthfulness, accuracy and completeness of its information disclosure. The Bank also took steps to enforce its internal information disclosure rules by incorporating information disclosure compliance management into the internal control self-evaluation and performance appraisal systems, making department heads directly responsible for information disclosure and designating information officers in each department, thus, extending information disclosure compliance management to the branch level. During the reporting period, the 2008 annual report, 2009 first quarter report, interim report and third quarter report and a total of 27 provisional announcements were published.

During the reporting period, the strength of the Bank's corporate governance was fully acknowledged by the financial industry and wider society. The Bank won many awards granted by prestigious domestic and overseas institutions, including the "Excellent Board of Directors 2009" award from the Shanghai Stock Exchange, second place in the evaluation of corporate governance of the top 100 listed Chinese companies jointly launched by the Chinese Academy of Social Sciences and China Academy of Governance, second place in the banking and finance category of the "China's Most Promising Companies" award by *The Asset*, the Hong Kong magazine, and the "Platinum Award for All-Round Excellence in Financial Performance, Management, Corporate Governance, Social Responsibility and Investor Relations", also granted by *The Asset*.

Corporate Governance Framework

The Bank's corporate governance framework is shown below:



Code on Corporate Governance Practices

During the reporting period, the Bank strictly observed the *Code on Corporate Governance Practices* (the "Code") as set out in Appendix 14 of the Hong Kong Listing Rules. The Bank has complied with all the code provisions of the Code and has substantially complied with most of the recommended best practices it sets out.

Shareholders and Shareholders' Meeting

The Bank highly values the protection of its shareholders' interests and has established an effective, multi-channel platform to communicate with shareholders. This includes holding shareholders' meetings to ensure that all shareholders are treated equally, properly informed and able to participate in and exercise their voting and other rights regarding the major issues of the Bank. The Bank has independence and complete autonomy in all of its business operations. It operates independently and separately from its controlling shareholder, Central Huijin Investment Ltd., in respect of its business, personnel, assets, institutional and financial matters.

During the reporting period, the Bank held the first Extraordinary General Meeting of 2009 in Beijing on 23 March 2009. At the meeting, shareholders reviewed and approved proposals on new distribution methods for the Bank's periodic reports to the H-Share Holders and the issuance of subordinated bonds. On 18 June 2009, the Bank held the 2008 Annual General Meeting concurrently in Beijing and Hong Kong by video conference. At the meeting, shareholders reviewed and approved eleven proposals, including those regarding the profit distribution plan for 2008, the appointment of the external auditors, and the re-election of directors, etc. These also included two proposals passed by means of special resolutions, namely, the proposal to amend the Articles of Association, and the proposal to issue RMB-denominated bonds in Hong Kong for an amount not exceeding RMB10 billion by the end of 2010. Both meetings were convened and held in strict compliance with the listing rules of the Chinese mainland and Hong Kong. The Bank's Directors, Supervisors and senior management members attended the two meetings and responded to the enquiries of shareholders.

The Bank published the resolutions and legal opinions of the first Extraordinary General Meeting of 2009 on 23 March and the 2008 Annual General Meeting on 18 June 2009 respectively.

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

The Board of Directors earnestly and fully implemented the resolutions adopted by the shareholders' meetings during the reporting period.

According to the proposal approved by the first Extraordinary General Meeting of 2009 regarding distribution methods for the Bank's periodic reports to the H-Share Holders, the Bank's Board of Directors oversaw the change to a new method that has significantly reduced printing and delivery costs, which also demonstrated the Bank's fulfilment of its social responsibility on environmental protection.

According to the proposal approved by the first Extraordinary General Meeting of 2009 as to the issuance of subordinated bonds, the Bank's Board of Directors authorised the senior management to undertake the issuance. With the approval of the CBRC and the PBOC, the Bank issued subordinated bonds of RMB40 billion and RMB24.93 billion in the domestic inter-bank market in July 2009 and March 2010 respectively.

According to the proposals to re-elect Mr. SEAH Lim Huat Peter as Non-executive Director and Mr. Alberto TOGNI as Independent Non-executive Director both approved by the 2008 Annual General Meeting, the relevant reappointment and filing procedures at the regulatory authorities have been concluded.

According to the *Supplemental Delegation of Authorities by the Shareholders' Meeting to the Board of Directors of Bank of China Limited* approved by the 2008 Annual General Meeting, the Board of Directors performed decision-making functions earnestly in strict compliance with the approved authorities. During the reporting period, the Board of Directors did not act beyond the authorities granted by the Articles of Association and the shareholders' meetings.

According to the proposal to revise the Articles of Association of the Bank approved by the 2008 Annual General Meeting, relevant amendments have been ratified by the CBRC and the full text has been published on the websites of the Shanghai Stock Exchange (www.sse.com.cn) and the Bank (www.boc.cn).

Directors and Board of Directors

The Board of Directors, which is responsible to the Shareholders' Meeting, is the Bank's decision-making body. The Board of Directors exercises the following functions and powers as specified by the Bank's Articles of Association: convening shareholders' meetings and implementing the resolutions of shareholders' meetings; deciding on the Bank's strategic policies, business plans and material investment plans (except for those material investment plans that are subject to shareholders' meeting's approval as specified in the Articles of Association); formulating the annual financial budgets, final accounts and plans for profit distribution and loss making-up of the Bank; appointing or dismissing members of special committees and senior management of the Bank; reviewing and deciding on the establishment of the Bank's basic administrative system, internal management framework and important sub-entities; taking charge of performance evaluation and matters of material reward and punishment for senior management members; and hearing the reports of senior management and examining the work of senior management, etc.

Currently, the Board of Directors comprises fifteen members. Other than the Chairman, there are three executive directors, seven non-executive directors and four independent non-executive directors. The Bank's directors are elected at the shareholders' meeting, with a term of office of three years starting from the date when the Bank receives the approval from the CBRC. A director may serve consecutive terms by re-election and re-appointment. For detailed background and an explanation of recent changes in the Board members, please refer to the section "Directors, Supervisors and Senior Management" in this annual report.

The Board of Directors has set up the Strategic Development Committee, Audit Committee, Risk Policy Committee, Personnel and Remuneration Committee, and Connected Transactions Control Committee to assist the Board in performing its functions. The positions of the Chairman and the President are assumed by two persons.

During the reporting period, Mr. XIAO Gang, Chairman of the Bank, also served as the Chairman of BOCHK (Holdings), while Executive Director Messrs LI Zaohang and ZHOU Zaiqun also served as Non-executive Directors of BOCHK (Holdings). Mr. LI Lihui, Vice Chairman of the Bank, commenced serving as Vice Chairman of BOCHK (Holdings) in June 2009.

The Bank renewed the directors and officers' liability insurance for members of the Board in 2009 to provide protection against claims arising from the lawful discharge of duties by the directors, thus helping the directors to fully perform their duties.

Convening of Board Meetings

In 2009, the Bank convened six on-site meetings of the Board of Directors, on 15 January, 20 March, 28 April, 26 August, 29 October and 10 December respectively. At these meetings, the Board of Directors reviewed the Bank's periodic reports and profit distribution plans, the work report of the Board of Directors, performance evaluation results of the senior management and related reward distribution plans, the strategic development plan of the Bank, the reappointment of directors, amendments to the Articles of Association, the issuance of RMB-denominated bonds in Hong Kong for an amount not exceeding RMB10 billion, internal control self-assessment reports, the annual report procedures of the Audit Committee, the corporate social responsibility report, the renewal of directors and officers liability insurance, the engagement of external auditors, audit scope and audit fees, etc.

In 2009, the Bank convened eighteen meetings of the Board of Directors by written resolutions. At these meetings, the Board of Directors reviewed such matters as the delegation of powers to the senior management by the Board of Directors in connection with the issue of subordinated bonds, and amendments to the *Management Rules on Securities Transactions by Directors, Supervisors and Senior Management Personnel of Bank of China Limited* and the publication of announcements on the resignation of directors, etc.

In 2009, in an important move to enhance corporate governance, the Bank also held twenty-eight formal meetings and twelve informal meetings between the Board of Directors and the senior management, in which views were exchanged concerning Board meeting proposals, risk management, and matters related to the corporate and personal banking business, etc. These meetings improved the efficiency of the Board in reviewing proposals, and further helped the Board to make decisions in a scientific manner.

The average attendance rate of the meetings of the Board of Directors in 2009 was 99%. The attendance rate of each Director is given below:

Director	Number of meetings attended/Number of meetings convened during term of office
XIAO Gang	24/24
LI Lihui	24/24
LI Zaohang	24/24
ZHOU Zaiqun	24/24
ZHANG Jinghua	24/24
HONG Zhihua	24/24
HUANG Haibo	24/24
CAI Haoyi	24/24
WANG Gang	24/24
LIN Yongze	24/24
Frederick Anderson GOODWIN	0/2
SEAH Lim Huat Peter	24/24
Anthony Francis NEOH	22/24
Alberto TOGNI	23/24
HUANG Shizhong	24/24
HUANG Danhan	24/24

Notes:

1. In 2009, the Bank's Board of Directors convened a total of twenty-four meetings, comprising six on-site meetings and eighteen meetings held by written resolutions.

2. Sir Frederick Anderson GOODWIN was not able to attend the Extraordianry Board Meeting in person on 15 January 2009 or vote on the first board written resolution of 2009. He ceased to serve as Non-executive Director of the Bank as of 22 January 2009.

3. Independent Non-executive Director Anthony Francis NEOH was not able to attend the Extraordinary Board Meeting on 15 January and the Board Meeting on 26 August in person. He authorised other directors to attend and vote at the meetings as his proxies.

4. Independent Non-executive Director Alberto TOGNI was not able to attend the Extraordinary Board Meeting on 15 January in person. He authorised another director to attend and vote at the meeting as his proxy.

The Strategic Development Committee

The Strategic Development Committee comprises ten members, including Executive Directors Mr. XIAO Gang and Mr. LI Lihui, Non-executive Directors Mr. ZHANG Jinghua, Ms. HONG Zhihua, Ms. HUANG Haibo, Mr. CAI Haoyi, Mr. WANG Gang, Mr. LIN Yongze, Mr. SEAH Lim Huat Peter, and Independent Non-executive Director Mr. Alberto TOGNI. The committee is chaired by Mr. XIAO Gang, Chairman of the Board of Directors. The committee is mainly responsible for:

- Reviewing the strategic development plans presented by the management and advising the Board accordingly;
- Reviewing the annual budget of the Bank in accordance with the strategic development plan, and advising the Board accordingly;
- Reviewing decisions on strategic capital allocation (policies on capital structure, capital adequacy ratio and risk-reward trade-off) and the objectives of asset-liability management, and advising the Board accordingly;
- Coordinating strategy on the overall development of the various financial businesses, and advising the Board accordingly; and
- Designing and formulating key investment and financing plans, reviewing and approving the plans presented by the senior management, and advising the Board accordingly.

The Strategic Development Committee held six meetings in 2009. At these meetings, the committee reviewed proposals covering the Bank's strategic development plan, medium to long-term capital plan, business plans and financial budget for 2010, amendments to the *Administrative Measures on Approval of Investment of Bank of China Limited* and the issuance of RMB-denominated bonds in Hong Kong for an amount not exceeding RMB10 billion by the end of 2010.

The average attendance rate of the meetings of the Strategic Development Committee reached 95%, and the attendance rate of each director is given below:

Director	Number of meetings attended/Number of meetings convened during term of office
XIAO Gang	6/6
LI Lihui	6/6
ZHANG Jinghua	6/6
HONG Zhihua	6/6
HUANG Haibo	6/6
CAI Haoyi	6/6
WANG Gang	6/6
LIN Yongze	6/6
Frederick Anderson GOODWIN	0/1
SEAH Lim Huat Peter	5/6
Alberto TOGNI	5/6

Notes:

1. Sir Frederick Anderson GOODWIN was not able to attend the committee meeting on 15 January 2009 in person. He ceased to serve as a member of the Strategic Development Committee as of 22 January 2009.
2. Non-executive Director Mr. SEAH Lim Huat Peter was not able to attend the committee meeting on 15 January 2009 in person. He authorised another director to attend and vote as his proxy.
3. Independent Non-executive Director Mr. Alberto TOGNI was not able to attend the committee meeting on 15 January 2009 in person. He authorised another director to attend and vote as his proxy.

The Audit Committee

The Audit Committee comprises seven members, including Non-executive Director Ms. HUANG Haibo, Mr. WANG Gang, Mr. SEAH Lim Huat Peter and Independent Non-executive Director Mr. Anthony Francis NEOH, Mr. Alberto TOGNI, Mr. HUANG Shizhong and Ms. HUANG Danhan. Independent Non-executive Director Mr. HUANG Shizhong serves as chairman of the committee. The committee is mainly responsible for:

- Reviewing financial reports and other significant accounting policies and regulations put forward by the senior management;
- Reviewing the external auditors' audit report, internal control recommendation and audit plan;
- Approving the internal audit charter, internal audit development plan, annual audit plan and budget;
- Appraising duty performance and working quality of the internal and external auditors and monitoring their independence;
- Recommending the engagement, appointment and audit fee of the external auditor;
- Appointing, dismissing and appraising the performance of the Chief Audit Officer; and
- Overseeing the Bank's internal control function, reviewing significant deficiencies in internal control design and implementation by the senior management and reviewing fraud cases.

The Audit Committee held five meetings in 2009, mainly to review financial reports, the self-assessment report on internal control, the action plan of the *Basic Rules on Enterprise Internal Control*, the medium and long-term development plan for internal audit of the Group, the appointment, audit plan and fee of the external auditor for 2010, the internal auditor's inspection plan and budget for 2009 and inspection priorities for 2010, and internal standards such as the *Standard of Internal Control Assessment of Bank of China Limited* and *Standard of Recognition of Internal Control Deficiencies of Bank of China Limited*. The committee also continuously monitored the developments in accounting standards, the regulatory requirements related to the implementation of Basel II and the *Basic Rules on Enterprise Internal Control*.

The average attendance rate of the meetings of the Audit Committee in 2009 was 97%. The attendance rates of the relevant directors are given below:

Director	Number of meetings attended/Number of meetings convened during term of office
HUANG Shizhong	5/5
HUANG Haibo	5/5
WANG Gang	5/5
SEAH Lim Huat Peter	4/5
Anthony Francis NEOH	5/5
Alberto TOGNI	5/5
HUANG Danhan	5/5

Note: Non-executive Director Mr. SEAH Lim Huat Peter was not able to attend the committee meeting on 27 October 2009 in person. He authorised another director to attend and vote as his proxy.

In accordance with the *Announcement on Preparation of 2009 Annual Report and Its Related Work by Listed Companies* (CSRC Annoucement (2009) No.34) published by the CSRC, the *Notice on Preparation of 2009 Annual Report by Listed Companies Headquartered in Beijing* (Jingzhenggongsifa (2010) No.7) and *the Procedure Rules on the Preparation of Annual Report of the Board Audit Committee of Bank of China Limited*, and pending the start of the audit work by the accounting firm, the Audit Committee affirmed the 2010 audit plan, including the audit focuses for the 2009 annual report, risk assessment and recognition methods, the application of accounting standards, internal control and corruption testing, and human resource arrangements. The committee raised detailed requirements in line with this, and specially requested the accounting firm to report to the committee on the differences with the senior management on each particular issue, as well as the process and results of achieving consensus with them.

The Audit Committee received a report from the senior management concerning the Bank's operating status and major financial data, and put forward comments and recommendations. The committee requested that the senior management submit the annual financial statements to the accounting firm in time to allow sufficient time for the audit. During the audit period, the committee maintained independent discussions with the accounting firm and arranged communication between the accounting firm and the independent directors. The Audit Committee compared and analysed the opinions of the accounting firm and the senior management after the accounting firm issued preliminary audit opinions, put forward questions and comments, and subsequently issued a note in writing. At its first meeting of 2010, the Audit Committee reviewed the Bank's 2009 financial statements and submitted them to the Board of Directors for approval.

During the review of the Bank's annual financial statements of 2009, the Audit Committee paid particular attention to the consolidated management of the Group, liquidity risk and capital adequacy, the risk and classification of credit assets including local government infrastructure loans and personal loans, and the adequacy of provisions for the impairment of assets.

In accordance with the *Policies of Selection, Rotation and Dismissal for External Auditors of Bank of China Limited*, the accounting firm of the Bank submitted its 2009 summary report. The senior management appraised the performance of the accounting firm. Based on this appraisal, the Audit Committee conducted its own assessment of the accounting firm in 2009 with a particular focus on their independence. After deliberation, the Audit Committee decided to submit to the Board of Directors the proposal of re-appointing PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company as the Bank's domestic auditor and PricewaterhouseCoopers Hong Kong as the Bank's international auditor for 2010.

Guidance of the Board of Directors and the Audit Committee of the Board regarding Internal Control

The Board of Directors of the Bank has attached great importance to the establishing and development of the Bank's internal control system. To this end, the Board of Directors has actively promoted the building, improvement and effective implementation of internal controls, regularly reviewed the reports presented by the senior management concerning operational compliance, risk management, the settlement of fraud cases and the building and assessment of internal controls. By providing guidance to internal control and compliance work in a timely manner, the Board of Directors has strongly enhanced the risk mitigation ability of the Group.

The Audit Committee of the Board of Directors has paid continuing attention to the overall status of the Group's internal control and has attached great importance to the Bank's implementation of the *Basic Rules on Enterprise Internal Control*. During the reporting period, the Audit Committee reviewed the plan for implementing the *Basic Rules on Enterprise Internal Control* prepared by the senior management, and put forward suggestions accordingly. The Bank, under the guidance of the Audit Committee, further improved its internal control assessment system by formulating the *Standards of Internal Control Practice of Bank of China Limited and the Standards of Internal Control Assessment of Bank of China Limited*, as well as by preparing the *Standards of Recognising Internal Control Deficiencies of Bank of China Limited*, in line with requirements of the *Basic Rules on Enterprise Internal Control*. The establishment of these standards has facilitated the scientific development of the Bank's risk management and internal control system and has laid a solid foundation for the Bank to meet all relevant requirements set out in the *Basic Rules on Enterprise Internal Control*.

With the aim of fulfilling the Group's strategic goals and mitigating systematic risks, the Audit Committee guided the internal audit process by setting priorities for internal audit inspections and carrying out internal audit activities, in line with the policy of comprehensive and efficient risk management.

The Audit Committee received and studied the inspection reports of internal audit, the assessment opinions on internal control, rectification progress with regard to external auditors' recommendations on internal control enhancement, and the prevention and control of fraud cases and violations. The committee also guided and urged the senior management to improve internal control. The Audit Committee closely monitored the development and operation of the Bank's IT system, and put forth recommendations on IT from an internal control perspective.

During the reporting period, the Bank followed the relevant requirements of the *Basic Rules on Enterprise Internal Control* and performed internal control self-assessment in accordance with the *Standards of Internal Control Assessment of Bank of China Limited* and the *Standards of Recognising Internal Control Deficiencies of Bank of China Limited*. Please refer to the announcement of the Bank dated 23 March 2010 for the relevant reports.

The Risk Policy Committee

The Risk Policy Committee comprises six members, including Executive Director Mr. ZHOU Zaiqun, Non-executive Director Mr. ZHANG Jinghua and Mr. LIN Yongze, and Independent Non-executive Director Mr. Anthony Francis NEOH, Mr. Alberto TOGNI, and Mr. HUANG Shizhong. Mr. Anthony Francis NEOH serves as chairman of the committee. The committee is mainly responsible for:

- Reviewing risk management strategy, major risk management policies, procedures and systems, and providing suggestions to the Board of Directors;
- Reviewing the Bank's major risk activities, and exercising its veto power in a reasonable manner over any transaction that will or may lead to debts to the Bank and/or expose the Bank to market risk in excess of the single transaction risk limit or the accumulated transaction risk limit approved by the Risk Policy Committee or the Board of Directors;
- Monitoring the implementation of the Bank's risk management strategies, policies and procedures, and providing suggestions to the Board of Directors; and
- Regularly assessing the duty performance of the senior management, departments and institutions of the Bank regarding risk management and internal control, including hearing their reports and requesting improvements.

The Risk Policy Committee held six meetings. At these meetings, the committee reviewed and approved proposals including the suggestions on the management strategy of foreign currency bonds investment, the *Policy of Bank of China Limited on Securities Investment,* the *Credit Risk Internal Rating Policy of Bank of China Limited (Trial)*, and a proposal to scale down the Bank's investment in foreign currency bonds. The committee also reviewed the Basel II implementation plan, the Bank's rectification report on the CBRC on-site inspection of investment operations, the report on the syndicated loans of the Bank, the report on capital adequacy ratio in the first half of 2009, the *Guidance on the Access Management of Wealth Management Products of Bank of China Limited*, and the report on the revision of financial instrument classification and measurement by IASB. Moreover, in view of the impact of the global financial crisis, the Risk Policy Committee has focused its attention on the Bank's securities investments. During the meetings, Directors brought forward valuable comments and suggestions regarding the improvement and optimisation of the Bank's securities investment mechanism and the effective control of securities investment risk.

The attendance rate of the meetings of the Risk Policy Committee in 2009 was 100%. The attendance rates of the relevant directors are given below:

Director	Number of meetings attended/Number of meetings convened during term of office
Anthony Francis NEOH	6/6
ZHOU Zaiqun	6/6
ZHANG Jinghua	6/6
LIN Yongze	6/6
Alberto TOGNI	6/6
HUANG Shizhong	6/6

The Personnel and Remuneration Committee

The Personnel and Remuneration Committee comprises five members, including Non-executive Director Ms. HONG Zhihua and Mr. CAI Haoyi, and Independent Non-executive Director Mr. Anthony Francis NEOH, Mr. HUANG Shizhong and Ms. HUANG Danhan. Mr. CAI Haoyi serves as chairman of the committee. The committee is mainly responsible for:

- Assisting the Board of Directors in reviewing the Bank's human resources and remuneration strategies and overseeing their implementation;

- Studying and reviewing the standards and procedures for selecting, nominating and appointing directors, members of the Bank's board committees and senior management, and performing the duties of nomination, review and supervision;

- Reviewing and monitoring the remuneration and incentive policies of the Bank; and

- Setting performance appraisal standards for the Bank's senior management and evaluating the performance of the directors, supervisors and members of the senior management.

The Personnel and Remuneration Committee held three meetings in 2009. At these meetings, the committee reviewed proposals including the performance evaluation and distribution of bonuses for the Chairman of the Board of Directors, the President, the Chairman of the Board of Supervisors, supervisors and senior management members for 2008; the senior management performance targets for 2009; performance targets for the Chairman of the Board of Directors, the President and other senior management members for 2009; the performance of the directors in 2008 and the adjustment of the directors. In addition, the committee conducted a comprehensive research of the progress of the relevant authorities' study of financial enterprises' remuneration management policy and discussed measures to improve pay distribution management for the senior management members and enhance the effectiveness of the Board.

The attendance rate of the meetings of the Personnel and Remuneration Committee in 2009 was 100%. The attendance rates of the relevant directors are given below:

Director	Number of meetings attended/Number of meetings convened during term of office
CAI Haoyi	3/3
HONG Zhihua	3/3
Anthony Francis NEOH	3/3
HUANG Shizhong	3/3
HUANG Danhan	3/3

The Connected Transactions Control Committee

The Connected Transactions Control Committee comprises six members, including Executive Director Mr. LI Zaohang and Mr. ZHOU Zaiqun, and Independent Non-executive Director Mr. Anthony Francis NEOH, Mr. Alberto TOGNI, Mr. HUANG Shizhong, and Ms. HUANG Danhan. Mr. Alberto TOGNI serves as chairman of the committee. The committee is mainly responsible for:

- Systematically administering the connected transactions of the Bank in accordance with the provisions of relevant laws and regulations;
- Defining the connected transactions of the Bank in accordance with the provisions of the laws, regulations and the Articles of Association of the Bank;
- Examining the connected transactions of the Bank pursuant to the provisions of relevant laws and regulations, as well as the business principles of justice and fairness; and
- Examining and approving matters of information disclosure related to the significant connected transactions of the Bank.

The Connected Transactions Control Committee held four meetings in 2009, at which it reviewed proposals including the report on connected transactions involved in the fund borrowing and lending between the Bank and BOCHK; the report on connected transaction issues in relation to the capital injection in BOC Group Life Assurance Company Limited; and the 2009 work report on connected transactions and 2010 plan.

The average attendance rate of the meetings of the Connected Transactions Control Committee was 92%. The attendance rates of relevant directors are given below:

Director	Number of meetings attended/Number of meetings convened during term of office
Alberto TOGNI	4/4
LI Zaohang	3/4
ZHOU Zaiqun	4/4
Anthony Francis NEOH	3/4
HUANG Shizhong	4/4
HUANG Danhan	4/4

Notes:

1. Executive Director Mr. LI Zaohang was not able to attend the committee meeting in person on 28 October 2009. He authorised another director to attend and vote as his proxy.
2. Non-executive Director Mr. Anthony Francis NEOH was not able to attend the committee meeting in person on 25 August 2009. He authorised another director to attend and vote as his proxy.

Special Corporate Governance Campaign

In line with the requirements of the CSRC and CSRC Beijing Bureau's recent corporate governance campaign, the Bank disclosed the progress of action items from the corporate governance rectification report in 2008. During the reporting period, and as stipulated in the *Notice on Corporate Governance Work of Listed Companies in Beijing in 2009* issued by the CSRC Beijing Bureau, the Bank continued to undertake sound governance practices, built on the achievements of the rectification process, and further improved the quality of its corporate governance system. In 2009, the Bank received a series of awards and favourable recognition in corporate governance competitions held by prestigious domestic and foreign institutions.

Independent Non-executive Directors

There are currently four Independent Non-executive Directors on the Board of Directors, in compliance with the quorum requirement specified in the Articles of Association of the Bank. The Independent Non-Executive Directors serve as members of five special committees under the Board of Directors and the Chairmen of the Audit Committee, Risk Policy Committee and Connected Transactions Control Committee. As stipulated in Rule 3.13 of the Hong Kong Listing Rules, the Bank has received the annual confirmation in writing from each Independent Non-executive Director with regard to his/her independence. Based on these confirmations and the relevant information available to the Board of Directors, the Bank confirms their independent status.

The Bank has formulated the *Work Rules of Independent Directors of Bank of China Limited* to specify the responsibilities of the Independent Non-executive Directors, enhance their contribution to the Bank's corporate governance, and uphold the interests of the Bank and its shareholders. In 2009, the Bank's Independent Non-executive Directors regularly attended meetings of the Board of Directors, actively participated in the discussions, and offered their opinions objectively and diligently in accordance with the Articles of Association of the Bank, the *Procedural Rules for Board of Directors of Bank of China Limited* and the *Work Rules of Independent Directors of Bank of China Limited*. The Independent Non-executive Directors also performed their specially defined roles in matters such as the review of the periodic reports. Moreover, training and on-site visits to local operations kept them better informed of the Bank's business and enhanced their communications with the senior management, further improving their duty performance.

In 2009, the Independent Non-executive Directors did not raise any objection to the resolutions of the Bank's Board of Directors or board committees.

Specific Explanation and Independent Opinions of Independent Non-executive Directors on the Guarantee Business of the Bank

Pursuant to the provisions and requirements set forth in the circular (Zhengjianfa [2003] No.56) issued by the CSRC and according to the principle of equity, fairness and objectiveness, the Independent Non-executive Directors of the Bank, Mr. Anthony Francis NEOH, Mr. Alberto TOGNI, Mr. HUANG Shizhong and

Ms. HUANG Danhan have provided the following information regarding the Bank's guarantee business:

The guarantee business is one of the Bank's ordinary business activities. It has been approved by the PBOC and the CBRC and does not fall within the scope of guarantees as defined in the *Circular on Regulating Guarantee Businesses of Listed Companies*. The Bank has formulated specific management measures, operational processes and approval procedures in line with the risks of the guarantee business and carried out this business accordingly. The Bank's guarantee business comprises principally letters of guarantee. As at 31 December 2009, the outstanding amount of letters of guarantee issued by the Bank was RMB574.09 billion.

Supervisors and Board of Supervisors

The Board of Supervisors is the Bank's supervisory organ and is responsible to the Shareholders' Meeting. As stipulated in the *Company Law of the People's Republic of China* and the Articles of Association of the Bank, the Board of Supervisors is responsible for overseeing the Bank's financial activities and the legality and compliance of the Board of Directors and the senior management in performing their responsibilities.

The Board of Supervisors comprises five Supervisors, with three supervisor positions assumed by representatives of shareholders and two supervisor positions assumed by employee representatives. According to the Bank's Articles of Association, a supervisor has a term of office of three years and may serve consecutive terms by re-election and re-appointment. Supervisors representing shareholders and external supervisors are elected or replaced by the Shareholders' Meeting.

The Board of Supervisors held six meetings in 2009 and adopted related resolutions. For the performance and supervision opinions of the Board of Supervisors within the reporting period, please refer to the section "Report of the Board of Supervisors" in this annual report.

Senior Management

In 2009, the senior management of the Bank, in accordance with the powers bestowed on them by the Articles of Association of the Bank and the rights delegated to them by the Board of Directors, drove forward the Bank's various businesses in line with the performance goals set by the Board of Directors for 2009, showing composure in the face of various challenges.

During the reporting period, the senior management of the Bank formulated charters for the Group Executive Committee and the management and decision-making committees, steadily promoted the integration of the Bank's business architecture by setting up the Corporate Banking Unit, the Personal Banking Unit, the Financial Markets Unit and the Operation Service Unit, consolidated the Financial Management Department with the Group Treasury, and integrated the function of the IT departments.

During the reporting period, the Group Executive Committee held twenty-seven regular meetings and nine special meetings in which it discussed and decided upon a series of significant operating and management matters, including the business development plan, the progress of the IT Blueprint, the integration of business processes, the human resources management, the assets and liabilities management and risk management.

Under the Group Executive Committee are the Corporate Banking Committee, the Personal Banking Committee, the Financial Markets Committee, the Operation Service Committee, the Risk Management and Internal Control Committee, the Securities Investment and Management Committee, the Procurement Review Committee, the Asset Disposal Committee and the Anti-money Laundering Committee. During the reporting period, all the committees diligently fulfilled their duties and responsibilities as per the power specified in the committee charters and the rights delegated by the Group Executive Committee.

Securities Transactions by Directors and Supervisors

Pursuant to the overseas and local securities regulatory requirements, the Bank has adopted and implemented the *Management Rules on Securities Transactions by Directors, Supervisors and Senior Management Personnel of Bank of China Limited* (the "Management Rules") to govern securities transactions by Directors, Supervisors and the senior management members of the Bank. During the reporting period, the Bank revised the Management Rules twice pursuant to changes of the related regulatory requirements. A chapter regarding legal liabilities, including clauses on accountability, was added to the Management Rules. The terms of the Management Rules are more stringent than the mandatory standards set out in the *Model Code for Securities Transactions by Directors of Listed Issuers* contained in Appendix 10 of the Hong Kong Listing Rules (the "Model Code"). The Bank has made specific enquiry to all Directors and Supervisors, all of whom confirmed that they have complied with the standards set out in both the Management Rules and the Model Code throughout the reporting period.

Responsibility Statement of Directors on Financial Reports

The following statement, which sets out the responsibilities of the Directors regarding financial statements, should be read in conjunction with, but be distinguished from, the auditor's statement of their responsibilities as set out in the auditor's report contained in this annual report:

The Directors acknowledge that they are responsible for preparing financial statements of the Bank that truly represent the operating results of the Bank for each financial year. To the best knowledge of the Directors, there was no material event or condition during the reporting period that might have a material adverse effect on the continuing operation of the Bank.

Appointment of External Auditors

At the 2008 Annual General Meeting of the Bank, shareholders of the Bank approved the appointments of PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company as its domestic auditor and PricewaterhouseCoopers Hong Kong as its international auditor for 2009.

Fees paid to PricewaterhouseCoopers and its member firms for the audit of the financial statements of the Group, including those of the Bank's overseas subsidiaries and branches, were RMB207 million for the year ended 31 December 2009.

PricewaterhouseCoopers was not engaged in significant non-auditing services with the Bank. The Bank incurred RMB11 million for non-auditing services performed by PricewaterhouseCoopers for the year ended 31 December 2009.

PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers Hong Kong have provided audit services to the Bank for the last seven years. Mr. ZHU Yu and Mr. WANG Wei are the Certified Public Accountants who signed the auditor's report on the Group's financial statements prepared in accordance with the Chinese Accounting Standards for the year ended 31 December 2009.

The Board will table a resolution at the 2009 Annual General Meeting, proposing to re-appoint PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers Hong Kong as the Bank's auditors.

Investor Relations and Information Disclosure

The Board and the senior management attach great importance to investor relations and information disclosure. The Bank performs its information disclosure obligation in accordance with the regulations of securities regulators at the places of listing. Periodic reports and announcements are released in line with the principles of timeliness, fairness, authenticity, accuracy and completeness so as to enhance investors' understanding of the Bank's financial position, business operations and corporate governance. The Bank has further enhanced its rules on information disclosure by establishing rules on retroactive accountability for significant mistakes in information disclosure. Also, the *Rules on Persons with Knowledge of Inside Information of Bank of China Limited* was introduced to prevent insider transactions and enhance control regarding sharing inside information with external parties. The Bank promotes a culture of compliance within the Group by organising regular trainings on information disclosure, conducting on-site investigations and introducing the compliance obligations as a public company on a group-wide basis. In line with a recent amendment in the Hong Kong Listing Rules, the Bank has reduced both the volume size and quantity of its printed corporate communication documents, while maintaining concise content, further demonstrating the Bank's dedication in fulfilling its corporate social responsibilities. The Bank's 2008 annual report received several international awards, including the "Gold Award" from the League of American Communications Professionals, "Best Annual Report/Formal Disclosure" from the *IR* magazine and recognition from the ARC Awards in the US and Hong Kong Management Association.

Investor relations have made further progress in 2009, in line with the robust growth of the Bank's business. After successfully announcing and releasing the 2008 annual results and 2009 interim results, the Bank organised a non-deal roadshow in the Chinese mainland, Hong Kong, Asia, Europe and North America, in which the senior management highlighted the Bank's operational improvement and explained its long term strategy. The Bank also arranged a conference call for analysts immediately after the announcement of the third quarter results, which was warmly welcomed by the analysts.

Conscious of market changes and investor concerns, the Bank continued to enhance its communication with the investor community through various channels, including investor events, live online broadcasts and email and telephone hotlines, in order to give account of company performance and improve market confidence. In 2009, the Bank's investor relations function once again achieved public recognition, being granted the Certificate of Excellence by the *IR* magazine. The Bank also won other awards from authoritative domestic media in fields such as valuation management.

In the future, the Bank will continue to improve its information disclosure and investor relations function to achieve still higher working standards and to conduct more diversified activities, in order to better serve the needs of investors and analysts.

Harmony

Report of the Board of Directors

The Board of Directors is pleased to present its report together with the audited consolidated financial statements of the Bank and its subsidiaries (the "Group") for the year ended 31 December 2009.

Principal Activities

The Bank provides a range of banking and related financial services, including commercial banking, investment banking and insurance and investment business.

Major Customers

During the reporting period, the five largest customers of the Group accounted for less than 30% of the interest income and other operating income of the Group.

Results and Appropriations

The results of the Group for the year are set out in the financial statements and notes thereof. The Board has recommended a final dividend of RMB0.14 per share (before tax), amounting to approximately RMB35.537 billion, subject to the approval of shareholders at the forthcoming Annual General Meeting scheduled on Thursday, 27 May 2010. If approved, the 2009 final dividend of the Bank will be denominated and declared in Renminbi and paid in Renminbi or Hong Kong dollars. For such conversion, Renminbi will be converted into Hong Kong dollars based on the average exchange rate as announced by the PBOC prevailing one week before 27 May 2010 (inclusive), being the date of the Bank's Annual General Meeting.

At the 2008 Annual General Meeting held on 18 June 2009, a final dividend of RMB0.13 per share (before tax was approved), amounting to RMB32.999 billion in total. The distribution plan was implemented in July 2009. No interim dividend was paid for the period ended 30 June 2009 by the Bank. The Bank did not propose any capitalisation of the capital reserve to share capital in 2009.

Dividend Payout for the Preceding Three Years

Unit: RMB million, except percentages

	2008	2007	2006
Total dividends	32,999	25,384	10,154
Payout ratio	51%	45%	24%

Notes:

1. Total dividends are the amount before-tax including interim dividends.
2. Payout ratio = total dividends/profits attributable to the equity holders of the Bank.
3. Dividends for 2006 are from profits attributable to the equity holders of the Bank for the period from 1 July 2006 to 31 December 2006.

Closure of Register of H-Share Holders

The H-Share Register of Members of the Bank will be closed for the purpose of determining H-Share Holders' entitlement to attend the Annual General Meeting, from Wednesday, 28 April to Thursday, 27 May 2010 (both days inclusive). In order to attend the Annual General Meeting, H-Share Holders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Bank's H-Share Registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Tuesday, 27 April 2010.

There is no book closure period for the A-Share Register of Members. A notice of the Annual General Meeting setting out the record date for the meeting and related issues will be published in due course.

Donations

Charitable and other donations made by the Group during the reporting period amounted to approximately RMB57.8165 million.

Share Capital

As at the latest practicable date prior to the issue of this annual report and based on publicly available information, the Bank had sufficient public float, in compliance with the minimum requirement of the Hong Kong Listing Rules and the waiver granted by the Hong Kong Stock Exchange at the time of the Bank's listing.

Reserves

Please refer to the Consolidated Statement of Changes in Equity for details of changes in the reserves of the Bank.

Distributable Reserves

Please refer to Note V.38 to the Consolidated Financial Statements for details of distributable reserves of the Bank.

Fixed Assets

Please refer to Note V.20 to the Consolidated Financial Statements for details of fixed assets of the Bank.

Financial Summary

The Bank was listed on both the Hong Kong Stock Exchange and the Shanghai Stock Exchange in 2006. A summary of the annual results, assets and liabilities of the Bank for the last five years is set out in the section headed "Financial Highlights".

Connected Transactions

Under the Hong Kong Listing Rules, transactions between the Bank and its connected persons (as defined under the Hong Kong Listing Rules) constitute connected transactions to the Bank. Such transactions are monitored and administered by the Bank in accordance with the Hong Kong Listing Rules. Details of such connected transactions are as follows:

Banking services

The provisions of the following banking services by the Bank to its connected persons are exempted from the disclosure requirements of the Hong Kong Listing Rules:

(1) Taking of deposits from connected persons

The Bank provides commercial banking services and products to its customers in the ordinary and usual course of its business. Such commercial banking services and products include the taking of deposits. The Bank's connected persons, including its substantial shareholders, directors (including former directors who served as directors within

12 months prior to 31 December 2009), supervisors, chief executive officers and their respective associates, might have placed deposits or continue to place deposits with the Bank. Such deposits are exempted from the disclosure requirements of the Hong Kong Listing Rules, as they are placed (1) in the ordinary and usual course of the Bank's business and on normal commercial terms; and (2) no security over the assets of the Bank is granted in respect of the placing of such deposits.

Connected persons who are employees of the Bank may be eligible for staff rates on deposits. However, such staff rates are no more favourable than the staff rates available to other employees of the Bank who are not connected persons. Such deposits are taken by the Bank on normal commercial terms, and are similarly exempted from the disclosure requirements of the Hong Kong Listing Rules.

(2) Loans and credit facilities granted to connected persons

The Bank extends loans and credit facilities to its customers in the ordinary and usual course of its business, on normal commercial terms and with reference to the prevailing market rates. Credit facilities provided by the Bank include long-term loans, short-term loans, customer loans, credit card facilities, mortgages, guarantees, security for third party loans, comfort letters and billing discounting facilities. The Bank's connected persons, including its substantial shareholders, directors (including former directors who served as directors within 12 months prior to 31 December 2009), supervisors, chief executive officers and their respective associates, might have utilised or continue to utilise loans and credit facilities of the Bank. Under the Hong Kong Listing Rules, such loans and credit facilities to connected persons are exempted from the disclosure requirements of the Hong Kong Listing Rules, as such loans and credit facilities are provided (1) in the ordinary and usual course of the Bank's business for the benefit of the connected persons; and (2) on normal commercial terms.

Staff rates are available for certain loans and credit facilities. However, the staff rates offered by the Bank to connected persons who are employees of the Bank are no more favourable than the staff rates available to other employees of the Bank who are not connected persons, and are offered on normal commercial terms. Such loans and credit facilities are exempted from the disclosure requirements of the Hong Kong Listing Rules.

Transactions with Prudential Corporation Holdings Limited and its associates

Prudential Corporation Holdings Limited ("Prudential Corporation") is a connected person of the Bank because it is a substantial shareholder in two of the Bank's indirect subsidiaries, BOCI-Prudential Asset Management Limited ("BOCI-Prudential") and BOCI-Prudential Trustee Limited ("BPTL"). Prudential Corporation holds a 36% equity interest in each of these subsidiaries. Furthermore, because Prudential Corporation's equity interest in each of the two subsidiaries exceeds 30%, both BOCI-Prudential and BPTL are also considered associates of Prudential Corporation, meaning that transactions by the Bank with BOCI-Prudential and BPTL are also connected transactions.

In 2009, the Bank continued to engage on a regular basis in a number of transactions with Prudential Corporation and its associates in the ordinary and usual course of its business and on normal commercial terms. Such transactions included fund distribution services, fund management services, fund investment advisory services, fund administration and valuation services, trustee services, custodian services, client referral services, IT services, office rental and insurance services. These transactions are exempted from the disclosure requirements of the Hong Kong Listing Rules as the percentage ratios (other than the profits ratio) of each category of such transactions calculated in accordance with the Hong Kong Listing Rules are all less than 0.1%.

Transactions with BOC Hong Kong (Holdings) Limited and its associates

In late November 2007, the Bank and BOCHK (Holdings) established BOC Services Co., Ltd., which is indirectly held by the Bank (55%) and BOCHK (Holdings) (45%). Upon the establishment of BOC Services Co., Ltd., BOCHK (Holdings) became a connected person of the Bank by reason of its being a substantial shareholder of BOC Services Co., Ltd., an indirect subsidiary of the Bank.

Pursuant to the Services and Relationship Agreement entered into between the Group (excluding BOCHK (Group)) and BOCHK (Group) dated 6 July 2002 and amended and supplemented from time to time, the Group has regularly engaged in, and will continue to engage in, a number of transactions with BOCHK (Group) in the ordinary and usual course of its business. Upon BOCHK (Holdings) becoming a connected person of the Bank, all on-going transactions conducted by the Group with BOCHK (Group) pursuant to the Services and Relationship Agreement constitute continuing connected transactions under the Hong Kong Listing Rules. Such transactions include, among others, (1) information technology services, (2) property transactions, (3) bank-note delivery, (4) provision of insurance cover, (5) credit card services, (6) securities transactions, (7) fund distribution transactions, (8) insurance agency, (9) foreign exchange transactions, (10) trading of financial assets, and (11) inter-bank capital markets. The Services and Relationship Agreement, as amended (the duration being the only amendment), is valid for a period of three years commencing 1 January 2008.

The continuing connected transactions numbered (1) to (5) above ("General Connected Transactions") constitute exempt continuing connected transactions, as each of the annual caps of such transactions represents less than 2.5% of the applicable percentage ratios as calculated in accordance with the Hong Kong Listing Rules. Subject to the reporting and announcement requirements, they are exempted from the independent shareholders' approval requirement under the Hong Kong Listing Rules. The Bank has fulfilled its obligation by making the relevant announcement on 2 January 2008.

The continuing connected transactions numbered (6) to (8) ("Investment Connected Transactions") and the continuing connected transactions numbered (9) to (11) ("Inter-bank Connected Transactions") constitute non-exempt continuing connected transactions, as each of the annual caps of such transactions represents more than 2.5% of the applicable percentage ratios as calculated in accordance with the Hong Kong Listing Rules. They are subject to the reporting, announcement and independent shareholders' approval requirements of the Hong Kong Listing Rules. The annual caps in respect of the Investment Connected Transactions and the Inter-bank Connected Transactions for the years 2008 to 2010 were approved by the Bank's independent shareholders at its Annual General Meeting held on 19 June 2008.

Please refer to the "Unaudited Supplementary Financial Information – Continuing Connected Transactions" for more information on continuing connected transactions.

Review and confirmation of the Independent Non-executive Directors on the continuing connected transactions disclosed by the Bank

The Bank's Independent Non-executive Directors have reviewed the afore-mentioned continuing connected transactions numbered (1) to (11) disclosed by the Group for the year ended 31 December 2009 and confirmed that (1) all connected transactions have been (i) entered into by the Group in its ordinary and usual course of business; (ii) conducted either on normal commercial terms, or if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; (iii) entered into in accordance with the terms under the Services and Relationship Agreement, or where not applicable, on terms that are fair and reasonable and in the interest of the shareholders of the Bank as a whole; and (2) the annual amounts of the General Connected Transactions, Investment Connected Transactions and Inter-bank Connected Transactions have not exceeded their respective annual caps for the year ended 31 December 2009.

Confirmation of the auditors on the continuing connected transactions disclosed by the Bank

The auditors of the Bank have reviewed the above continuing connected transactions numbered (1) to (11) disclosed by the Group for the year ended 31 December 2009 and confirmed that such continuing connected transactions (1) have been approved by the Bank's Board of Directors; (2) are in accordance with the pricing policies of the Bank; (3) have been entered into in accordance with the terms of the Services and Relationship Agreement; and (4) have not exceeded the annual caps for the year ended 31 December 2009.

Directors' Interests in Competing Businesses

None of the Directors has interests in any business that competes or is likely to compete, either directly or indirectly, with the business of the Group.

Emoluments of Directors, Supervisors and Senior Management Members

Details of the emoluments of Directors, Supervisors and senior management members are set out in the section headed "Directors, Supervisors and Senior Management".

Directors' and Supervisors' Service Contracts

None of the Directors or Supervisors of the Bank has a service contract with the Bank or any of its subsidiaries which is not determinable within one year without payment of compensation other than normal statutory compensation.

Directors' and Supervisors' Interests in Contracts of Significance

No contract of significance, in relation to the Bank's business to which the Bank, its holding companies, or any of its subsidiaries or fellow subsidiaries was a party and in which a director or a supervisor had either a direct or indirect material interest subsisted during the year.

Directors' and Supervisors' Rights to Acquire Shares

On 5 July 2002, the following Directors were granted options by BOCHK (BVI), the immediate holding company of BOCHK (Holdings), pursuant to the Pre-listing Share Option Scheme, which allows the purchase of existing issued ordinary shares of BOCHK (Holdings) from BOCHK (BVI) at a price of HK$8.50 per share. BOCHK (Holdings) is a subsidiary of the Bank, which is also listed on the Hong Kong Stock Exchange. These options have a vesting period of four years from 25 July 2002 with a valid exercise period of ten years.

Particulars of the outstanding options granted to the Directors of the Bank under the Pre-listing Share Option Scheme as at 31 December 2009 are set out below:

				Number of share options					
Name of director	Date of grant	Exercise price per share (HK$)	Exercisable period	Granted on 5 July 2002	Balance as at 1 January 2009	Exercised during the year	Surrendered during the year	Lapsed during the year	Balance as at 31 December 2009
LI Zaohang	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,446,000	–	–	–	1,446,000
ZHOU Zaiqun	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,084,500	–	–	–	1,084,500

Save as disclosed above, during the year, none of the Bank, its holding companies, or any of its subsidiaries or fellow subsidiaries was a party to any arrangements that would enable the Bank's Directors and Supervisors, or their respective spouses or children below the age of 18, to benefit by acquiring shares in, or debentures of, the Bank or any other body corporate.

Directors' and Supervisors' Interests in Shares, Underlying Shares and Debentures

Save as disclosed above, as of 31 December 2009, Director Mr. ZHOU Zaiqun possessed 500 shares and interests in BOCHK (Holdings). This was recorded in the register required to be kept by the Bank pursuant to section 352 of the SFO or otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the *Model Code for Securities Transactions by Directors of Listed Issuers*.

Save as disclosed above, as at 31 December 2009, none of the Directors or Supervisors of the Bank or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Bank pursuant to section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the *Model Code for Securities Transactions by Directors of Listed Issuers* as set out in Appendix 10 of the Hong Kong Listing Rules.

Financial, Business and Family Relations among Directors

Directors of the Bank do not relate to one another with respect to finance, business and family, or other material relations.

Substantial Shareholder Interests

Details of the Bank's substantial shareholder interests are set out in the section headed "Changes in Share Capital and Shareholdings of Substantial Shareholders".

Management Contracts

No contract concerning the management or administration of the whole or any substantial part of the business of the Bank were entered into or existed during the year.

Share Appreciation Rights Plan and Share Option Scheme

Please refer to Note V.34 to the Consolidated Financial Statements for details of the share appreciation rights plan and share option schemes of the Group.

Please refer to "Directors' and Supervisors' Rights to Acquire Shares" for details of the options granted by BOCHK (BVI) over shares of BOCHK (Holdings) pursuant to the Pre-listing Share Option Scheme.

Purchase, Sale or Redemption of the Bank's Shares

As at 31 December 2009, approximately 11.69 million shares of the Bank were held as treasury shares. Please refer to Note V.37 to the Consolidated Financial Statements for details of purchase, sale or redemption of the Bank's shares by the Bank and its subsidiaries.

Pre-emptive Rights

There are no provisions for pre-emptive rights requiring the Bank to offer new shares to existing shareholders in proportion to their existing shareholdings under the Articles of Association of the Bank. The Articles of Association provides that the Bank may increase its capital by public offering, private placing, issuing rights of new shares to existing shareholders or allotting new shares to existing shareholders, transferring capital reserve fund, issuing convertible bonds, or through other means as permitted by law, administrative regulations or relevant regulatory authorities. There are no compulsory provisions for shareholders to exercise their pre-emptive rights under the Articles of Association.

Use of Raised Funds

All proceeds from the Bank's IPOs in 2006 have been used to strengthen the Bank's capital base. The Bank issued RMB60 billion of RMB-denominated subordinated bonds in 2004 and 2005 in order to mitigate liquidity risk, optimise the maturity structure of its assets and liabilities and improve its capital adequacy level.

In line with the Bank's development strategy, the Bank has planned to issue RMB-denominated subordinated bonds for an amount of not more than RMB120 billion before 31 December 2012. The relevant proposal was approved in the Extraordinary General Meeting held on 23 March 2009. With the approval of the CBRC and the PBOC, the Bank issued RMB40 billion of RMB-denominated subordinated bonds in China's inter-bank bond market on 6 July 2009. For details, please refer to the circular and announcement of resolutions of the Extraordinary General Meeting, and the announcements published by the Bank on 29 June 2009 and 7 July 2009.

The first and second tranche of the subordinated bonds issued by the Bank in 2004, which amounted to RMB14.07 billion and RMB12 billion respectively, came to redemption period on 20 July 2009 and 16 November 2009 respectively. The Bank redeemed all of the bonds at face value.

The proposal of a general mandate to issue new shares was approved by the Extraordinary General Meeting held on 19 March 2010. It authorised an unconditional general mandate to the Board to allot, issue and/or deal with additional domestic shares ("A Shares") and/or overseas listed shares ("H Shares") not exceeding 20% of the aggregate amount of each of the existing A Shares and/or H Shares as at the date of the passing of the resolution, and to make or grant offers, agreements, options or conversion rights (including the convertible bonds) in respect thereof. Within this authorisation, the Bank plans to issue not more than RMB40 billion convertible bonds in A Shares. The proceeds from the issuance of the convertible bonds, after deduction of expenses, will be applied to replenish the capital reserve and working capital of the Bank in order to improve the capital adequacy ratio of the Bank. For details, please refer to the circular and announcement of resolutions of the Extraordinary General Meeting, and the announcements published by the Bank on 27 January 2010 and 19 March 2010.

Tax Relief

A-Share Holders: In accordance with the *Notice on Taxation Policy of Personal Stock Dividends Income* (Caishui [2005] No.102) and the *Supplementary Notice on Taxation Policy of Personal Stock Dividends Income* (Caishui [2005] No.107) issued jointly by the Ministry of Finance, PRC and the State Administration of Taxation, PRC, dividends obtained from listed companies by individual investors shall be taxed as personal income in accordance with currently applicable taxation rules. A reduction of 50% is used to calculate the taxable amount on a provisional basis; dividends obtained by mutual funds from listed companies shall be taxed with a reduction of 50% used to calculate the taxable amount when paying personal income tax on behalf of the obligatory persons pursuant to the Notice (Caishui [2005] No.102).

Article 26.2 of the *Enterprise Income Tax Law of the People's Republic of China* provides that dividends, bonuses and other equity investment proceeds distributed between qualified resident enterprises shall be tax free.

In accordance with Article 83 of the *Implementation Rules of Enterprise Income Tax Law of the People's Republic of China*, dividends, bonuses and other equity investment proceeds distributed between qualified resident enterprises referred to in Article 26.2 of the *Enterprise Income Tax Law of the People's Republic of China* mean those investment proceeds obtained from direct investment of resident enterprises into other resident enterprises, excluding those investment proceeds obtained from publicly offered and tradable stocks of resident enterprises held for less than 12 months on a continuing basis.

As per the *Enterprise Income Tax Law of the People's Republic China* and the *Implementation Rules of Enterprise Income Tax Law of the People's Republic of China*, dividend income obtained by non-resident enterprises shall be levied at a preferential enterprise income tax rate of 10%.

H-Share Holders: In accordance with the *Notice on Taxation of Dividends and Stock (Options) Transfer Income obtained by Foreign-invested Companies, Foreign Companies and Foreign Citizens* (Guoshuifa [1993] No.045) published by the State Administration of Taxation, PRC, foreign individuals holding H Shares are exempted from paying personal income tax for dividends obtained from companies incorporated in PRC that issue H Shares on a provisional basis.

As stipulated by the *Notice on Issues relating to Enterprise Income Tax Withholding over Dividends Distributable to Their H-Share Holders Who are Overseas Non-resident Enterprise by Chinese Resident Enterprises* (Guoshuihan [2008] No.897) published by the State Administration of Taxation, PRC, when Chinese resident enterprises distribute annual dividends for the year 2008 and years thereafter to their H-Share Holders who are overseas non-resident enterprises, the enterprise income tax shall be withheld at a uniform rate of 10%.

Under current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by the Bank.

Shareholders are taxed or enjoy tax relief in accordance with the afore-mentioned regulations.

Auditors

Details of the Bank's external auditors are set out in the section headed "Corporate Governance". A resolution for the appointment of external auditors will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board
XIAO Gang
Chairman
23 March 2010

Report of the Board of Supervisors

Meetings of the Board of Supervisors

In 2009, the Board of Supervisors held six meetings:

1. The first meeting (on 17 March) examined and approved the 2008 performance evaluation results of the Supervisors representing shareholders for submission to the Annual General Meeting for deliberation. *The Report of the Board of Supervisors of Bank of China Limited at the Annual General Meeting in 2009* was examined on a preliminary basis.

2. The second meeting (on 20 March and 24 March) examined and approved the *2008 Annual Report of Bank of China Limited,* the *2008 Profit Distribution Plan of Bank of China Limited, the Self-assessment Report on Internal Control in 2008 of the Board of Directors of Bank of China Limited, the 2008 Corporate Social Responsibility Report of Bank of China Limited* and the *Report of the Board of Supervisors of Bank of China Limited at the General Meeting of Shareholders in 2009* for submission to the General Meeting of Shareholders for deliberation.

3. The third meeting (on 28 April) examined and approved the *2009 First Quarter Report of Bank of China Limited.*

4. The fourth meeting (on 26 August) examined and approved the *2009 Interim Report of Bank of China Limited.*

5. The fifth meeting (on 29 October) examined and approved the *2009 Third Quarter Report of Bank of China Limited*.

6. The sixth meeting (on 31 December) examined and approved the qualifications of Mr. LI Jun, nominated him as a candidate for supervisor, and suggested the nomination to the General Meeting of Shareholders for approval.

Performance of Supervision and Inspection by the Board of Supervisors

In 2009, based on the applicable state laws and regulations and the Articles of Association of the Bank, the Board of Supervisors performed their supervision and inspection duties by way of their attendance at the relevant meetings, consultation of materials and special inspections and investigations. The main work undertaken was as follows:

1. Supervision and inspection of the financial activities of the Bank. The Board of Supervisors reviewed the final financial accounts for the preceding year and the financial budget for the current year as well as the quarterly financial statements. In addition, it performed inspections and investigations on the preparation of financial statements by the Head Office and the financial management of the subsidiaries.

2. Supervision and inspection of the credit asset quality of the Bank. Building on the work in 2008, the Board of Supervisors performed inspections and investigations on the Bank's management of credit asset quality and conducted on-site inspections of the credit asset quality and loan provisioning at two provincial branches.

3. Supervision and inspection of the Bank's newly extended credit. The Board of Supervisors paid special attention to the risk management of the Bank's newly extended loans, conducting analysis on the overall situation of the new credits and performing on-site inspections and investigations of the new credits to corporate customers as of May 2009 at six provincial branches.

4. Supervision and inspection of the Bank's disposal of non-performing loans. The Board of Supervisors investigated the overall situation regarding the recovery and disposal of non-performing loans of the Bank from January to August 2009 and performed on-site investigations into the disposal of non-performing loans, including cash recovery, physical asset for debt and write-off, at three provincial branches.

Independent Opinions of the Board of Supervisors on Relevant Issues of the Bank during the Reporting Period

1. Operations in accordance with laws

It was found that, during the reporting period, the Bank's Board of Directors and senior management did not violate any laws, regulations or the Articles of Association of the Bank, nor did they infringe upon the Bank's interests in discharging their duties.

2. Financial position

The financial statements contained in the 2009 Annual Report of the Bank reflect truthfully and fairly the Bank's financial position and business performance for the reporting period.

3. Use of capital raised

During the reporting period, the Bank issued subordinated bonds of RMB40 billion in the domestic inter-bank market on 6 July 2009. The use of the funds raised is in conformity with that set out in the relevant announcement.

4. Purchase and sale of assets

It was found that there was no purchase or sale of assets by the Bank that might infringe upon the interests of shareholders or cause asset dissipation during the reporting period.

5. Related party transactions

It was found that there were no unfair related party transactions that might infringe upon the Bank's interests during the reporting period.

6. Internal control

The Bank further enhanced and improved its internal control during the reporting period. The Board of Supervisors examined and approved the *Self-assessment Report on Internal Control in 2009 of the Board of Directors of Bank of China Limited*.

Significant Events

Material Litigation and Arbitration

The Bank was involved in certain litigation and arbitration cases in its regular course of business. After consultation with legal professionals, the management holds that none of the litigation and arbitration cases will have a significant adverse impact on the financial position or operating results of the Bank.

Purchase and Sale, and Merger and Acquisition of Assets

During the reporting period, the Bank undertook no material purchase, sale, merger or acquisition of assets.

Implementation of Stock Incentive Plan during the Reporting Period

The Bank approved a long-term incentive policy, including the Management Stock Appreciation Rights Plan and the Employee Stock Ownership Plan, at the board meeting and the Extraordinary General Meeting held in November 2005. To date, the Management Stock Appreciation Rights Plan and the Employee Stock Ownership Plan have not been implemented.

Substantial Related Party Transactions

The Bank undertook no discloseable significant related party transactions during the reporting period. For related party transactions as defined by the relevant accounting standards by the end of the reporting period, please refer to Note V.43 of the Consolidated Financial Statements for details.

Major Contracts and the Enforcement thereof

Material Custody, Sub-contracts and Leases

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

Material Guarantee Business

As approved by the PBOC and the CBRC, the guarantee business is an off-balance-sheet item in the ordinary course of the Bank's business. The Bank operates the guarantee business in a prudent manner and has formulated specific management measures, operational processes and approval procedures in accordance with the risks of the guarantee business and carries out this business accordingly. During the reporting period, save as disclosed, the Bank did not enter into any material guarantee business.

Material Cash Assets of the Bank Entrusted to Others for Management

During the reporting period, no material cash assets of the Bank were entrusted to others for management.

Misappropriation of Funds for Non-operating Purposes by Controlling Shareholder and its Related Parties

During the reporting period, there was no misappropriation of the Bank's funds by its controlling shareholder or its controlling shareholder's related parties for non-operating purposes.

Undertakings

During the reporting period, to the Bank's best knowledge, there was no breach of material undertakings by the Bank or shareholders holding 5% or more of the shares of the Bank.

Disciplinary Actions Imposed on the Bank and its Directors, Supervisors and Senior Management Members

During the reporting period, neither the Bank nor its Directors, Supervisors or senior management members was subject to investigation, administrative punishment or censure by the CSRC or publicly reprimanded by any stock exchange. No other regulatory administration imposed any penalty on the Bank that had a material impact on the Bank's operation.

Other Significant Events

Investment Securities

No.	Type of securities	Securities code	Company name/ Securities name	Initial investment cost (unit: RMB)	Securities held	Carrying value at period end (unit: RMB)	Proportion of the total investment securities (%)	Gains/(losses) during the reporting period (unit: RMB)
1	Fund	–	Fortis Plan Target Click Fund (USD) 2035	555,405,394	1,621,493	589,908,679	10.91%	(56,245,047)
2	Fund	–	Fortis-Flex III China Fund I	299,370,000	34,000	299,212,262	5.54%	(78,869)
3	Stock	823 HK	Link Reit	219,961,763	14,962,467	260,063,719	4.81%	40,104,701
4	Fund	2823 HK	i Share FTSE Xinhua A50 China Index EFF	171,767,084	14,254,645	187,264,127	3.46%	13,870,451
5	Stock	552 HK	China Communications Services Co., Ltd.	167,856,239	43,576,537	146,570,118	2.71%	1,614,297
6	Stock	5 HK	HSBC Holdings PLC	137,924,742	1,782,853	140,340,305	2.60%	79,561,519
7	Fund	2828 HK	Hang Seng Investment Index Funds Series	130,054,866	1,133,666	127,469,470	2.36%	(2,823,330)
8	Fund	–	Huatai Value Adding Investment Product	99,659,393	72,906,623	104,686,076	1.94%	5,026,683
9	Stock	MA	MasterCard Inc.	–	55,679	97,320,207	1.80%	43,013,748
10	Fund	2800 HK	Tracker Fund of Hong Kong	91,965,753	4,763,161	92,267,192	1.71%	10,912,630
Other investment securities held at period end				3,170,996,330	–	3,359,886,260	62.16%	(798,291,601)
Gains/(losses) of investment securities sold during the reporting period				–	–	–	–	(6,694,878)
Total				5,044,961,564	–	5,404,988,414	100.00%	(670,029,696)

Notes:

1. The table lists the top ten investment securities held by the Group in descending order at their carrying value at period end.
2. Investment securities listed in this table include stocks, warrants, convertible bonds and open-ended and close-ended fund, which are classified under financial assets at fair value through profit or loss by the Group.
3. "Other investment securities held at period end" refers to investment securities held by the Group by the end of the reporting period other than the top ten investment securities listed above.
4. The unit for stocks and funds is share and the unit for a convertible bond is issue.
5. The Group was allocated certain shares of MasterCard Inc. in conjunction with its initial public offering arrangements. Initial investment consideration was nil.

Stocks of Other Listed Companies held by the Group

Stock code	Company name	Initial investment cost (unit: RMB)	Proportion of total capital of the invested company	Carrying value at period end (unit: RMB)	Gains/(losses) during the reporting period (unit: RMB)	Increase/ (decrease) of the equity during the reporting period (unit: RMB)	Accounting classification	Source of shares
189 HK	Dongyue Group Ltd.	207,475,557	5.20%	136,935,360	2,377,350	106,505,280	Available for sale equity investment	IPO
2009 HK	BBMG	344,635,390	5.20%	452,428,011	–	107,792,621	Available for sale equity investment	IPO
2008 HK	Phoenix Satellite Television Holdings Ltd.	343,176,227	8.30%	711,021,360	6,892,554	460,712,820	Available for sale equity investment	Joint-stock reform
549 HK	Jilin Qifeng Chemical Fiber Co., Ltd.	60,868,482	10.95%	47,349,115	–	36,827,090	Available for sale equity investment	Joint-stock reform
600591 CH	Shanghai Airlines Co., Ltd.	87,659,105	11.04%	1,034,773,349	–	408,158,276	Available for sale equity investment	Joint-stock reform
Total	–	1,043,814,760	–	2,382,507,195	9,269,904	1,119,996,086	–	–

Notes:

1. The table lists stocks of listed companies in which the Group had a shareholding of 5% or more, which are classified as long-term equity investments or available for sale equity investment.

2. "Gains/(losses) during the reporting period" refers to the relevant investment's contribution to the Group's consolidated profits for the period.

Equity Investments in Unlisted Financial Companies held by the Group

Company name	Initial investment cost (unit: RMB)	Equity held (unit: share)	Proportion of total capital of the invested company	Carrying value at period end (unit: RMB)	Gains/(losses) during the reporting period (unit: RMB)	Increase/ (decrease) of the equity during the reporting period (unit: RMB)	Accounting classification	Source of shares
Dongfeng Peugeot Citroen Auto Finance Co., Ltd.	211,526,450	250,000,000	50%	260,534,547	(123,320)	(2,602,534)	Investment in associates and joint ventures	Investment
JCC Financial Co., Ltd.	51,354,625	–	20%	83,312,346	27,263,747	–	Investment in associates and joint ventures	Investment
China Debt Credit Enhancement Investment Co., Ltd.	989,809,673	–	17%	989,809,673	–	–	Available for sale equity investment	Investment
The Debt Management Company Limited	14,616	1,660	11%	14,616	–	–	Available for sale equity investment	Investment
Bank of Ningxia Co., Ltd.	440,009,995	–	11%	440,009,995	–	–	Investment in associates and joint ventures	Investment
Hunan Hualing Financial Co., Ltd.	63,376,983	–	10%	71,952,818	7,545,725	–	Investment in associates and joint ventures	Investment
Total	1,756,092,342	–	–	1,845,633,994	34,686,152	(2,602,534)	–	–

Notes:

1. Financial companies include securities firms, commercial banks, insurance companies, futures companies, trust companies, etc.
2. The table lists equity investments in unlisted financial companies in which the Group held a proportion of 5% or more of the total shares.
3. The table is in descending order of "Proportion of total capital of the invested company". Carrying value at period end is value after the reduction of impairment allowance.
4. "Gains/(losses) during the reporting period" refers to the relevant investment's contribution to the Group's consolidated profits for the period.
5. Equity investment in Bank of Ningxia Co., Ltd. is subject to approval by the regulatory authorities.

Trading of Stocks of Other Listed Companies during the Reporting Period

	Shares held at period beginning (unit: share)	Shares purchased during the reporting period (unit: share)	Shares sold during the reporting period (unit: share)	Shares held at period end (unit: share)	Amount of funds used (unit: RMB)	Gains during the reporting period (unit: RMB)
Trading of stocks of other listed companies	1,251,949,930	620,855,534	869,895,561	1,493,569,623	6,078,628,563	1,710,444,540

Independent Auditor's Report

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888
www.pwchk.com

To the shareholders of Bank of China Limited
(Incorporated in the People's Republic of China with limited liability)

We have audited the accompanying consolidated financial statements of Bank of China Limited (the "Bank") and its subsidiaries (together, the "Group") set out on pages 153 to 362, which comprise the consolidated and the Bank's statements of financial position as of 31 December 2009, the consolidated income statement, statement of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Bank are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

PRICEWATERHOUSECOOPERS

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

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group and of the Bank as of 31 December 2009, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Other matters

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 March 2010

Consolidated Financial Statements

CONTENTS

CONTENTS (Continued)

Consolidated Income Statement

For the year ended 31 December 2009 (Amount in millions of Renminbi, unless otherwise stated)

	Note	2009	2008
Interest income	V.1	**261,424**	286,927
Interest expense	V.1	**(102,543)**	(123,991)
Net interest income		**158,881**	162,936
Fee and commission income	V.2	**50,234**	43,712
Fee and commission expense	V.2	**(4,221)**	(3,765)
Net fee and commission income		**46,013**	39,947
Net trading gains	V.3	**5,849**	5,045
Net gains on investment securities		**1,337**	2,009
Other operating income	V.4	**20,536**	18,959
Operating income		**232,616**	228,896
Operating expenses	V.5	**(107,021)**	(97,412)
Impairment losses on assets	V.8	**(14,987)**	(45,031)
Operating profit		**110,608**	86,453
Share of results of associates and joint ventures	V.19	**821**	726
Profit before income tax		**111,429**	87,179
Income tax expense	V.9	**(25,831)**	(21,285)
Profit for the year		**85,598**	65,894
Attributable to:			
Equity holders of the Bank		**81,068**	64,360
Minority interests		**4,530**	1,534
		85,598	65,894
Earnings per share for profit attributable to equity holders of the Bank during the year (Expressed in RMB per ordinary share) – Basic and diluted	V.10	**0.32**	0.25
Dividends			
Final dividends proposed after the financial reporting date	V.38	**35,537**	32,999

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009 (Amount in millions of Renminbi, unless otherwise stated)

	2009	2008
Profit for the year	**85,598**	65,894
Other comprehensive income:		
Fair value gains/(losses) on available for sale financial assets taken to equity	**667**	(10,313)
Less: related income tax impact	**790**	1,960
Amount transferred to income statement from other comprehensive income	**(1,803)**	21,186
Less: related Income tax impact	**259**	(5,042)
Net-of-tax amount transferred to income statement from other comprehensive income	**(1,544)**	16,144
Subtotal	**(87)**	7,791
Share of other comprehensive income of associates and joint ventures accounted by the equity method	**(179)**	148
Less: related income tax impact	**3**	(21)
Subtotal	**(176)**	127
Exchange differences on translation of foreign operations	**986**	(7,098)
Less: net amount transferred to income statement from other comprehensive income	**(58)**	1,934
Subtotal	**928**	(5,164)
Other	**172**	(324)
Other comprehensive income for the year, net of tax	**837**	2,430
Total comprehensive income for the year	**86,435**	68,324
Total comprehensive income attributable to:		
Equity holders of the Bank	**80,102**	69,184
Minority interests	**6,333**	(860)
	86,435	68,324

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

Consolidated Statement of Financial Position

As at 31 December 2009 (Amount in millions of Renminbi, unless otherwise stated)

		As at 31 December	
	Note	**2009**	2008
ASSETS			
Cash and due from banks and other financial institutions	V.11	**434,351**	146,709
Balances with central banks	V.12	**1,111,351**	1,207,613
Placements with and loans to banks and other financial institutions	V.13	**223,444**	414,289
Government certificates of indebtedness for bank notes issued	V.26	**36,099**	32,039
Precious metals		**59,655**	42,479
Financial assets at fair value through profit or loss	V.14	**61,897**	87,814
Derivative financial assets	V.15	**28,514**	76,124
Loans and advances to customers, net	V.16	**4,797,408**	3,189,652
Investment securities	V.17		
– available for sale		**622,307**	752,602
– held to maturity		**744,693**	365,838
– loans and receivables		**387,782**	439,954
Investment in associates and joint ventures	V.19	**10,668**	7,376
Property and equipment	V.20	**113,508**	92,236
Investment property	V.21	**15,952**	9,637
Deferred income tax assets	V.35	**24,774**	17,405
Other assets	V.22	**75,774**	69,913
Total assets		**8,748,177**	6,951,680

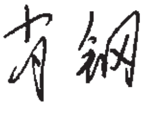
The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position (Continued)

As at 31 December 2009 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 31 December	
		2009	2008
LIABILITIES			
Due to banks and other financial institutions	V.24	**904,166**	724,228
Due to central banks	V.25	**61,615**	55,596
Bank notes in circulation	V.26	**36,154**	32,064
Certificates of deposit and placements from banks and other financial institutions	V.27	**186,643**	79,519
Financial liabilities at fair value through profit or loss	V.28	**44,234**	67,549
Derivative financial liabilities	V.15	**23,223**	59,482
Due to customers	V.29	**6,620,552**	5,102,111
Bonds issued	V.30	**76,798**	65,393
Other borrowings	V.31	**37,186**	42,838
Current tax liabilities	V.32	**17,801**	24,827
Retirement benefit obligations	V.33	**6,867**	7,363
Deferred income tax liabilities	V.35	**3,386**	2,093
Other liabilities	V.36	**187,924**	198,730
Total liabilities		**8,206,549**	6,461,793
EQUITY			
Capital and reserves attributable to equity holders of the Bank			
Share capital	V.37.1	**253,839**	253,839
Capital reserve	V.37.3	**66,278**	66,166
Treasury shares	V.37.2	**(43)**	(17)
Statutory reserves	V.38.1	**30,391**	23,429
General and regulatory reserves	V.38.2	**60,328**	40,973
Undistributed profits		**105,084**	83,427
Reserve for fair value changes of available for sale securities	V.39	**5,473**	7,534
Currency translation differences		**(10,124)**	(11,093)
		511,226	464,258
Minority interests	V.40	**30,402**	25,629
Total equity		**541,628**	489,887
Total equity and liabilities		**8,748,177**	6,951,680

Approved and authorised for issue by the Board of Directors on 23 March 2010.



Xiao Gang
Director

Li Lihui
Director

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

Statement of Financial Position

As at 31 December 2009 (Amount in millions of Renminbi, unless otherwise stated)

		As at 31 December	
	Note	**2009**	2008
ASSETS			
Cash and due from banks and other financial institutions	V.11	**434,710**	150,635
Balances with central banks	V.12	**1,034,085**	1,146,955
Placements with and loans to banks and other financial institutions	V.13	**237,813**	399,258
Government certificates of indebtedness for bank notes issued	V.26	**2,367**	1,878
Precious metals		**57,514**	41,290
Financial assets at fair value through profit or loss	V.14	**20,134**	45,323
Derivative financial assets	V.15	**12,512**	58,565
Loans and advances to customers, net	V.16	**4,297,885**	2,751,482
Investment securities	V.17		
– available for sale		**407,856**	590,196
– held to maturity		**674,861**	268,389
– loans and receivables		**374,132**	426,488
Investment in subsidiaries	V.18	**71,541**	69,595
Investment in associates and joint ventures	V.19	**18**	18
Property and equipment	V.20	**61,878**	55,001
Investment property	V.21	**1,384**	1,239
Deferred income tax assets	V.35	**25,381**	17,763
Other assets	V.22	**53,293**	45,733
Total assets		**7,767,364**	6,069,808

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

Statement of Financial Position (Continued)

As at 31 December 2009 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 31 December	
		2009	2008
LIABILITIES			
Due to banks and other financial institutions	V.24	**866,792**	695,740
Due to central banks	V.25	**59,089**	55,590
Bank notes in circulation	V.26	**2,422**	1,903
Certificates of deposit and placements from banks and other financial institutions	V.27	**235,051**	154,759
Financial liabilities at fair value through profit or loss	V.28	**27,258**	45,287
Derivative financial liabilities	V.15	**10,573**	41,512
Due to customers	V.29	**5,824,279**	4,354,643
Bonds issued	V.30	**78,081**	66,152
Other borrowings	V.31	**25,929**	30,249
Current tax liabilities	V.32	**15,474**	23,928
Retirement benefit obligations	V.33	**6,867**	7,363
Deferred income tax liabilities	V.35	**138**	54
Other liabilities	V.36	**132,005**	140,630
Total liabilities		**7,283,958**	5,617,810
EQUITY			
Capital and reserves attributable to equity holders of the Bank			
Share capital	V.37.1	**253,839**	253,839
Capital reserve	V.37.3	**65,739**	65,724
Statutory reserves	V.38.1	**29,107**	22,080
General and regulatory reserves	V.38.2	**57,402**	37,839
Undistributed profits		**75,164**	64,308
Reserve for fair value changes of available for sale securities	V.39	**1,791**	8,170
Currency translation differences		**364**	38
Total equity		**483,406**	451,998
Total equity and liabilities		**7,767,364**	6,069,808

Approved and authorised for issue by the Board of Directors on 23 March 2010.

Xiao Gang
Director

Li Lihui
Director

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Attributable to equity holders of the Bank									
		Share capital	Capital reserve	Statutory reserves	General and regulatory reserves	Undistributed profits	Reserve for fair value changes of available for sale securities	Currency translation differences	Treasury shares	Minority interests	Total
As at 1 January 2009		**253,839**	**66,166**	**23,429**	**40,973**	**83,427**	**7,534**	**(11,093)**	**(17)**	**25,629**	**489,887**
Profit for the year		**–**	**–**	**–**	**–**	**81,068**	**–**	**–**	**–**	**4,530**	**85,598**
Other comprehensive income		**–**	**115**	**(2)**	**–**	**–**	**(2,048)**	**969**	**–**	**1,803**	**837**
Total comprehensive income for the year		**–**	**115**	**(2)**	**–**	**81,068**	**(2,048)**	**969**	**–**	**6,333**	**86,435**
Appropriation to statutory reserves	V.38.1	**–**	**–**	**7,190**	**–**	**(7,190)**	**–**	**–**	**–**	**–**	**–**
Appropriation to general reserve and regulatory reserve	V.38.2	**–**	**–**	**–**	**19,347**	**(19,347)**	**–**	**–**	**–**	**–**	**–**
Dividends	V.38.3	**–**	**–**	**–**	**–**	**(32,999)**	**–**	**–**	**–**	**(1,213)**	**(34,212)**
Exercise of subsidiary share options		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**19**	**19**
Net change in treasury shares	V.37.2	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(26)**	**–**	**(26)**
Other		**–**	**(3)**	**(226)**	**8**	**125**	**(13)**	**–**	**–**	**(366)**	**(475)**
As at 31 December 2009		**253,839**	**66,278**	**30,391**	**60,328**	**105,084**	**5,473**	**(10,124)**	**(43)**	**30,402**	**541,628**
As at 1 January 2008		253,839	66,592	15,448	24,911	68,480	(1,506)	(7,289)	(45)	30,227	450,657
Profit for the year		–	–	–	–	64,360	–	–	–	1,534	65,894
Other comprehensive income	V.37.3	–	(426)	–	–	14	9,040	(3,804)	–	(2,394)	2,430
Total comprehensive income for the year		–	(426)	–	–	64,374	9,040	(3,804)	–	(860)	68,324
Appropriation to statutory reserves	V.38.1	–	–	7,981	–	(7,981)	–	–	–	–	–
Appropriation to general reserve and regulatory reserve	V.38.2	–	–	–	16,062	(16,062)	–	–	–	–	–
Dividends	V.38.3	–	–	–	–	(25,384)	–	–	–	(3,769)	(29,153)
Exercise of subsidiary share options		–	–	–	–	–	–	–	–	20	20
Net change in treasury shares	V.37.2	–	–	–	–	–	–	–	28	–	28
Other		–	–	–	–	–	–	–	–	11	11
As at 31 December 2008		253,839	66,166	23,429	40,973	83,427	7,534	(11,093)	(17)	25,629	489,887

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2009 (Amount in millions of Renminbi, unless otherwise stated)

	Note	2009	2008
Cash flows from operating activities			
Profit before income tax		**111,429**	87,179
Adjustments:			
Impairment losses on assets		**14,987**	45,031
Depreciation of property and equipment		**7,871**	6,760
Amortisation of intangible assets and other assets		**524**	1,056
Net gains on disposal of property and equipment, intangible assets and other long-term assets		**(570)**	(870)
Net gains on disposal of investment in subsidiaries, associates and joint ventures		**(27)**	(6)
Share of results of associates and joint ventures		**(821)**	(726)
Interest income arising from investment securities		**(47,628)**	(55,963)
Dividends arising from investment securities		**(131)**	(243)
Net gains on derecognition of investment securities		**(1,337)**	(2,009)
Interest expense arising from bonds issued		**3,348**	3,185
Net changes in operating assets and liabilities:			
Net increase in balances with central banks		**(134,326)**	(135,383)
Net increase in due from banks and placements with and loans to banks and other financial institutions		**(194,289)**	(47,120)
Net (increase)/decrease in precious metals		**(17,176)**	1,933
Net decrease in financial assets at fair value through profit or loss		**33,763**	35,870
Net increase in loans and advances to customers		**(1,623,045)**	(451,951)
Net decrease in other assets		**27,397**	45,492
Net increase in due to banks and other financial institutions		**179,938**	338,362
Net increase/(decrease) in due to central banks		**6,019**	(34,889)
Net increase/(decrease) in certificates of deposit and placements from banks and other financial institutions		**107,124**	(107,945)
Net increase in due to customers		**1,518,441**	702,000
Net decrease in other borrowings		**(5,652)**	(8,870)
Net (decrease)/increase in other liabilities		**(67,967)**	24,870
Net cash (outflow)/inflow from operating activities		**(82,128)**	445,763
Income tax paid		**(37,965)**	(20,996)
Net cash (outflow)/inflow from operating activities		**(120,093)**	424,767

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

	Note	2009	2008
Cash flows from investing activities			
Proceeds from disposal of property and equipment, intangible assets and other long-term assets		**2,415**	4,855
Proceeds from disposal of investment in subsidiaries, associates and joint ventures		**128**	34
Dividends received		**398**	618
Interest income received from investment securities		**44,557**	54,836
Proceeds from disposal of investment securities		**1,563,880**	1,274,336
Increase in investment in subsidiaries, associates and joint ventures		**(2,773)**	(456)
Purchase of property and equipment, intangible assets and other long-term assets		**(34,627)**	(21,778)
Purchase of investment securities		**(1,770,894)**	(1,287,405)
Net cash (outflow)/inflow from investing activities		**(196,916)**	25,040
Cash flows from financing activities			
Cash received from issuance of bonds		**40,000**	3,160
Repayments for debts issued		**(28,676)**	(2,103)
Cash payments for interest on bonds issued		**(3,082)**	(3,137)
Dividend payments to equity holders of the Bank		**(32,999)**	(25,384)
Dividend payments to minority equity holders		**(1,213)**	(3,769)
Other cash inflows from financing activities		**66**	88
Other cash outflows from financing activities		**(548)**	(16)
Net cash outflow from financing activities		**(26,452)**	(31,161)
Effect of exchange rate changes on cash and cash equivalents		**8,373**	(26,176)
Net (decrease)/increase in cash and cash equivalents		**(335,088)**	392,470
Cash and cash equivalents at beginning of year		**921,407**	528,937
Cash and cash equivalents at end of year	V.42	**586,319**	921,407

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

Notes to the Consolidated Financial Statements

(Amount in millions of Renminbi, unless otherwise stated)

I GENERAL INFORMATION AND PRINCIPAL ACTIVITIES

Bank of China Limited ("the Bank"), formerly known as Bank of China, was founded on 5 February 1912. From its formation until 1949, the Bank performed various functions of a central bank, foreign exchange bank and commercial bank specialising in trade finance. Following the founding of the People's Republic of China (the "PRC") in 1949, the Bank was designated as a specialised foreign exchange bank. Since 1994, the Bank has evolved into a state-owned commercial bank. In this regard, in accordance with the Master Implementation Plan for the Joint Stock Reform approved by the State Council of the PRC, the Bank was converted into a joint stock commercial bank on 26 August 2004 and its name was changed from Bank of China to Bank of China Limited. In 2006, the Bank listed on the Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange respectively.

The Bank is licensed as a financial institution by the China Banking Regulatory Commission (the "CBRC") [No. B0003H111000001] and is registered as a business enterprise with the State Administration of Industry and Commerce of the PRC [No. 100000000001349].

The Bank and its subsidiaries (together "the Group") provide a full range of corporate banking, personal banking, treasury operations, investment banking, insurance and other related financial services to its customers in the PRC, Hong Kong Special Administrative Region of the PRC ("Hong Kong"), Macau Special Administrative Region of the PRC ("Macau") and other major international financial centres.

The Head Office of the Bank and its branches operating in the PRC are referred to as Domestic Operations. Branches and subsidiaries domiciled outside the PRC, including those located in Hong Kong, are referred to as Overseas Operations.

The Bank's principal regulator is the CBRC. The Overseas Operations of the Group are subject to the supervision of local regulators.

The parent company is Central Huijin Investments Limited ("Huijin") which owned 67.53% of the ordinary shares of the Bank as at 31 December 2009 (31 December 2008: 67.52%).

These consolidated financial statements have been approved by the Board of Directors on 23 March 2010.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). In addition, the consolidated financial statements comply with the disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available for sale securities, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss and investment property.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note III.

1.1 Standards, amendments and interpretations effective in 2009

IAS 1 Amendment – Presentation of Financial Statements: IAS 1 Amendment requires 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Group presents all owner changes in equity separately from other comprehensive income in the consolidated statement of changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. The consolidated financial statements have been compiled as required by the revised standard retrospectively.

IFRS 7 Amendment – Financial Instruments Disclosures: The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on operating results, financial position or comprehensive income of the Group.

IFRS 8 – Operating Segments: Under this new standard, the Group's external segmental reporting is based on the internal reporting that is reviewed by the Group in order to assess performance and allocate resources. The application of IFRS 8 does not have any effect on the Group's operating results, financial position or comprehensive income but has an impact on disclosure. The segmental disclosure has been changed accordingly.

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.1 Standards, amendments and interpretations effective in 2009 (Continued)

IFRIC 13 – Customer Loyalty Programmes: IFRIC 13 clarifies that the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is mainly applicable to the Group's credit card business but does not have a material impact on the Group's operating results, financial position or comprehensive income.

IFRIC 16 – Hedges of a Net Investment in a Foreign Operation: This interpretation clarifies that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The adoption of IFRIC 16 does not have any material impact on the Group's operational results, financial position or comprehensive income due to the insignificant amount of hedging in the Group.

The standards, amendments and interpretations effective in 2009 noted below had no impact on the Group's financial position or comprehensive income.

IAS 23	Borrowing Costs
IAS 32 Amendment and IAS 1 Amendment	Puttable Financial Instruments and Obligations Arising on Liquidation
IFRS 1 and IAS 27 Amendment	Cost of an investment in a subsidiary, jointly controlled entity or associate
IFRS 2	Share-based Payments
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 18	Transfers of Assets from Customers (applied for transfers of assets after 1 July 2009)

In addition, "Improvements to IFRS" were issued in May 2008 and April 2009 respectively, containing numerous technical and conforming amendments to IFRS, which the IASB consider non-urgent but necessary. "Improvements to IFRS" comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009 and 1 January 2010. No material changes to accounting policies were made in 2009 or are expected in 2010 as a result of these amendments.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards that are not yet effective but have been early adopted by the Group

In 2009, the Group partially adopted the revised IAS 24 – Related Party Disclosures as permitted in its transition provisions. The Group applied the partial exemption in IAS 24 regarding disclosure requirements for government-related entities. According to the previous version of IAS 24, the Group was required to disclose transactions with the government and other government-related entities. The amendment introduces an exemption from certain disclosure requirements of IAS 24 for transactions between government-related entities and the government, and all other government-related entities. The Group has early adopted the partial exemption. The early application does not have any effect on the Group's operating results, financial position or comprehensive income but has an impact on disclosure. The related party disclosures have been changed accordingly.

The remainder of the revised standard amending the definition of related parties will be applied in the annual period beginning 1 January 2011 and will not have any impact on the Group's operating results, financial position or comprehensive income.

1.3 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2009

		Effective for annual period beginning on or after
IAS 27 Revised	Consolidated and Separate Financial Statements	1 July 2009
IAS 32 Amendment	Classification of rights issues	1 February 2010
IAS 39	Financial Instruments: Recognition and Measurement – Amendments for Eligible hedged items	1 July 2009
IFRS 3 Revised	Business Combinations	1 July 2009
IFRS 9	Financial Instruments: Classification and measurement	1 January 2013
IFRIC 17	Distribution of Non-Cash Assets to Owners	1 July 2009
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.3 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2009 (Continued)

IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into one of two measurement categories: those to be measured subsequently at fair value or those to be measured subsequently at amortised cost. Classification is to be made on transition, and subsequently on initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- A financial instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only unleveraged payments of principal and interest. All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the impact of the standard on the consolidated financial statements and the timing of its application.

Except for the application of IFRS 9, the adoption of other standards, amendments and interpretations as mentioned above is not expected to have a material effect on the Group's operating results, financial position or comprehensive income.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

2 Consolidation

2.1 Subsidiaries

Subsidiaries are all entities over which the Group has control, that is having the power to govern the financial and operating policies, so as to obtain benefits from its activities generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets (including intangible assets) acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. If there is any indication that goodwill is impaired, recoverable amount is estimated and the difference between carrying amount and recoverable amount is recognised as an impairment charge. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the assets transferred. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the Bank's statements of financial position, investment in subsidiaries is initially recognised at cost and is accounted for using the cost method of accounting. The results of subsidiaries are accounted for by the Bank on the basis of dividend received and receivable. The Group assesses at each financial reporting date whether there is objective evidence that investment in subsidiaries is impaired. An impairment loss is recognised for the amount by which the investment in subsidiaries' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the investment in subsidiaries' fair value less costs to sell and value in use.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

2 Consolidation (Continued)

2.2 Associates and joint ventures

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Joint ventures exist where the Group has a contractual arrangement with one or more parties to undertake economic activities which are subject to joint control.

Investments in associates and joint ventures are initially recognised at cost and are accounted for using the equity method of accounting. The Group's investment in associates and joint ventures includes goodwill.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interests in the associates and joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group assesses at each financial reporting date whether there is objective evidence that investments in associates and joint ventures are impaired. Impairment losses are recognised for the amounts by which the investments in associates and joint ventures' carrying amounts exceed its recoverable amounts. The recoverable amounts are the higher of investments in associates and joint ventures' fair value less costs to sell and value in use.

In the Bank's statements of financial position, the investments in associates and joint ventures are initially recognised at cost and are accounted for using the cost method of accounting. The results of associates and joint ventures are accounted for by the Bank on the basis of dividend received and receivable.

3 Foreign currency translation

3.1 Functional and presentation currency

The functional currency of Domestic Operations is the Renminbi ("RMB"). Items included in the financial statements of each of the Group's Overseas Operations are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The presentation currency of the Group is RMB.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

3 Foreign currency translation (Continued)

3.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, or the exchange rates that approximate the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement.

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are translated at the foreign exchange rates ruling at that date. Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount are recognised in available for sale reserve in equity. Translation differences on all other monetary assets and liabilities are recognised in the income statement.

Non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the foreign exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the foreign exchange rates at the date the fair value is determined. Translation differences on non-monetary financial assets classified as available for sale are included in the available for sale reserve in equity. Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised as "Net trading gains" in the income statement.

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each income statement are translated at exchange rates at the date of the transactions, or a rate that approximates the exchange rates of the date of the transaction; and

(iii) all resulting exchange differences are recognised in the currency translation differences in equity.

When a foreign entity is disposed, these exchange differences are recognised in the income statement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments

4.1 Classification

The Group classifies its financial assets into the following categories:

- financial assets at fair value through profit or loss, including financial assets held for trading, and those designated at fair value through profit or loss at inception;
- held to maturity investments;
- loans and receivables; and
- available for sale investments.

Financial liabilities are classified into two categories:

- financial liabilities at fair value through profit or loss, including financial liabilities held for trading, and those designated at fair value through profit or loss at inception; and
- other financial liabilities.

Management determines the classification of its financial assets and financial liabilities at initial recognition.

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

Financial assets and financial liabilities at fair value through profit or loss have two sub-categories: financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss at inception.

A financial asset or financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of recent actual pattern of short-term profit-making. Derivatives are also categorised as held for trading unless they are financial guarantee contracts or designated and effective as hedging instruments.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.1 Classification (Continued)

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

A financial asset and liability is classified at fair value through profit or loss at inception if it meets the following criteria and is designated as such by management on initial recognition:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on them on different bases; or

- A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information is provided internally on that basis to key management personnel; or

- Financial assets and financial liabilities containing one or more embedded derivatives which significantly modify the cash flows and for which separation of the embedded derivative is not prohibited on initial consideration.

(2) Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity and that do not meet the definition of loans and receivables nor are designated at fair value through profit or loss or as available for sale.

The Group shall not classify any financial assets as held to maturity if the entity has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held to maturity investments before maturity other than sales or reclassifications due to a significant deterioration in the issuer's creditworthiness.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.1 Classification (Continued)

(3) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the Group upon initial recognition designates as at fair value through profit or loss;

- those that the Group upon initial recognition designates as available for sale; or

- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(4) Available for sale investments

Available for sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories.

(5) Other financial liabilities

Other financial liabilities are non-derivatives that are not classified or designated as financial liabilities at fair value through profit or loss.

4.2 Initial recognition

Regular way purchases and sales of financial assets and financial liabilities are recognised on trade-date, the date on which the Group commits to purchase or sell the asset or liability.

For all financial assets and financial liabilities not carried at fair value through profit or loss, financial assets are initially recognised at fair value together with transaction costs and financial liabilities are initially recognised at fair value net of transaction costs. Financial assets and financial liabilities carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.3 Subsequent measurement

Available for sale financial assets and financial assets and liabilities at fair value through profit or loss are subsequently carried at fair value. Financial assets classified as loans and receivables and held to maturity and other financial liabilities are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the "financial assets and liabilities at fair value through profit or loss" category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available for sale financial assets are recognised directly in the "Reserve for fair value changes of available for sale securities", until the financial asset is derecognised or impaired. At this time the cumulative gain or loss previously recognised in the equity is recognised in the income statement. Interest calculated using the effective interest method is recognised in the income statement.

4.4 Determination of fair value

The fair values of quoted financial assets and financial liabilities in active markets are based on current bid prices and ask prices, as appropriate. If there is no active market, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and option pricing models, and other valuation techniques commonly used by market participants.

The Group uses the valuation techniques commonly used by market participants to price financial instruments and techniques which have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. The Group makes use of all factors that market participants would consider in setting a price, and incorporates these into its chosen valuation technique and tests for validity using prices from any observable current market transactions in the same instruments.

4.5 Derecognition of financial instruments

Financial assets are derecognised when the rights to receive cash flows from the investments have expired, or when the Group has transferred substantially all risks and rewards of ownership, or when the Group neither transfers nor retains substantially all risks or rewards of ownership of the financial asset but has not retained control of the financial asset.

Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment of financial assets

The Group assesses at each financial reporting date whether there is objective evidence that a financial asset or a group of financial assets excluding those fair valued through profit or loss is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

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

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

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

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

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

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property price for the mortgages in the relevant area or national or local economic conditions that correlate with defaults on the assets in the group;

(vii) any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of investments in equity instruments may not be recovered;

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment of financial assets (Continued)

(viii) a significant or prolonged decline in the fair value of equity instrument investments; or

(ix) other objective evidence indicating impairment of the financial asset.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence of impairment, the impairment loss is recognised in the income statement. The Group performs a collective assessment for all other financial assets that are not individually significant or for which impairment has not yet been identified by including the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

(1) Assets carried at amortised cost

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

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

For the purposes of a collective assessment of impairment, financial assets are grouped on the basis of similar and relevant credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment of financial assets (Continued)

(1) Assets carried at amortised cost (Continued)

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

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

When a financial asset is uncollectible, it is written off against the related allowance for impairment after all the necessary procedures have been completed. Subsequent recoveries of amounts previously written off are recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account and recognised in the income statement. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

(2) Assets classified as available for sale

If objective evidence of impairment exists for available for sale financial assets, the cumulative loss is removed from equity and recognised in the income statement and is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment of financial assets (Continued)

(2) Assets classified as available for sale (Continued)

With respect to equity instruments, impairment losses recognised in profit or loss are not subsequently reversed through profit or loss. If there is objective evidence that an impairment loss has been incurred on an unquoted equity investment that is not carried at fair value because its fair value cannot be reliably measured, the impairment loss should not be reversed.

4.7 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

While certain derivative transactions are intended to provide effective economic hedges of specific interest rate and foreign exchange risks, they are not designated as accounting hedges and therefore fair value changes are reported in "Net trading gains" in the income statement.

4.8 Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

The Group separates embedded derivatives from the host contract and accounts for these as derivatives, if, and only if:

(i) the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.8 Embedded derivatives (Continued)

(ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

(iii) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss.

These embedded derivatives separated from the host contract are measured at fair value with changes in fair value recognised in the income statement.

4.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts (except for Master netting agreement) and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

5 Precious metals, precious metals deposits and precious metals swaps

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 lower of cost and net realisable value. Precious metals that are related to the Group's trading activities are initially recognised at fair value and subsequent changes in fair value included in "Net trading gains" are recognised in the income statement.

The Group retains all risks and rewards of ownership related to precious metals deposited with the Group as precious metals deposits, including the right to freely pledge or transfer, and it records the precious metals received as an asset. A liability to return the amount of precious metals deposited is also recognised. This obligation is measured at cost unless the Group does not possess sufficient precious metals to meet the obligation giving rise to the liability. To the extent the liability exceeds the related asset, the open position is marked to market.

Consistent with the substance of the transaction, precious metals swaps are accounted for as precious metals subject to collateral agreements. Precious metals collateralised are not derecognised and the related counterparty liability is recorded in "Placements from banks and other financial institutions", as appropriate.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

6 Repurchase agreements, agreements to re-sell and securities lending

Securities and bills sold subject to repurchase agreements ("Repos") continue to be recognised, and are recorded as "Investment securities". The counterparty liability is included in "Placements from banks and other financial institutions" and "Due to central banks". Securities and bills purchased under agreements to resell ("Reverse repos") are not recognised, and are recorded as "Placements with and loans to banks and other financial institutions" or "Balances with central banks" as appropriate.

The difference between purchase and sale price is recognised as interest expense or interest income in the income statement over the life of the agreements using the effective interest method.

Securities lending transactions are generally secured, with collateral taking the form of securities or cash. Securities lent to counterparties by the Group are recorded in the financial statements. Securities borrowed from counterparties by the Group are not recognised in the financial statements of the Group. Cash collateral received or advanced is recognised as a liability or an asset in the financial statements.

7 Property and equipment

The Group's fixed assets mainly comprise buildings, equipment and motor vehicles, aircraft and construction in progress. When the costs attributable to the land use rights cannot be reliably measured and separated from that of the building at inception, the costs are included in the cost of properties and buildings and recorded in "Property and equipment".

The assets purchased or constructed are initially measured at acquisition cost.

Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Property and equipment are reviewed for impairment at each financial reporting date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by the difference between proceeds and carrying amount, after deduction of relevant taxes and expenses. These are included in the income statement.

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

7 Property and equipment (Continued)

7.1 Buildings, equipment and motor vehicles

Buildings comprise primarily branches and office premises. The estimated useful lives, depreciation rate and estimated residual value rate of buildings, equipment and motor vehicles are as follows:

Type of assets	Estimated useful lives	Estimated residual value rate	Depreciation rate
Buildings	15-50 years	3%	1.9% – 6.5%
Equipment	3-15 years	3%	6.4% – 32.4%
Motor vehicles	4-6 years	3%	16.1% – 24.3%

7.2 Aircraft

Aircraft are used in the Group's aircraft operating leasing business.

Aircraft are depreciated using the straight-line method over the expected useful life of 25 years, less the years in service at the time of purchase to an estimated residual value rate of 15%.

7.3 Construction in progress

Construction in progress consists of assets under construction or being installed and is stated at cost. Cost includes equipment cost, cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use and the depreciation charge commences after such assets are transferred to property and equipment.

8 Leases

8.1 Lease classification

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Title may or may not eventually be transferred. All leases other than finance leases are classified as operating leases.

8.2 Finance lease

When the Group is a lessee under finance leases, the leased assets are capitalised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in "Other liabilities". Finance charges are charged over the term of the lease using an interest rate which reflects a constant rate of return.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

8 Leases (Continued)

8.2 Finance lease (Continued)

The Group adopts the same depreciation policy for the finance leased assets as those for which it has title rights. If the Group can reasonably determine that a lease will transfer ownership of the asset to the Group by the end of the lease term, related assets are depreciated over their useful life. If the Group cannot reasonably determine that a lease will transfer ownership of the asset to the Group by the end of the lease term, related assets are depreciated over the shorter of the lease term and useful life.

When the Group is a lessor under finance leases, the present value of the aggregation of the minimum lease payment receivable from the lessee, unguaranteed residual value and initial direct costs is recognised as a receivable. The difference between the receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using an interest rate which reflects a constant rate of return.

8.3 Operating lease

When the Group is the lessee under an operating lease, rental expenses are charged in "Operating expenses" in the income statement on a straight-line basis over the period of the lease.

When the Group is the lessor under operating leases, the assets subject to the operating lease are accounted for as the Group's assets. Rental income is recognised as "Other operating income" in the income statement on a straight-line basis over the lease term net of any incentives given to lessees.

9 Investment property

Investment property, principally consisting of office buildings, is held to generate rental income or earn capital gains or both and is not occupied by the Group. Investment property is carried at fair value and changes in fair value are recorded in the income statement, representing the open market value determined periodically by independent appraisers.

10 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, including options and firm orders for aircraft, computer software and other intangible assets.

Options and firm orders for aircraft which arose from the acquisition of a subsidiary were initially recorded at fair value at the date of acquisition. The value of such options and firm orders are not amortised and will be added to the cost of aircraft when the related aircraft are purchased.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

10 Intangible assets (Continued)

Computer software and other intangible assets are stated at acquisition cost less accumulated amortisation and impairment. These costs are amortised on a straight-line basis over their estimated useful lives with the amortisation recognised in the income statement.

The value of intangible assets is reviewed for impairment at each financial reporting date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

The recoverable amount of an intangible asset is the higher of the asset's fair value less costs to sell and value in use.

11 Repossessed assets

Repossessed assets are initially recognised at fair value plus related costs when they are obtained as the compensation for the loans principal and interest. When there are indicators that the carrying amount is lower than recoverable amount, they are subsequently measured at the lower of carrying amount and fair value less cost to sell.

12 Employee benefits

12.1 Defined contribution plans

In accordance with the policies of relevant state and local governments, domestic employees participate in various defined contribution retirement schemes administered by local Labour and Social Security Bureaus. Domestic Operations contribute to pension and insurance schemes administered by the local pension and insurance agencies using applicable contribution rates stipulated in the relevant local regulations. Upon retirement, the local Labour and Social Security Bureaus are responsible for the payment of the basic retirement benefits to the retired employees. In addition to these basic staff pension schemes, domestic employees who retire after 1 January 2004 can also voluntarily participate in a defined contribution plan established by the Bank ("the Annuity Plan"). The Bank contributes to the Annuity Plan based on certain percentages of the employees' gross salaries.

All eligible employees in Overseas Operations participate in local defined contribution schemes. Overseas Operations contribute to these defined contribution plans based on certain percentages of the employees' basic salaries.

Contributions made by the Group to the retirement schemes described above are recognised as "Operating expenses" in the income statement as incurred. Forfeited contributions by those employees who leave the schemes prior to the full vesting of their contributions are used to reduce the existing level of contributions or retained in the retirement schemes in accordance with the requirements of the respective defined contribution plans.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

12 Employee benefits (Continued)

12.2 Retirement benefit obligations

The Group pays supplemental retirement benefits to domestic employees who retired prior to 31 December 2003 and early retirement benefits to those employees who accepted an early retirement arrangement.

Supplemental retirement benefits include supplemental pension payments and medical expense coverage.

Early retirement benefits have been paid to those employees who accept voluntary retirement before the normal retirement date, as approved by management. The related benefit payments are made from the date of early retirement to the normal retirement date.

The liability related to the above supplemental benefit obligation and early retirement obligations existing at each financial reporting date, is calculated by independent actuaries using the projected unit credit method and is recorded as a liability under "Retirement benefit obligations" in the statement of financial position. The present value of the liability is determined through discounting the estimated future cash outflows using interest rates of RMB treasury bills which have terms to maturity approximating the terms of the related liability. The gains or losses including those arising from the changes in actuarial assumptions and amendments to pension plans are charged or credited to the income statement immediately as "Operating expenses" when they occur.

12.3 Housing funds

Pursuant to local government regulations, all domestic employees participate in various local housing funds administered by local governments. Domestic Operations contribute on a monthly basis to these funds based on certain percentages of the salaries of the employees. These payments are recognised as "Operating expenses" in the income statement as incurred.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

12 Employee benefits (Continued)

12.4 Share-based compensation

(1) Equity-settled share-based compensation schemes

A subsidiary of the Group operates a number of equity-settled share-based compensation schemes. The fair value of the employee services received in exchange for the grant of the options under these schemes is recognised as an expense over the vesting period, with a corresponding increase in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. The fair value of the equity instruments is measured at grant date, and is not subsequently re-measured. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each financial reporting date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement over the remaining vesting period, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to "Share capital" (nominal value) and "Capital reserve" when the options are exercised.

(2) Cash-settled share-based compensation scheme

The Group also operates a cash-settled share appreciation rights plan. The related cost of services received from the employees and the liability to pay for such services are measured at fair value and recognised over the vesting period as the employees render services. Fair value is established at the grant date, re-measured at each financial reporting date with any changes in fair value recognised as "Operating expenses" in the income statement for the period and derecognised when the liability is settled.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the rights granted, excluding the impact of any non-market vesting conditions. Non-market conditions are included in the assumptions about the number of rights that are expected to vest. At each financial reporting date, the entity revises its estimates of the number of rights that are expected to vest. It recognises the impact of the revision to original estimates, if any, as "Operating expenses" in the income statement, with a corresponding adjustment to liability.

12.5 Bonus plans

The Group recognises a liability and an expense for bonuses, taking into consideration its business performance and profit attributable to the Bank's equity holders. The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

13 Provisions

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

14 Insurance contracts

14.1 Insurance contracts classification

The Group's insurance subsidiaries issue insurance contracts that transfer significant insurance risk. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefit payable if the insured event did not occur. The Group issues non-life insurance contracts, which cover casualty and property insurance risk, and life insurance contracts, which insure events associated with human life (for example death, or survival) over a long duration.

The Group does not separately measure embedded derivatives that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

14.2 Insurance contracts recognition and measurement

(1) Non-life insurance

Premiums on non-life insurance contracts are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the financial reporting date is reported as the unearned premium liability in "Other liabilities". Premiums are recognised before the deduction of commissions in "Other operating income".

Claims and loss adjustment expenses are charged to the income statement as "Operating expenses" when incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the financial reporting date even if they have not yet been reported to the Group.

(2) Life insurance

Premiums on life insurance contracts are recognised as revenue when they become payable by the contract holders. Premiums are recognised before the deduction of commissions. Benefits and claims are recorded as an expense when they are incurred. A liability for contractual benefits that are expected to be incurred in the future is recorded when premiums are recognised. For certain long-term insurance contracts (linked long-term insurance contracts) with embedded derivatives linking payments on the contract to units of an investment fund set up by the Group with the consideration received from the contract holders, the liability is adjusted for all changes in the fair value of the underlying assets, and includes a liability for contractual benefits that are expected to be incurred in the future which is recorded when the premiums are recognised.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

14 Insurance contracts (Continued)

14.3 Insurance acquisition costs

Costs in relation to insurance contracts are recognised as expenses when incurred in "Fee and commission expense".

14.4 Liability adequacy test

At each financial reporting date, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities (including unearned premium in the case of non-life insurance contracts). In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the income statement and reported as "Operating expenses", with a provision established for losses arising from the liability adequacy test.

15 Treasury shares

Where the Bank or other members of the Group purchase the Bank's ordinary shares, treasury shares are recorded at the amount of consideration paid and deducted from total equity holders' equity until they are cancelled, sold or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in capital and reserves attributable to equity holders of the Bank.

16 Contingent liabilities

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

17 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies to secure customer loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement less amortisation calculated and the best estimate of the expenditure required to settle any financial obligation arising at the financial reporting date. Any increase in the liability relating to guarantees is taken to the income statement. These estimates are determined based on experience of similar transactions, historical losses and by the judgement of management.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

18 Fiduciary activities

The Group acts as a custodian, trustee or in other fiduciary capacities, that result in its holding or placing of assets on behalf of securities investment funds, social security funds, insurance companies, qualified foreign institutional investors, annuity schemes and other institutions. These assets are not included in the statement of financial position of the Group, as they are not assets of the Group.

The Group also administers entrusted loans on behalf of third-party lenders. In this regard, the Group grants loans to borrowers, as an intermediary, at the direction of third-party lenders, who fund these loans. The Group has been contracted by these third-party lenders to manage the administration and collection of these loans on their behalf. The third-party lenders determine both the underwriting criteria for and all terms of the entrusted loans, including their purpose, amounts, interest rates, and repayment schedule. The Group charges a commission related to its activities in connection with the entrusted loans, but the risk of loss is borne by the third-party lenders. Entrusted loans are not recognised in the statement of financial position of the Group.

19 Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except derivatives, are recognised within "Interest income" and "Interest expense" in the income statement using the effective interest method. Interest income and expense for derivatives is recognised in "Net trading gains" in the income statement.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

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

20 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income are accrued over that period. For other services, fee and commission income are recognised when the transactions are completed.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

21 Income taxes

Income taxes comprise current income tax and deferred income tax. Current income tax and movements in deferred tax balances are recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

21.1 Current income tax

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the financial reporting date, and any adjustment to tax payable in respect of previous years.

21.2 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the financial reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from asset impairment allowances, revaluation of certain financial assets and liabilities including derivative contracts, revaluation of investment property, depreciation of property and equipment, provisions for pension and other employee benefit costs.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilised unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

For deductible temporary differences associated with investment in subsidiaries, associates and joint ventures, a deferred tax asset is recognised to the extent that, and only to the extent that, it is probable that the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilised.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

21 Income taxes (Continued)

21.2 Deferred income tax (Continued)

Deferred tax liabilities shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

Deferred income tax liabilities on taxable temporary differences arising from investment in subsidiaries, associates and joint ventures are recognised, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred income tax related to fair value re-measurement of available for sale investments which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain and loss.

22 Segment reporting

The Group reviews the internal reporting in order to assess performance and allocate resources. Segment information is presented on the same basis as the Group's management and internal reporting.

23 Comparatives

In previous years fixed deposits to and from banks and other financial institutions were classified under "Placements with and loans to banks and other financial institutions" and "Certificates of deposit and placements from banks and other financial institutions", respectively. In accordance with industry practice, these fixed deposits made by the Group and the Bank as at 31 December 2009 are presented as "Cash and due from banks and other financial institutions" and fixed deposits held by the Group and the Bank as at 31 December 2009 are presented as "Due to banks and other financial institutions". Comparatives and the statement of consolidated cash flows have been adjusted to conform with the revised presentation (Note V.11, Note V.24 and Note V.42).

Adoption of IFRS 8 resulted in a reclassification of certain services from corporate banking to treasury operations based on the Group's internal reporting. Comparatives for 2008 have been reclassified.

The above reclassifications had no impact on the Group's comprehensive income, total assets, total equity and liabilities or net cash flows.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and judgements that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group has taken into consideration the impact of the economic environment on the industries and territories in which the Group operates when determining critical accounting estimates and judgements in applying accounting policies.

Areas susceptible to changes in critical estimates and judgements, which affect the carrying value of assets and liabilities, are set out below. It is possible that actual results may be materially different from the estimates and judgements referred to below.

1 Impairment allowances on loans and advances

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

In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements and assumptions when calculating loan impairment allowances on both individually and collectively assessed loans and advances.

The most significant judgemental area is the calculation of collectively assessed impairment allowances. The Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and advances before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The Group has considered the impact of the changes and uncertainty in the macro-economic environments in which the Group operates when assessing the methodology and assumptions used for loss estimates and made adjustments where appropriate.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

2 Fair value of derivatives and other financial instruments

The Group establishes fair value of financial instruments with reference to a quoted market price in an active market or, if there is no active market, using valuation techniques. These valuation techniques include the use of recent arm's length transactions, observable prices for similar instruments, discounted cash flow analysis using risk-adjusted interest rates, and commonly used market pricing models. Whenever possible these models use observable market inputs and data including, for example, interest rate yield curves, foreign currency rates and option volatilities. The results of using valuation techniques are calibrated against industry practice and observable current market transactions in the same or similar instruments.

The Group assesses assumptions and estimates used in valuation techniques including review of valuation model assumptions and characteristics, changes to model assumptions, the quality of market data, whether markets are active or inactive, other fair value adjustments not specifically captured by models and consistency of application of techniques between reporting periods as part of its normal review and approval processes. Valuation techniques are validated and periodically reviewed and, where appropriate, have been updated to reflect market conditions at the financial reporting date.

With respect to PRC government obligations related to large-scale policy directed financing transactions fair value is determined using the stated terms of the related instrument and with reference to terms determined by the PRC government in similar transactions engaged in or directed by the PRC government. In this regard, there are no other relevant market prices or yields reflecting arm's length transactions of a comparable size and tenor.

3 Impairment of available for sale investment securities and held to maturity investment securities

The Group follows the guidance of IAS 39 to determine when an available for sale or held to maturity investment securities is impaired and when impairment on a debt security is reversed. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, the extent to which changes in fair value relate to credit events, and the financial health of and near-term business outlook for the investee/underlying portfolio, including factors such as industry and sector performance, credit ratings, delinquency rates, loss coverage ratios and counterparty risk.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

3 Impairment of available for sale investment securities and held to maturity investment securities (Continued)

The methodology and assumptions used for impairment assessments are reviewed regularly. In evaluating impairment of asset backed securities (ABS) and mortgage backed securities (MBS), the Group continued to use a significant decline in market price to be a key indicator of impairment. The Group also considered other objective evidence of impairment, taking into account the impact of liquidity on market prices and the movement in loss coverage ratios of individual ABS and MBS securities held by the Group.

4 Held to maturity securities

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

5 Provisions

The Group uses judgement to assess whether the Group has a present legal or constructive obligation as a result of past events at each financial reporting date, and judgement is used to determine if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and to determine a reliable estimate of the amount of the obligation.

On 22 July 2009, BOC Hong Kong Group agreed with the Securities and Futures Commission, the Hong Kong Monetary Authority and thirteen other distributing banks to make an offer to eligible customers to repurchase their holdings in all outstanding Lehman Brothers minibonds ("Minibonds") subscribed through BOC Hong Kong Group ("the Repurchase Scheme").

In determining the charge to the income statement in respect of the Minibonds, the Group took into account the estimated aggregate amount paid and payable under the Repurchase Scheme and the voluntary offer, the provision made prior to the date of the Repurchase Scheme and the estimated amount recoverable from the Minibonds (see Note V.5).

The amount recoverable from the Minibonds is uncertain and dependent on a number of factors including resolution of certain legal matters, which may result in a wide range of recovery outcomes. The Group has made an assessment of the amount recoverable under such uncertainties. The final amount recovered by the Group could be different from the assessment and may result in a considerable credit being recognised in the income statement in the period when it is realised.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

6 Employee retirement benefit obligations

As described in Note II.12.2 and Note V.33, the Bank has established liabilities in connection with benefits payable to certain retired and early retired employees. The amounts of employee benefit expense and these liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, pension benefit inflation rates, medical benefit inflation rates, and other factors. Actual results that differ from the assumptions are recognised immediately and, therefore, affect recognised expense in the year in which such differences arise. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect the Bank's expense related to its employee retirement benefit obligations.

7 Taxes

The Group is subject to income and business taxes in numerous jurisdictions, principally in the Chinese mainland and Hong Kong. There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. The Group has made estimates for items of uncertainty and application of new tax legislation taking into account existing tax legislation and past practice, in particular, the treatment of supplementary PRC tax applied to results of Overseas Operations.

Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax, deferred income tax and business tax in the period during which such a determination is made.

8 Impairment of non-financial assets

Non-financial assets are periodically reviewed for impairment and where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. When estimating the value in use of aircraft held by subsidiaries, the Group estimates expected future cash flows from the aircraft and uses a suitable discount rate to calculate present value. The Group obtains valuations of aircraft from independent appraisers for which the principal assumptions underlying aircraft value are based on current market transactions for similar aircraft in the same location and condition. The Group also uses the fair value of aircraft obtained from independent appraisers in its assessment of the recoverable amount of intangible assets and the goodwill arising from the purchase of the Group's aircraft leasing subsidiary.

IV TAXATION

The principal taxes to which the Group is subject are listed below:

Taxes	Tax basis	2009	2008
Chinese mainland			
Corporate Income Tax	Taxable income	**25%**	25%
Business Tax	Business income	**5%**	5%
City Construction and Maintenance Tax	Turnover tax paid	**1% – 7%**	1% – 7%
Education Surcharges	Turnover tax paid	**3% – 3.5%**	3% – 3.5%
Hong Kong			
Hong Kong Profits Tax	Assessable profits	**16.5%**	16.5%

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Net interest income

	Year ended 31 December	
	2009	2008
Interest income		
Loans and advances to customers	**186,982**	194,916
Investment securities and financial assets at fair value through profit or loss (1)	**49,966**	59,915
Due from central banks	**17,155**	18,388
Due from and placements with and loans to banks and other financial institutions	**7,321**	13,708
Subtotal	**261,424**	286,927
Interest expense		
Due to customers	**(87,444)**	(104,429)
Due to and placements from banks and other financial institutions	**(10,794)**	(14,580)
Other borrowed funds	**(4,305)**	(4,982)
Subtotal	**(102,543)**	(123,991)
Net interest income (2)	**158,881**	162,936
Included within interest income is interest income accrued on impaired financial assets:	**1,741**	2,246

(1) Interest income on investment securities and financial assets at fair value through profit or loss is principally derived from debt securities listed on China Domestic Interbank Bond Market and overseas unlisted debt securities.

(2) Included within interest income and interest expenses are RMB259,067 million (2008: RMB282,934 million) and RMB101,759 million (2008: RMB122,063 million) for financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 Net fee and commission income

	Year ended 31 December	
	2009	2008
Agency commissions	**11,211**	8,440
Credit commitment fees	**8,364**	6,411
Settlement and clearing fees	**7,481**	7,912
Spread income from foreign exchange business	**7,264**	9,360
Bank card fees	**6,091**	4,828
Consultancy and advisory fees	**4,396**	2,548
Custodian and other fiduciary service fees	**1,375**	1,520
Other	**4,052**	2,693
Fee and commission income	**50,234**	43,712
Fee and commission expense	**(4,221)**	(3,765)
Net fee and commission income	**46,013**	39,947

3 Net trading gains

	Year ended 31 December	
	2009	2008
Net gains from foreign exchange and foreign exchange products (1)	**4,497**	10,971
Net gains/(losses) from interest rate products	**367**	(5,324)
Net gains/(losses) from equity products	**573**	(827)
Net gains from precious metals and other commodity products	**412**	225
Total (2)	**5,849**	5,045

(1) The net gains from foreign exchange and foreign exchange products include losses in connection with the retranslation of foreign currency denominated monetary assets and liabilities of RMB1,938 million (2008: RMB25,695 million), and net realised and unrealised gains on foreign exchange derivatives (including the foreign exchange derivatives entered into in conjunction with the Group's asset and liability management and funding arrangements) of RMB6,435 million (2008: RMB36,666 million).

(2) Included in "Net trading gains" above for the year ended 31 December 2009 are losses of RMB406 million in relation to financial assets and financial liabilities designated at fair value through profit or loss (2008: gains of RMB1,142 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4 Other operating income

	Year ended 31 December	
	2009	2008
Insurance premiums (1)	**9,356**	7,018
Aircraft leasing income	**2,711**	1,996
Gains on disposal of property and equipment, intangible assets and other assets	**700**	961
Dividend income	**141**	305
Changes in fair value of investment properties	**1,933**	44
Gains on disposal of subsidiaries, associates and joint ventures	**27**	6
Other (2)	**5,668**	8,629
Total	**20,536**	18,959

(1) Details of insurance premium income are as follows:

	Year ended 31 December	
	2009	2008
Life insurance		
Gross earned premiums	**6,840**	5,268
Less: Gross written premiums ceded to reinsurers	**(16)**	(26)
Net insurance premium income	**6,824**	5,242
Non-life insurance		
Gross earned premiums	**2,941**	2,082
Less: Gross written premiums ceded to reinsurers	**(409)**	(306)
Net insurance premium income	**2,532**	1,776
Total	**9,356**	7,018

(2) Other principally includes revenue on precious metal products and investment property in 2009 and, in 2008, principally includes revenue on precious metal products and Olympic licensed products.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5 Operating expenses

	Year ended 31 December	
	2009	2008
Staff costs (Note V.6)	**45,474**	39,365
General operating and administrative expenses (1)	**26,911**	23,932
Business and other taxes	**11,645**	11,367
Depreciation and amortisation	**8,395**	7,816
Insurance benefits and claims		
– Life insurance contracts	**6,421**	6,859
– Non-life insurance contracts	**1,774**	1,384
Allowance for litigation losses	**63**	200
Losses on disposal of property and equipment	**130**	91
Lehman Brothers related products (2)	**2,889**	684
Other (3)	**3,319**	5,714
Total	**107,021**	97,412

(1) Included in the general operating and administrative expenses are principal auditors' remuneration of RMB207 million for the year ended 31 December 2009 (2008: RMB221 million).

Included in the general operating and administrative expenses are operating lease rental expenses of RMB3,233 million and other premises and equipment related expenses (mainly comprised of property management and building maintenance expenses) of RMB7,633 million (2008: RMB2,824 million and RMB5,852 million) respectively.

(2) Expenses incurred on Lehman Brothers related products were primarily in relation to the Minibonds repurchase arrangements announced on 22 July 2009.

Under the Repurchase Scheme (Note III.5), BOC Hong Kong Group has, without admission of liability, made an offer to repurchase at a price equivalent to 60% of the nominal value of the principal invested for eligible customers below the age of 65 as at 1 July 2009 or at 70% of the nominal value of the principal invested for eligible customers aged 65 or above as at 1 July 2009. If any recovery is made from the Minibonds, BOC Hong Kong Group will make further payments to eligible customers who have accepted the Repurchase Scheme according to the terms set out in the scheme. BOC Hong Kong Group has also made a voluntary offer to pay an ex gratia amount to customers who would have qualified as eligible customers but for their previous settlements with BOC Hong Kong Group, to bring them in line with the Repurchase Scheme offer. BOC Hong Kong Group has further made available an amount equivalent to the total commission income received as a Minibonds distributor of approximately RMB141 million to the trustee of the Minibonds to fund the trustee's expenses in realising the value of the underlying collateral in respect of the outstanding Minibonds.

(3) Other principally includes cost of sales on precious metal products in 2009, and principally includes cost of sales on Olympic licensed products and precious metal products in 2008.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6 Staff costs

	Year ended 31 December	
	2009	2008
Salary, bonus and subsidy	**32,206**	27,689
Staff welfare	**2,613**	2,315
Retirement benefits (Note V.33)	**498**	1,143
Social insurance, including:		
Medical	**1,271**	1,048
Pension	**2,986**	2,540
Annuity	**702**	612
Unemployment	**194**	220
Injury at work	**64**	58
Maternity insurance	**77**	62
Housing funds	**2,225**	1,852
Labour union fee and staff education fee	**1,125**	987
Reimbursement for cancellation of labour contract	**21**	30
Other	**1,492**	809
Total	**45,474**	39,365

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Directors', supervisors' and senior management's emoluments

Details of the directors' and supervisors' emoluments are as follows:

For the year ended 31 December 2009 (Amount in thousands of RMB)

	Fees	Remuneration paid	Contributions to pension schemes	Benefits in kind	Total
Executive directors					
Xiao Gang (3)	–(2)	495	50	214	759
Li Lihui (3)	–(2)	491	53	211	755
Li Zaohang (3)	–(2)	464	52	207	723
Zhou Zaiqun (3)	–(2)	464	55	200	719
Independent non-executive directors					
Anthony Francis Neoh	550	–	–	–	550
Alberto TOGNI	450	–	–	–	450
Huang Shizhong	550	–	–	–	550
Huang Danhan	350	–	–	–	350
Non-executive directors					
Zhang Jinghua (1)	–	–	–	–	–
Hong Zhihua (1)	–	–	–	–	–
Huang Haibo (1)	–	–	–	–	–
Cai Haoyi (1)	–	–	–	–	–
Wang Gang (1)	–	–	–	–	–
Lin Yongze (1)	–	–	–	–	–
Frederick Anderson GOODWIN (4)	15	–	–	–	15
Seah Lim Huat Peter	300	–	–	–	300
Supervisors					
Liu Ziqiang (3)	–	464	78	205	747
Wang Xueqiang (3)	–	316	43	150	509
Liu Wanming (3)	–	314	43	150	507
Li Chunyu (3)	–	211	36	143	390
Jiang Kuiwei (3)	–	263	29	140	432
	2,215	**3,482**	**439**	**1,620**	**7,756**

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Directors', supervisors' and senior management's emoluments (Continued)

For the year ended 31 December 2008 (Amount in thousands of RMB)

	Fees	Basic salaries	Contributions to pension schemes	Benefits in kind	Discretionary bonuses	Total
Executive directors						
Xiao Gang	–[2]	495	49	197	766	1,507
Li Lihui	61[2]	491	53	191	748	1,544
Li Zaohang	53[2]	464	52	182	730	1,481
Zhou Zaiqun	53[2]	462	55	178	729	1,477
Independent non-executive directors						
Anthony Francis Neoh	550	–	–	–	–	550
Patrick de SAINT-AIGNAN	12	–	–	–	–	12
Alberto TOGNI	450	–	–	–	–	450
Huang Shizhong	550	–	–	–	–	550
Huang Danhan	350	–	–	–	–	350
Non-executive directors						
Zhang Jinghua [1]	–	–	–	–	–	–
Hong Zhihua [1]	–	–	–	–	–	–
Huang Haibo [1]	–	–	–	–	–	–
Cai Haoyi [1]	–	–	–	–	–	–
Wang Gang [1]	–	–	–	–	–	–
Lin Yongze [1]	–	–	–	–	–	–
Frederick Anderson GOODWIN	250	–	–	–	–	250
Seah Lim Huat Peter	300	–	–	–	–	300
Supervisors						
Liu Ziqiang	–	464	65	186	716	1,431
Wang Xueqiang	–	316	41	141	465	963
Liu Wanming	–	314	41	142	456	953
Li Chunyu	–	243	35	90	107	475
Jiang Kuiwei	–	167	19	89	225	500
Liu Dun	–	128	8	17	112	265
	2,629	3,544	418	1,413	5,054	13,058

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Directors', supervisors' and senior management's emoluments (Continued)

(1) During 2009 and 2008, these full-time non-executive directors of the Bank signed an agreement to waive the emoluments for their services to the Bank.

(2) For the year ended 31 December 2009, these executive directors of the Bank do not receive any fees. For the year ended 31 December 2008, these executive directors of the Bank waived emoluments amounting to RMB0.65 million.

(3) The total compensation package for these directors and supervisors for the year ended 31 December 2009 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact to the Group's and the Bank's 2009 financial statements. The final compensation will be disclosed in a separate announcement when determined.

(4) Sir Frederick Anderson GOODWIN ceased to be a non-executive director effective from 22 January 2009. All his compensation within the reporting period with respect of services to the Bank was paid to the Royal Bank of Scotland Group plc.

In July 2002, options to purchase shares of BOCHK Holdings were granted to several directors of the Bank under the Pre-listing Share Option Scheme. During 2008, certain options were exercised but no benefits arising from the granting of these share options were included in the directors' emoluments disclosed above or recognised in the consolidated income statement as the Group has taken advantage of the transitional provision of IFRS 2 (Note V.34.3). During 2009, no such options were exercised by any director.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Directors', supervisors' and senior management's emoluments (Continued)

Five highest paid individuals

Of the five individuals with the highest emoluments, none of them are directors or supervisors whose emoluments are disclosed above.

The emoluments payable to the five individuals whose emoluments were the highest in the Group for the years ended 31 December 2009 and 2008 respectively are as follows:

	Year ended 31 December	
	2009	2008
Basic salaries and allowances	**7**	19
Discretionary bonuses	**94**	26
Contributions to pension schemes and others	**3**	3
	104	48

Emoluments of the individuals were within the following bands:

	Year ended 31 December	
Amounts in RMB	**2009**	2008
7,000,001-7,500,000	**–**	1
7,500,001-8,000,000	**–**	1
9,000,001-9,500,000	**–**	1
11,500,001-12,000,000	**–**	1
12,000,001-12,500,000	**–**	1
19,000,001-19,500,000	**1**	–
20,000,001-20,500,000	**2**	–
21,500,001-22,000,000	**1**	–
23,500,001-24,000,000	**1**	–

The discretionary bonuses of the above five highest paid individuals include portions , payments of which are deferred to future periods.

During the years ended 31 December 2009 and 2008, the Group has not paid any emoluments to the directors, supervisors, or senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 Impairment losses on assets

	Year ended 31 December	
	2009	2008
Loans and advances [1]		
– Individually assessed	**(1,694)**	4,215
– Collectively assessed	**17,139**	12,577
Subtotal	**15,445**	16,792
Investment securities [1] [2]		
Available for sale		
– Debt securities	**(282)**	20,178
– Equity securities and fund investments	**11**	2,984
	(271)	23,162
Held to maturity	**(583)**	3,994
Loans and receivables	**–**	(10)
Other assets	**396**	1,093
Total	**14,987**	45,031

(1) Details of new allowances and reversal of impairment losses on loans and advances and investment securities are disclosed in Notes V.16 and V.23, respectively.

(2) Impairment on investment securities:

	Year ended 31 December	
	2009	2008
US Subprime mortgage related debt securities	**651**	7,500
US Alt-A mortgage-backed securities	**(105)**	4,810
US Non-Agency mortgage-backed securities	**(911)**	10,094
Other securities	**(489)**	4,742
Total (reversal)/charges	**(854)**	27,146

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9 Income tax expense

	Year ended 31 December	
	2009	2008
Current income tax		
– Chinese mainland income tax	**27,526**	22,679
– Hong Kong profits tax	**2,236**	1,257
– Overseas taxation	**1,184**	850
Subtotal	**30,946**	24,786
Deferred income tax (Note V.35)	**(5,115)**	(3,501)
Total	**25,831**	21,285

The principal tax rates applicable to the Group are set out in Note IV.

The provision for Chinese mainland income tax includes income tax based on the statutory tax rate of 25% of the assessable income of the Bank and each of the subsidiaries established in the Chinese mainland and supplementary PRC tax on Overseas Operations as determined in accordance with the relevant PRC income tax rules and regulations (Note III.7).

Taxation on overseas profits has been calculated on the estimated assessable profits in accordance with local tax regulations at the rates of taxation prevailing in the countries or regions in which the Group operates.

The tax rate on the Group's profit before tax differs from the theoretical amount that would arise using the basic domestic tax rate of the Bank as follows:

	Year ended 31 December	
	2009	2008
Profit before income tax	**111,429**	87,179
Tax calculated at applicable statutory tax rate	**27,857**	21,794
Effect of different tax rates on Overseas Operations	**(2,049)**	(500)
Supplementary PRC tax on overseas income	**1,232**	809
Income not subject to tax (1)	**(3,149)**	(2,045)
Items not deductible for tax purposes (2)	**2,559**	2,093
Other	**(619)**	(866)
Income tax expense	**25,831**	21,285

(1) Income not subject to tax mainly comprises interest income from PRC treasury bills.

(2) Non-deductible items primarily include losses resulting from write-off of certain non-performing loans, and marketing and entertainment expenses in excess of those deductible under the relevant PRC tax regulations.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10 Earnings per share (basic and diluted)

Basic earnings per share were computed by dividing the profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the periods.

The Bank had no dilutive potential ordinary shares for the years ended 31 December 2009 and 2008.

	Year ended 31 December	
	2009	2008
Profit attributable to equity holders of the Bank	**81,068**	64,360
Weighted average number of ordinary shares in issue (in million shares)	**253,833**	253,833
Basic and diluted earnings per share (in RMB)	**0.32**	0.25

Weighted average number of ordinary shares in issue (in million shares)

	Year ended 31 December	
	2009	2008
Issued ordinary shares	**253,839**	253,839
Weighted average number of treasury shares	**(6)**	(6)
Weighted average number of ordinary shares in issue	**253,833**	253,833

11 Cash and due from banks and other financial institutions

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Cash	**39,596**	35,489	**36,007**	31,349
Due from domestic banks (1)	**355,849**	72,749	**352,483**	68,967
Due from domestic other financial institutions	**936**	268	**936**	268
Due from overseas banks (1)	**37,970**	38,203	**45,284**	50,051
Total	**434,351**	146,709	**434,710**	150,635

(1) Fixed deposits made by the Group and the Bank of RMB339,936 million and RMB337,806 million, respectively, as at 31 December 2009 have been reclassified from "Placements with and loans to banks and other financial institutions" to "Cash and due from banks and other financial institutions" (31 December 2008: RMB74,176 million and RMB72,029 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12 Balances with central banks

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Mandatory reserves (1)	**793,698**	600,911	**791,397**	599,480
Surplus reserves (2)	**135,951**	136,969	**133,115**	135,081
Balance under reverse repo agreements (3)	**64,910**	145,631	**64,910**	145,631
Other deposits (4)	**116,792**	324,102	**44,663**	266,763
Total	**1,111,351**	1,207,613	**1,034,085**	1,146,955

(1) The Group places mandatory reserve funds with the PBOC and the central banks of other countries or regions where it has operations. As at 31 December 2009, mandatory reserve funds placed with the PBOC were calculated at 15.5% (31 December 2008: 15.5%) and 5% (31 December 2008: 5%) of eligible RMB deposits and foreign currency deposits from customers of domestic branches of the Bank respectively. The amount of mandatory reserve funds placed with the central banks of other countries is determined by local jurisdiction.

(2) This mainly represented the surplus reserve funds placed with PBOC by domestic branches of the Bank.

(3) The Group accepts treasury bonds as collateral in connection with its reverse repo agreements with the PBOC. The Group is not permitted to sell or re-pledge such collateral accepted.

(4) This mainly represented balances, other than mandatory reserves and surplus reserves, placed with central banks of other countries by Overseas Operations.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13 Placements with and loans to banks and other financial institutions

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Placements with and loans to:				
Domestic banks (1)	**54,391**	44,653	**43,652**	41,054
Other domestic financial institutions	**72,051**	73,525	**72,051**	73,525
Overseas banks (1) (2)	**96,558**	296,510	**81,968**	212,593
Other overseas financial institutions (2)	**810**	–	**40,507**	72,485
Subtotal (3)	**223,810**	414,688	**238,178**	399,657
Allowance for impairment losses	**(366)**	(399)	**(365)**	(399)
Total	**223,444**	414,289	**237,813**	399,258
Impaired placements	**366**	399	**365**	399
Percentage of impaired placements to total placements with and loans to banks and other financial institutions	**0.16%**	0.10%	**0.15%**	0.10%

(1) Presentation of certain items has been adjusted (Note V.11).

(2) Included in the Bank's "Overseas banks" and "Other overseas financial institutions" are loans to the Bank's subsidiaries (Note V.43.7).

(3) Placements with and loans to banks and other financial institutions include balances arising from reverse repo agreements. These are presented by collateral type as follows:

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Bills under reverse repos	**–**	29	**–**	29
Bonds under reverse repos				
– Government	**41,306**	51,935	**41,306**	51,935
– Policy banks	**38,184**	42,002	**38,184**	42,002
– Financial institutions	**5,022**	8,751	**4,484**	8,751
Total	**84,512**	102,717	**83,974**	102,717

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 Financial assets at fair value through profit or loss

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Trading financial assets				
Trading debt securities				
Chinese mainland issuers				
– Government	**4,396**	7,519	**4,278**	7,378
– Public sector and quasi-governments	**30**	–	**10**	–
– Policy banks	**2,849**	12,255	**2,598**	11,756
– Financial institutions	**104**	63	**–**	–
– Corporate	**115**	376	**40**	202
Overseas issuers				
– Governments	**17,591**	16,261	**4,441**	5,077
– Public sector and quasi-governments	**340**	30	**–**	–
– Financial institutions	**1,267**	3,631	**128**	1,507
– Corporate	**2,720**	926	**–**	–
	29,412	41,061	**11,495**	25,920
Other trading financial assets				
Fund investments	**568**	508	**–**	–
Equity securities	**1,034**	1,485	**–**	–
Subtotal	**31,014**	43,054	**11,495**	25,920

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 Financial assets at fair value through profit or loss (Continued)

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Financial assets designated at fair value through profit or loss				
Debt securities designated at fair value through profit or loss				
Chinese mainland issuers				
– Government	**233**	2,281	**86**	2,132
– Public sector and quasi-governments	**–**	96	**–**	96
– Policy banks	**1,730**	3,598	**1,730**	3,498
– Financial institutions	**359**	94	**–**	109
– Corporate	**–**	1,651	**–**	1,651
Overseas issuers				
– Governments	**655**	865	**35**	692
– Public sector and quasi-governments	**1,377**	2,358	**551**	1,038
– Financial institutions	**17,076**	24,426	**2,259**	5,448
– Corporate	**4,580**	5,948	**2,730**	3,317
	26,010	41,317	**7,391**	17,981
Other financial assets designated at fair value through profit or loss				
Fund investments	**2,427**	1,912	**–**	–
Loans	**1,248**	1,422	**1,248**	1,422
Equity securities	**1,198**	109	**–**	–
Subtotal	**30,883**	44,760	**8,639**	19,403
Total (1) (2)	**61,897**	87,814	**20,134**	45,323
Analysed as:				
Listed in Hong Kong	**5,868**	2,883	**2,547**	943
Listed outside Hong Kong (3)	**18,974**	40,933	**12,899**	36,391
Unlisted	**37,055**	43,998	**4,688**	7,989
Total	**61,897**	87,814	**20,134**	45,323

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 Financial assets at fair value through profit or loss (Continued)

(1) As at 31 December 2009, the Group and the Bank held bonds issued by the MOF and bills issued by the PBOC included in financial assets at fair value through profit or loss with the amount and the related interest rate range on such bonds and bills as follows:

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Amount	**4,629**	9,800	**4,364**	9,510
Interest rate range	**1.31%-9.00%**	0.93%-6.02%	**1.31%-4.47%**	0.93%-4.64%

(2) Included in the Group's financial assets at fair value through profit or loss were certificates of deposit held of RMB2,254 million (2008: RMB3,160 million).

(3) Debt securities traded on the China Domestic Interbank Bond Market are included in "Listed outside Hong Kong".

15 Derivative financial instruments

The Group enters into foreign currency exchange rate, interest rate, equity, credit or precious metals and other commodity related derivative financial instruments for trading, asset and liability management and on behalf of customers.

The contractual/notional amounts and fair values of derivative instruments held by the Group and the Bank are set out in the following tables. The contractual/notional amounts of financial instruments provide a basis for comparison with fair value instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates or equity/commodity prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 Derivative financial instruments (Continued)

Group

	As at 31 December 2009			As at 31 December 2008		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps (1)	1,629,325	20,810	(12,353)	1,510,772	62,814	(40,111)
Currency options	4,331	16	(14)	9,285	110	(94)
Subtotal	1,633,656	20,826	(12,367)	1,520,057	62,924	(40,205)
Interest rate derivatives						
Interest rate swaps	459,885	6,213	(9,404)	430,473	10,668	(16,159)
Interest rate options	839	–	(4)	21,521	93	(708)
Interest rate futures	1,958	6	(3)	8,016	17	(19)
Subtotal	462,682	6,219	(9,411)	460,010	10,778	(16,886)
Equity derivatives	4,548	102	(106)	7,794	1,199	(988)
Precious metals and other commodity derivatives	20,611	1,224	(915)	20,101	1,025	(924)
Credit derivatives	3,482	143	(424)	5,272	198	(479)
Total	2,124,979	28,514	(23,223)	2,013,234	76,124	(59,482)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 Derivative financial instruments (Continued)

Bank

	As at 31 December 2009			As at 31 December 2008		
	Contractual/ notional amount	Fair value Assets	Fair value Liabilities	Contractual/ notional amount	Fair value Assets	Fair value Liabilities
Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps [(1)]	1,196,770	6,900	(3,646)	1,172,269	48,245	(27,506)
Currency options	1,839	7	(6)	4,661	91	(73)
Subtotal	1,198,609	6,907	(3,652)	1,176,930	48,336	(27,579)
Interest rate derivatives						
Interest rate swaps	273,240	4,926	(6,062)	334,631	9,337	(12,134)
Interest rate options	–	–	–	19,545	73	(667)
Interest rate futures	–	–	–	863	1	(4)
Subtotal	273,240	4,926	(6,062)	355,039	9,411	(12,805)
Precious metals and other commodity derivatives	13,216	667	(586)	16,584	805	(843)
Credit derivatives	2,868	12	(273)	4,479	13	(285)
Total	1,487,933	12,512	(10,573)	1,553,032	58,565	(41,512)

(1) These exchange rate derivatives primarily include foreign exchange transactions with customers; foreign exchange transactions to manage foreign currency exchange risks arising from customers; and foreign currency exchange transactions entered into as part of asset and liability management and funding requirements.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Loans and advances to customers, net

16.1 Analysis of loans and advances to customers

	As at 31 December					
	Group		Bank		Chinese mainland	
	2009	2008	**2009**	2008	**2009**	2008
Corporate loans and advances						
Loans and advances	**3,534,685**	2,353,896	**3,185,339**	2,053,109	**2,961,094**	1,870,883
Discounted bills	**228,191**	138,818	**227,927**	138,626	**225,154**	137,688
Subtotal	**3,762,876**	2,492,714	**3,413,266**	2,191,735	**3,186,248**	2,008,571
Personal loans						
Mortgages	**907,912**	635,000	**777,329**	514,973	**764,362**	507,571
Credit cards	**31,336**	16,495	**24,968**	10,808	**24,702**	10,649
Other	**208,234**	151,937	**192,688**	137,277	**190,401**	136,013
Subtotal	**1,147,482**	803,432	**994,985**	663,058	**979,465**	654,233
Total loans and advances	**4,910,358**	3,296,146	**4,408,251**	2,854,793	**4,165,713**	2,662,804
Allowance for impairment losses						
Individually assessed	**(42,415)**	(51,146)	**(41,611)**	(49,615)	**(41,311)**	(49,087)
Collectively assessed	**(70,535)**	(55,348)	**(68,755)**	(53,696)	**(66,335)**	(51,670)
Total allowance for impairment losses	**(112,950)**	(106,494)	**(110,366)**	(103,311)	**(107,646)**	(100,757)
Loans and advances to customers, net	**4,797,408**	3,189,652	**4,297,885**	2,751,482	**4,058,067**	2,562,047

16.2 Analysis of loans and advances to customers by geographical area, industry, collateral type and analysis of overdue loans and advances to customers by collateral type is presented in Note VI.3.5.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Loans and advances to customers, net (Continued)

16.3 Analysis of loans and advances to customers by collective and individual allowance assessments

Group

	Loans and advances for which allowance is collectively assessed (1)	Identified impaired loans and advances (2): for which allowance is collectively assessed	Identified impaired loans and advances (2): for which allowance is individually assessed	Identified impaired loans and advances (2): Subtotal	Total	Identified impaired loans and advances as % of total loans and advances
As at 31 December 2009						
Total loans and advances	**4,834,352**	**16,218**	**59,788**	**76,006**	**4,910,358**	**1.55%**
Allowance for impairment losses	**(60,128)**	**(10,407)**	**(42,415)**	**(52,822)**	**(112,950)**	
Loans and advances to customers, net	**4,774,224**	**5,811**	**17,373**	**23,184**	**4,797,408**	
As at 31 December 2008						
Total loans and advances	3,205,267	18,340	72,539	90,879	3,296,146	2.76%
Allowance for impairment losses	(43,192)	(12,156)	(51,146)	(63,302)	(106,494)	
Loans and advances to customers, net	3,162,075	6,184	21,393	27,577	3,189,652	

Bank

	Loans and advances for which allowance is collectively assessed (1)	Identified impaired loans and advances (2): for which allowance is collectively assessed	Identified impaired loans and advances (2): for which allowance is individually assessed	Identified impaired loans and advances (2): Subtotal	Total	Identified impaired loans and advances as % of total loans and advances
As at 31 December 2009						
Total loans and advances	**4,333,658**	**16,152**	**58,441**	**74,593**	**4,408,251**	**1.69%**
Allowance for impairment losses	**(58,385)**	**(10,370)**	**(41,611)**	**(51,981)**	**(110,366)**	
Loans and advances to customers, net	**4,275,273**	**5,782**	**16,830**	**22,612**	**4,297,885**	
As at 31 December 2008						
Total loans and advances	2,766,594	18,286	69,913	88,199	2,854,793	3.09%
Allowance for impairment losses	(41,579)	(12,117)	(49,615)	(61,732)	(103,311)	
Loans and advances to customers, net	2,725,015	6,169	20,298	26,467	2,751,482	

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Loans and advances to customers, net (Continued)

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

Chinese mainland

	Loans and advances for which allowance is collectively assessed (1)	Identified impaired loans and advances (2): for which allowance is collectively assessed	for which allowance is individually assessed	Subtotal	Total	Identified impaired loans and advances as % of total loans and advances
As at 31 December 2009						
Total loans and advances	**4,092,033**	**16,104**	**57,576**	**73,680**	**4,165,713**	**1.77%**
Allowance for impairment losses	**(56,000)**	**(10,335)**	**(41,311)**	**(51,646)**	**(107,646)**	
Loans and advances to customers, net	**4,036,033**	**5,769**	**16,265**	**22,034**	**4,058,067**	
As at 31 December 2008						
Total loans and advances	2,575,452	18,207	69,145	87,352	2,662,804	3.28%
Allowance for impairment losses	(39,608)	(12,062)	(49,087)	(61,149)	(100,757)	
Loans and advances to customers, net	2,535,844	6,145	20,058	26,203	2,562,047	

(1) Loans and advances for which allowance is collectively assessed consist of loans and advances which have not been specifically identified as impaired.

(2) Identified impaired loans and advances are loans for which objective evidence of impairment exists and which have been identified as bearing an impairment loss and assessed either:

- individually (including mainly significant corporate loans and advances over a certain amount which are impaired); or
- collectively (portfolios of insignificant homogenous loans, which includes insignificant corporate loans and advances and personal loans which are impaired).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Loans and advances to customers, net (Continued)

16.4 Reconciliation of allowance for impairment losses on loans and advances to customers by individual and collective assessments

	2009			2008		
	Individually assessed allowance	**Collectively assessed allowance**	**Total**	Individually assessed allowance	Collectively assessed allowance	Total
Group						
As at 1 January	**51,146**	**55,348**	**106,494**	51,837	44,231	96,068
Impairment losses for the year	**12,931**	**28,837**	**41,768**	15,871	18,589	34,460
Reversal	**(14,625)**	**(11,698)**	**(26,323)**	(11,656)	(6,012)	(17,668)
Written off and transfer out	**(7,190)**	**(1,848)**	**(9,038)**	(4,524)	(1,051)	(5,575)
Recovery of loans and advances written off in previous year	**507**	**142**	**649**	642	260	902
Unwind of discount on allowance	**(339)**	**(293)**	**(632)**	(456)	(310)	(766)
Exchange difference	**(15)**	**47**	**32**	(568)	(359)	(927)
As at 31 December	**42,415**	**70,535**	**112,950**	51,146	55,348	106,494
Bank						
As at 1 January	**49,615**	**53,696**	**103,311**	51,452	43,034	94,486
Impairment losses for the year	**12,519**	**28,488**	**41,007**	14,634	17,896	32,530
Reversal	**(13,809)**	**(11,654)**	**(25,463)**	(10,934)	(5,978)	(16,912)
Written off and transfer out	**(6,502)**	**(1,627)**	**(8,129)**	(4,578)	(895)	(5,473)
Recovery of loans and advances written off in previous year	**114**	**101**	**215**	–	193	193
Unwind of discount on allowance	**(312)**	**(293)**	**(605)**	(417)	(296)	(713)
Exchange difference	**(14)**	**44**	**30**	(542)	(258)	(800)
As at 31 December	**41,611**	**68,755**	**110,366**	49,615	53,696	103,311
Chinese mainland						
As at 1 January	**49,087**	**51,670**	**100,757**	51,349	41,934	93,283
Impairment losses for the year	**12,239**	**28,192**	**40,431**	14,126	16,981	31,107
Reversal	**(13,716)**	**(11,654)**	**(25,370)**	(10,873)	(5,978)	(16,851)
Written off and transfer out	**(6,102)**	**(1,607)**	**(7,709)**	(4,578)	(852)	(5,430)
Recovery of loans and advances written off in previous year	**114**	**28**	**142**	–	27	27
Unwind of discount on allowance	**(297)**	**(293)**	**(590)**	(408)	(296)	(704)
Exchange difference	**(14)**	**(1)**	**(15)**	(529)	(146)	(675)
As at 31 December	**41,311**	**66,335**	**107,646**	49,087	51,670	100,757

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Loans and advances to customers, net (Continued)

16.5 Reconciliation of allowance account for impairment losses on loans and advances to customers by customer type

	2009			2008		
	Corporate	**Personal**	**Total**	Corporate	Personal	Total
Group						
As at 1 January	**85,519**	**20,975**	**106,494**	76,634	19,434	96,068
Impairment losses for the year	**40,607**	**1,161**	**41,768**	32,157	2,303	34,460
Reversal	**(26,228)**	**(95)**	**(26,323)**	(17,578)	(90)	(17,668)
Written off and transfer out	**(8,070)**	**(968)**	**(9,038)**	(5,099)	(476)	(5,575)
Recovery of loans and advances written off in previous year	**594**	**55**	**649**	848	54	902
Unwind of discount on allowance	**(423)**	**(209)**	**(632)**	(564)	(202)	(766)
Exchange difference	**29**	**3**	**32**	(879)	(48)	(927)
As at 31 December	**92,028**	**20,922**	**112,950**	85,519	20,975	106,494
Bank						
As at 1 January	**82,653**	**20,658**	**103,311**	75,295	19,191	94,486
Impairment losses for the year	**40,091**	**916**	**41,007**	30,542	1,988	32,530
Reversal	**(25,463)**	**–**	**(25,463)**	(16,912)	–	(16,912)
Written off and transfer out	**(7,382)**	**(747)**	**(8,129)**	(5,162)	(311)	(5,473)
Recovery of loans and advances written off in previous year	**215**	**–**	**215**	193	–	193
Unwind of discount on allowance	**(397)**	**(208)**	**(605)**	(518)	(195)	(713)
Exchange difference	**27**	**3**	**30**	(785)	(15)	(800)
As at 31 December	**89,744**	**20,622**	**110,366**	82,653	20,658	103,311
Chinese mainland						
As at 1 January	**80,237**	**20,520**	**100,757**	74,093	19,190	93,283
Impairment losses for the year	**39,591**	**840**	**40,431**	29,272	1,835	31,107
Reversal	**(25,370)**	**–**	**(25,370)**	(16,851)	–	(16,851)
Written off and transfer out	**(6,974)**	**(735)**	**(7,709)**	(5,120)	(310)	(5,430)
Recovery of loans and advances written off in previous year	**142**	**–**	**142**	27	–	27
Unwind of discount on allowance	**(382)**	**(208)**	**(590)**	(509)	(195)	(704)
Exchange difference	**(15)**	**–**	**(15)**	(675)	–	(675)
As at 31 December	**87,229**	**20,417**	**107,646**	80,237	20,520	100,757

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Investment securities

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Investment securities available for sale				
Debt securities available for sale				
Chinese mainland issuers				
– Government	**126,549**	290,250	**124,526**	289,320
– Public sector and quasi-governments	**5,659**	2,108	**5,640**	2,108
– Policy banks	**111,362**	102,611	**108,190**	100,718
– Financial institutions	**20,342**	6,065	**10,214**	3,258
– Corporate	**51,262**	20,137	**50,642**	19,626
Overseas issuers				
– Governments	**79,664**	102,831	**30,508**	41,779
– Public sector and quasi-governments	**42,948**	65,313	**18,530**	57,216
– Financial institutions	**142,091**	113,502	**41,468**	52,855
– Corporate	**28,332**	40,608	**16,790**	22,246
	608,209	743,425	**406,508**	589,126
Equity securities	**12,381**	8,098	**1,348**	1,070
Fund investments and other	**1,717**	1,079	**–**	–
Total investment securities available for sale (1)	**622,307**	752,602	**407,856**	590,196
Debt securities held to maturity				
Chinese mainland issuers				
– Government	**418,925**	156,492	**418,855**	155,854
– Public sector and quasi-governments	**9,332**	103	**9,332**	103
– Policy banks	**111,943**	54,462	**111,020**	52,829
– Financial institutions	**19,874**	4,768	**17,413**	1,585
– Corporate	**58,103**	352	**57,754**	–
Overseas issuers				
– Governments	**40,120**	24,726	**36,414**	23,685
– Public sector and quasi-governments	**20,610**	36,932	**16,039**	25,919
– Financial institutions	**58,304**	68,361	**6,663**	6,606
– Corporate	**8,016**	23,969	**1,807**	2,219
	745,227	370,165	**675,297**	268,800
Allowance for impairment losses	**(534)**	(4,327)	**(436)**	(411)
Total debt securities held to maturity (2)	**744,693**	365,838	**674,861**	268,389

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Investment securities (Continued)

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Debt securities classified as loans and receivables				
Chinese mainland issuers				
– China Orient Bond (3)	**160,000**	160,000	**160,000**	160,000
– PBOC Special Bills (4)	**82**	73,512	**82**	73,512
– PBOC Target Bills (5)	**113,484**	72,000	**113,484**	72,000
– Special Purpose Treasury Bond (6)	**42,500**	42,500	**42,500**	42,500
– Financial institutions	**14,560**	14,545	**14,560**	14,545
– Certificate and Saving-type Treasury Bonds and other (7)	**37,660**	27,771	**37,660**	27,771
Overseas issuers				
– Public sector and quasi-governments	**6,372**	12,627	**3,907**	10,269
– Financial institutions	**13,232**	37,125	**2,047**	26,017
	387,890	440,080	**374,240**	426,614
Allowance for impairment losses	**(108)**	(126)	**(108)**	(126)
Total securities classified as loans and receivables	**387,782**	439,954	**374,132**	426,488
Total investment securities (8) (9)	**1,754,782**	1,558,394	**1,456,849**	1,285,073

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Investment securities (Continued)

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Analysed as follows:				
Investment securities available for sale				
Debt securities				
– Listed in Hong Kong	**12,214**	6,600	**4,812**	2,567
– Listed outside Hong Kong	**407,370**	521,810	**330,557**	479,236
– Unlisted	**188,625**	215,015	**71,139**	107,323
Equity, fund and other				
– Listed in Hong Kong	**5,368**	2,465	**–**	–
– Listed outside Hong Kong	**1,054**	637	**–**	–
– Unlisted	**7,676**	6,075	**1,348**	1,070
Debt securities held to maturity				
– Listed in Hong Kong	**2,636**	5,089	**929**	1,132
– Listed outside Hong Kong	**642,224**	237,098	**623,024**	218,181
– Unlisted	**99,833**	123,651	**50,908**	49,076
Debt securities classified as loans and receivables				
– Unlisted	**387,782**	439,954	**374,132**	426,488
Total	**1,754,782**	1,558,394	**1,456,849**	1,285,073
Listed in Hong Kong	**20,218**	14,154	**5,741**	3,699
Listed outside Hong Kong	**1,050,648**	759,545	**953,581**	697,417
Unlisted	**683,916**	784,695	**497,527**	583,957
Total	**1,754,782**	1,558,394	**1,456,849**	1,285,073

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Investment securities (Continued)

Group

	As at 31 December			
	2009		2008	
	Carrying value	**Market value**	Carrying value	Market value
Debt securities held to maturity				
Listed in Hong Kong	**2,636**	**2,722**	5,089	5,105
Listed outside Hong Kong	**642,224**	**641,993**	237,098	244,095

Bank

	As at 31 December			
	2009		2008	
	Carrying value	**Market value**	Carrying value	Market value
Debt securities held to maturity				
Listed in Hong Kong	**929**	**985**	1,132	1,167
Listed outside Hong Kong	**623,024**	**622,772**	218,181	225,859

(1) The Group's accumulated impairment charge on debt and equity securities available for sale held as at 31 December 2009 amounted to RMB24,326 million and RMB3,135 million, respectively (31 December 2008: RMB28,288 million and RMB3,149 million, respectively).

(2) As a result of a change in intention, the Group reclassified RMB180,801 million available for sale debt securities to held to maturity investments during 2009 (2008: Nil).

(3) The Bank transferred certain non-performing assets to China Orient Asset Management Corporation ("China Orient") in 1999 and 2000. On 1 July 2000, China Orient issued a ten-year bond with a par value of RMB160,000 million to the Bank as consideration. The interest rate of the bonds is 2.25% per annum. Pursuant to Caijin [2004] No. 87 "Notice of the MOF regarding Relevant Issues relating to the Principal and Interest of Debt Securities of Financial Asset Management Companies Held by Bank of China and China Construction Bank", from 1 January 2005, should China Orient fail to pay in full the interest on the debt securities or repay the principal in full according to the contractual terms of the bond, the MOF shall provide funding support.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Investment securities (Continued)

(4) As at 31 December 2009, the Bank held a special PBOC Bill amounting to RMB82 million, which was issued by PBOC on 22 June 2006 in exchange for certain non-performing loans, as previously approved by the State Council. The tenor of the bill is 5 years, with an interest rate of 1.89% per annum. Without the approval of the PBOC, the special PBOC Bill is non-transferable and may not be used as collateral for borrowings. The PBOC has the option to settle this bill in whole or in part before maturity.

The Special Bill issued by the PBOC on 30 June 2004 with a par value of RMB73,430 million matured in 2009 and the Bank received the principal and interest amount in full.

(5) As at 31 December 2009, the Bank held the following PBOC Target Bills for commercial banks:

Issue date	Tenor	Interest rate per annum	Carrying value
09 March 2007	3 years	3.07%	16,000
13 July 2007	3 years	3.60%	14,000
17 August 2007	3 years	3.69%	17,000
07 September 2007	3 years	3.71%	25,000
15 September 2009 (i)	1 year	Zero coupon bond	41,484
			113,484

(i) These bills were issued at a discount with a redeemable face value of RMB42,000 million.

Without the approval of the PBOC, these PBOC bills are non-transferable and may not be used as collateral for borrowings.

(6) On 18 August 1998, a Special Purpose Treasury Bond was issued by the MOF with a par value of RMB42,500 million maturing on 18 August 2028. This bond was originally issued with an annual coupon interest rate of 7.2% and its coupon interest rate was restructured to 2.25% per annum from 1 December 2004.

(7) The Group underwrites certain Treasury bonds issued by the MOF and undertakes the role of a distributor of these Treasury bonds through its branch network earning commission income on bonds sold. The investors of these bonds have a right to redeem the bonds at par any time prior to maturity and the Bank is committed to redeem these Treasury bonds. The balance of these bonds held by the Group and the Bank as at 31 December 2009 amounted to RMB37,552 million (31 December 2008: RMB27,645 million). During the year the total distribution of these Treasury bonds amounted to RMB39,640 million (2008: RMB16,900 million) and commission income amounted to RMB327 million (2008: RMB189 million).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Investment securities (Continued)

(8) As at 31 December 2009, the Group and the Bank held bonds issued by the MOF and bills issued by the PBOC included in investment securities with the amount and the related interest rate range on such bonds and bills as follows:

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Amount	**704,974**	662,399	**702,881**	660,831
Interest rate range	**0.86%-6.80%**	1.11%-6.80%	**0.86%-6.80%**	1.11%-6.80%

(9) As at 31 December 2009, included in the Group's investment securities were certificates of deposit held amounting to RMB29,132 million as at 31 December 2009 (31 December 2008: RMB20,082 million).

18 Investment in subsidiaries

The carrying amounts by principal investees are as follows, and further details are disclosed in Note V.43.7. These principal subsidiaries are private companies. All holdings are in the ordinary share capital of the undertaking concerned, and the ability of the investee to transfer funds to the Group and the Bank is not restricted.

	As at 31 December	
	2009	2008
BOC Hong Kong (Group) Limited	**36,915**	36,915
BOC Group Investment Limited	**20,135**	19,452
BOC Group Insurance Company Limited	**4,509**	3,861
BOC International Holdings Limited	**3,753**	3,753
BOC (UK) Limited	**2,126**	2,126
Tai Fung Bank Limited	**82**	82
Other	**4,021**	3,406
Total	**71,541**	69,595

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 Investment in associates and joint ventures

	Group		Bank	
	2009	2008	**2009**	2008
As at 1 January	**7,376**	6,779	**18**	19
Additions	**2,773**	270	**–**	–
Disposals	**(105)**	(28)	**–**	–
Share of results net of tax	**821**	726	**–**	–
Share of reserve movement	**(179)**	148	**–**	–
Dividends received	**(267)**	(375)	**–**	–
Foreign exchange and other	**249**	(144)	**–**	(1)
As at 31 December	**10,668**	7,376	**18**	18

The investment in associates and joint ventures of the Group and the Bank are ordinary shares of unlisted companies, and the ability of associates and joint ventures to transfer funds to the Group and the Bank is not restricted. The carrying amount by principal investees was as follows:

	As at 31 December	
	2009	2008
Huaneng International Power Development Corporation	**4,305**	4,012
BOC International (China) Limited	**1,829**	1,545
AVIC International Holding Corporation	**1,385**	–
Zhangjiagang Special Glass Limited	**498**	–
Bank of Ningxia Company Limited (i)	**440**	–
Hong Kong Bora Holdings Limited	**367**	–
Dongfeng Peugeot Citroen Auto Finance Company Limited	**261**	263
Silver Union Investments Limited	**204**	291
United Glory Investment Limited	**157**	177
Bohai Industrial Investment Fund Management Company Limited	**133**	126
Other	**1,089**	962
Total	**10,668**	7,376

(i) Equity investment in Bank of Ningxia Company Limited is subject to approval by the regulatory authorities.

Further details are disclosed in Note V.43.4.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment

Group

	Buildings and improvements	Equipment and motor vehicles	Construction in progress	Aircraft	Total
As at 31 December 2009					
Cost	**75,185**	**33,403**	**11,887**	**38,260**	**158,735**
Accumulated depreciation	**(21,216)**	**(20,625)**	**–**	**(2,288)**	**(44,129)**
Allowance for impairment losses	**(819)**	**–**	**(279)**	**–**	**(1,098)**
Net book amount	**53,150**	**12,778**	**11,608**	**35,972**	**113,508**
As at 31 December 2008					
Cost	72,770	29,530	8,094	22,606	133,000
Accumulated depreciation	(19,783)	(18,509)	–	(1,316)	(39,608)
Allowance for impairment losses	(840)	–	(316)	–	(1,156)
Net book amount	52,147	11,021	7,778	21,290	92,236

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment (Continued)

Group

	Buildings and improvements	Equipment and motor vehicles	Construction in progress	Aircraft	Total
Year ended 31 December 2009					
Beginning net book amount	**52,147**	**11,021**	**7,778**	**21,290**	**92,236**
Additions	**1,950**	**5,300**	**8,738**	**15,176**	**31,164**
Transfer to investment property, net (Note V.21)	**(139)**	**–**	**(13)**	**–**	**(152)**
Reclassification	**2,313**	**571**	**(4,639)**	**1,755**	**–**
Disposals	**(405)**	**(82)**	**(255)**	**(1,140)**	**(1,882)**
Depreciation charge	**(2,741)**	**(4,045)**	**–**	**(1,085)**	**(7,871)**
Allowance for impairment losses	**(4)**	**–**	**–**	**–**	**(4)**
Exchange differences	**29**	**13**	**(1)**	**(24)**	**17**
Closing net book amount	**53,150**	**12,778**	**11,608**	**35,972**	**113,508**
Year ended 31 December 2008					
Beginning net book amount	50,962	8,733	6,848	17,262	83,805
Additions	945	4,761	8,348	7,617	21,671
Transfer to investment property, net (Note V.21)	(182)	–	–	–	(182)
Reclassification	4,776	1,123	(7,224)	1,325	–
Disposals	(1,006)	(49)	(51)	(3,105)	(4,211)
Depreciation charge	(2,598)	(3,423)	–	(739)	(6,760)
Allowance for impairment losses	(11)	–	(3)	–	(14)
Exchange differences	(739)	(124)	(140)	(1,070)	(2,073)
Closing net book amount	52,147	11,021	7,778	21,290	92,236

As at 31 December 2009, the net book amount of aircraft owned by the Group acquired under finance lease arrangements was RMB3,777 million (2008: RMB2,507 million).

As at 31 December 2009, the net book amount of aircraft leased out by the Group under operating leases was RMB35,972 million (2008: RMB21,290 million).

As at 31 December 2009, the net book amount of aircraft owned by the Group that have been pledged for loan facilities was RMB14,095 million (2008: RMB14,479 million) (see Note V.31(2)).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment (Continued)

Bank

	Buildings and improvements	Equipment and motor vehicles	Construction in process	Total
As at 31 December 2009				
Cost	**60,332**	**28,813**	**8,783**	**97,928**
Accumulated depreciation	**(17,364)**	**(17,588)**	**–**	**(34,952)**
Allowance for impairment losses	**(819)**	**–**	**(279)**	**(1,098)**
Net book amount	**42,149**	**11,225**	**8,504**	**61,878**
As at 31 December 2008				
Cost	57,571	25,218	5,229	88,018
Accumulated depreciation	(15,915)	(15,946)	–	(31,861)
Allowance for impairment losses	(840)	–	(316)	(1,156)
Net book amount	40,816	9,272	4,913	55,001

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment (Continued)

Bank

	Buildings and improvements	Equipment and motor vehicles	Construction in process	Total
Year ended 31 December 2009				
Beginning net book amount	**40,816**	**9,272**	**4,913**	**55,001**
Additions	**1,674**	**5,016**	**6,510**	**13,200**
Transfer to investment property, net (Note V.21)	**–**	**–**	**–**	**–**
Reclassification	**2,409**	**457**	**(2,866)**	**–**
Disposals	**(379)**	**(23)**	**(53)**	**(455)**
Depreciation charge	**(2,415)**	**(3,504)**	**–**	**(5,919)**
Allowance for impairment losses	**(4)**	**–**	**–**	**(4)**
Exchange differences	**48**	**7**	**–**	**55**
Closing net book amount	**42,149**	**11,225**	**8,504**	**61,878**
Year ended 31 December 2008				
Beginning net book amount	38,702	7,094	4,657	50,453
Additions	673	4,074	6,098	10,845
Transfer to investment property, net (Note V.21)	(18)	–	–	(18)
Reclassification	4,673	1,115	(5,788)	–
Disposals	(953)	(47)	(51)	(1,051)
Depreciation charge	(2,203)	(2,936)	–	(5,139)
Allowance for impairment losses	(11)	–	(3)	(14)
Exchange differences	(47)	(28)	–	(75)
Closing net book amount	40,816	9,272	4,913	55,001

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment (Continued)

According to relevant PRC laws and regulations, after conversion into a joint stock limited liability company, the Bank is required to re-register its property and equipment under the name of Bank of China Limited. As at 31 December 2009, the process of re-registration has not been completed. However, this registration process does not affect the rights of the Bank of China Limited to these assets.

The carrying value of buildings and improvements is analysed based on the remaining terms of the leases as follows:

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Held in Hong Kong				
on long-term lease (over 50 years)	**3,589**	6,270	**–**	–
on medium-term lease (10-50 years)	**6,171**	3,630	**–**	–
on short-term lease (less than 10 years)	**350**	418	**–**	–
Subtotal	**10,110**	10,318	**–**	–
Held outside Hong Kong				
on long-term lease (over 50 years)	**4,385**	3,430	**4,259**	3,163
on medium-term lease (10-50 years)	**37,849**	37,720	**37,119**	37,083
on short-term lease (less than 10 years)	**806**	679	**771**	570
Subtotal	**43,040**	41,829	**42,149**	40,816
Total	**53,150**	52,147	**42,149**	40,816

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 Investment property

	Group		Bank	
	2009	2008	**2009**	2008
As at 1 January	**9,637**	9,986	**1,239**	1,362
Additions	**4,267**	625	**–**	–
Transfer from property and equipment, net (Note V.20)	**152**	182	**–**	18
Disposals	**(48)**	(616)	**–**	–
Fair value changes (Note V.4)	**1,933**	44	**124**	(64)
Exchange differences	**11**	(584)	**21**	(77)
As at 31 December	**15,952**	9,637	**1,384**	1,239

The Group's investment properties are located in active real estate markets, and external valuers make reasonable estimation of fair value using market prices of the same or similar properties from the real estate market.

Investment properties are mainly held by BOCHK Holdings and BOCGI, subsidiaries of the Group. The carrying value of investment properties held by BOCHK Holdings and BOCGI as at 31 December 2009 amounted to RMB8,245 million and RMB6,310 million, respectively (31 December 2008: RMB6,814 million and RMB1,573 million). The current year valuation of these investment properties were principally performed as at 31 December 2009 by either Savills Valuation and Professional Services Limited or Knight Frank Petty Limited based on open market price.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 Investment property (Continued)

The carrying value of investment properties is analysed based on the remaining terms of the leases as follows:

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Held in Hong Kong				
on long-term lease (over 50 years)	**2,097**	6,447	**–**	–
on medium-term lease (10-50 years)	**7,491**	446	**–**	–
on short-term lease (less than 10 years)	**20**	11	**–**	–
Subtotal	**9,608**	6,904	**–**	–
Held outside Hong Kong				
on long-term lease (over 50 years)	**2,886**	1,692	**1,176**	1,034
on medium-term lease (10-50 years)	**3,238**	832	**–**	–
on short-term lease (less than 10 years)	**220**	209	**208**	205
Subtotal	**6,344**	2,733	**1,384**	1,239
Total	**15,952**	9,637	**1,384**	1,239

22 Other assets

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Interest receivable	**34,390**	34,690	**31,258**	30,978
Accounts receivable and prepayments (1)	**28,776**	22,643	**14,412**	7,150
Intangible assets (2)	**2,411**	2,315	**1,758**	1,327
Land use rights (3)	**3,406**	3,439	**3,266**	3,309
Repossessed assets (4)	**1,950**	2,412	**1,274**	1,439
Goodwill (5)	**1,929**	1,877	**–**	–
Other	**2,912**	2,537	**1,325**	1,530
Total	**75,774**	69,913	**53,293**	45,733

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(1) Accounts receivable and prepayments

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Accounts receivable and prepayments	**31,094**	25,158	**16,658**	9,359
Impairment	**(2,318)**	(2,515)	**(2,246)**	(2,209)
Net value	**28,776**	22,643	**14,412**	7,150

Accounts receivable and prepayments mainly include items in the process of clearing and settlement. The analysis of the aging of accounts receivable and prepayments is as follows:

Group

	As at 31 December			
	2009		2008	
	Balance	**Impairment**	Balance	Impairment
Within 1year	**26,833**	**(151)**	21,506	(900)
From 1 year to 3 years	**1,505**	**(1,046)**	1,266	(422)
Over 3 years	**2,756**	**(1,121)**	2,386	(1,193)
Total	**31,094**	**(2,318)**	25,158	(2,515)

Bank

	As at 31 December			
	2009		2008	
	Balance	**Impairment**	Balance	Impairment
Within 1year	**12,866**	**(138)**	6,526	(880)
From 1 year to 3 years	**1,290**	**(1,026)**	1,012	(410)
Over 3 years	**2,502**	**(1,082)**	1,821	(919)
Total	**16,658**	**(2,246)**	9,359	(2,209)

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(2) Intangible assets

Group

	2009			2008		
	Aircraft firm orders and options	Computer software and other	Total	Aircraft firm orders and options	Computer software and other	Total
Beginning net book amount	820	1,495	2,315	1,432	1,427	2,859
Additions	–	849	849	–	658	658
Amortisation	–	(373)	(373)	–	(502)	(502)
Transfer out	(382)	–	(382)	(530)	(64)	(594)
Exchange difference	(1)	3	2	(82)	(24)	(106)
Closing net book amount	437	1,974	2,411	820	1,495	2,315

Bank

	2009			2008		
	Aircraft firm orders and options	Computer software and other	Total	Aircraft firm orders and options	Computer software and other	Total
Beginning net book amount	–	1,327	1,327	–	1,205	1,205
Additions	–	740	740	–	581	581
Amortisation	–	(311)	(311)	–	(449)	(449)
Transfer out	–	–	–	–	–	–
Exchange difference	–	2	2	–	(10)	(10)
Closing net book amount	–	1,758	1,758	–	1,327	1,327

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(3) Land use rights

The carrying value of land use rights is analysed based on the remaining terms of the leases as follows:

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Held outside Hong Kong				
on long-term lease (over 50 years)	**51**	51	**51**	51
on medium-term lease (10-50 years)	**3,327**	3,359	**3,187**	3,229
on short-term lease (less than 10 years)	**28**	29	**28**	29
	3,406	3,439	**3,266**	3,309

(4) Repossessed assets

The Group obtained repossessed assets by taking possession of collateral held as security. Such repossessed assets of the Group are as follows:

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Commercial properties	**2,476**	3,065	**1,438**	1,496
Residential properties	**497**	678	**388**	534
Other	**1,145**	1,224	**970**	987
	4,118	4,967	**2,796**	3,017
Allowance for impairment	**(2,168)**	(2,555)	**(1,522)**	(1,578)
Repossessed assets, net	**1,950**	2,412	**1,274**	1,439

The total book value of repossessed assets disposed of in 2009 amounted to RMB1,325 million (2008: RMB1,840 million). The Group plans to dispose of the repossessed assets held at 31 December 2009 by auction, bidding or transfer.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(5) Goodwill

Group

	2009	2008
As at 1 January	**1,877**	1,752
Addition through acquisition of subsidiaries	**54**	232
Exchange difference	**(2)**	(107)
As at 31 December	**1,929**	1,877

The goodwill mainly arose from the acquisition of BOC Aviation Pte. Ltd. on 15 December 2006 amounting to USD241 million (equivalent RMB1,644 million).

23 Impairment allowance

Group

	As at 1 January 2009	Additions	Decrease: Reversal	Decrease: Write-off and transfer out	Exchange differences	As at 31 December 2009
Impairment allowance						
– Placements with and loans to banks and other financial institutions	399	–	(4)	(29)	–	366
– Loans and advances to customers [(1)]	106,494	41,768	(26,323)	(9,021)	32	112,950
– Investment securities						
– available for sale (Note V.17(1))	31,437	5,736	(6,007)	(3,657)	(48)	27,461
– held to maturity	4,327	1,489	(2,072)	(3,207)	(3)	534
– loans and receivables	126	–	–	(18)	–	108
– Property and equipment	1,156	4	–	(62)	–	1,098
– Repossessed assets	2,555	122	(35)	(474)	–	2,168
– Land use rights	56	1	–	(11)	–	46
– Accounts receivable and prepayments	2,515	630	(485)	(342)	–	2,318
– Other	119	163	–	(1)	–	281
Total	149,184	49,913	(34,926)	(16,822)	(19)	147,330

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 Impairment allowance (Continued)

Group

	As at 1 January 2008	Additions	Decrease: Reversal	Decrease: Write-off and transfer out	Exchange differences	As at 31 December 2008
Impairment allowance						
– Placements with and loans to banks and other financial institutions	390	23	–	(14)	–	399
– Loans and advances to customers [(1)]	96,068	34,460	(17,668)	(5,439)	(927)	106,494
– Investment securities						
– available for sale (Note V.17(1))	10,836	27,710	(4,605)	(1,457)	(1,047)	31,437
– held to maturity	1,612	5,684	(1,690)	(1,133)	(146)	4,327
– loans and receivables	148	–	(10)	(12)	–	126
– Property and equipment	1,259	14	–	(116)	(1)	1,156
– Repossessed assets	3,159	365	(106)	(838)	(25)	2,555
– Land use rights	59	2	–	(5)	–	56
– Accounts receivable and prepayments	1,983	1,218	(423)	(218)	(45)	2,515
– Other	230	–	–	(97)	(14)	119
Total	115,744	69,476	(24,502)	(9,329)	(2,205)	149,184

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 Impairment allowance (Continued)

Bank

	As at 1 January 2009	Additions	Decrease: Reversal	Decrease: Write-off and transfer out	Exchange differences	As at 31 December 2009
Impairment allowance						
– Placements with and loans to banks and other financial institutions	399	–	(4)	(30)	–	365
– Loans and advances to customers [(1)]	103,311	41,007	(25,463)	(8,519)	30	110,366
– Investment securities						
– available for sale	24,196	3,474	(3,185)	(802)	–	23,683
– held to maturity	411	148	(123)	–	–	436
– loans and receivables	126	–	–	(18)	–	108
– Property and equipment	1,156	4	–	(62)	–	1,098
– Repossessed assets	1,578	32	(25)	(63)	–	1,522
– Land use rights	56	1	–	(11)	–	46
– Accounts receivable and prepayments	2,209	586	(481)	(68)	–	2,246
– Other	25	–	–	–	–	25
Total	133,467	45,252	(29,281)	(9,573)	30	139,895

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 Impairment allowance (Continued)

Bank

	As at 1 January 2008	Additions	Decrease: Reversal	Decrease: Write-off and transfer out	Exchange differences	As at 31 December 2008
Impairment allowance						
– Placements with and loans to banks and other financial institutions	390	23	–	(14)	–	399
– Loans and advances to customers [(1)]	94,486	32,530	(16,912)	(5,993)	(800)	103,311
– Investment securities						
– available for sale	10,327	18,887	(3,389)	(709)	(920)	24,196
– held to maturity	37	422	(40)	–	(8)	411
– loans and receivables	148	–	(10)	(12)	–	126
– Property and equipment	1,259	14	–	(116)	(1)	1,156
– Repossessed assets	1,795	305	(106)	(391)	(25)	1,578
– Land use rights	59	2	–	(5)	–	56
– Accounts receivable and prepayments	1,534	1,195	(417)	(89)	(14)	2,209
– Other	27	–	–	–	(2)	25
Total	110,062	53,378	(20,874)	(7,329)	(1,770)	133,467

(1) Included within "Write-off and transfer out" on loans and advances to customers are amounts relating to loan and advances written-off, transferred out, recovery of loans and advances written off in previous year, and unwind of discount on allowance.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24 Due to banks and other financial institutions

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Due to:				
Domestic banks	**413,841**	277,692	**395,107**	265,778
Domestic other financial institutions	**449,665**	405,384	**449,661**	405,380
Overseas banks	**39,009**	38,953	**20,373**	22,383
Overseas other financial institutions	**1,651**	2,199	**1,651**	2,199
Total	**904,166**	724,228	**866,792**	695,740

Fixed deposits held by the Group and the Bank of RMB385,670 million and RMB387,508 million, respectively, as at 31 December 2009 have been reclassified from "Certificates of deposit and placements from banks and other financial institutions" to "Due to banks and other financial institutions" (31 December 2008: RMB120,835 million and RMB124,505 million).

25 Due to central banks

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Foreign exchange deposits	**59,049**	55,561	**59,049**	55,561
Other	**2,566**	35	**40**	29
Total	**61,615**	55,596	**59,089**	55,590

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26 Government certificates of indebtedness for bank notes issued and bank notes in circulation

Bank of China (Hong Kong) Limited and Bank of China Macau Branch are note issuing banks for Hong Kong dollar and Macau pataca notes in Hong Kong and Macau, respectively. Under local regulations, these two entities are required to place deposits with the Hong Kong and Macau governments respectively to secure the currency notes in circulation.

Bank notes in circulation represent the liabilities in respect of Hong Kong dollar notes and Macau pataca notes in circulation, issued respectively by Bank of China (Hong Kong) Limited and Bank of China Macau branch.

27 Certificates of deposit and placements from banks and other financial institutions

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Certificates of deposit	**–**	1,298	**–**	1,298
Placements from:				
Domestic banks	**79,590**	60,624	**79,590**	49,300
Domestic other financial institutions	**23,264**	2,797	**23,264**	2,797
Overseas banks	**80,084**	14,258	**114,202**	35,492
Overseas other financial institutions	**3,705**	542	**17,995**	65,872
Total placements from banks and other financial institutions (1) (2) (3)	**186,643**	78,221	**235,051**	153,461
Total	**186,643**	79,519	**235,051**	154,759

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27 Certificates of deposit and placements from banks and other financial institutions (Continued)

(1) Presentation of certain items has been adjusted (Note V.24).

(2) Included in the Bank's placements from banks and other financial institutions are balances with the Bank's subsidiaries (Note V.43.7).

(3) Included in placements from banks and other financial institutions are amounts received from counterparties under repurchase agreements and collateral agreements as follows:

Group and Bank

	As at 31 December	
	2009	2008
Repurchase debt securities [i]	**81,847**	1,402
Collateralised precious metals	**27,392**	–
Total	**109,239**	1,402

(i) Debt securities used as collateral under repurchase agreement were principally government bonds.

28 Financial liabilities at fair value through profit or loss

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Trading financial liabilities				
– short position in debt securities	**12,464**	10,995	**–**	289
Financial liabilities designated				
at fair value through profit or loss [1]				
– Structured deposit	**31,770**	55,809	**27,258**	44,998
– Certificates of deposit	**–**	745	**–**	–
Total	**44,234**	67,549	**27,258**	45,287

(1) There were no significant changes in the Group's or Bank's credit risk and therefore there were no significant gains or losses attributed to changes in credit risk for those financial liabilities designated at fair value through profit or loss in 2009 and 2008.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29 Due to customers

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Demand deposits				
Corporate deposits	**1,948,036**	1,375,251	**1,770,173**	1,237,153
Personal deposits	**1,194,533**	901,188	**853,294**	651,620
Subtotal	**3,142,569**	2,276,439	**2,623,467**	1,888,773
Time deposits				
Corporate deposits	**1,125,487**	786,896	**1,023,315**	652,828
Personal deposits	**1,985,352**	1,822,323	**1,820,611**	1,605,272
Subtotal	**3,110,839**	2,609,219	**2,843,926**	2,258,100
Security and margin deposits	**367,144**	216,453	**356,886**	207,770
Total	**6,620,552**	5,102,111	**5,824,279**	4,354,643

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 Bonds issued

				As at 31 December			
			Interest	Group		Bank	
	Issue date	Maturity date	rate	2009	2008	2009	2008
Subordinated bonds issued							
2004 RMB Debt Securities [(1)]							
First Tranche	7 July 2004	20 July 2014	4.87%	–	14,070	–	14,070
Second Tranche	22 October 2004	16 November 2014	4.94%	–	12,000	–	12,000
2005 RMB Debt Securities [(2)]							
First Tranche	18 February 2005	4 March 2015	4.83%	15,930	15,930	15,930	15,930
Second Tranche (fixed rate)	18 February 2005	4 March 2020	5.18%	9,000	9,000	9,000	9,000
Second Tranche (floating rate)	18 February 2005	4 March 2015	Floating interest rate	9,000	9,000	9,000	9,000
2009 RMB Debt Securities [(3)]							
First Tranche (fixed rate)	6 July 2009	8 July 2019	3.28%	14,000	–	14,000	–
	6 July 2009	8 July 2024	4%	24,000	–	24,000	–
First Tranche (floating rate)	6 July 2009	8 July 2019	Floating interest rate	2,000	–	2,000	–
Subtotal [(4)]				73,930	60,000	73,930	60,000

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 Bonds issued (Continued)

				As at 31 December			
			Interest	Group		Bank	
	Issue date	Maturity date	rate	**2009**	2008	**2009**	2008
Other bonds issued							
1994 US Dollar Debt Securities	10 March 1994	15 March 2014	8.25%	**151**	152	**151**	152
2007 RMB Debt Securities issued in Hong Kong							
Tranche A [5]	28 September 2007	28 September 2009	3.15%	**–**	1,688	**–**	2,000
Tranche B	28 September 2007	28 September 2010	3.35%	**692**	690	**1,000**	1,000
2008 RMB Debt Securities issued in Hong Kong							
Tranche A	22 September 2008	22 September 2010	3.25%	**1,306**	1,273	**2,000**	2,000
Tranche B	22 September 2008	22 September 2011	3.40%	**719**	672	**1,000**	1,000
Other				**–**	918	**–**	–
Subtotal				**2,868**	5,393	**4,151**	6,152
Total[6]				**76,798**	65,393	**78,081**	66,152

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 Bonds issued (Continued)

(1) During 2009, the Bank exercised the option to redeem at face value all of the first tranche and the second tranche of subordinated bonds issued in 2004.

(2) The first tranche of subordinated bonds issued on 18 February 2005 has a maturity of 10 years, with a fixed coupon rate of 4.83%, paid annually. The Bank has the option to redeem all or part of the bonds at face value on 4 March 2010. If the Bank does not exercise this option, the annual coupon rate of the bonds for the remaining 5-year period shall be the original coupon rate plus 3%, and shall remain fixed for the remaining term of the bonds. (Note V. 45)

The second tranche of subordinated bonds issued on 18 February 2005 comprises a fixed rate portion and a floating rate portion.

The fixed rate portion has a maturity of 15 years, with a fixed coupon rate of 5.18%, paid annually. The Bank has the option to redeem all or part of the bonds at face value on 4 March 2015. If the Bank does not exercise this option, the annual coupon rate of the bonds for the remaining 5-year period shall be the original coupon rate plus 3%, and shall remain fixed through the maturity date.

The floating rate portion has a maturity of 10 years, with a floating rate based on the exponentially weighted average of 7-day domestic money market rate, paid semi-annually. The Bank has the option to redeem all or part of the bonds at face value on 4 March 2010. If the Bank does not exercise this option, the floating rate for the remaining 5-year period shall be the original floating rate plus 1% (Note V. 45).

(3) The first tranche of subordinated bonds issued on 6 July 2009 comprise three portions.

The first portion of fixed rate bond has a maturity of 10 years, with a fixed coupon rate of 3.28%, paid annually. The Bank has the option to redeem all of the bonds at face value on 8 July 2014. If the Bank does not exercise this option, the annual coupon rate of the bonds for the remaining 5-year period shall be the original coupon rate plus 3%, and shall remain fixed through the maturity date.

The second portion of fixed rate bond has a maturity of 15 years, with a fixed coupon rate of 4.00%, paid annually. The Bank has the option to redeem all of the bonds at face value on 8 July 2019. If the Bank does not exercise this option, the annual coupon rate of the bonds for the remaining 5-year period shall be the original coupon rate plus 3%, and shall remain fixed through the maturity date.

The floating rate bond has a maturity of 10 years, with a floating rate based on the specified 1-year domestic deposit and withdrawal time deposit interest rate published by PBOC, paid annually. The Bank has the option to redeem all of the bonds at face value on 8 July 2014. If the Bank does not exercise this option, the floating rate for the remaining 5-year period shall be the original floating rate plus 3%, and shall remain fixed through the maturity date.

(4) These RMB denominated bonds are subordinated to all other claims on the assets of the Bank, except those of the equity holders. In the calculation of the Group's capital adequacy ratio, these bonds are qualified for inclusion as supplementary capital in accordance with the relevant CBRC guidelines.

(5) Tranche A of the 2007 RMB Debt security of RMB2,000 million issued in Hong Kong matured on 28 September 2009.

(6) During 2009 and 2008, the Group did not default on principal, interest or redemption amounts with respect to its bonds issued.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 Other borrowings

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Special purpose borrowings [(1)]				
Export credit loans	**5,425**	7,083	**5,425**	7,083
Foreign government loans	**12,799**	13,773	**12,799**	13,773
Other subsidised loans	**7,705**	9,393	**7,705**	9,393
	25,929	30,249	**25,929**	30,249
Term loans and other borrowings [(2)]	**11,257**	12,589	**–**	–
Total [(3)]	**37,186**	42,838	**25,929**	30,249

(1) Special purpose borrowings are long-term borrowings in multiple currencies from foreign governments and/or banks in the form of export credit loans, foreign government loans and other subsidised loans. These special purpose loans are normally used to finance projects with a special commercial purpose in the PRC and the Bank is obliged to repay these loans when they fall due.

As of 31 December 2009, the remaining maturity of special purpose borrowings ranges from within 1 month to 38 years. The interest bearing special purpose borrowings bear floating and fixed interest rates ranging from 0.15% to 7.95% (31 December 2008: 0.20% to 7.95%). These terms are consistent with those related development loans granted to customers.

(2) These term loans and other borrowings relate to the financing of the aircraft leasing business of BOC Aviation, a wholly owned subsidiary of the Bank.

As at 31 December 2009, these term loans and other borrowings have a maturity ranging from within 7 days to 9 years and bear floating and fixed interest rates ranging from 0.76% to 7.56% (31 December 2008: 2.28% to 7.56%). The term loans and other borrowings of RMB11,121 million (31 December 2008: 11,838 million) are secured by aircraft of the Group (see Note V.20).

(3) During 2009 and 2008, the Group did not default on principal, interest or redemption amounts with respect to the other borrowings.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32 Current tax liabilities

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Corporate Income Tax	**14,058**	21,345	**11,851**	20,594
Business Tax	**3,034**	2,844	**2,959**	2,779
City Construction and Maintenance Tax	**197**	193	**197**	193
Education Surcharges	**108**	105	**108**	105
Other	**404**	340	**359**	257
Total	**17,801**	24,827	**15,474**	23,928

33 Retirement benefit obligations

As of 31 December 2009 and 31 December 2008, the actuarial liabilities existing at the respective year-end dates in relation to the retirement benefit obligation for employees who retired prior to 31 December 2003 and the early retirement obligation for employees who early retired were RMB2,475 million (31 December 2008: RMB2,660 million) and RMB4,392 million (31 December 2008: RMB4,703 million) respectively, which were assessed by Hewitt Associates LLC, using the projected unit credit method.

The movements of the net liabilities recognised in the statements of financial position are as follows:

Group and Bank

	2009	2008
As at 1 January	**7,363**	7,231
Amounts recognised in the income statement		
Interest cost	**179**	298
Net actuarial loss recognised in the year	**319**	845
Benefits paid	**(994)**	(1,011)
As at 31 December	**6,867**	7,363

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 Retirement benefit obligations (Continued)

Primary assumptions used:

Group and Bank

	As at 31 December	
	2009	2008
Discount rate		
– Normal retiree	**4.01%**	2.61%
– Early retiree	**2.96%**	2.61%
Pension benefit inflation rate		
– Normal retiree	**5.0%~4.0%**	6.0%~4.0%
– Early retiree	**6.5%~4.0%**	6.0%~4.0%
Medical benefit inflation rate	**6.0%**	5.50%
Retiring age		
– Male	**60**	60
– Female	**50/55**	50/55

Assumptions regarding future mortality experience are based on the China Insurance Industry Experience Mortality Table (published historical statistics in China).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34 Share option schemes

34.1 Share Appreciation Rights Plan

In November 2005, the Bank's Board of Directors and equity holders approved and adopted a Share Appreciation Rights Plan under which eligible participants including directors, supervisors, management and other personnel designated by the Board, will be granted share appreciation rights, up to 25% of which will be exercisable each year beginning on the third anniversary date from the date of the grant. The share appreciation rights will be valid for seven years from the date of grant. Eligible participants will be entitled to receive an amount equal to the difference, if any, between the average closing market price of the Bank's H shares in the ten days prior to the date of grant and the average closing market price of the Bank's H shares in the 12 months prior to the date of exercise as adjusted for any change in the Bank's equity. The plan provides cash-settled share-based payment only and accordingly, no shares will be issued under the share appreciation rights plan.

No share appreciation rights were granted since the inception of the plan.

34.2 Share Option Scheme and Sharesave Plan

On 10 July 2002, the equity holders of BOCHK Holdings approved adoption of two share option schemes, namely, the Share Option Scheme and the Sharesave Plan.

Since the establishment of the Share Option Scheme and the Sharesave Plan, no options were granted.

34.3 BOCHK Holdings Pre-listing Share Option Scheme

On 5 July 2002, certain of the Bank's directors, senior management personnel and employees of the Group were granted options by BOC Hong Kong (BVI) Limited ("BOCHK (BVI)"), the immediate holding company of BOCHK Holdings, pursuant to a Pre-listing Share Option Scheme to purchase from BOCHK (BVI) an aggregate of 31,132,600 previously issued and outstanding shares of BOCHK Holdings for HKD8.50 per share. These options, with a ten-year term, vest ratably over four years from 25 July 2002. No further offers to grant any options under the Pre-listing Share Option Scheme will be made. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The Group has taken advantage of the transitional provision of IFRS 2 under which the required recognition and measurements have not been applied to the options granted to employees of the Group on or before 7 November 2002.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34 Share option schemes (Continued)

34.3 BOCHK Holdings Pre-listing Share Option Scheme (Continued)

Details of the movement of share options outstanding are as follows:

Unit: Share

	Key management personnel	Other employees	Other (1)	Total number of share options
As at 1 January 2009	**4,215,500**	**3,435,800**	**–**	**7,651,300**
Transferred	**–**	**(1,590,600)**	**1,590,600**	**–**
Less: Share options exercised during the year (2)	**(239,000)**	**(770,900)**	**(1,590,600)**	**(2,600,500)**
As at 31 December 2009	**3,976,500**	**1,074,300**	**–**	**5,050,800**
As at 1 January 2008	4,816,000	4,088,700	1,446,000	10,350,700
Transferred	(239,000)	239,000	–	–
Less: Share options exercised during the year (2)	(361,500)	(891,900)	(1,446,000)	(2,699,400)
As at 31 December 2008	4,215,500	3,435,800	–	7,651,300

(1) These represent share options held by former directors or former employees of BOCHK Holdings.

(2) Regarding the share options exercised during the years ended 31 December 2009 and 31 December 2008 the weighted average share price of BOCHK Holdings' shares at the time of exercise was HKD16.83 (equivalent to RMB14.83), and HKD18.65 (equivalent to RMB16.60) respectively.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Deferred income taxes

35.1 Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes are related to the same fiscal authority. The table below includes the deferred income tax assets and liabilities of the Group and the Bank after offsetting qualifying amounts:

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Deferred income tax assets	**24,774**	17,405	**25,381**	17,763
Deferred income tax liabilities	**(3,386)**	(2,093)	**(138)**	(54)
Net	**21,388**	15,312	**25,243**	17,709

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Deferred income taxes (Continued)

35.2 Deferred income tax assets/(liabilities) and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

Group

	As at 31 December 2009		As at 31 December 2008	
	Temporary difference	Deferred tax assets/ (liabilities)	Temporary difference	Deferred tax assets/ (liabilities)
Deferred income tax assets				
Asset impairment allowances	85,626	21,391	89,351	22,303
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	9,406	2,351	39,729	9,934
Fair value changes of available for sale investment securities credited to equity	118	35	6,625	1,066
Statutory asset revaluation surplus	5,214	1,303	5,545	1,386
Pension and other benefit costs	4,493	1,123	4,805	1,201
Other temporary differences	13,822	3,375	7,474	1,061
Subtotal	118,679	29,578	153,529	36,951
Deferred income tax liabilities				
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	(11,057)	(2,766)	(58,286)	(14,570)
Fair value changes of available for sale investment securities charged to equity	(3,928)	(949)	(13,033)	(3,032)
Depreciation of property and equipment	(7,433)	(1,204)	(6,622)	(1,087)
Revaluation of property and investment property	(14,262)	(2,300)	(12,162)	(2,006)
Other temporary differences	(6,369)	(971)	(7,623)	(944)
Subtotal	(43,049)	(8,190)	(97,726)	(21,639)
Net	75,630	21,388	55,803	15,312

As at 31 December 2009, deferred tax liabilities relating to temporary differences of RMB20,939 million associated with the Group's investments in subsidiaries have not been recognised (31 December 2008: RMB12,346 million).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Deferred income taxes (Continued)

35.2 Deferred income tax assets/(liabilities) and related temporary differences, before offsetting qualifying amounts, are attributable to the following items (Continued):

Bank

	As at 31 December 2009		As at 31 December 2008	
	Temporary difference	**Deferred tax assets/ (liabilities)**	Temporary difference	Deferred tax assets/ (liabilities)
Deferred income tax assets				
Asset impairment allowances	**84,173**	**21,134**	88,013	22,065
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	**9,234**	**2,309**	39,723	9,932
Fair value changes of available for sale investment securities credited to equity	**19**	**9**	139	64
Statutory asset revaluation surplus	**5,214**	**1,303**	5,545	1,386
Pension and other benefit costs	**4,493**	**1,123**	4,805	1,201
Other temporary differences	**11,883**	**2,962**	2,251	535
Subtotal	**115,016**	**28,840**	140,476	35,183
Deferred income tax liabilities				
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	**(10,947)**	**(2,741)**	(58,255)	(14,565)
Fair value changes of available for sale investment securities charged to equity	**(2,497)**	**(606)**	(10,972)	(2,750)
Other temporary differences	**(1,252)**	**(250)**	(970)	(159)
Subtotal	**(14,696)**	**(3,597)**	(70,197)	(17,474)
Net	**100,320**	**25,243**	70,279	17,709

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Deferred income taxes (Continued)

35.3 The movements of the deferred income tax asset and liability account are as follows:

	Group		Bank	
	2009	2008	**2009**	2008
As at 1 January	**15,312**	14,753	**17,709**	18,036
Credited to income statement (Note V.9)	**5,115**	3,501	**5,471**	3,377
Credited/(Charged) to equity	**1,052**	(3,103)	**2,089**	(3,695)
Acquisition of subsidiaries	**–**	(73)	**–**	–
Exchange differences	**(91)**	234	**(26)**	(9)
As at 31 December	**21,388**	15,312	**25,243**	17,709

35.4 The deferred income tax credit in the consolidated income statement comprises the following temporary differences:

	Year ended 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Asset impairment allowances	**(912)**	4,463	**(931)**	4,397
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	**4,221**	(958)	**4,201**	(955)
Statutory asset revaluation surplus	**(83)**	(107)	**(83)**	(107)
Pension and other benefit costs	**(78)**	(77)	**(78)**	(77)
Other temporary differences	**1,967**	180	**2,362**	119
Total	**5,115**	3,501	**5,471**	3,377

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Other liabilities

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Items in the process of clearance and settlement	**58,798**	69,900	**57,458**	60,220
Interest payable	**49,555**	52,999	**49,282**	52,329
Insurance liabilities				
– Life insurance contract	**29,416**	24,935	**–**	–
– Non-life insurance contract	**3,912**	3,524	**–**	–
Salary and welfare payable (1)	**14,139**	11,031	**12,513**	10,279
Provision (2)	**1,510**	2,503	**1,227**	1,961
Other (3)	**30,594**	33,838	**11,525**	15,841
Total	**187,924**	198,730	**132,005**	140,630

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Other liabilities (Continued)

(1) Salary and welfare payable

Group

	As at 1 January 2009	Accrual	Payment	As at 31 December 2009
Salary, bonus and subsidy	**9,756**	**32,206**	**(29,449)**	**12,513**
Staff welfare	**–**	**2,613**	**(2,613)**	**–**
Social insurance, including:				
Medical	**176**	**1,271**	**(1,199)**	**248**
Pension	**49**	**2,986**	**(2,959)**	**76**
Annuity	**–**	**702**	**(702)**	**–**
Unemployment	**3**	**194**	**(190)**	**7**
Injury at work	**–**	**64**	**(63)**	**1**
Maternity insurance	**–**	**77**	**(76)**	**1**
Housing funds	**15**	**2,225**	**(2,214)**	**26**
Labour union fee and staff education fee	**854**	**1,125**	**(891)**	**1,088**
Reimbursement for cancellation of labour contract	**11**	**21**	**(15)**	**17**
Other	**167**	**1,492**	**(1,497)**	**162**
Total (i)	**11,031**	**44,976**	**(41,868)**	**14,139**

	As at 1 January 2008	Accrual	Payment	As at 31 December 2008
Salary, bonus and subsidy	9,769	27,689	(27,702)	9,756
Staff welfare	–	2,315	(2,315)	–
Social insurance, including:				
Medical	60	1,048	(932)	176
Pension	22	2,540	(2,513)	49
Annuity	1	612	(613)	–
Unemployment	3	220	(220)	3
Injury at work	–	58	(58)	–
Maternity insurance	–	62	(62)	–
Housing funds	26	1,852	(1,863)	15
Labour union fee and staff education fee	113	987	(246)	854
Reimbursement for cancellation of labour contract	2	30	(21)	11
Other	134	1,309	(1,276)	167
Total (i)	10,130	38,722	(37,821)	11,031

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Other liabilities (Continued)

(1) Salary and welfare payable (Continued)

Bank

	As at 1 January 2009	Accrual	Payment	As at 31 December 2009
Salary, bonus and subsidy	9,013	25,998	(24,114)	10,897
Staff welfare	–	2,447	(2,447)	–
Social insurance, including:				
Medical	176	1,270	(1,198)	248
Pension	49	2,983	(2,956)	76
Annuity	–	702	(702)	–
Unemployment	3	194	(190)	7
Injury at work	–	64	(63)	1
Maternity insurance	–	77	(76)	1
Housing funds	15	2,224	(2,213)	26
Labour union fee and staff education fee	854	1,125	(891)	1,088
Reimbursement for cancellation of labour contract	11	18	(13)	16
Other	158	606	(611)	153
Total (i)	10,279	37,708	(35,474)	12,513

	As at 1 January 2008	Accrual	Payment	As at 31 December 2008
Salary, bonus and subsidy	7,596	22,811	(21,394)	9,013
Staff welfare	–	2,127	(2,127)	–
Social insurance, including:				
Medical	60	1,048	(932)	176
Pension	22	2,538	(2,511)	49
Annuity	1	612	(613)	–
Unemployment	3	220	(220)	3
Injury at work	–	58	(58)	–
Maternity insurance	–	62	(62)	–
Housing funds	26	1,851	(1,862)	15
Labour union fee and staff education fee	113	987	(246)	854
Reimbursement for cancellation of labour contract	2	29	(20)	11
Other	134	513	(489)	158
Total (i)	7,957	32,856	(30,534)	10,279

(i) There was no overdue payment for staff salary and welfare payables as at 31 December 2009 and 2008.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Other liabilities (Continued)

(2) Provisions

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Allowance for litigation losses (Note V.41.1)	**672**	1,358	**638**	1,325
Other	**838**	1,145	**589**	636
Total	**1,510**	2,503	**1,227**	1,961

Provisions movement

	Group		Bank	
	2009	2008	**2009**	2008
As at 1 January	**2,503**	2,260	**1,961**	2,084
Provision for the year, net [(i)]	**3,100**	699	**239**	168
Utilised during the year [(i)]	**(4,093)**	(456)	**(973)**	(291)
As at 31 December	**1,510**	2,503	**1,227**	1,961

(i) Provision for the year and utilisation during the year principally relates to Minibonds (Note V. 5).

(3) Other

Other includes finance lease payments which are principally related to finance leased aircraft by BOC Aviation Pte. Ltd. as disclosed below.

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Within 1 year (inclusive)	**319**	141	**1**	1
1 year to 2 years (inclusive)	**317**	177	**–**	1
2 years to 3 years (inclusive)	**315**	177	**–**	–
Over 3 years	**2,555**	1,643	**–**	–
Total minimum rental payments	**3,506**	2,138	**1**	2
Unrecognised finance charge	**(768)**	(305)	**–**	–
Finance lease payments, net	**2,738**	1,833	**1**	2

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37 Share capital, capital reserve and treasury shares

37.1 As at 31 December 2009, the Bank's share capital was as follows:

	Number of shares
Domestic listed A shares, par value RMB1.00 per share	**177,818,910,740**
Overseas listed H shares, par value RMB1.00 per share	**76,020,251,269**
Total	**253,839,162,009**

All A shares and H shares rank pari passu with the same rights and benefits.

37.2 As at 31 December 2009, a wholly owned subsidiary of the Group held certain listed shares of the Bank in relation to its derivative and arbitrage business. These shares are treated as treasury shares, a deduction from equity holders' equity. Gains and losses on sale or redemption of the treasury shares are credited or charged to reserves. The total number of treasury shares as at 31 December 2009 was approximately 11.69 million (31 December 2008: approximately 9.12 million).

37.3 During 2008, the initial contribution of RMB500 million made by Huijin to the Annuity Plan in 2005 was repaid and recorded in the capital reserve.

38 Statutory reserves, general and regulatory reserves and undistributed profits

38.1 Statutory reserves

Under relevant PRC Laws, the Bank is required to transfer 10% of its net profit, as determined under Chinese Accounting Standards (CAS), to a non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of such reserves has reached 50% of the share capital. Subject to the approval of the equity holders, the statutory surplus reserve can be used for replenishing the accumulated losses or increasing the Bank's share capital. The statutory surplus reserve amount used to increase the share capital is limited to a level where the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the share capital.

In addition, some overseas branches and subsidiaries are required to transfer certain percentages of their net profit to the statutory surplus reserve as stipulated by local banking authorities.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

38 Statutory reserves, general and regulatory reserves and undistributed profits (Continued)

38.1 Statutory reserves (Continued)

In accordance with a resolution of the Board of Directors dated 23 March 2010, the Bank appropriated 10% of the net profit for the year ended 31 December 2009 as reported in the PRC statutory financial statements to the statutory surplus reserves, amounting to RMB7,019 million (2008: RMB7,718 million).

38.2 General and regulatory reserves

Pursuant to Caijin [2005] No. 49 "Measures on General Provision for Bad and Doubtful Debts for Financial Institutions" and Caijin [2007] No. 23 "Application Guidance of Financing Measures for Financial Institutions" issued by MOF in addition to the specific allowance for impairment losses, the Bank is required to establish and maintain a general reserve within Equity holders' equity, through the appropriation of income to address unidentified potential impairment losses. The general reserve should not be less than 1% of the aggregate amount of risk assets as defined by this policy.

In accordance with a resolution dated 23 March 2010 and on the basis of the Bank's profit for the year ended 31 December 2009, the Board of Directors of the Bank approved the appropriation of RMB19,566 million (2008: RMB15,806 million) to the general reserve for the year ended 31 December 2009. As at 31 December 2009, the general reserve of the Bank amounted to RMB57,402 million (2008: RMB37,839 million), which complied with the regulatory requirement detailed above.

The regulatory reserve mainly refers to the reserve amount set aside by BOC Hong Kong (Group) Limited, a subsidiary of the Group, for general banking risks, including future losses or other unforeseeable risks. As at 31 December 2009 and 2008, the reserve amount set aside by BOC Hong Kong (Group) Limited was RMB2,860 million and RMB3,112 million, respectively.

38.3 Dividends

A dividend of RMB32,999 million in respect of 2008 profits was approved by the equity holders of the Bank at the Annual General Meeting held on 18 June 2009.

A dividend of RMB0.14 per share in respect of 2009 profits, amounting to a total dividend of RMB35,537 million is to be proposed for approval at the Annual General Meeting to be held on 27 May 2010. These financial statements do not reflect this dividend payable in liabilities.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 Reserve for fair value changes of available for sale securities

	Group		Bank	
	2009	2008	**2009**	2008
As at 1 January	**7,534**	(1,506)	**8,170**	(5,704)
Net changes in fair value	**(1,589)**	(6,659)	**(7,868)**	3,705
Share of associates' reserve for fair value changes of available for sale securities	**(185)**	170	**–**	–
Net impairment (reversal)/charge transferred to income statement	**(89)**	20,769	**289**	15,498
Net fair value changes transferred to income statement on derecognition	**(1,517)**	(1,960)	**(889)**	(1,634)
Deferred income taxes	**1,332**	(3,280)	**2,089**	(3,695)
Other	**(13)**	–	**–**	–
As at 31 December	**5,473**	7,534	**1,791**	8,170

40 Minority interests

Minority interests of the subsidiaries of the Group are as follows:

	As at 31 December	
	2009	2008
BOC Hong Kong (Group) Limited	**28,568**	23,871
Tai Fung Bank Limited	**1,583**	1,559
Other	**251**	199
Total	**30,402**	25,629

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 Contingent liabilities and commitments

41.1 Legal proceedings

As at 31 December 2009, the Group was involved in certain lawsuits as defendants arising from its normal business operations. As at 31 December 2009, provisions of RMB672 million (31 December 2008: RMB1,358 million) were made based on court judgements or the advice of counsel (see Note V.36(2)). After consulting legal professionals, management of the Group believes that the ultimate outcome of these lawsuits will not have a material impact on the financial position or operations of the Group.

41.2 Assets pledged

Assets pledged by the Group as collateral for placement, repurchase, short positions, derivatives transactions with other banks and financial institutions and for local statutory requirements are set forth in the tables below. These transactions are conducted under standard and normal business terms.

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Debt securities	**107,089**	36,185	**94,865**	25,388
Precious metals	**27,371**	–	**27,371**	–
Total	**134,460**	36,185	**122,236**	25,388

41.3 Collateral accepted

The Group and the Bank accept securities collateral that they are permitted to sell or re-pledge in connection with their reverse repurchase agreements with banks and other financial institutions. As at 31 December 2009, the fair value of collateral received from banks and financial institutions accepted by the Group and the Bank amounted to RMB17,131 million (31 December 2008: RMB23,565 million). As at 31 December 2009, both the Group and the Bank had not sold or re-pledged such collateral received (31 December 2008: Nil). These transactions are conducted under standard terms in the normal course of business.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 Contingent liabilities and commitments (Continued)

41.4 Capital commitments

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Property and equipment				
Contracted but not provided for	**31,031**	43,555	**979**	1,239
Authorised but not contracted for	**3,491**	2,602	**3,413**	2,574
Intangible assets				
Contracted but not provided for	**334**	1,149	**304**	1,084
Authorised but not contracted for	**1**	14	**1**	3
Total	**34,857**	47,320	**4,697**	4,900

41.5 Operating leases

(1) Operating lease commitments – As lessee

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

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Within one year	**2,903**	2,609	**2,379**	2,097
One to two years	**2,309**	2,000	**1,987**	1,600
Two to three years	**2,342**	1,518	**2,164**	1,330
Over three years	**4,651**	4,030	**4,587**	3,943
Total	**12,205**	10,157	**11,117**	8,970

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 Contingent liabilities and commitments (Continued)

41.5 Operating leases (Continued)

(2) *Operating lease commitments – As lessor*

The Group acts as lessor in operating leases principally through aircraft leasing undertaken by its subsidiary BOC Aviation. Under irrevocable operating lease contracts, as at 31 December 2009, the minimum lease payments which will be received by the Group under the operating leases for existing aircraft and aircraft yet to be delivered amounted to RMB3,591 million not later than one year (31 December 2008: RMB2,406 million), RMB16,335 million later than one year and not later than five years (31 December 2008: RMB10,404 million) and RMB19,094 million later than five years (31 December 2008: RMB12,644 million).

41.6 Treasury Bond redemption commitments

The Bank is entrusted by the MOF to underwrite certain Treasury bonds. The investors of these Treasury bonds have a right to redeem the bonds at par any time prior to maturity and the Bank is committed to redeem these Treasury bonds. The MOF will not provide funding for the early redemption of these Treasury bonds on a back-to-back basis but will pay interest and repay the principal at maturity. The redemption price is the principal value of the bonds plus unpaid interest in accordance with the early redemption arrangement.

As at 31 December 2009, the outstanding principal value of the Treasury bonds sold by the Bank amounted to RMB55,193 million (31 December 2008: RMB51,650 million). The original maturities of these Treasury bonds vary from 1 to 5 years and management expects the amount of redemption before the maturity dates of these bonds through the Bank will not be material.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 Contingent liabilities and commitments (Continued)

41.7 Credit commitments

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Loan commitments (1)				
with an original maturity of under one year	**200,205**	274,078	**38,283**	126,143
with an original maturity of one year or over	**620,645**	467,949	**562,883**	413,531
Letters of credit issued	**147,726**	109,636	**126,116**	95,438
Letters of guarantee issued (2)	**574,090**	532,845	**579,649**	533,343
Bank bill acceptance	**283,927**	195,082	**283,927**	195,082
Accepted bill of exchange under letter of credit	**45,708**	32,855	**40,063**	27,477
Other	**3,098**	1,618	**2,950**	1,625
Total	**1,875,399**	1,614,063	**1,633,871**	1,392,639

(1) Loan commitments mainly represent undrawn loans agreed and granted to customers.

(2) Letters of guarantee issued include financial guarantees and performance guarantees.

These obligations on the Group to make payment are dependent on the outcome of a future event.

Credit risk weighted amounts of credit commitments

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Credit commitments	**664,183**	573,950	**642,707**	550,806

The credit risk weighted amounts are the amounts calculated in accordance with the guidelines issued by the CBRC and are dependent on, among other factors, the creditworthiness of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for commitments.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 Contingent liabilities and commitments (Continued)

41.8 Underwriting obligations

The unexpired underwriting obligations of securities are as follows:

Group and Bank

	As at 31 December	
	2009	2008
Underwriting obligations	**45,502**	17,440

42 Note to consolidated statement of cash flows

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with an original maturity of less than three months:

Group

	As at 31 December	
	2009	2008
Cash and due from banks and other financial institutions	**146,046**	88,933
Balances with central banks	**247,006**	477,593
Placements with and loans to banks and other financial institutions	**165,553**	320,162
Short term bills and notes	**27,714**	34,719
Total	**586,319**	921,407

Cash flows of RMB264,835 million from fixed deposits held by the Group have been reclassified from "Certificates of deposit and placements from banks and other financial institutions" to "Due to banks and other financial institutions" in 2009 (2008: RMB59,817 million); and the Group's cash equivalent of RMB53,037 million has been reclassified from "Placements with and loans to banks and other financial institutions" to "Cash and due from banks and other financial institutions" as at 31 December 2009 (31 December 2008: RMB17,492 million) (Note II.23).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions

Related parties are those parties that have the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or other entities.

43.1 China Investment Corporation ("CIC") was established on 29 September 2007 with a registered capital of USD200 billion. CIC is a wholly state-owned company engaging in foreign currency investment management. The Group is subject to the control of the State Council of the PRC Government through CIC and its wholly owned subsidiary Huijin.

The Group entered into banking transactions with CIC in the normal course of its business.

43.2 Transactions with the Huijin and other companies controlled by Huijin

(1) General information of Huijin

Central Huijin Investment Ltd.

Legal representative	Lou Jiwei
Registered Capital	RMB552,117 million
Location of registration	Beijing
Capital shares in the Bank	67.53%
Voting rights in the Bank	67.53%
Nature	Wholly state-owned company
Principal activities	Investment in major state-owned financial institutions on behalf of the State Council
National organisation code	71093296-1

(2) Transactions with Huijin

Due to Huijin

	2009	2008
As at 1 January	**44,668**	21,592
Received during the year	**33,938**	112,503
Repaid during the year	**(68,499)**	(89,427)
As at 31 December	**10,107**	44,668

The Group entered into banking transactions with Huijin in the normal course of its business.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.2 Transactions with Huijin and other companies controlled by Huijin (Continued)

(3) Transactions with other companies controlled by Huijin

Huijin also has controlling equity interests in certain other bank and non-bank entities in the PRC. The Group enters into banking transactions with these companies in the normal course of its business. These include debt securities and money market transactions.

The Group's outstanding balances and related interest rate range with these companies as of 31 December 2009 and 2008 are as follows:

	As at 31 December	
	2009	2008
Due from banks and other financial institutions	**73,763**	5,471
Placements with and loans to banks and other financial institutions	**6,286**	6,585
Financial assets at fair value through profit or loss and investment securities	**21,659**	5,428
Due to banks and other financial institutions	**(31,604)**	(51,766)
Placements from banks and other financial institutions	**(8,459)**	(7,989)
Interest rate ranges at the end of the year		
Due from banks and other financial institutions	**0.01%-2.45%**	0.36%-7.50%
Placements with and loans to banks and other financial institutions	**0.25%-2.47%**	0.07%-5.03%
Financial assets at fair value through profit or loss and investment securities	**0.22%-4.04%**	1.00%-5.62%
Due to banks and other financial institutions	**0.00%-3.30%**	0.00%-5.07%
Placements from banks and other financial institutions	**0.11%-3.40%**	0.05%-4.75%

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.3 Transactions with government authorities, agencies, affiliates and other state controlled entities

The State Council of the PRC Government directly and indirectly controls a significant number of entities through its government authorities, agencies, affiliates and other state controlled entities. The Group enters into extensive banking transactions with these entities in the normal course of business and on commercial terms.

Transactions conducted with government authorities, agencies, affiliates and other state controlled entities include purchase and redemption of investment securities issued by government agencies, underwriting and distribution of treasury bonds issued by government agencies through the Group's branch network, foreign exchange and interest rate derivative transactions, lending, provision of credit and guarantees and deposit placing and taking.

43.4 Transactions with associates and joint ventures

The Group enters into banking transactions with associates and joint ventures in the normal course of business at commercial terms. These include loans and advances, deposit taking and other normal banking businesses. The outstanding balances with associates and joint ventures as of the respective year end dates are stated below:

	As at 31 December	
	2009	2008
Placements with and loans to banks and other financial institutions	**1,328**	2,305
Loans and advances to customers	**580**	277
Due to customers	**(9,526)**	(5,577)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.4 Transactions with associates and joint ventures (Continued)

The general information of principal associates and joint ventures is as follows:

Name	Place of incorporation/ establishment	National organisation code	Effective equity held (%)	Voting right (%)	Paid-in capital (in millions)	Principal business
Huaneng International Power Development Corporation	PRC	1100600003248	20.00	20.00	USD450	Power plant operations
BOC International (China) Limited	PRC	73665036-4	49.00	49.00	RMB1,500	Securities underwriting, investment advisory, and brokerage services
AVIC International Holding Corporation	PRC	100000000000991	16.31	Note (1)	RMB6,211	International Aviation, trade and logistics, real estate, industrial investment
Zhangjiagang Special Glass Limited	PRC	320582400000204	12.00	Note (1)	RMB221	Special glass production
Bank of Ningxia Company Limited	PRC	640000000002384	10.90	Note (1)	RMB1,460	Commercial banking
Hong Kong Bora Holdings Limited	Hong Kong	NA	19.50	Note (1)	HKD0.01	Investment holding
Dongfeng Peugeot Citroen Auto Finance Company Limited	PRC	63498851-6	50.00	50.00	RMB500	Car loan and financing services
Silver Union Investments Limited	Cayman	NA	70.00	Note (2)	USD30	Investment holding
United Glory Investments Limited	Hong Kong	NA	37.50	37.50	HKD0.1	Investment holding
Bohai Industrial Investment Fund Management Company Limited	PRC	1200717867824	53.00	Note (2)	RMB200	Investment fund management

(1) In accordance with the respective articles of association, the Group has significant influence over these companies.

(2) In accordance with the respective articles of association, the Group and other shareholders of these companies have joint control over these companies.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.5 Transactions with the Annuity Plan

The deposit balance of the Annuity Plan in the Bank is RMB2,484 million as at 31 December 2009 (31 December 2008: RMB4,370 million).

43.6 Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and Executive officers.

The Group enters into banking transactions with key management personnel in the normal course of business. During 2009 and 2008, there were no material transactions and balances with key management personnel on an individual basis.

The key management compensation for the years ended 31 December 2009 and 2008 is detailed as follows:

	Year ended 31 December	
	2009	2008
Compensation for short-term employment benefits (1)	**17**	32
Compensation for post-employment benefits	**1**	1
Total	**18**	33

(1) The total compensation package for these key management personnel for the year ended 31 December 2009 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact to the Group's and the Bank's 2009 financial statements. The final compensation will be disclosed in a separate announcement when determined.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.7 Balances with subsidiaries

Included in the following captions of the Bank's statements of financial position are balances with subsidiaries:

	As at 31 December	
	2009	2008
Due from banks and other financial institutions	**9,035**	13,342
Placements with and loans to banks and other financial institutions [1]	**98,423**	113,607
Due to banks and other financial institutions	**(9,887)**	(10,323)
Placements from banks and other financial institutions	**(50,620)**	(86,825)

(1) Includes subordinated loans to Bank of China (Hong Kong) Limited of RMB23,537 million as at 31 December 2009 (31 December 2008: RMB23,461 million) which were provided in the normal course of business and on commercial terms.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.7 Balances with subsidiaries (Continued)

The general information of principal subsidiaries is as follows:

Name	Place of incorporation and operation	Date of incorporation/ establishment	Paid-in capital (in millions)	Effective equity held (%)	Voting right (%)	Principal Business
Directly held						
BOC Hong Kong (Group) Limited	Hong Kong	12 September 2001	HKD34,806	100.00	100.00	Holding company
BOC International Holdings Limited (4)	Hong Kong	10 July 1998	HKD3,539	100.00	100.00	Investment banking
Bank of China Group Insurance Company Limited	Hong Kong	23 July 1992	HKD3,749	100.00	100.00	Insurance services
Bank of China Group Investment Limited	Hong Kong	18 May 1993	HKD22,935	100.00	100.00	Investment holding
Tai Fung Bank Limited	Macau	1942	MOP1,000	50.31	50.31	Commercial banking
Bank of China (UK) Limited	United Kingdom	24 September 2007	GBP140	100.00	100.00	Commercial banking
Indirectly held						
BOC Hong Kong (Holdings) Limited (2)	Hong Kong	12 September 2001	HKD52,864	66.06	66.06	Holding company
Bank of China (Hong Kong) Limited (3), (4)	Hong Kong	16 October 1964	HKD43,043	66.06	100.00	Commercial banking
Nanyang Commercial Bank, Limited (4)	Hong Kong	2 February 1948	HKD600	66.06	100.00	Commercial banking
Chiyu Banking Corporation Limited (3), (4)	Hong Kong	24 April 1947	HKD300	46.57	70.49	Commercial banking
BOC Credit Card (International) Limited	Hong Kong	9 September 1980	HKD480	66.06	100.00	Credit card services
BOC Group Trustee Company, Limited (4)	Hong Kong	1 December 1997	HKD200	76.43	100.00	Provision of trustee services
BOC Aviation Pte. Ltd.	Singapore	25 November 1993	USD308	100.00	100.00	Aircraft leasing

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.7 Balances with subsidiaries (Continued)

(2) BOCHK Holdings is listed on the Stock Exchange of Hong Kong Limited.

(3) Bank of China (Hong Kong) Limited, in which the Group holds a 66.06% equity interest, holds 70.49% of the equity interest of Chiyu Banking Corporation Limited.

(4) Bank of China (Hong Kong) Limited, Nanyang Commercial Bank Limited, Chiyu Banking Corporation Limited and BOC International Holdings Limited, in which the Group holds 66.06%, 66.06%, 46.57% and 100% of their equity interests, respectively, hold 54%, 6%, 6% and 34% equity interest of BOC Group Trustee Company Limited, respectively.

For the year ended 31 December 2009, the financial statements of the principal subsidiaries stated above, except for BOC Aviation Pte. Ltd., were audited by PricewaterhouseCoopers.

For some investees listed above, the voting rights ratio is not equal to the effective equity held ratio, mainly due to the impact of the indirect holdings.

44 Segment information

The Group manages the business from both a geographic and business perspective. From the geographic perspective, the Group operates in three principal regions: Chinese mainland, Hong Kong and Macau and other overseas locations. From the business perspective, the Group provides services through six main business segments: corporate banking, personal banking, treasury operations, investment banking, insurance and other operations.

Measurement of segment assets, liabilities, income, expenses, results and capital expenditure is based on the Group's accounting policies. The segment information presented includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Funding is provided to and from individual business segments through treasury operations as part of the asset and liability management process. The pricing of these transactions is based on market rates. The transfer price takes into account the specific features and maturities of the product. Internal transactions are eliminated on consolidation.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Segment information (Continued)

Geographical segments

Chinese mainland – Corporate banking, personal banking and treasury operations are performed in the Chinese mainland.

Hong Kong and Macau – Corporate banking, personal banking, treasury operations, investment banking and insurance services are performed in Hong Kong and Macau. The business of this segment is centralised in BOC Hong Kong (Group) Limited.

Other overseas locations – Corporate and personal banking services are provided in other overseas locations. Significant other overseas locations include New York, London, Singapore and Tokyo.

Business segments

Corporate banking – Services to corporate customers, government authorities and financial institutions including current accounts, deposits, overdrafts, loans, custody, trade related products and other credit facilities, foreign currency and derivative products.

Personal banking – Services to retail customers including current accounts, savings, deposits, investment savings products, credit and debit cards, consumer loans and mortgages.

Treasury operations – Consisting of foreign exchange transactions, customer-based interest rate and foreign exchange derivative transactions, money market transactions, proprietary trading and asset and liability management. The results of this segment include the inter-segment funding income and expenses, results from interest bearing assets and liabilities; and foreign currency translation gains and losses.

Investment banking – Consisting of debt and equity underwriting and financial advisory, sales and trading of securities, stock brokerage, investment research and asset management services, and private equity investment services.

Insurance – Underwriting of general and life insurance business and insurance agency services.

Other operations of the Group comprise investment holding and other miscellaneous activities, none of which constitutes a separately reportable segment.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Segment information (Continued)

As at and for the year ended 31 December 2009

		Hong Kong and Macau					
	Chinese mainland	BOC Hong Kong Group	Other	Subtotal	Other overseas locations	Elimination	Total
Interest income	235,665	19,739	2,689	22,428	6,803	(3,472)	261,424
Interest expense	(98,558)	(3,319)	(1,473)	(4,792)	(2,665)	3,472	(102,543)
Net interest income	137,107	16,420	1,216	17,636	4,138	–	158,881
Fee and commission income	37,346	7,558	3,776	11,334	2,476	(922)	50,234
Fee and commission expense	(1,099)	(1,789)	(1,322)	(3,111)	(695)	684	(4,221)
Net fee and commission income	36,247	5,769	2,454	8,223	1,781	(238)	46,013
Net trading gains/(losses)	4,619	(45)	951	906	324	–	5,849
Net gains/(losses) on investment securities	865	(116)	544	428	44	–	1,337
Other operating income[(1)]	4,131	8,727	7,565	16,292	306	(193)	20,536
Operating income	182,969	30,755	12,730	43,485	6,593	(431)	232,616
Operating expenses[(1)]	(80,997)	(16,846)	(7,538)	(24,384)	(2,071)	431	(107,021)
Impairment losses on assets	(15,545)	1,048	(34)	1,014	(456)	–	(14,987)
Operating profit	86,427	14,957	5,158	20,115	4,066	–	110,608
Share of results of associates and joint ventures	–	3	818	821	–	–	821
Profit before income tax	86,427	14,960	5,976	20,936	4,066	–	111,429
Income tax expense	(21,796)	(2,378)	(663)	(3,041)	(994)	–	(25,831)
Profit for the year	64,631	12,582	5,313	17,895	3,072	–	85,598
Segment assets	7,360,298	1,056,048	263,288	1,319,336	426,799	(368,924)	8,737,509
Investment in associates and joint ventures	–	51	10,617	10,668	–	–	10,668
Total assets	7,360,298	1,056,099	273,905	1,330,004	426,799	(368,924)	8,748,177
Non-current assets[(2)]	64,088	19,751	49,811	69,562	5,224	(161)	138,713
Segment liabilities	6,960,958	973,250	230,274	1,203,524	410,830	(368,763)	8,206,549
Other segment items:							
Intersegment net interest income	1,675	(642)	18	(624)	(1,051)	–	–
Intersegment net fee and commission income	103	108	(119)	(11)	146	(238)	–
Capital expenditure	12,592	496	21,276	21,772	1,260	–	35,624
Depreciation and amortisation	6,164	729	1,380	2,109	122	–	8,395
Credit commitments	1,565,265	243,367	28,634	272,001	111,848	(73,715)	1,875,399

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Segment information (Continued)

As at and for the year ended 31 December 2008

		Hong Kong and Macau					
	Chinese mainland	BOC Hong Kong Group	Other	Subtotal	Other overseas locations	Elimination	Total
Interest income	246,814	31,095	6,923	38,018	14,175	(12,080)	286,927
Interest expense	(107,402)	(13,033)	(5,556)	(18,589)	(10,080)	12,080	(123,991)
Net interest income	139,412	18,062	1,367	19,429	4,095	–	162,936
Fee and commission income	33,791	6,459	2,407	8,866	1,394	(339)	43,712
Fee and commission expense	(1,000)	(1,699)	(1,082)	(2,781)	(219)	235	(3,765)
Net fee and commission income	32,791	4,760	1,325	6,085	1,175	(104)	39,947
Net trading gains/(losses)	5,549	1,034	(1,073)	(39)	(465)	–	5,045
Net gains/(losses) on investment securities	1,651	(13)	311	298	60	–	2,009
Other operating income[(1)]	6,918	5,765	6,304	12,069	151	(179)	18,959
Operating income	186,321	29,608	8,234	37,842	5,016	(283)	228,896
Operating expenses[(1)]	(75,683)	(14,603)	(5,420)	(20,023)	(1,935)	229	(97,412)
Impairment losses on assets	(30,357)	(11,184)	(1,461)	(12,645)	(2,029)	–	(45,031)
Operating profit	80,281	3,821	1,353	5,174	1,052	(54)	86,453
Share of results of associates and joint ventures	–	4	829	833	–	(107)	726
Profit before income tax	80,281	3,825	2,182	6,007	1,052	(161)	87,179
Income tax expense	(19,502)	(999)	(373)	(1,372)	(411)	–	(21,285)
Profit for the year	60,779	2,826	1,809	4,635	641	(161)	65,894
Segment assets	5,570,992	1,004,479	238,454	1,242,933	585,365	(454,986)	6,944,304
Investment in associates and joint ventures	–	54	7,322	7,376	–	–	7,376
Total assets	5,570,992	1,004,533	245,776	1,250,309	585,365	(454,986)	6,951,680
Non-current assets[(2)]	57,728	18,638	30,531	49,169	3,418	(161)	110,154
Segment liabilities	5,198,840	936,878	207,896	1,144,774	573,004	(454,825)	6,461,793
Other segment items:							
Intersegment net interest income	4,662	335	(351)	(16)	(4,646)	–	–
Intersegment net fee and commission income	(3)	103	(93)	10	97	(104)	–
Capital expenditure	10,113	722	10,765	11,487	174	–	21,774
Depreciation and amortisation	6,005	701	992	1,693	118	–	7,816
Credit commitments	1,323,648	223,463	22,033	245,496	94,817	(49,898)	1,614,063

(1) Other operating income includes insurance premium income earned, and operating expenses include insurance benefits and claims.

(2) Non-current assets include property and equipment, investment property and other long-term assets.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Segment information (Continued)

As at and for the year ended 31 December 2009

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	144,368	98,500	76,698	679	1,229	280	(60,330)	261,424
Interest expense	(46,450)	(49,828)	(65,502)	(281)	(25)	(787)	60,330	(102,543)
Net interest income/(expense)	97,918	48,672	11,196	398	1,204	(507)	–	158,881
Fee and commission income	26,522	14,650	6,038	3,055	2	506	(539)	50,234
Fee and commission expense	(1,337)	(1,542)	(49)	(791)	(897)	(95)	490	(4,221)
Net fee and commission income	25,185	13,108	5,989	2,264	(895)	411	(49)	46,013
Net trading gains/(losses)	401	466	5,177	597	(803)	11	–	5,849
Net gains on investment securities	–	–	791	–	4	542	–	1,337
Other operating income	531	3,373	565	39	9,662	7,869	(1,503)	20,536
Operating income	124,035	65,619	23,718	3,298	9,172	8,326	(1,552)	232,616
Operating expenses	(41,583)	(39,801)	(10,355)	(1,689)	(9,024)	(6,121)	1,552	(107,021)
Impairment losses on assets	(14,654)	(1,095)	880	17	(9)	(126)	–	(14,987)
Operating profit	67,798	24,723	14,243	1,626	139	2,079	–	110,608
Share of results of associates and joint ventures	–	–	–	508	(3)	318	(2)	821
Profit before income tax	67,798	24,723	14,243	2,134	136	2,397	(2)	111,429
Income tax expense								(25,831)
Profit for the year								85,598
Segment assets	3,508,655	1,206,848	3,861,864	38,321	40,232	173,005	(91,416)	8,737,509
Investment in associates and joint ventures	–	–	–	1,962	281	8,467	(42)	10,668
Total assets	3,508,655	1,206,848	3,861,864	40,283	40,513	181,472	(91,458)	8,748,177
Segment liabilities	3,988,539	3,192,121	957,982	34,486	35,754	88,922	(91,255)	8,206,549
Other segment items:								
Intersegment net interest income	6,742	52,808	(59,332)	(20)	36	(234)	–	–
Intersegment net fee and commission income	4	35	–	–	(423)	433	(49)	–
Capital expenditure	4,085	4,500	216	102	32	26,689	–	35,624
Depreciation and amortisation	2,811	3,375	705	75	22	1,407	–	8,395

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Segment information (Continued)

As at and for the year ended 31 December 2008

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	145,345	103,081	93,295	3,064	1,161	588	(59,607)	286,927
Interest expense	(58,595)	(58,400)	(62,101)	(2,677)	(18)	(1,807)	59,607	(123,991)
Net interest income/(expense)	86,750	44,681	31,194	387	1,143	(1,219)	–	162,936
Fee and commission income	23,171	12,171	6,487	2,154	2	229	(502)	43,712
Fee and commission expense	(1,061)	(1,223)	(382)	(450)	(921)	(130)	402	(3,765)
Net fee and commission income	22,110	10,948	6,105	1,704	(919)	99	(100)	39,947
Net trading gains/(losses)	928	377	5,174	(1,079)	(210)	(145)	–	5,045
Net gains/(losses) on investment securities	–	–	1,677	(5)	(49)	386	–	2,009
Other operating income	293	6,044	347	202	7,666	5,858	(1,451)	18,959
Operating income	110,081	62,050	44,497	1,209	7,631	4,979	(1,551)	228,896
Operating expenses	(37,540)	(36,283)	(11,735)	(905)	(8,952)	(3,494)	1,497	(97,412)
Impairment losses on assets	(14,337)	(2,320)	(24,373)	(18)	(7)	(3,976)	–	(45,031)
Operating profit	58,204	23,447	8,389	286	(1,328)	(2,491)	(54)	86,453
Share of results of associates and joint ventures	–	–	–	443	16	384	(117)	726
Profit before income tax	58,204	23,447	8,389	729	(1,312)	(2,107)	(171)	87,179
Income tax expense								(21,285)
Profit for the year								65,894
Segment assets	2,513,321	880,058	3,482,759	79,910	34,286	119,660	(165,690)	6,944,304
Investment in associates and joint ventures	–	–	–	1,673	283	5,462	(42)	7,376
Total assets	2,513,321	880,058	3,482,759	81,583	34,569	125,122	(165,732)	6,951,680
Segment liabilities	3,044,833	2,756,285	641,670	77,190	31,380	70,024	(159,589)	6,461,793
Other segment items:								
Intersegment net interest income	(3,394)	53,832	(49,750)	(189)	36	(535)	–	–
Intersegment net fee and commission income	–	–	–	–	(341)	441	(100)	–
Capital expenditure	3,285	3,619	174	109	77	14,510	–	21,774
Depreciation and amortisation	3,055	2,831	805	102	(26)	1,049	–	7,816

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Events after the financial reporting date

(1) At the meeting of the Board on 22 January 2010, the Board passed a proposal to issue A-share convertible bonds with a notional amount of no more than RMB40 billion. The proposed issuance, together with terms and conditions, has been approved by the Shareholders at an Extraordinary General Meeting and is subject to approval by the relevant PRC authorities.

(2) Pursuant to the merger of Shanghai Airlines Co., Ltd. and China Eastern Airlines Co. Ltd. on 28 January 2010, the Group converted 143,886,600 shares of Shanghai Airlines Co. Ltd. into 187,052,580 shares of China Eastern Airlines Co. Ltd.. A net gain of RMB1.08 billion was taken to the consolidated income statement in 2010.

(3) On 11 February 2010, the Group's subsidiary BOCHK Holdings issued Subordinated Notes with aggregate principal amount of USD1,600 million. The Subordinated Notes are denominated in U.S. dollars, have a maturity of 10 years due in 2020, and bear a fixed interest rate of 5.55% per annum with interest payable semi-annually in arrears. BOCHK Holdings intends to apply the proceeds from the issue of the Subordinated Notes to partly repay the Subordinated Credit Facility provided by the Bank (see Note V. 43.7). The Subordinated Notes qualify as Tier 2 Capital of BOCHK pursuant to the regulatory requirements of the Hong Kong Monetary Authority.

(4) On 4 March 2010, the Bank exercised its option to early redeem all of the first tranche and all of the floating rate portion of the second tranche of its subordinated bonds issued in 2005 amounting to RMB24,930 million.

(5) On 9 March 2010, pursuant to the approval from CBRC and PBOC, the Bank issued subordinated bonds in China's inter-bank bond market, amounting to RMB24,930 million.

VI FINANCIAL RISK MANAGEMENT

1 Overview

The Group's primary risk management objectives are to maximise value for equity holders while maintaining risk within acceptable parameters and satisfying the requirements of the regulatory authorities, the Group's depositors and other stakeholders for the Group's prudent and stable development.

The Group designs risk management policies and has set up controls to identify, analyse, monitor and report risks by means of relevant and up-to-date information systems. The Group regularly reviews and revises its risk management policies and systems to reflect changes in markets, products and emerging best practice.

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

VI FINANCIAL RISK MANAGEMENT (Continued)

2 Financial risk management framework

The Board of Directors is responsible for establishing the overall risk appetite of the Group and reviewing and approving the risk management objectives and strategies.

Within this framework, the Group's senior management has overall responsibility for managing all aspects of risk, including implementing risk management strategies, initiatives and credit policies and approving internal rules, measures and procedures related to risk management. The Group has also defined departments monitoring risk arising from financial instruments within the Group, including the Risk Management Department, the Credit Administration Department, the Financial Management Department and the Legal and Compliance Department.

In branches, risks are managed and monitored through respective branch departments reporting to the Head Office Risk Management Department, Credit Administration Department, Financial Management Department and Legal and Compliance Department. Business departments managed and monitored risk through establishing specific risk management teams. The Group monitors and controls risk management in subsidiaries by appointing members of their boards of directors and risk management committees.

3 Credit risk

The Group takes on exposure to credit risk, which is the risk that a customer or counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is one of the most significant risks for the Group's business.

Credit risk exposures arise principally in lending activities and debt securities investment activities. There is also credit risk in off-balance sheet financial instruments, such as derivatives, loan commitments, letters of guarantee, bill acceptance and letters of credit.

3.1 Credit risk measurement

(1) Loans and advances and off-balance sheet commitments

Monitoring and measurement of credit risk over loans and advances and off-balance sheet credit related exposures is performed by the Risk Management Department, and reported to the senior management and Board of Directors regularly.

In measuring credit risk of loans and advances to corporate customers, the Group mainly reflects the "probability of default" by the customer on its contractual obligations and considers the current financial position of the customer and the exposures to the customer and its likely future development. For retail customers, the Group measures credit risk through the use of standard approval procedures for personal loans and credit score-card models, which are based on historical default data for credit cards.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement (Continued)

(1) Loans and advances and off-balance sheet commitments (Continued)

The Group measures and manages the credit quality of loans and advances to corporate and personal customers based on the "Guiding Principles on the Classification of Loan Risk Management" issued by the CBRC, which requires commercial banks to classify their corporate and personal loans into five categories: pass, special-mention, substandard, doubtful and loss, among which loans classified in the substandard, doubtful and loss categories are regarded as non-performing. For overseas operations, where local regulations and requirements are more prudent than the Guiding Principles on the Classification of Loan Risk Management, credit assets are classified according to local regulations and requirements.

The five categories are defined as follows:

Pass: loans for which borrowers can honour the terms of the contracts, and there is no reason to doubt their ability to repay principal and interest of loans in full and on a timely basis.

Special-mention: loans for which borrowers are still able to service the loans currently, although the repayment of loans might be adversely affected by some factors.

Substandard: loans for which borrowers' ability to service loans is apparently in question, and borrowers cannot depend on their normal business revenues to pay back the principal and interest of loans. Certain losses might be incurred by the Group even when guarantees are executed.

Doubtful: loans for which borrowers cannot pay back principal and interest of loans in full and significant losses will be incurred by the Group even when guarantees are executed.

Loss: principal and interest of loans cannot be recovered or only a small portion can be recovered after taking all possible measures and resorting to necessary legal procedures.

In addition to the regulatory classifications above, the Bank has developed an internal customer credit rating system using measurements of possibility of default within one year based on regression analysis and other qualitative factors, and using a model to map possibility of default to internal credit ratings. The Bank performs back testing to actual default rates and refines the model according to back testing results.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement (Continued)

(1) Loans and advances and off-balance sheet commitments (Continued)

The customer credit ratings in the internal model are based on four categories of A, B, C and D which are further classified into ten grades as AAA, AA, A, BBB, BB, B, CCC, CC, C, and D. Credit grade D equates to defaulting customers while the others are assigned to performing customers.

Internal grades are assigned by Head Office and Tier 1 branch management under approved delegated authorities. The Bank performs centralised review and approval of these internal customer credit rating annually and adjusts the grading according to the customer's operational and financial conditions.

Credit commitments mainly represent loan commitments, guarantees, bill acceptances or letters of credit. Guarantees and bill acceptances and standby letters of credit carry credit risk similar to loans. Documentary and commercial letters of credit are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions and are collateralised by the underlying shipment documents of goods to which they relate or deposits and are therefore assessed to have less risk than a direct loan. The Group monitors the term to maturity of credit commitments to identify longer-term commitments which are assessed to have a greater degree of credit risk than shorter-term commitments.

The Group identifies credit exposures by industry, geography and customer risk. This information is monitored regularly by management.

(2) Due from, placements with and loans to banks and other financial institutions

The Group manages the credit quality of due from, placements with and loans to banks and other financial institutions considering the size, financial position and the external credit rating of banks and financial institutions. In response to adverse credit market conditions, various initiatives were implemented in 2008 and carried out throughout 2009 to better manage and report credit risk, including establishing a special committee which meets periodically and on an ad hoc basis to discuss actions in response to market changes impacting the Group's exposure to credit risk, and formulating a watch list process over counterparty names at risk.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement (Continued)

(3) Debt securities and derivatives

Credit risk within debt securities arises from exposure to movements in credit spreads, default rates and prepayment rates, as well as changes in the credit of underlying assets. The Group manages the credit risk within debt securities by monitoring the external credit rating, such as Standard & Poor's ratings or their equivalents, of the security and the credit quality of underlying assets, including review of default rates, prepayment rates, industry and sector performance, loss coverage ratios and counterparty risk, to identify exposure to credit risk.

The Group has policies to maintain strict control limits on net open derivative positions based on notional amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets for which fair value is positive). The derivative credit risk exposure is managed as part of the overall exposure lending limits set for customers and financial institutions. Collateral or other security is not usually obtained for credit risk exposures on these financial instruments.

3.2 Credit risk limit control and mitigation policies

The Group manages limits and controls concentrations of credit risk in particular, to individual customers and to industries.

(1) Credit risk limits and controls

(i) Loans and advances and off-balance sheet commitments

In order to manage the exposure to credit risk, the Group has adopted credit approval policies and procedures that are reviewed and updated by the Risk Management Department at Head Office in conjunction with other relevant departments. The credit approval process for both corporate loans and personal loans can be broadly divided into three stages: (1) credit origination and assessment; (2) credit review and approval; and (3) fund disbursement and post-disbursement management.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.2 Credit risk limit control and mitigation policies (Continued)

(1) Credit risk limits and controls (Continued)

(i) Loans and advances and off-balance sheet commitments (Continued)

Corporate loans in the Chinese mainland are originated by the Corporate Banking Departments at Head Office and branch level and submitted to the Risk Management Department for due diligence and approval. All credit applications for corporate lending must be approved by authorised credit application approvers at Head Office and domestic tier one branches, except for credit applications that are identified as low risk, such as loans sufficiently secured by PRC treasury bonds, bills or pledged funds or loans supported by the credit of financial institutions that are within pre-approved credit limits. The exposure to any one borrower, including banks, is restricted by credit limits covering on and off-balance sheet exposures.

Personal loans in the Chinese mainland are originated by the Personal Banking Departments at branch level and must be approved by authorised approvers at domestic tier one branches, except for individual pledged loans and government-sponsored student loans, which may be approved by authorised approvers at sub-branches below tier one level. High risk personal loans such as personal loans for business purposes in excess of certain limits must also be reviewed by the Risk Management Department.

The Head Office also oversees the risk management of the overseas branches. In particular, any credit application at the overseas branches exceeding the authorisation limits is required to be submitted to the Head Office for approval.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

(ii) Debt securities and derivatives

The Group is also exposed to credit risk through investment activities and trading activities. Credit limits are established based on type of instruments and the credit quality of counterparties, securities issuers and securities and set limits are actively monitored.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.2 Credit risk limit control and mitigation policies (Continued)

(2) Credit risk mitigation policies

(i) Collateral and guarantees

The Group has a range of policies and practices intended to mitigate credit risk. The most prevalent of these is the taking of security for funds advances (collateral) and guarantees, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral. The amount of acceptable collateral at the time of loan origination is determined by the Risk Management Department and is subject to loan-to-value ratio limits based on type and is monitored on an ongoing basis by the Credit Administration Department. The principal collateral types for corporate loans and advances are:

Collateral	**Maximum loan-to-value ratio**
Cash deposits with the Group	90%
PRC treasury bonds	90%
PRC financial institution bonds	85%
Publicly traded stocks	50%
Property	70%
Land use rights	60%
Automobiles	40%

Mortgage loans to retail customers are generally collateralised by mortgages over residential properties. Other loans are collateralised dependant on the nature of the loan.

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

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of certain asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

Collateral is also held as part of reverse re-purchase agreements. Under such agreements, the Group is permitted to sell or repledge collateral in the absence of default by the owner of the collateral. Details of collateral accepted and which the Group is obligated to return are disclosed in Note V.41.3.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.2 Credit risk limit control and mitigation policies (Continued)

(2) Credit risk mitigation policies (Continued)

(ii) Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in the offsetting of assets and liabilities in the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the customer are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

3.3 Impairment and provisioning policies

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

(1) Loans and advances

Management determines whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group including consideration of:

- significant financial difficulty incurred by the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payment;
- for economic or legal reasons related to the borrower's financial difficulty, whether the Group has granted to the borrower a concession that it would not otherwise consider;
- probability that the borrower will become bankrupt or will undergo other financial re-organisation;
- deterioration in the value of collateral;
- deterioration in credit rating; or
- other observable data indicating that there is a measurable decrease in the estimated future cash flows from such loans and advances.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.3 Impairment and provisioning policies (Continued)

(1) Loans and advances (Continued)

The Group's policy requires the review of individual financial assets that are above certain thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at financial reporting date on a case-by-case basis using discounted cash flow analysis. The assessment normally encompasses guarantees and collateral held and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been specifically identified, by using the available historical data, experience, professional judgement and statistical techniques.

(2) Debt securities

Debt securities are assessed for individual impairment using similar criteria as loans and advances. Management determines whether objective evidence of debt securities impairment exists under IAS 39 based on criteria set out by the Group including consideration of:

- a breach of contract or a trigger event, such as a default or delinquency in interest or principal payment;
- significant financial difficulty of issuers or underlying asset holders;
- probable that the issuer or underlying asset holders will become bankrupt or will undergo other financial re-organisation;
- deterioration in credit rating; or
- other observable data indicating that there is a measurable decrease in the estimated future cash flows from such debt securities.

Impairment allowances on individually assessed securities are determined by an evaluation of the incurred loss at financial reporting date on a case-by-case basis using available data, including default rates, prepayment rates and assessment of the quality of the underlying assets, industry and sector performance, loss coverage ratios and counterparty risk.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.4 Maximum exposure to credit risk before collateral held or other credit enhancements

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Credit risk exposures relating to on-balance sheet financial assets are as follows:				
Due from banks and other financial institutions	**394,755**	111,220	**398,703**	119,286
Balances with central banks	**1,111,351**	1,207,613	**1,034,085**	1,146,955
Placements with and loans to banks and other financial institutions	**223,444**	414,289	**237,813**	399,258
Government certificates of indebtedness for bank notes issued	**36,099**	32,039	**2,367**	1,878
Financial assets at fair value through profit or loss	**56,670**	83,800	**20,134**	45,323
Derivative financial assets	**28,514**	76,124	**12,512**	58,565
Loans and advances to customers, net	**4,797,408**	3,189,652	**4,297,885**	2,751,482
Investment securities				
– available for sale	**608,672**	743,425	**406,508**	589,126
– held to maturity	**744,693**	365,838	**674,861**	268,389
– loans and receivables	**387,782**	439,954	**374,132**	426,488
Other assets	**63,290**	57,292	**45,794**	38,143
Subtotal	**8,452,678**	6,721,246	**7,504,794**	5,844,893
Credit risk exposures relating to off-balance sheet items are as follows:				
Letters of guarantee issued	**574,090**	532,845	**579,649**	533,343
Loan commitments and other credit commitments	**1,301,309**	1,081,218	**1,054,222**	859,296
Subtotal	**1,875,399**	1,614,063	**1,633,871**	1,392,639
Total	**10,328,077**	8,335,309	**9,138,665**	7,237,532

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

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

The tables in the previous page represent a worst case scenario of credit risk exposure to the Group and the Bank as at 31 December 2009 and 31 December 2008, without taking account of any collateral held, master netting agreements or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As at 31 December 2009, 46.45% of the Group's total maximum credit exposure is derived from loans and advances to customers (31 December 2008: 38.27%) and 17.40% represents investments in debt securities (31 December 2008: 19.57%).

3.5 Loans and advances

(1) Concentrations of risk for loans and advances to customers

The total loans and advances of the Group and the Bank are set out below:

(i) Analysis of loans and advances to customers by geographical area

Group

	As at 31 December 2009		As at 31 December 2008	
	Amount	**% of total**	Amount	% of total
Chinese mainland	**4,165,713**	**84.84%**	2,662,804	80.79%
Hong Kong, Macau	**536,097**	**10.92%**	466,893	14.16%
Other overseas operations	**208,548**	**4.24%**	166,449	5.05%
Total loans and advances to customers	**4,910,358**	**100.00%**	3,296,146	100.00%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(i) Analysis of loans and advances to customers by geographical area (Continued)

Bank

	As at 31 December 2009		As at 31 December 2008	
	Amount	**% of total**	Amount	% of total
Chinese mainland	**4,165,713**	**94.50%**	2,662,804	93.27%
Hong Kong, Macau	**50,431**	**1.14%**	35,971	1.26%
Other overseas operations	**192,107**	**4.36%**	156,018	5.47%
Total loans and advances to customers	**4,408,251**	**100.00%**	2,854,793	100.00%

Chinese mainland

	As at 31 December 2009		As at 31 December 2008	
	Amount	**% of total**	Amount	% of total
Northern China	**709,698**	**17.03%**	459,249	17.25%
Northeastern China	**279,162**	**6.70%**	165,279	6.21%
Eastern China	**1,673,645**	**40.18%**	1,088,512	40.88%
Central and Southern China	**1,065,836**	**25.59%**	669,521	25.14%
Western China	**437,372**	**10.50%**	280,243	10.52%
Total loans and advances to customers	**4,165,713**	**100.00%**	2,662,804	100.00%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(ii) Analysis of loans and advances to customers by customer type

Group

	As at 31 December							
	2009				2008			
	Chinese mainland	Hong Kong, Macau	Other overseas operations	Total	Chinese mainland	Hong Kong, Macau	Other overseas operations	Total
Corporate loans								
– Trade bills	611,260	36,767	39,974	688,001	275,110	31,234	44,411	350,755
– Other	2,574,988	335,813	164,074	3,074,875	1,733,461	288,627	119,871	2,141,959
Personal loans	979,465	163,517	4,500	1,147,482	654,233	147,032	2,167	803,432
Total loans and advances to customers	4,165,713	536,097	208,548	4,910,358	2,662,804	466,893	166,449	3,296,146

Bank

	As at 31 December							
	2009				2008			
	Chinese mainland	Hong Kong, Macau	Other overseas operations	Total	Chinese mainland	Hong Kong, Macau	Other overseas operations	Total
Corporate loans								
– Trade bills	611,260	1,089	33,783	646,132	275,110	3,018	43,769	321,897
– Other	2,574,988	35,101	157,045	2,767,134	1,733,461	24,809	111,568	1,869,838
Personal loans	979,465	14,241	1,279	994,985	654,233	8,144	681	663,058
Total loans and advances to customers	4,165,713	50,431	192,107	4,408,251	2,662,804	35,971	156,018	2,854,793

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

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

Group

	As at 31 December 2009		As at 31 December 2008	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Manufacturing	1,059,185	21.57%	778,219	23.61%
Commerce and services	725,227	14.77%	410,830	12.46%
Transportation and logistics	489,527	9.97%	318,328	9.66%
Real estate	366,630	7.47%	271,484	8.24%
Production and supply of electric power, gas and water	353,284	7.19%	310,806	9.43%
Water, environment and public utility management	251,154	5.11%	54,448	1.65%
Mining	197,414	4.02%	103,938	3.15%
Financial services	111,515	2.27%	74,321	2.25%
Public utilities	84,329	1.72%	68,589	2.08%
Construction	60,558	1.23%	51,606	1.57%
Other	64,053	1.31%	50,145	1.53%
Subtotal	3,762,876	76.63%	2,492,714	75.63%
Personal loans				
Mortgages	907,912	18.49%	635,000	19.26%
Credit cards	31,336	0.64%	16,495	0.50%
Other	208,234	4.24%	151,937	4.61%
Subtotal	1,147,482	23.37%	803,432	24.37%
Total loans and advances to customers	4,910,358	100.00%	3,296,146	100.00%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iii) Analysis of loans and advances to customers by industry (Continued)

Bank

	As at 31 December 2009		As at 31 December 2008	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Manufacturing	**1,019,711**	**23.13%**	740,553	25.94%
Commerce and services	**640,561**	**14.53%**	342,089	11.98%
Transportation and logistics	**449,142**	**10.19%**	285,817	10.01%
Real estate	**271,990**	**6.17%**	178,460	6.25%
Production and supply of electric power, gas and water	**339,938**	**7.71%**	297,173	10.41%
Water, environment and public utility management	**250,235**	**5.68%**	54,448	1.91%
Mining	**185,161**	**4.20%**	94,432	3.31%
Financial services	**99,986**	**2.27%**	66,864	2.34%
Public utilities	**82,446**	**1.87%**	67,007	2.35%
Construction	**53,270**	**1.21%**	44,674	1.56%
Other	**20,826**	**0.47%**	20,218	0.71%
Subtotal	**3,413,266**	**77.43%**	2,191,735	76.77%
Personal loans				
Mortgages	**777,329**	**17.63%**	514,973	18.04%
Credit cards	**24,968**	**0.57%**	10,808	0.38%
Other	**192,688**	**4.37%**	137,277	4.81%
Subtotal	**994,985**	**22.57%**	663,058	23.23%
Total loans and advances to customers	**4,408,251**	**100.00%**	2,854,793	100.00%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iii) Analysis of loans and advances to customers by industry (Continued)

Chinese mainland

	As at 31 December 2009		As at 31 December 2008	
	Amount	**% of total**	Amount	% of total
Corporate loans and advances				
Manufacturing	**996,856**	**23.92%**	706,734	26.54%
Commerce and services	**598,411**	**14.37%**	307,219	11.54%
Transportation and logistics	**416,844**	**10.01%**	264,005	9.91%
Real estate	**241,824**	**5.81%**	154,416	5.80%
Production and supply of electric power, gas and water	**339,938**	**8.16%**	297,173	11.16%
Water, environment and public utility management	**250,235**	**6.01%**	54,448	2.04%
Mining	**113,885**	**2.73%**	55,251	2.07%
Financial services	**86,449**	**2.08%**	53,150	2.00%
Public utilities	**81,606**	**1.96%**	66,278	2.49%
Construction	**49,704**	**1.19%**	42,278	1.59%
Other	**10,496**	**0.25%**	7,619	0.29%
Subtotal	**3,186,248**	**76.49%**	2,008,571	75.43%
Personal loans				
Mortgages	**764,362**	**18.35%**	507,571	19.06%
Credit cards	**24,702**	**0.59%**	10,649	0.40%
Other	**190,401**	**4.57%**	136,013	5.11%
Subtotal	**979,465**	**23.51%**	654,233	24.57%
Total loans and advances to customers	**4,165,713**	**100.00%**	2,662,804	100.00%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

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

Group

	As at 31 December 2009		As at 31 December 2008	
	Amount	% of total	Amount	% of total
Unsecured loans	**1,431,414**	**29.15%**	970,737	29.45%
Guaranteed loans	**1,186,715**	**24.17%**	789,641	23.96%
Collateralised and other secured loans				
– loans secured by property and other immovable assets	**1,596,514**	**32.51%**	1,117,159	33.89%
– other pledged loans	**695,715**	**14.17%**	418,609	12.70%
Total loans and advances to customers	**4,910,358**	**100.00%**	3,296,146	100.00%

Bank

	As at 31 December 2009		As at 31 December 2008	
	Amount	% of total	Amount	% of total
Unsecured loans	**1,224,358**	**27.77%**	801,174	28.06%
Guaranteed loans	**1,162,125**	**26.36%**	767,553	26.89%
Collateralised and other secured loans				
– loans secured by property and other immovable assets	**1,413,995**	**32.08%**	946,221	33.15%
– other pledged loans	**607,773**	**13.79%**	339,845	11.90%
Total loans and advances to customers	**4,408,251**	**100.00%**	2,854,793	100.00%

Chinese mainland

	As at 31 December 2009		As at 31 December 2008	
	Amount	% of total	Amount	% of total
Unsecured loans	**1,152,167**	**27.66%**	706,588	26.54%
Guaranteed loans	**1,048,895**	**25.18%**	710,702	26.69%
Collateralised and other secured loans				
– loans secured by property and other immovable assets	**1,361,253**	**32.68%**	915,589	34.38%
– other pledged loans	**603,398**	**14.48%**	329,925	12.39%
Total loans and advances to customers	**4,165,713**	**100.00%**	2,662,804	100.00%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status

	As at 31 December					
	Group		Bank		Chinese mainland	
	2009	2008	**2009**	2008	**2009**	2008
Corporate loans and advances						
– Neither past due nor impaired	**3,691,161**	2,403,331	**3,343,737**	2,105,877	**3,118,067**	1,924,453
– Past due but not impaired	**5,893**	9,083	**5,019**	8,105	**4,555**	7,212
– Impaired	**65,822**	80,300	**64,510**	77,753	**63,626**	76,906
Subtotal	**3,762,876**	2,492,714	**3,413,266**	2,191,735	**3,186,248**	2,008,571
Personal loans						
– Neither past due nor impaired	**1,116,738**	770,188	**966,455**	632,452	**951,540**	623,888
– Past due but not impaired	**20,560**	22,665	**18,447**	20,160	**17,871**	19,899
– Impaired	**10,184**	10,579	**10,083**	10,446	**10,054**	10,446
Subtotal	**1,147,482**	803,432	**994,985**	663,058	**979,465**	654,233
Total	**4,910,358**	3,296,146	**4,408,251**	2,854,793	**4,165,713**	2,662,804

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(i) Loans and advances neither past due nor impaired

The Group classifies loans and advances based on regulatory guidance including the "Guiding Principles on Classification of Loan Risk Management" issued by the CBRC as set out in Note VI.3.1 (1). The loans and advances neither past due nor impaired are classified under these principles and guidelines as set out in the table below.

Group

	As at 31 December 2009			As at 31 December 2008		
	Pass	**Special-mention**	**Total**	Pass	Special-mention	Total
Corporate loans and advances	**3,574,849**	**116,312**	**3,691,161**	2,270,206	133,125	2,403,331
Personal loans	**1,115,852**	**886**	**1,116,738**	768,694	1,494	770,188
Total	**4,690,701**	**117,198**	**4,807,899**	3,038,900	134,619	3,173,519

Bank

	As at 31 December 2009			As at 31 December 2008		
	Pass	**Special-mention**	**Total**	Pass	Special-mention	Total
Corporate loans and advances	**3,230,737**	**113,000**	**3,343,737**	1,981,131	124,746	2,105,877
Personal loans	**965,852**	**603**	**966,455**	631,247	1,205	632,452
Total	**4,196,589**	**113,603**	**4,310,192**	2,612,378	125,951	2,738,329

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(i) Loans and advances neither past due nor impaired (Continued)

Chinese mainland

	As at 31 December 2009			As at 31 December 2008		
	Pass	Special-mention	Total	Pass	Special-mention	Total
Corporate loans and advances	3,011,079	106,988	3,118,067	1,806,418	118,035	1,924,453
Personal loans	951,239	301	951,540	622,863	1,025	623,888
Total	3,962,318	107,289	4,069,607	2,429,281	119,060	2,548,341

Collectively assessed impairment allowances are provided on loans and advances neither past due nor impaired to estimate losses that have been incurred but not yet specifically identified. As part of this assessment, the Group considers information collected as part of the process to classify loans and advances under the CBRC regulatory guidelines, as well as additional information on industry and portfolio exposure.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(ii) Loans and advances past due but not impaired

The total amount of loans and advances to customers that were past due but not impaired is as follows:

Group

	As at 31 December 2009			
	Within 1 month	1-3 months	More than 3 months	Total
Corporate loans and advances	5,008	723	162	5,893
Personal loans	13,885	6,594	81	20,560
Total	18,893	7,317	243	26,453

	As at 31 December 2008			
	Within 1 month	1-3 months	More than 3 months	Total
Corporate loans and advances	7,032	1,503	548	9,083
Personal loans	15,304	7,264	97	22,665
Total	22,336	8,767	645	31,748

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(ii) Loans and advances past due but not impaired (Continued)

Bank

	As at 31 December 2009			
	Within 1 month	**1-3 months**	**More than 3 months**	**Total**
Corporate loans and advances	**4,338**	**665**	**16**	**5,019**
Personal loans	**12,093**	**6,354**	**–**	**18,447**
Total	**16,431**	**7,019**	**16**	**23,466**

	As at 31 December 2008			
	Within 1 month	1-3 months	More than 3 months	Total
Corporate loans and advances	6,297	1,407	401	8,105
Personal loans	13,166	6,994	–	20,160
Total	19,463	8,401	401	28,265

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(ii) Loans and advances past due but not impaired (Continued)

Chinese mainland

	As at 31 December 2009			
	Within 1 month	1-3 months	More than 3 months	Total
Corporate loans and advances	3,942	601	12	4,555
Personal loans	11,589	6,282	–	17,871
Total	15,531	6,883	12	22,426

	As at 31 December 2008			
	Within 1 month	1-3 months	More than 3 months	Total
Corporate loans and advances	5,887	925	400	7,212
Personal loans	12,947	6,952	–	19,899
Total	18,834	7,877	400	27,111

Collateral held against loans and advances to customers which have been overdue for more than 3 months principally includes cash deposits and mortgages over properties.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans and advances

(a) Impaired loans and advances by geographical area

Group

	As at 31 December 2009			As at 31 December 2008		
	Amount	**% of total**	**Impaired loan ratio**	Amount	% of total	Impaired loan ratio
Chinese mainland	**73,680**	**96.94%**	**1.77%**	87,352	96.12%	3.28%
Hong Kong and Macau	**1,561**	**2.05%**	**0.29%**	2,813	3.09%	0.60%
Other overseas operations	**765**	**1.01%**	**0.37%**	714	0.79%	0.43%
Total	**76,006**	**100.00%**	**1.55%**	90,879	100.00%	2.76%

Bank

	As at 31 December 2009			As at 31 December 2008		
	Amount	**% of total**	**Impaired loan ratio**	Amount	% of total	Impaired loan ratio
Chinese mainland	**73,680**	**98.78%**	**1.77%**	87,352	99.04%	3.28%
Hong Kong and Macau	**201**	**0.27%**	**0.40%**	156	0.18%	0.43%
Other overseas operations	**712**	**0.95%**	**0.37%**	691	0.78%	0.44%
Total	**74,593**	**100.00%**	**1.69%**	88,199	100.00%	3.09%

Chinese mainland

	As at 31 December 2009			As at 31 December 2008		
	Amount	**% of total**	**Impaired loan ratio**	Amount	% of total	Impaired loan ratio
Northern China	**16,636**	**22.58%**	**2.34%**	19,395	22.20%	4.22%
Northeastern China	**6,352**	**8.62%**	**2.28%**	9,867	11.30%	5.97%
Eastern China	**18,708**	**25.39%**	**1.12%**	22,413	25.66%	2.06%
Central and Southern China	**22,462**	**30.49%**	**2.11%**	20,574	23.55%	3.07%
Western China	**9,522**	**12.92%**	**2.18%**	15,103	17.29%	5.39%
Total	**73,680**	**100.00%**	**1.77%**	87,352	100.00%	3.28%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans and advances (Continued)

(b) Impaired loans and advances by customer type

Group

	As at 31 December 2009			As at 31 December 2008		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	65,822	86.60%	1.75%	80,300	88.36%	3.22%
Personal loans	10,184	13.40%	0.89%	10,579	11.64%	1.32%
Total	76,006	100.00%	1.55%	90,879	100.00%	2.76%

Bank

	As at 31 December 2009			As at 31 December 2008		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	64,510	86.48%	1.89%	77,753	88.16%	3.55%
Personal loans	10,083	13.52%	1.01%	10,446	11.84%	1.58%
Total	74,593	100.00%	1.69%	88,199	100.00%	3.09%

Chinese mainland

	As at 31 December 2009			As at 31 December 2008		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	63,626	86.35%	2.00%	76,906	88.04%	3.83%
Personal loans	10,054	13.65%	1.03%	10,446	11.96%	1.60%
Total	73,680	100.00%	1.77%	87,352	100.00%	3.28%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans and advances (Continued)

(c) Impaired loans and advances by geography and industry

	As at 31 December 2009			As at 31 December 2008		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland						
Corporate loans and advances						
Manufacturing	26,163	34.42%	2.62%	33,614	36.99%	4.76%
Commerce and services	13,530	17.80%	2.26%	17,443	19.19%	5.68%
Transportation and logistics	11,957	15.73%	2.87%	9,522	10.48%	3.61%
Real estate	3,591	4.72%	1.48%	5,870	6.46%	3.80%
Production and supply of electric power, gas and water	4,712	6.20%	1.39%	4,804	5.29%	1.62%
Water, environment and public utility management	844	1.11%	0.34%	1,298	1.43%	2.38%
Mining	276	0.36%	0.24%	423	0.46%	0.77%
Financial services	23	0.03%	0.03%	66	0.07%	0.12%
Public utilities	1,773	2.33%	2.17%	2,152	2.37%	3.25%
Construction	443	0.58%	0.89%	1,026	1.13%	2.43%
Other	314	0.43%	2.99%	688	0.75%	9.03%
Subtotal	63,626	83.71%	2.00%	76,906	84.62%	3.83%
Personal loans						
Mortgage loans	4,824	6.35%	0.63%	5,031	5.54%	0.99%
Credit card advances	801	1.05%	3.24%	445	0.49%	4.18%
Other	4,429	5.83%	2.33%	4,970	5.47%	3.65%
Subtotal	10,054	13.23%	1.03%	10,446	11.50%	1.60%
Total for Chinese mainland	73,680	96.94%	1.77%	87,352	96.12%	3.28%
Overseas operations	2,326	3.06%	0.31%	3,527	3.88%	0.56%
Total	76,006	100.00%	1.55%	90,879	100.00%	2.76%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans and advances (Continued)

(d) Impaired loans and advances and related allowance by geographical area

	As at 31 December 2009			
	Impaired loans	**Individually assessed allowance**	**Collectively assessed allowance**	**Total**
Chinese mainland	**73,680**	**(41,311)**	**(10,335)**	**22,034**
Hong Kong and Macau	**1,561**	**(917)**	**(47)**	**597**
Other overseas operations	**765**	**(187)**	**(25)**	**553**
Total	**76,006**	**(42,415)**	**(10,407)**	**23,184**

	As at 31 December 2008			
	Impaired loans	Individually assessed allowance	Collectively assessed allowance	Total
Chinese mainland	87,352	(49,087)	(12,062)	26,203
Hong Kong and Macau	2,813	(1,637)	(53)	1,123
Other overseas operations	714	(422)	(41)	251
Total	90,879	(51,146)	(12,156)	27,577

For description of allowances on identified impaired loans and advances, refer to Note V 16.3 (2).

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(3) Loans and advances rescheduled

Rescheduling (referring to loans and other assets that have been restructured and renegotiated) is a voluntary or, to a limited extent, court-supervised procedure, through which the Group and a borrower and/or its guarantor, if any, rescheduled credit terms as a result of deterioration in the borrower's financial condition or of the borrower's inability to make payments when due. The Group reschedules a non-performing loan only if the borrower has good prospects. In addition, prior to approving the rescheduling of loans, the Group typically requires additional guarantees, pledges and/or collateral, or the assumption of the loan by a borrower with better repayment ability.

All rescheduled loans are classified as "substandard" or below. If the rescheduled loans fall overdue or if the borrower is unable to demonstrate its repayment ability, these loans will be reclassified to "doubtful" or below. All rescheduled loans are subject to a surveillance period for six months. During the surveillance period, rescheduled loans remain as non-performing loans and the Group monitors the borrower's business operations and loan repayment patterns. After the surveillance period, rescheduled loans may be upgraded to "special-mention" upon review if certain criteria are met. All rescheduled loans are determined to be impaired, therefore, there were no rescheduled loans that were not past due or impaired as at 31 December 2009 and 31 December 2008.

As at 31 December 2009 and 31 December 2008, within impaired loans and advances, rescheduled loans and advances that were overdue for 90 days or less were insignificant.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(4) Overdue loans and advances to customers

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

Group

	As at 31 December 2009				
	Past due up to 90 days (inclusive)	Past due 91-360 days (inclusive)	Past due 361 days-3 years (inclusive)	Past due over 3 years	Total
Unsecured loans	4,024	1,244	921	2,991	9,180
Guaranteed loans	4,451	3,634	9,161	9,738	26,984
Collateralised and other secured loans					
– loans secured by property and other immovable assets	19,114	5,388	5,976	6,779	37,257
– other pledged loans	739	586	912	1,613	3,850
Total	28,328	10,852	16,970	21,121	77,271

	As at 31 December 2008				
	Past due up to 90 days (inclusive)	Past due 91-360 days (inclusive)	Past due 361 days-3 years (inclusive)	Past due over 3 years	Total
Unsecured loans	5,034	1,256	1,346	2,815	10,451
Guaranteed loans	9,345	6,209	12,405	11,144	39,103
Collateralised and other secured loans					
– loans secured by property and other immovable assets	22,696	4,773	7,594	7,496	42,559
– other pledged loans	1,642	555	1,778	1,842	5,817
Total	38,717	12,793	23,123	23,297	97,930

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(4) Overdue loans and advances to customers (Continued)

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

Bank

	As at 31 December 2009				
	Past due up to 90 days (inclusive)	Past due 91-360 days (inclusive)	Past due 361 days-3 years (inclusive)	Past due over 3 years	Total
Unsecured loans	3,710	1,123	662	2,981	8,476
Guaranteed loans	4,451	3,571	8,995	9,738	26,755
Collateralised and other secured loans					
– loans secured by property and other immovable assets	17,155	5,323	5,779	6,764	35,021
– other pledged loans	153	557	860	1,470	3,040
Total	25,469	10,574	16,296	20,953	73,292

	As at 31 December 2008				
	Past due up to 90 days (inclusive)	Past due 91-360 days (inclusive)	Past due 361 days-3 years (inclusive)	Past due over 3 years	Total
Unsecured loans	4,406	1,066	1,106	2,798	9,376
Guaranteed loans	9,336	5,925	12,050	10,860	38,171
Collateralised and other secured loans					
– loans secured by property and other immovable assets	20,404	4,549	7,372	7,447	39,772
– other pledged loans	908	508	1,742	1,652	4,810
Total	35,054	12,048	22,270	22,757	92,129

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(4) Overdue loans and advances to customers (Continued)

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

Chinese mainland

	As at 31 December 2009				
	Past due up to 90 days (inclusive)	Past due 91-360 days (inclusive)	Past due 361 days-3 years (inclusive)	Past due over 3 years	Total
Unsecured loans	3,629	1,116	639	2,976	8,360
Guaranteed loans	4,185	3,539	8,928	9,735	26,387
Collateralised and other secured loans					
– loans secured by property and other immovable assets	16,454	5,314	5,775	6,754	34,297
– other pledged loans	150	557	860	1,470	3,037
Total	24,418	10,526	16,202	20,935	72,081

	As at 31 December 2008				
	Past due up to 90 days (inclusive)	Past due 91-360 days (inclusive)	Past due 361 days-3 years (inclusive)	Past due over 3 years	Total
Unsecured loans	4,373	722	1,105	2,764	8,964
Guaranteed loans	8,938	5,885	12,037	10,856	37,716
Collateralised and other secured loans					
– loans secured by property and other immovable assets	19,728	4,543	7,369	7,434	39,074
– other pledged loans	815	508	1,742	1,652	4,717
Total	33,854	11,658	22,253	22,706	90,471

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(4) Overdue loans and advances to customers (Continued)

(ii) Analysis of overdue loans and advances by geographical area

	As at 31 December	
	2009	2008
Chinese mainland	**72,081**	90,471
Hong Kong and Macau	**4,978**	6,880
Other overseas operations	**212**	579
Total	**77,271**	97,930
Less: total loans and advances to customers which have been overdue for less than 3 months	**(28,328)**	(38,717)
Total loans and advances to customers which have been overdue for more than 3 months	**48,943**	59,213
Individually assessed impairment allowance – for loans and advances to customers which have been overdue for more than 3 months	**(29,406)**	(35,566)

3.6 Due from and placements with and loans to banks and other financial institutions

Banks and other financial institutions comprise domestic and overseas banks and financial institutions.

The Group monitors the credit risk of counterparties by collecting and analysing counterparty information and establishing credit limits taking into account the nature, size and credit rating of counterparties.

As at 31 December 2009, the majority of the balance of due from and placements with and loans to banks and other financial institutions were with domestic banks, including policy banks, large commercial banks and medium commercial banks (Note V.11 and Note V.13). As at 31 December 2009, the majority of the credit ratings of the overseas banks were above A.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities

The table below represents an analysis of the carrying value of debt securities by credit rating and risk characteristic.

Group

	As at 31 December 2009					
	Unrated	AAA	AA	A	Lower than A	Total
Chinese mainland issuers						
– Government	739,959	–	–	3,762	–	743,721
– Public sector and quasi-governments	15,021	–	–	–	–	15,021
– Policy banks	233,056	–	–	7,828	–	240,884
– Financial institutions	39,296	–	–	1,632	1,311	42,239
– Corporate	108,644	–	–	558	278	109,480
– China Orient	160,000	–	–	–	–	160,000
Subtotal	1,295,976	–	–	13,780	1,589	1,311,345
Overseas issuers						
– Governments	111,015	14,519	7,807	4,367	322	138,030
– Public sector and quasi-governments (2)	25,082	34,970	10,160	1,431	–	71,643
– Financial institutions	38,855	67,284	69,833	46,649	9,132	231,753
– Corporate	1,308	7,822	6,663	11,156	16,386	43,335
Subtotal (1)	176,260	124,595	94,463	63,603	25,840	484,761
Total (3)	1,472,236	124,595	94,463	77,383	27,429	1,796,106

(1) Included mortgage backed securities as follows:

	As at 31 December 2009					
	Unrated	AAA	AA	A	Lower than A	Total
US subprime mortgage related debt securities	53	2,221	2,991	873	7,146	13,284
US Alt-A mortgage-backed securities	–	473	325	446	3,705	4,949
US Non-Agency mortgage-backed securities	–	1,275	1,003	1,061	6,468	9,807
Total	53	3,969	4,319	2,380	17,319	28,040

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities (Continued)

Group

	As at 31 December 2008					
	Unrated	AAA	AA	A	Lower than A	Total
Chinese mainland issuers						
– Government	668,055	–	–	4,144	–	672,199
– Public sector and quasi-governments	2,204	–	–	103	–	2,307
– Policy banks	176,374	–	–	9,552	–	185,926
– Financial institutions	11,920	–	–	224	388	12,532
– Corporate	21,718	–	–	560	238	22,516
– China Orient	160,000	–	–	–	–	160,000
Subtotal	1,040,271	–	–	14,583	626	1,055,480
Overseas issuers						
– Governments	117,191	10,574	12,532	4,003	383	144,683
– Public sector and quasi–governments (2)	43,001	63,469	9,718	1,072	–	117,260
– Financial institutions	55,689	54,395	93,917	37,121	5,678	246,800
– Corporate	2,147	29,719	8,727	15,072	11,707	67,372
Subtotal (1)	218,028	158,157	124,894	57,268	17,768	576,115
Total (3)	1,258,299	158,157	124,894	71,851	18,394	1,631,595

(1) Included mortgage backed securities as follows:

	As at 31 December 2008					
	Unrated	AAA	AA	A	Lower than A	Total
US subprime mortgage related debt securities	69	6,874	4,670	1,880	4,209	17,702
US Alt-A mortgage-backed securities	–	3,714	728	764	2,639	7,845
US Non-Agency mortgage-backed securities	–	14,557	2,441	3,350	3,652	24,000
Total	69	25,145	7,839	5,994	10,500	49,547

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities (Continued)

Bank

	As at 31 December 2009					
	Unrated	AAA	AA	A	Lower than A	Total
Chinese mainland issuers						
– Government	739,356	–	–	2,007	–	741,363
– Public sector and quasi-governments	14,982	–	–	–	–	14,982
– Policy banks	231,343	–	–	5,195	–	236,538
– Financial institutions	29,187	–	–	–	–	29,187
– Corporate	108,436	–	–	–	–	108,436
– China Orient	160,000	–	–	–	–	160,000
Subtotal	1,283,304	–	–	7,202	–	1,290,506
Overseas issuers						
– Governments	54,656	9,829	4,188	2,436	289	71,398
– Public sector and quasi-governments [(2)]	19,070	15,521	3,801	630	–	39,022
– Financial institutions	7,739	15,121	9,300	13,474	6,713	52,347
– Corporate	214	2,620	3,118	4,328	10,834	21,114
Subtotal [(1)]	81,679	43,091	20,407	20,868	17,836	183,881
Total [(3)]	1,364,983	43,091	20,407	28,070	17,836	1,474,387

(1) Included mortgage backed securities as follows:

	As at 31 December 2009					
	Unrated	AAA	AA	A	Lower than A	Total
US subprime mortgage related debt securities	53	1,778	2,964	862	7,146	12,803
US Alt-A mortgage-backed securities	–	352	158	407	3,696	4,613
US Non-Agency mortgage-backed securities	–	718	791	507	5,292	7,308
Total	53	2,848	3,913	1,776	16,134	24,724

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities (Continued)

Bank

	As at 31 December 2008					
	Unrated	AAA	AA	A	Lower than A	Total
Chinese mainland issuers						
– Government	667,913	–	–	2,428	–	670,341
– Public sector and quasi-governments	2,204	–	–	103	–	2,307
– Policy banks	176,258	–	–	5,543	–	181,801
– Financial institutions	6,388	–	–	109	–	6,497
– Corporate	21,479	–	–	–	–	21,479
– China Orient	160,000	–	–	–	–	160,000
Subtotal	1,034,242	–	–	8,183	–	1,042,425
Overseas issuers						
– Governments	50,604	9,961	6,443	3,925	300	71,233
– Public sector and quasi-governments (2)	35,418	53,617	4,771	636	–	94,442
– Financial institutions	28,664	27,720	16,989	15,026	3,826	92,225
– Corporate	645	9,920	5,223	6,020	5,771	27,579
Subtotal (1)	115,331	101,218	33,426	25,607	9,897	285,479
Total (3)	1,149,573	101,218	33,426	33,790	9,897	1,327,904

(1) Included mortgage backed securities as follows:

	As at 31 December 2008					
	Unrated	AAA	AA	A	Lower than A	Total
US subprime mortgage related debt securities	69	6,071	4,670	1,853	4,118	16,781
US Alt-A mortgage-backed securities	–	2,621	392	524	2,261	5,798
US Non-Agency mortgage-backed securities	–	6,183	1,075	826	1,945	10,029
Total	69	14,875	6,137	3,203	8,324	32,608

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities (Continued)

(2) US Freddie Mac and Fannie Mae issued debt securities are included in the public sector and quasi-governments category.

(3) The Group's available for sale and held to maturity debt securities are individually assessed for impairment. The Group's accumulated impairment charges on available for sale and held to maturity debt securities at 31 December 2009 amounted to RMB24,326 million and RMB534 million, respectively (31 December 2008: RMB28,288 million and RMB4,327 million). The carrying value of the available for sale and held to maturity debt securities considered impaired as at 31 December 2009 were RMB24,568 million and RMB1,899 million, respectively (31 December 2008: RMB32,720 million and RMB7,524 million).

3.8 Derivatives

The credit risk weighted amounts represent the counterparty credit risk associated with derivative transactions and are calculated with reference to the guidelines issued by the CBRC or Hong Kong Monetary Authority as appropriate and are dependent on, among other factors, the creditworthiness of the customer and the maturity characteristics of each type of contract. The amounts disclosed below differ from the carrying amount at fair value and the maximum exposure to credit risk disclosed in Note VI.3.4.

Credit risk weighted amounts

	As at 31 December			
	Group		Bank	
	2009	2008	**2009**	2008
Exchange rate derivatives				
Currency forwards and swaps, and cross-currency interest rate swaps	**11,461**	11,245	**9,426**	9,392
Currency options	**11**	61	**10**	57
Interest rate derivatives				
Interest rate swaps	**4,575**	8,447	**3,860**	7,864
Interest rate options	**–**	35	**–**	15
Interest rate futures	**2**	10	**–**	–
Equity derivatives	**45**	102	**–**	–
Precious metals and other commodity derivatives	**489**	665	**489**	658
Credit derivatives	**32**	44	**5**	6
	16,615	20,609	**13,790**	17,992

The credit risk weighted amounts stated above have not taken into account any effects of netting arrangements.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.9 Repossessed assets

The Group obtained assets by taking possession of collateral held as security. Detailed information of such repossessed assets of the Group is disclosed in Note V.22 (4).

4 Market risk

4.1 Overview

The Group is exposed to market risks that may cause losses to the Group as a result of adverse changes in market prices. Market risk arises from open positions in the trading and banking books in interest rate, exchange rate, equities and commodities. Both the Group's trading book and banking book face market risks. The trading book consists of positions in financial instruments and commodities that are held with trading intent or in order to hedge other elements of the trading book. The banking book consists of financial instruments not included in the trading book (including those financial instruments purchased with surplus funds and managed in the investment book).

The Board of Directors of the Group takes the ultimate responsibility for the oversight of market risk management, including the approval of market risk management policies and procedures and the determination of market risk tolerance. Senior management is responsible for execution of such policies and ensuring that the level of market risk is within the risk appetite determined by the Board, while meeting the Group's business objectives.

The Risk Management Department is responsible for the identification, measurement, monitoring, control and reporting of market risks on a Group basis. Business units are responsible for monitoring and reporting of market risk within their respective business units.

4.2 Market risk measurement techniques and limits

(1) Trading book

Market risk in trading books is managed by establishing Value at Risk (VaR) limits. Total exposures, stress testing and utilisation of VaR are monitored on a daily basis for each trading desk and dealer.

VaR is used to estimate the largest potential loss arising from adverse market movements in a specific holding period and within a certain confidence level.

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

VaR is performed separately by the Bank and its major subsidiaries that are exposed to market risk, BOC Hong Kong (Holdings) Limited ("BOCHK") and BOC International Holdings Limited ("BOCI"). The Bank, BOCHK and BOCI used a 99% level (95% was used by the Bank before April 2008) of confidence (therefore 1% statistical probability that actual losses could be greater than the VaR estimate) and a historical simulation model to calculate the VaR estimate. The holding period of the VaR calculations is one day.

Accuracy and reliability of the VaR model are verified by daily back-testing the VaR result on trading books. The back-testing results are regularly reported to senior management.

Stress testing is performed based on the characteristics of trading transactions to simulate and estimate losses in adverse and exceptional market conditions. The Group sets stress testing limits, adjusts and enhances the scenarios for stress testing taking into account financial market fluctuations in order to capture the potential impact of market price fluctuations and volatility on the trading book, enhancing the Group's market risk management capabilities.

The table below shows the VaR of the trading book by types of risk during 2009 and 2008:

Unit: USD million

	2009			2008		
	Average	**High**	**Low**	Average	High	Low
Bank trading VaR						
Interest rate risk	**5.64**	**16.03**	**1.25**	5.58	15.07	0.94
Foreign exchange risk	**0.97**	**7.02**	**0.20**	1.25	7.23	0.13
Volatility risk	**0.27**	**2.82**	**0.02**	1.83	8.18	0.07
Total Bank trading VaR	**5.81**	**15.76**	**1.43**	6.77	19.30	1.13

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

The Bank's VaR for years ended 31 December 2009 and 31 December 2008 was calculated on Head Office and domestic branch trading positions, excluding foreign currency against RMB transactions.

The exposure of the Bank to potential price movements in commodity financial instruments and the related potential impact on the Bank's income statement are considered to be insignificant.

Unit: USD million

	2009			2008		
	Average	**High**	**Low**	Average	High	Low
BOCHK trading VaR						
Interest rate risk	**0.73**	**1.65**	**0.28**	0.38	0.76	0.12
Foreign exchange risk	**1.46**	**2.04**	**0.95**	0.78	1.87	0.33
Equity risk	**0.04**	**0.32**	**0.01**	0.04	0.32	0.00
Commodity risk	**0.00**	**0.01**	**0.00**	0.00	0.06	0.00
Total BOCHK trading VaR	**1.62**	**2.11**	**1.16**	0.84	1.74	0.39
BOCI trading VaR*						
Equity derivatives unit	**1.61**	**2.74**	**0.63**	2.40	5.51	1.48
Fixed income unit	**1.60**	**2.46**	**0.62**	3.15	4.23	2.44

* BOCI monitors its trading VaR for equity derivatives unit and fixed income unit separately, which include interest rate risk, foreign exchange risk and equity risk.

VaR for each risk factor is the independently derived largest potential loss in a specific holding period and within a certain confidence level due to fluctuations solely in that risk factor. The individual subsidiary VaRs do not add up to the total Group VaR due to the diversification effect as a result of correlation amongst the risk factors.

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(2) Banking book

The banking book is exposed to interest rate risk arising from mismatches in maturities, repricing periods and inconsistent adjustments between the benchmark interest rates of assets and liabilities.

The Group takes on exposure to interest rate risk and fluctuations in market interest rates will impact the Group's financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses. Currently, benchmark interest rates for RMB loans and deposits in the PRC are set by the PBOC and the Group's Domestic Operations are subject to an interest rate scheme regulated by the PBOC. It is normal practice for the interest rates of both interest-bearing assets and liabilities to move in tandem, although the timing and extent of such movements may not be synchronised. This significantly mitigates the exposure of the Group to RMB interest rate risk. However, there is no guarantee that the PBOC will continue this practice in future.

The Group manages interest rate risk in the banking book primarily through interest rate repricing gap analysis. Interest rate repricing gap analysis measures the difference between the amount of interest-earning assets and interest-bearing liabilities that mature or must be repriced within certain periods and is used to generate indicators of interest rate risk sensitivity of earnings to changing interest rates. The interest rate gap analysis is set out in Note VI.4.3 and also covers the trading book.

Sensitivity analysis on net interest income

The Group performs sensitivity analysis by measuring the impact of a change in interest rates on net interest income. This analysis assumes that yield curves change in parallel while the structure of assets and liabilities remains unchanged, and does not take changes in customer behaviour, basis risk or any prepayment options on debt securities into consideration. The Group calculates the change in net interest income during the year due to a parallel move in the RMB, USD and HKD, and monitors this as a percentage of the net interest income budget for the year. Limits of the net interest income change are set as a percentage of net interest income budget for domestic operations and are approved by the Board and monitored by the Risk Management Department on a monthly basis.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(2) Banking book (Continued)

The table below illustrates the potential impact of a 25 basis point interest rate move on the net interest income of the Group. The actual situation may be different from the assumptions used and it is possible that actual outcomes could differ from the estimated impact on net interest income of the Group.

	(Decrease)/increase in net interest income	
	As at 31 December 2009	As at 31 December 2008
+ 25 basis points parallel move in all yield curves	**(2,541)**	(1,695)
– 25 basis points parallel move in all yield curves	**2,541**	1,695

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis

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

Group

	As at 31 December 2009						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	138,348	65,657	140,549	50,030	–	39,767	434,351
Balances with central banks	993,053	194	60,000	–	–	58,104	1,111,351
Placements with and loans to banks and other financial institutions	136,098	36,385	47,721	3,240	–	–	223,444
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	36,099	36,099
Precious metals	–	–	–	–	–	59,655	59,655
Financial assets at fair value through profit or loss	12,297	3,972	5,276	17,739	17,293	5,320	61,897
Derivative financial assets	–	–	–	–	–	28,514	28,514
Loans and advances to customers, net	1,156,544	956,396	2,630,854	21,976	10,819	20,819	4,797,408
Investment securities							
– available for sale	63,405	94,715	120,401	243,524	86,164	14,098	622,307
– held to maturity	54,710	63,720	164,432	321,973	139,858	–	744,693
– loans and receivables	2,843	23,603	285,589	32,087	43,660	–	387,782
Investment in associates and joint ventures	–	–	–	–	–	10,668	10,668
Property and equipment	–	–	–	–	–	113,508	113,508
Investment property	–	–	–	–	–	15,952	15,952
Deferred income tax assets	–	–	–	–	–	24,774	24,774
Other assets	161	–	–	–	–	75,613	75,774
Total assets	2,557,459	1,244,642	3,454,822	690,569	297,794	502,891	8,748,177

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Group

	As at 31 December 2009						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities							
Due to banks and other financial institutions	509,832	51,863	155,118	62,516	60,000	64,837	904,166
Due to central banks	19,886	7,345	34,384	–	–	–	61,615
Bank notes in circulation	–	–	–	–	–	36,154	36,154
Certificates of deposit and placements from banks and other financial institutions	146,261	28,443	11,651	–	–	288	186,643
Financial liabilities at fair value through profit or loss	31,422	6,419	3,673	82	–	2,638	44,234
Derivative financial liabilities	–	–	–	–	–	23,223	23,223
Due to customers	3,966,073	622,994	1,614,885	357,913	3,565	55,122	6,620,552
Bonds issued	–	24,930	3,997	14,871	33,000	–	76,798
Other borrowings	3,090	5,328	10,854	7,672	7,496	2,746	37,186
Current tax liabilities	–	–	–	–	–	17,801	17,801
Retirement benefit obligations	–	–	–	–	–	6,867	6,867
Deferred income tax liabilities	–	–	–	–	–	3,386	3,386
Other liabilities	4,681	–	–	–	–	183,243	187,924
Total liabilities	4,681,245	747,322	1,834,562	443,054	104,061	396,305	8,206,549
Total interest repricing gap	(2,123,786)	497,320	1,620,260	247,515	193,733	106,586	541,628

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Group

	As at 31 December 2008						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	58,188	23,228	28,951	376	–	35,966	146,709
Balances with central banks	1,046,056	40,160	80,171	–	–	41,226	1,207,613
Placements with and loans to banks and other financial institutions	221,349	139,392	53,548	–	–	–	414,289
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	32,039	32,039
Precious metals	–	–	–	–	–	42,479	42,479
Financial assets at fair value through profit or loss	6,909	11,335	11,708	25,178	28,469	4,215	87,814
Derivative financial assets	–	–	–	–	–	76,124	76,124
Loans and advances to customers, net	843,445	507,398	1,789,527	24,172	10,421	14,689	3,189,652
Investment securities							
– available for sale	70,177	86,823	190,587	294,676	101,162	9,177	752,602
– held to maturity	65,617	45,578	88,635	127,289	38,719	–	365,838
– loans and receivables	11,194	33,302	95,153	257,705	42,600	–	439,954
Investment in associates and joint ventures	–	–	–	–	–	7,376	7,376
Property and equipment	–	–	–	–	–	92,236	92,236
Investment property	–	–	–	–	–	9,637	9,637
Deferred income tax assets	–	–	–	–	–	17,405	17,405
Other assets	231	–	–	–	–	69,682	69,913
Total assets	2,323,166	887,216	2,338,280	729,396	221,371	452,251	6,951,680

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Group

	As at 31 December 2008						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities							
Due to banks and other financial institutions	593,918	16,599	53,769	1,688	–	58,254	724,228
Due to central banks	17,336	3,555	34,634	–	–	71	55,596
Bank notes in circulation	–	–	–	–	–	32,064	32,064
Certificates of deposit and placements from banks and other financial institutions	32,650	32,379	11,181	88	–	3,221	79,519
Financial liabilities at fair value through profit or loss	33,087	21,342	9,785	11	289	3,035	67,549
Derivative financial liabilities	–	–	–	–	–	59,482	59,482
Due to customers	2,981,811	576,844	1,198,586	287,136	8,188	49,546	5,102,111
Bonds issued	405	9,130	28,142	18,565	9,151	–	65,393
Other borrowings	2,921	6,360	12,774	9,424	8,798	2,561	42,838
Current tax liabilities	–	–	–	–	–	24,827	24,827
Retirement benefit obligations	–	–	–	–	–	7,363	7,363
Deferred income tax liabilities	–	–	–	–	–	2,093	2,093
Other liabilities	–	–	–	–	–	198,730	198,730
Total liabilities	3,662,128	666,209	1,348,871	316,912	26,426	441,247	6,461,793
Total interest repricing gap	(1,338,962)	221,007	989,409	412,484	194,945	11,004	489,887

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Bank

	As at 31 December 2009						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	143,696	63,791	141,204	50,000	–	36,019	434,710
Balances with central banks	941,033	123	60,000	–	–	32,929	1,034,085
Placements with and loans to banks and other financial institutions	147,940	36,128	50,284	3,434	27	–	237,813
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	2,367	2,367
Precious metals	–	–	–	–	–	57,514	57,514
Financial assets at fair value through profit or loss	2,511	1,553	3,033	7,489	5,455	93	20,134
Derivative financial assets	–	–	–	–	–	12,512	12,512
Loans and advances to customers, net	743,258	893,426	2,613,051	20,284	10,571	17,295	4,297,885
Investment securities							
– available for sale	40,853	56,114	106,754	138,492	64,295	1,348	407,856
– held to maturity	37,908	35,520	153,319	312,129	135,985	–	674,861
– loans and receivables	1,623	20,845	275,917	32,087	43,660	–	374,132
Investment in subsidiaries	–	–	–	–	–	71,541	71,541
Investment in associates and joint ventures	–	–	–	–	–	18	18
Property and equipment	–	–	–	–	–	61,878	61,878
Investment property	–	–	–	–	–	1,384	1,384
Deferred income tax assets	–	–	–	–	–	25,381	25,381
Other assets	161	–	–	–	–	53,132	53,293
Total assets	2,058,983	1,107,500	3,403,562	563,915	259,993	373,411	7,767,364

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Bank

	As at 31 December 2009						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities							
Due to banks and other financial institutions	486,008	52,002	155,277	62,516	60,000	50,989	866,792
Due to central banks	17,364	7,345	34,380	–	–	–	59,089
Bank notes in circulation	–	–	–	–	–	2,422	2,422
Certificates of deposit and placements from banks and other financial institutions	169,506	45,599	19,946	–	–	–	235,051
Financial liabilities at fair value through profit or loss	19,645	4,683	2,930	–	–	–	27,258
Derivative financial liabilities	–	–	–	–	–	10,573	10,573
Due to customers	3,322,669	549,252	1,580,256	356,574	3,565	11,963	5,824,279
Bonds issued	–	24,930	5,000	15,151	33,000	–	78,081
Other borrowings	1,026	531	6,599	7,672	7,496	2,605	25,929
Current tax liabilities	–	–	–	–	–	15,474	15,474
Retirement benefit obligations	–	–	–	–	–	6,867	6,867
Deferred income tax liabilities	–	–	–	–	–	138	138
Other liabilities	6,191	–	–	–	–	125,814	132,005
Total liabilities	4,022,409	684,342	1,804,388	441,913	104,061	226,845	7,283,958
Total interest repricing gap	(1,963,426)	423,158	1,599,174	122,002	155,932	146,566	483,406

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Bank

	As at 31 December 2008						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	68,162	22,927	27,880	300	–	31,366	150,635
Balances with central banks	998,944	40,160	80,171	–	–	27,680	1,146,955
Placements with and loans to banks and other financial institutions	206,953	143,191	48,466	648	–	–	399,258
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	1,878	1,878
Precious metals	–	–	–	–	–	41,290	41,290
Financial assets at fair value through profit or loss	1,928	4,406	9,271	16,769	12,748	201	45,323
Derivative financial assets	–	–	–	–	–	58,565	58,565
Loans and advances to customers, net	502,484	437,788	1,769,745	22,870	9,113	9,482	2,751,482
Investment securities							
– available for sale	41,812	60,617	153,153	252,678	80,866	1,070	590,196
– held to maturity	42,399	10,958	75,745	112,193	27,094	–	268,389
– loans and receivables	8,027	30,601	87,555	257,705	42,600	–	426,488
Investment in subsidiaries	–	–	–	–	–	69,595	69,595
Investment in associates and joint ventures	–	–	–	–	–	18	18
Property and equipment	–	–	–	–	–	55,001	55,001
Investment property	–	–	–	–	–	1,239	1,239
Deferred income tax assets	–	–	–	–	–	17,763	17,763
Other assets	231	–	–	–	–	45,502	45,733
Total assets	1,870,940	750,648	2,251,986	663,163	172,421	360,650	6,069,808

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Bank

	As at 31 December 2008						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities							
Due to banks and other financial institutions	578,224	17,854	54,537	1,688	–	43,437	695,740
Due to central banks	17,336	3,555	34,630	–	–	69	55,590
Bank notes in circulation	–	–	–	–	–	1,903	1,903
Certificates of deposit and placements from banks and other financial institutions	75,599	55,580	23,492	88	–	–	154,759
Financial liabilities at fair value through profit or loss	27,118	9,542	8,190	4	289	144	45,287
Derivative financial liabilities	–	–	–	–	–	41,512	41,512
Due to customers	2,399,586	479,603	1,167,103	286,650	8,188	13,513	4,354,643
Bonds issued	–	9,000	28,070	19,931	9,151	–	66,152
Other borrowings	821	617	7,838	9,424	8,798	2,751	30,249
Current tax liabilities	–	–	–	–	–	23,928	23,928
Retirement benefit obligations	–	–	–	–	–	7,363	7,363
Deferred income tax liabilities	–	–	–	–	–	54	54
Other liabilities	–	–	–	–	–	140,630	140,630
Total liabilities	3,098,684	575,751	1,323,860	317,785	26,426	275,304	5,617,810
Total interest repricing gap	(1,227,744)	174,897	928,126	345,378	145,995	85,346	451,998

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk

The Group manages its exposure to currency exchange risk through management of its net foreign currency position and monitors its foreign currency risk on trading books using VaR (Note VI 4.2(1)).

The Group conducts the substantial portion of its business in RMB, with certain transactions denominated in USD, Hong Kong dollars ("HKD") and, to a much lesser extent, other currencies. The major subsidiary, Bank of China Hong Kong (Group) Limited, conducts the majority of its business in HKD. The Group conducts the majority of its foreign currency transactions in USD.

In 2005, the PRC Government introduced a managed floating exchange rate system to allow the value of the RMB to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies.

The Group endeavours to manage its sources and uses of foreign currencies to minimise potential mismatches in accordance with management directives. However, the Group's ability to manage its foreign currency positions in relation to the RMB is limited as the RMB is not a freely convertible currency. The PRC government's current foreign currency regulations require the conversion of foreign currency to be approved by relevant PRC government authorities.

The Bank entered into certain foreign exchange transactions as part of asset and liability management and funding requirements including foreign currency deposit taking, placements, foreign currency bond issuance and derivatives.

The Group conducts sensitivity analysis on the net foreign currency position, to identify the impact to the income statement of potential movements in foreign currency exchange rates against the RMB and against functional currencies of its foreign operations that are not in RMB (in relation to which the principal exposure is to foreign currency movements against the HKD). The impact of fluctuations (e.g. 1 percent fluctuation) in exchange rates is not considered by management to be significant to the income statement. Such analysis does not take into account the correlation effect of changes in different foreign currencies, any further actions that may have been or could be taken by management after the financial reporting date, subject to the approval by the PRC government, to mitigate the effect of exchange differences, nor for any consequential changes in the foreign currency positions.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market Risk (Continued)

4.4 Foreign currency risk (Continued)

The tables below summarise the Group's and the Bank's exposure to foreign currency exchange rate risk as at 31 December 2009 and 31 December 2008. The Group's and the Bank's exposure to RMB is provided in the tables below for comparison purposes. Included in the table are the carrying amounts of the assets and liabilities of the Group and the Bank along with off-balance sheet positions and credit commitments in RMB equivalent, categorised by the original currency. Derivative financial instruments are included in the net off-balance sheet position using notional amounts.

Group

	As at 31 December 2009							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	360,703	56,383	6,748	4,318	1,629	537	4,033	434,351
Balances with central banks	1,015,454	43,881	24,096	14,229	7,042	–	6,649	1,111,351
Placements with and loans to banks and other financial institutions	107,449	59,111	34,773	5,990	106	6,901	9,114	223,444
Government certificates of indebtedness for bank notes issued	–	–	33,732	–	–	–	2,367	36,099
Precious metals	–	–	2,141	–	–	–	57,514	59,655
Financial assets at fair value through profit or loss	7,973	22,915	30,205	419	–	–	385	61,897
Derivative financial assets	997	9,250	13,956	984	391	1,390	1,546	28,514
Loans and advances to customers, net	3,429,448	819,204	413,146	49,325	24,353	3,903	58,029	4,797,408
Investment securities								
– available for sale	289,956	187,138	46,800	37,396	15,662	1,624	43,731	622,307
– held to maturity	614,230	74,846	30,472	12,333	3,275	306	9,231	744,693
– loans and receivables	368,178	7,218	5,865	–	–	–	6,521	387,782
Investment in associates and joint ventures	4,128	1,568	4,951	–	–	–	21	10,668
Property and equipment	58,997	38,914	11,464	191	1,182	1,463	1,297	113,508
Investment property	4,692	–	9,687	–	–	–	1,573	15,952
Deferred income tax assets	24,358	206	152	1	–	1	56	24,774
Other assets	50,720	10,353	10,812	1,173	338	720	1,658	75,774
Total assets	6,337,283	1,330,987	679,000	126,359	53,978	16,845	203,725	8,748,177

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Group

	As at 31 December 2009							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Liabilities								
Due to banks and other financial institutions	543,968	263,186	23,998	8,126	3,845	5,761	55,282	904,166
Due to central banks	–	54,796	6,776	–	–	–	43	61,615
Bank notes in circulation	–	–	33,732	–	–	–	2,422	36,154
Certificates of deposit and placements from banks and other financial institutions	70,435	101,700	2,543	6,144	2,066	1,469	2,286	186,643
Financial liabilities at fair value through profit or loss	19,414	4,232	16,133	1,385	–	122	2,948	44,234
Derivative financial liabilities	490	9,702	9,665	1,566	36	993	771	23,223
Due to customers	5,347,679	432,503	592,170	74,258	16,042	30,452	127,448	6,620,552
Bonds issued	76,647	151	–	–	–	–	–	76,798
Other borrowings	–	24,185	–	9,126	2,338	84	1,453	37,186
Current tax liabilities	14,865	155	1,896	96	44	275	470	17,801
Retirement benefit obligations	6,867	–	–	–	–	–	–	6,867
Deferred income tax liabilities	400	639	2,224	12	14	–	97	3,386
Other liabilities	111,261	26,930	42,083	3,376	760	1,297	2,217	187,924
Total liabilities	6,192,026	918,179	731,220	104,089	25,145	40,453	195,437	8,206,549
Net on-balance sheet position	145,257	412,808	(52,220)	22,270	28,833	(23,608)	8,288	541,628
Net off-balance sheet position	254,097	(354,647)	118,109	(13,580)	(27,110)	24,317	6,056	7,242
Credit commitments	1,024,279	536,776	181,014	88,468	11,828	9,613	23,421	1,875,399

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Group

	As at 31 December 2008							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	81,340	50,770	6,848	2,999	2,056	428	2,268	146,709
Balances with central banks	904,590	221,930	14,254	59,001	3,839	–	3,999	1,207,613
Placements with and loans to banks and other financial institutions	105,798	174,011	60,292	30,885	946	15,482	26,875	414,289
Government certificates of indebtedness for bank notes issued	–	–	30,161	–	–	–	1,878	32,039
Precious metals	–	–	1,188	–	–	–	41,291	42,479
Financial assets at fair value through profit or loss	25,413	26,238	32,576	722	–	–	2,865	87,814
Derivative financial assets	38,290	19,066	16,471	889	97	423	888	76,124
Loans and advances to customers, net	2,264,695	461,158	354,765	50,330	28,898	4,963	24,843	3,189,652
Investment securities								
– available for sale	404,853	206,380	40,468	40,297	42,125	1,580	16,899	752,602
– held to maturity	210,457	95,214	36,680	11,398	1,604	680	9,805	365,838
– loans and receivables	390,202	25,548	7,970	1,061	–	97	15,076	439,954
Investment in associates and joint ventures	2,485	951	3,915	–	–	–	25	7,376
Property and equipment	53,050	23,808	12,389	186	1,213	345	1,245	92,236
Investment property	1,263	–	7,135	–	–	–	1,239	9,637
Deferred income tax assets	16,815	232	232	–	–	59	67	17,405
Other assets	36,156	15,805	12,670	2,360	519	572	1,831	69,913
Total assets	4,535,407	1,321,111	638,014	200,128	81,297	24,629	151,094	6,951,680

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Group

	As at 31 December 2008							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Liabilities								
Due to banks and other financial institutions	320,959	335,373	8,239	7,084	8,289	1,015	43,269	724,228
Due to central banks	–	50,243	5,321	–	–	–	32	55,596
Bank notes in circulation	–	–	30,161	–	–	–	1,903	32,064
Certificates of deposit and placements from banks and other financial institutions	17,724	48,778	1,151	8,950	1,683	30	1,203	79,519
Financial liabilities at fair value through profit or loss	24,226	14,933	20,468	3,555	–	266	4,101	67,549
Derivative financial liabilities	1,362	39,165	17,181	1,056	34	233	451	59,482
Due to customers	3,960,531	409,106	517,786	66,464	16,570	24,058	107,596	5,102,111
Bonds issued	64,324	281	745	–	–	–	43	65,393
Other borrowings	–	27,651	–	10,362	3,020	185	1,620	42,838
Current tax liabilities	23,257	295	622	142	23	49	439	24,827
Retirement benefit obligations	7,363	–	–	–	–	–	–	7,363
Deferred income tax liabilities	240	620	1,186	–	13	–	34	2,093
Other liabilities	110,744	37,480	37,335	2,440	7,908	913	1,910	198,730
Total liabilities	4,530,730	963,925	640,195	100,053	37,540	26,749	162,601	6,461,793
Net on-balance sheet position	4,677	357,186	(2,181)	100,075	43,757	(2,120)	(11,507)	489,887
Net off-balance sheet position	422,058	(336,970)	69,435	(93,283)	(40,870)	2,992	14,830	38,192
Credit commitments	796,585	535,680	178,771	71,184	13,215	3,380	15,248	1,614,063

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Bank

	As at 31 December 2009							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	359,910	55,075	9,784	4,075	1,561	462	3,843	434,710
Balances with central banks	965,772	41,760	1,934	14,222	7,042	–	3,355	1,034,085
Placements with and loans to banks and other financial institutions	109,165	76,238	25,052	14,435	649	6,460	5,814	237,813
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	–	2,367	2,367
Precious metals	–	–	–	–	–	–	57,514	57,514
Financial assets at fair value through profit or loss	6,889	12,642	–	323	–	–	280	20,134
Derivative financial assets	997	8,032	–	934	390	1,383	776	12,512
Loans and advances to customers, net	3,415,067	712,791	57,094	44,206	23,010	2,913	42,804	4,297,885
Investment securities								
– available for sale	287,783	84,509	5,922	14,157	3,778	20	11,687	407,856
– held to maturity	613,645	51,293	2,121	6,433	884	–	485	674,861
– loans and receivables	368,178	2,047	–	–	–	–	3,907	374,132
Investment in subsidiaries	298	2,306	65,389	584	–	2,126	838	71,541
Investment in associates and joint ventures	–	–	–	–	–	–	18	18
Property and equipment	58,076	169	–	182	1,182	1,437	832	61,878
Investment property	–	–	–	–	–	–	1,384	1,384
Deferred income tax assets	25,138	206	–	–	–	–	37	25,381
Other assets	45,515	5,422	626	683	227	283	537	53,293
Total assets	6,256,433	1,052,490	167,922	100,234	38,723	15,084	136,478	7,767,364

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Bank

	As at 31 December 2009							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Liabilities								
Due to banks and other financial institutions	516,221	258,180	18,855	8,359	3,979	5,866	55,332	866,792
Due to central banks	–	52,972	6,077	–	–	–	40	59,089
Bank notes in circulation	–	–	–	–	–	–	2,422	2,422
Certificates of deposit and placements from banks and other financial institutions	71,445	138,214	7,152	11,589	2,274	1,613	2,764	235,051
Financial liabilities at fair value through profit or loss	19,414	3,417	387	1,385	–	122	2,533	27,258
Derivative financial liabilities	490	7,600	314	755	33	992	389	10,573
Due to customers	5,312,515	275,721	78,010	59,258	13,997	15,397	69,381	5,824,279
Bonds issued	77,930	151	–	–	–	–	–	78,081
Other borrowings	–	12,928	–	9,126	2,338	84	1,453	25,929
Current tax liabilities	14,592	154	–	81	44	197	406	15,474
Retirement benefit obligations	6,867	–	–	–	–	–	–	6,867
Deferred income tax liabilities	–	32	–	12	14	–	80	138
Other liabilities	110,023	14,430	1,957	2,958	644	740	1,253	132,005
Total Liabilities	6,129,497	763,799	112,752	93,523	23,323	25,011	136,053	7,283,958
Net on-balance sheet position	126,936	288,691	55,170	6,711	15,400	(9,927)	425	483,406
Net off-balance sheet position	253,670	(247,013)	(15,239)	1,925	(13,216)	11,231	10,397	1,755
Credit commitments	1,019,279	478,936	16,609	83,964	11,019	7,508	16,556	1,633,871

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Bank

	As at 31 December 2008							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	82,175	48,276	13,254	2,895	1,882	327	1,826	150,635
Balances with central banks	859,219	221,165	1,748	59,001	3,839	–	1,983	1,146,955
Placements with and loans to banks and other financial institutions	108,577	215,213	4,317	38,432	1,018	11,164	20,537	399,258
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	–	1,878	1,878
Precious metals	–	–	–	–	–	–	41,290	41,290
Financial assets at fair value through profit or loss	24,417	18,203	–	406	–	–	2,297	45,323
Derivative financial assets	38,290	18,219	–	798	96	1,005	157	58,565
Loans and advances to customers, net	2,249,845	372,072	38,095	46,022	27,137	2,661	15,650	2,751,482
Investment securities								
– available for sale	405,029	142,037	11,581	19,199	6,049	18	6,283	590,196
– held to maturity	209,572	49,019	3,005	6,010	–	–	783	268,389
– loans and receivables	390,202	23,568	–	965	–	–	11,753	426,488
Investment in subsidiaries	317	10,014	55,716	584	–	2,126	838	69,595
Investment in associates and joint ventures	–	–	–	–	–	–	18	18
Property and equipment	52,301	171	–	176	1,213	319	821	55,001
Investment property	–	–	–	–	–	–	1,239	1,239
Deferred income tax assets	17,482	232	–	–	–	–	49	17,763
Other assets	31,768	10,560	653	1,304	311	271	866	45,733
Total assets	4,469,194	1,128,749	128,369	175,792	41,545	17,891	108,268	6,069,808

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Bank

	As at 31 December 2008							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Liabilities								
Due to banks and other financial institutions	296,809	332,977	5,606	7,568	8,397	1,075	43,308	695,740
Due to central banks	–	50,240	5,321	–	–	–	29	55,590
Bank notes in circulation	–	–	–	–	–	–	1,903	1,903
Certificates of deposit and placements from banks and other financial institutions	16,814	106,738	12,503	13,066	1,658	1,478	2,502	154,759
Financial liabilities at fair value through profit or loss	24,225	12,232	1,089	3,555	–	266	3,920	45,287
Derivative financial liabilities	1,362	38,211	198	758	33	863	87	41,512
Due to customers	3,932,589	229,176	60,913	52,214	14,645	10,320	54,786	4,354,643
Bonds issued	66,001	151	–	–	–	–	–	66,152
Other borrowings	–	15,062	–	10,362	3,020	185	1,620	30,249
Current tax liabilities	23,095	293	–	129	23	24	364	23,928
Retirement benefit obligations	7,363	–	–	–	–	–	–	7,363
Deferred income tax liabilities	–	35	–	–	13	–	6	54
Other liabilities	109,762	24,097	1,841	2,114	833	515	1,468	140,630
Total liabilities	4,478,020	809,212	87,471	89,766	28,622	14,726	109,993	5,617,810
Net on-balance sheet position	(8,826)	319,537	40,898	86,026	12,923	3,165	(1,725)	451,998
Net off-balance sheet position	423,194	(309,790)	11,068	(79,020)	(10,165)	(1,700)	2,903	36,490
Credit commitments	789,721	487,875	21,716	67,998	12,724	1,944	10,661	1,392,639

4.5 Price Risk

The Group is exposed to equity risk on its available for sale listed equity securities. As at 31 December 2009, a 5 percent variance in listed equity prices from the year end price would impact the fair value of available for sale listed equity positions by RMB321 million (31 December 2008: RMB153 million). For those available for sale equities considered impaired, the impact would be taken to the income statement.

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk

Liquidity risk is the risk that the Group is unable to obtain funds at a reasonable cost when required to meet a repayment obligation and fund its asset portfolio within a certain time. The Group's objective in liquidity management is to maintain liquidity at a reasonable level, to ensure the due debt repayment and the demand of business growth pursuant to development strategy, as well as to acquire adequate readily convertible assets and funding in order to respond to emergencies.

5.1 Liquidity risk management policy and process

The Bank adopts centralised liquidity management through development of a centralised pool of liquid assets.

The Bank has policies to maintain a proactive liquidity management strategy. The asset liquidity management strategies encourage careful use of funding, diversified sources of funding, asset and liability matching and an appropriate level of highly liquid assets. The strategies relating to liabilities are intended to increase the proportion of core deposits and to maintain the stability of liabilities and financing ability. The Bank manages and monitors RMB and FX liquidity separately, and develops the RMB and FX liquidity portfolios to ensure that sources of different currencies and the usage are in accordance with its liquidity management requirements.

Sources of liquidity are regularly reviewed by a separate team in the Financial Management Department to maintain a wide diversification by currency, geography, provider, product and term. A liquidity maturity analysis is performed by the Financial Management Department on a monthly basis. The forecast net liquidity position is estimated and managed on a daily basis.

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, placements with and loans to banks and other financial institutions, certain central bank balances and loans and advances to customers. In the normal course of business, a proportion of short-term customer loans contractually repayable will be extended and a portion of short-term customer deposits will not be withdrawn upon maturity. The Group would also be able to meet unexpected net cash outflows by entering into repurchase and reverse repurchase transactions, and by selling securities and accessing additional funding sources.

For purposes of the tables set forth, loans and advances to customers are considered overdue only if principal payments are overdue. In addition, for loans and advances to customers that are repayable by installments, only the portion of the loan that is actually overdue is reported as overdue. Any part of the loan that is not due is reported according to residual maturity.

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis

The tables below analyse the Group's and the Bank's assets and liabilities into relevant maturity groupings based on the remaining period at financial reporting date to the contractual maturity date.

Group

	As at 31 December 2009							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	–	94,415	83,700	65,657	140,549	50,030	–	434,351
Balances with central banks	–	218,980	832,177	194	60,000	–	–	1,111,351
Placements with and loans to banks and other financial institutions	–	–	136,098	36,385	47,721	3,240	–	223,444
Government certificates of indebtedness for bank notes issued	–	36,099	–	–	–	–	–	36,099
Precious metals	–	59,655	–	–	–	–	–	59,655
Financial assets at fair value through profit or loss	–	1,472	11,029	3,345	5,204	18,498	22,349	61,897
Derivative financial assets	–	12,173	2,090	1,814	5,739	3,639	3,059	28,514
Loans and advances to customers, net	14,788	39,576	205,597	439,638	1,263,176	1,415,028	1,419,605	4,797,408
Investment securities								
– available for sale	–	–	19,557	58,046	97,731	315,180	131,793	622,307
– held to maturity	–	–	38,054	32,431	143,435	363,180	167,593	744,693
– loans and receivables	–	–	2,843	23,603	280,589	32,087	48,660	387,782
Investment in associates and joint ventures	–	–	–	–	–	4,045	6,623	10,668
Property and equipment	–	–	–	–	–	–	113,508	113,508
Investment property	–	–	–	–	–	–	15,952	15,952
Deferred income tax assets	–	–	–	–	12	24,762	–	24,774
Other assets	124	12,335	15,594	14,125	19,815	4,656	9,125	75,774
Total assets	14,912	474,705	1,346,739	675,238	2,063,971	2,234,345	1,938,267	8,748,177

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Group

	As at 31 December 2009							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Liabilities								
Due to banks and other financial institutions	–	518,965	56,215	51,663	154,797	62,516	60,010	904,166
Due to central banks	–	16,031	3,855	7,345	34,384	–	–	61,615
Bank notes in circulation	–	36,154	–	–	–	–	–	36,154
Certificates of deposit and placements from banks and other financial institutions	–	550	145,919	28,542	11,627	5	–	186,643
Financial liabilities at fair value through profit or loss	–	–	31,713	5,897	5,047	1,577	–	44,234
Derivative financial liabilities	–	8,266	1,150	821	3,838	5,412	3,736	23,223
Due to customers	–	3,179,651	779,448	632,566	1,664,340	361,906	2,641	6,620,552
Bonds issued	–	–	–	–	1,998	870	73,930	76,798
Other borrowings	–	–	589	369	3,581	15,231	17,416	37,186
Current tax liabilities	–	8	151	3	17,639	–	–	17,801
Retirement benefit obligations	–	–	77	153	691	2,859	3,087	6,867
Deferred income tax liabilities	–	–	–	–	27	3,359	–	3,386
Other liabilities	–	72,892	20,019	17,923	33,243	34,816	9,031	187,924
Total liabilities	–	3,832,517	1,039,136	745,282	1,931,212	488,551	169,851	8,206,549
Net Liquidity Gap	14,912	(3,357,812)	307,603	(70,044)	132,759	1,745,794	1,768,416	541,628

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Group

	As at 31 December 2008							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	–	72,533	21,621	23,228	28,951	376	–	146,709
Balances with central banks	–	248,372	838,910	40,160	80,171	–	–	1,207,613
Placements with and loans to banks and other financial institutions	–	–	221,086	139,486	53,691	26	–	414,289
Government certificates of indebtedness for bank notes issued	–	32,039	–	–	–	–	–	32,039
Precious metals	–	42,479	–	–	–	–	–	42,479
Financial assets at fair value through profit or loss	4	1,921	6,090	9,113	11,977	26,879	31,830	87,814
Derivative financial assets	–	27,151	2,305	14,247	20,789	5,972	5,660	76,124
Loans and advances to customers, net	26,037	24,912	161,036	297,196	885,270	926,058	869,143	3,189,652
Investment securities								
– available for sale	–	–	24,025	57,731	169,976	351,167	149,703	752,602
– held to maturity	–	–	41,059	12,749	64,304	184,694	63,032	365,838
– loans and receivables	–	–	11,195	33,302	88,708	258,004	48,745	439,954
Investment in associates and joint ventures	–	–	–	–	–	1,330	6,046	7,376
Property and equipment	–	–	–	–	–	–	92,236	92,236
Investment property	–	–	–	–	–	–	9,637	9,637
Deferred income tax assets	–	–	–	–	28	17,377	–	17,405
Other assets	235	8,228	15,634	16,193	15,602	4,700	9,321	69,913
Total assets	26,276	457,635	1,342,961	643,405	1,419,467	1,776,583	1,285,353	6,951,680

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Group

	As at 31 December 2008							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Liabilities								
Due to banks and other financial institutions	–	603,393	48,774	16,493	53,880	1,688	–	724,228
Due to central banks	–	13,550	3,858	3,555	34,633	–	–	55,596
Bank notes in circulation	–	32,064	–	–	–	–	–	32,064
Certificates of deposit and placements from banks and other financial institutions	–	180	35,156	32,104	11,991	88	–	79,519
Financial liabilities at fair value through profit or loss	–	–	33,020	15,335	16,675	1,789	730	67,549
Derivative financial liabilities	–	22,207	3,627	12,904	4,169	8,055	8,520	59,482
Due to customers	–	2,302,936	691,168	589,914	1,219,512	290,326	8,255	5,102,111
Bonds issued	–	–	405	130	2,071	2,635	60,152	65,393
Other borrowings	–	–	583	908	4,216	17,243	19,888	42,838
Current tax liabilities	–	–	50	–	24,777	–	–	24,827
Retirement benefit obligations	–	–	77	155	697	2,932	3,502	7,363
Deferred income tax liabilities	–	–	–	–	–	2,093	–	2,093
Other liabilities	–	77,884	25,380	17,860	42,712	24,227	10,667	198,730
Total liabilities	–	3,052,214	842,098	689,358	1,415,333	351,076	111,714	6,461,793
Net liquidity gap	26,276	(2,594,579)	500,863	(45,953)	4,134	1,425,507	1,173,639	489,887

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Bank

	As at 31 December 2009							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	–	96,905	82,810	63,791	141,204	50,000	–	434,710
Balances with central banks	–	144,559	829,403	123	60,000	–	–	1,034,085
Placements with and loans to banks and other financial institutions	–	–	147,309	34,666	23,645	3,481	28,712	237,813
Government certificates of indebtedness for bank notes issued	–	2,367	–	–	–	–	–	2,367
Precious metals	–	57,514	–	–	–	–	–	57,514
Financial assets at fair value through profit or loss	–	–	1,452	1,445	3,141	7,839	6,257	20,134
Derivative financial assets	–	–	1,528	851	4,997	2,307	2,829	12,512
Loans and advances to customers, net	12,276	10,295	190,073	404,105	1,182,581	1,214,182	1,284,373	4,297,885
Investment securities								
– available for sale	–	–	9,454	42,982	79,041	176,304	100,075	407,856
– held to maturity	–	–	33,880	28,290	120,460	331,913	160,318	674,861
– loans and receivables	–	–	1,622	20,845	270,918	32,087	48,660	374,132
Investment in subsidiaries	–	–	–	–	–	299	71,242	71,541
Investment in associates and joint ventures	–	–	–	–	–	–	18	18
Property and equipment	–	–	–	–	–	–	61,878	61,878
Investment property	–	–	–	–	–	–	1,384	1,384
Deferred income tax assets	–	–	–	–	–	25,381	–	25,381
Other assets	120	9,650	5,511	13,340	16,971	1,711	5,990	53,293
Total assets	12,396	321,290	1,303,042	610,438	1,902,958	1,845,504	1,771,736	7,767,364

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Bank

	As at 31 December 2009							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Liabilities								
Due to banks and other financial institutions	–	479,284	57,756	52,002	155,224	62,516	60,010	866,792
Due to central banks	–	13,509	3,855	7,345	34,380	–	–	59,089
Bank notes in circulation	–	2,422	–	–	–	–	–	2,422
Certificates of deposit and placements from banks and other financial institutions	–	–	169,360	45,599	20,092	–	–	235,051
Financial liabilities at fair value through profit or loss	–	–	19,646	4,658	2,937	17	–	27,258
Derivative financial liabilities	–	–	623	686	3,400	2,872	2,992	10,573
Due to customers	–	2,650,787	622,971	558,977	1,628,570	360,396	2,578	5,824,279
Bonds issued	–	–	–	–	3,000	1,151	73,930	78,081
Other borrowings	–	–	316	369	3,255	10,706	11,283	25,929
Current tax liabilities	–	–	124	–	15,350	–	–	15,474
Retirement benefit obligations	–	–	77	153	691	2,859	3,087	6,867
Deferred income tax liabilities	–	–	–	–	–	138	–	138
Other liabilities	–	62,694	9,695	16,970	29,812	12,551	283	132,005
Total liabilities	–	3,208,696	884,423	686,759	1,896,711	453,206	154,163	7,283,958
Net liquidity gap	12,396	(2,887,406)	418,619	(76,321)	6,247	1,392,298	1,617,573	483,406

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Bank

	As at 31 December 2008							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	–	78,606	20,721	23,128	27,880	300	–	150,635
Balances with central banks	–	189,450	837,174	40,160	80,171	–	–	1,146,955
Placements with and loans to banks and other financial institutions	–	–	206,899	143,181	48,451	675	52	399,258
Government certificates of indebtedness for bank notes issued	–	1,878	–	–	–	–	–	1,878
Precious metals	–	41,290	–	–	–	–	–	41,290
Financial assets at fair value through profit or loss	–	–	1,539	2,656	9,844	17,862	13,422	45,323
Derivative financial assets	–	14,060	1,634	13,687	19,200	4,427	5,557	58,565
Loans and advances to customers, net	20,859	6,816	141,883	264,845	835,609	736,924	744,546	2,751,482
Investment securities								
– available for sale	–	–	6,449	45,945	129,934	289,560	118,308	590,196
– held to maturity	–	–	36,946	6,027	47,567	135,229	42,620	268,389
– loans and receivables	–	–	8,027	30,602	81,110	258,004	48,745	426,488
Investment in subsidiaries	–	–	–	–	–	299	69,296	69,595
Investment in associates and joint ventures	–	–	–	–	–	–	18	18
Property and equipment	–	–	–	–	–	–	55,001	55,001
Investment property	–	–	–	–	–	–	1,239	1,239
Deferred income tax assets	–	–	–	–	7	17,756	–	17,763
Other assets	232	3,636	4,616	15,948	13,624	1,802	5,875	45,733
Total assets	21,091	335,736	1,265,888	586,179	1,293,397	1,462,838	1,104,679	6,069,808

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Bank

	As at 31 December 2008							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Liabilities								
Due to banks and other financial institutions	–	571,235	50,456	17,714	54,647	1,688	–	695,740
Due to central banks	–	13,547	3,858	3,555	34,630	–	–	55,590
Bank notes in circulation	–	1,903	–	–	–	–	–	1,903
Certificates of deposit and placements from banks and other financial institutions	–	–	75,599	55,580	23,492	88	–	154,759
Financial liabilities at fair value through profit or loss	–	–	27,072	9,333	8,361	28	493	45,287
Derivative financial liabilities	–	12,898	1,783	11,972	2,425	5,090	7,344	41,512
Due to customers	–	1,903,938	471,862	493,876	1,188,286	288,426	8,255	4,354,643
Bonds issued	–	–	–	–	2,000	4,000	60,152	66,152
Other borrowings	–	–	332	409	3,564	12,671	13,273	30,249
Current tax liabilities	–	–	11	–	23,917	–	–	23,928
Retirement benefit obligations	–	–	77	155	697	2,932	3,502	7,363
Deferred income tax liabilities	–	–	–	–	–	54	–	54
Other liabilities	–	65,315	9,539	17,383	39,790	6,536	2,067	140,630
Total liabilities	–	2,568,836	640,589	609,977	1,381,809	321,513	95,086	5,617,810
Net liquidity gap	21,091	(2,233,100)	625,299	(23,798)	(88,412)	1,141,325	1,009,593	451,998

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 *Undiscounted cash flows by contractual maturities*

The tables below present the cash flows of the Group and the Bank of non-derivative financial assets and financial liabilities and derivative financial instruments that will be settled on a net basis and on a gross basis by remaining contractual maturities at the financial reporting date. The amounts disclosed in the table are the contractual undiscounted cash flow, whereas the Group manages its short-term inherent liquidity risk based on expected undiscounted cash inflows except for customer driven derivatives which are disclosed at fair value (i.e. discounted cash flows basis).

Group

	As at 31 December 2009							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	–	94,467	83,873	65,787	140,833	50,129	–	435,089
Balances with central banks	–	219,380	832,195	194	60,121	–	–	1,111,890
Placements with and loans to banks and other financial institutions	–	–	136,431	36,483	47,976	3,254	–	224,144
Financial assets at fair value through profit or loss	–	1,242	11,103	3,578	6,838	23,703	28,933	75,397
Loans and advances to customers, net	18,347	39,778	223,663	474,580	1,373,424	1,756,674	1,801,312	5,687,778
Investment securities								
– available for sale	–	–	20,665	61,487	110,390	359,492	193,010	745,044
– held to maturity	–	–	38,704	37,965	160,321	407,896	205,303	850,189
– loans and receivables	–	–	2,858	24,681	286,620	38,749	62,565	415,473
Other assets	–	10,003	10,148	1,223	4,069	20	1,064	26,527
Total financial assets	18,347	364,870	1,359,640	705,978	2,190,592	2,639,917	2,292,187	9,571,531
Due to banks and other financial institutions	–	519,206	56,344	51,781	155,152	62,660	60,148	905,291
Due to central banks	–	16,032	3,857	7,353	34,778	–	–	62,020
Certificates of deposit and placements from banks and other financial institutions	–	552	146,293	28,638	11,708	5	–	187,196
Financial liabilities at fair value through profit or loss	–	–	31,971	5,963	5,180	1,602	–	44,716
Due to customers	–	3,177,955	788,933	642,286	1,710,132	393,259	2,933	6,715,498
Bonds issued	–	–	–	1,420	3,658	12,849	89,811	107,738
Other borrowings	–	–	697	443	4,183	17,004	18,378	40,705
Other liabilities	–	60,611	8,396	1,090	1,436	7,572	2,906	82,011
Total financial liabilities	–	3,774,356	1,036,491	738,974	1,926,227	494,951	174,176	8,145,175
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	3,897	(166)	(406)	(1,032)	(4,694)	(750)	(3,151)
Derivative financial instruments settled on a gross basis								
Total inflow	–	–	348,813	158,024	700,162	5,718	75	1,212,792
Total outflow	–	–	(348,288)	(157,059)	(698,285)	(5,750)	(75)	(1,209,457)

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities (Continued)

Group

	As at 31 December 2008							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	–	72,631	21,888	23,543	29,571	390	–	148,023
Balances with central banks	–	248,689	838,948	40,579	83,201	–	–	1,211,417
Placements with and loans to banks and other financial institutions	–	–	221,575	140,365	54,915	31	–	416,886
Financial assets at fair value through profit or loss	4	1,921	6,597	19,547	32,753	42,730	40,442	143,994
Loans and advances to customers, net	27,808	25,333	175,124	331,618	976,436	1,169,416	1,110,563	3,816,298
Investment securities								
– available for sale	–	–	25,289	65,325	188,137	379,221	208,383	866,355
– held to maturity	–	–	41,714	14,365	69,800	197,635	85,674	409,188
– loans and receivables	–	–	11,200	42,722	105,644	309,822	48,745	518,133
Other assets	–	5,902	10,686	465	1,826	156	1,329	20,364
Total financial assets	27,812	354,476	1,353,021	678,529	1,542,283	2,099,401	1,495,136	7,550,658
Due to banks and other financial institutions	–	603,752	50,036	16,740	55,515	2,060	–	728,103
Due to central banks	–	13,550	3,899	3,568	35,766	–	–	56,783
Certificates of deposit and placements from banks and other financial institutions	–	180	35,285	32,323	12,287	94	–	80,169
Financial liabilities at fair value through profit or loss	–	–	33,026	15,421	16,793	1,924	972	68,136
Due to customers	–	2,337,930	700,345	601,881	1,270,127	327,498	9,763	5,247,544
Bonds issued	–	–	405	1,647	3,731	19,150	70,045	94,978
Other borrowings	–	–	694	1,057	5,244	20,718	21,751	49,464
Other liabilities	–	60,822	14,277	366	13,717	1,958	3,453	94,593
Total financial liabilities	–	3,016,234	837,967	673,003	1,413,180	373,402	105,984	6,419,770
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	–	3,688	(765)	(280)	(2,860)	(367)	(584)
Derivative financial instruments settled on a gross basis								
Total inflow	–	–	295,822	399,641	744,542	10,881	128	1,451,014
Total outflow	–	–	(296,885)	(397,313)	(729,432)	(10,475)	(130)	(1,434,235)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities (Continued)

Bank

	As at 31 December 2009							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	–	96,937	82,958	63,901	141,447	50,084	–	435,327
Balances with central banks	–	144,959	829,419	123	60,103	–	–	1,034,604
Placements with and loans to banks and other financial institutions	–	–	147,588	34,740	23,710	3,494	28,773	238,305
Financial assets at fair value through profit or loss	–	–	1,445	1,549	3,762	9,709	9,962	26,427
Loans and advances to customers, net	15,799	10,432	208,035	438,783	1,293,555	1,553,441	1,663,018	5,183,063
Investment securities								
– available for sale	–	–	10,167	45,540	87,292	199,708	147,708	490,415
– held to maturity	–	–	34,393	33,537	135,666	374,317	196,150	774,063
– loans and receivables	–	–	1,636	21,922	276,947	38,749	62,565	401,819
Other assets	–	8,685	950	860	2,844	7	891	14,237
Total financial assets	15,799	261,013	1,316,591	640,955	2,025,326	2,229,509	2,109,067	8,598,260
Due to banks and other financial institutions	–	479,525	57,877	52,111	155,550	62,647	60,136	867,846
Due to central banks	–	13,510	3,857	7,353	34,775	–	–	59,495
Certificates of deposit and placements from banks and other financial institutions	–	–	169,729	45,705	20,139	–	–	235,573
Financial liabilities at fair value through profit or loss	–	–	19,904	4,708	2,997	18	–	27,627
Due to customers	–	2,652,153	632,351	568,553	1,674,052	391,626	2,864	5,921,599
Bonds issued	–	–	–	1,441	4,682	13,140	89,811	109,074
Other borrowings	–	–	411	418	3,747	12,024	12,047	28,647
Other liabilities	–	59,711	318	583	1,295	5,747	60	67,714
Total financial liabilities	–	3,204,899	884,447	680,872	1,897,237	485,202	164,918	7,317,575
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	–	(27)	(109)	152	(802)	64	(722)
Derivative financial instruments settled on a gross basis								
Total inflow	–	–	232,477	89,880	635,645	4,520	75	962,597
Total outflow	–	–	(231,976)	(89,766)	(633,975)	(4,489)	(75)	(960,281)

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities (Continued)

Bank

	As at 31 December 2008							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	–	78,648	20,993	23,416	28,473	306	–	151,836
Balances with central banks	–	189,764	837,212	40,579	83,201	–	–	1,150,756
Placements with and loans to banks and other financial institutions	–	–	207,355	144,136	49,464	709	52	401,716
Financial assets at fair value through profit or loss	–	–	1,987	12,880	29,399	30,168	17,350	91,784
Loans and advances to customers, net	22,627	7,156	155,528	298,126	923,078	978,123	983,741	3,368,379
Investment securities								
– available for sale	–	–	7,387	52,873	144,605	303,965	156,930	665,760
– held to maturity	–	–	37,181	6,920	50,370	140,245	51,416	286,132
– loans and receivables	–	–	8,028	40,016	98,023	309,822	48,745	504,634
Other assets	–	2,340	1,281	454	1,741	7	1,141	6,964
Total financial assets	22,627	277,908	1,276,952	619,400	1,408,354	1,763,345	1,259,375	6,627,961
Due to banks and other financial institutions	–	571,594	51,725	17,965	56,286	2,060	–	699,630
Due to central banks	–	13,547	3,899	3,568	35,762	–	–	56,776
Certificates of deposit and placements from banks and other financial institutions	–	–	75,966	56,059	23,972	94	–	156,091
Financial liabilities at fair value through profit or loss	–	–	27,072	9,382	8,397	87	713	45,651
Due to customers	–	1,938,829	480,555	505,413	1,238,447	325,575	9,763	4,498,582
Bonds issued	–	–	–	1,544	3,659	20,525	70,045	95,773
Other borrowings	–	–	405	482	4,247	14,611	14,320	34,065
Other liabilities	–	57,462	444	9	11,379	296	1,942	71,532
Total financial liabilities	–	2,581,432	640,066	594,422	1,382,149	363,248	96,783	5,658,100
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	–	(76)	(692)	(465)	(869)	202	(1,900)
Derivative financial instruments settled on a gross basis								
Total inflow	–	–	178,948	346,065	687,948	6,999	127	1,220,087
Total outflow	–	–	(179,141)	(343,706)	(672,582)	(6,517)	(127)	(1,202,073)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.4 Off-balance sheet items

The Group's and the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities are summarised in the table below at the remaining period to the contractual maturity date. Financial guarantees are also included below at notional amounts and based on the earliest contractual maturity date. Where the Group and the Bank are the lessee under operating lease commitments, the future minimum lease payments under non-cancellable operating leases, as disclosed in Note V.41.5, are summarised in the table below.

Group

	As at 31 December 2009			
	Less than 1 year	**Between 1 to 5 years**	**Over 5 years**	**Total**
Loan commitments	**634,108**	**155,693**	**31,049**	**820,850**
Guarantees, acceptances and other financial facilities	**738,600**	**201,512**	**114,437**	**1,054,549**
Subtotal	**1,372,708**	**357,205**	**145,486**	**1,875,399**
Operating lease commitments	**2,903**	**7,250**	**2,052**	**12,205**
Capital commitments	**14,797**	**20,060**	**–**	**34,857**
Total	**1,390,408**	**384,515**	**147,538**	**1,922,461**

	As at 31 December 2008			
	Less than 1 year	Between 1 to 5 years	Over 5 years	Total
Loan commitments	679,817	49,156	13,054	742,027
Guarantees, acceptances and other financial facilities	569,723	187,463	114,850	872,036
Subtotal	1,249,540	236,619	127,904	1,614,063
Operating lease commitments	2,609	5,709	1,839	10,157
Capital commitments	9,592	37,722	6	47,320
Total	1,261,741	280,050	129,749	1,671,540

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.4 Off-balance sheet items (Continued)

Bank

	As at 31 December 2009			
	Less than 1 year	Between 1 to 5 years	Over 5 years	Total
Loan commitments	414,442	155,689	31,035	601,166
Guarantees, acceptances and other financial facilities	711,528	206,170	115,007	1,032,705
Subtotal	1,125,970	361,859	146,042	1,633,871
Operating lease commitments	2,379	6,705	2,033	11,117
Capital commitments	2,735	1,962	–	4,697
Total	1,131,084	370,526	148,075	1,649,685

	As at 31 December 2008			
	Less than 1 year	Between 1 to 5 years	Over 5 years	Total
Loan commitments	477,479	49,141	13,054	539,674
Guarantees, acceptances and other financial facilities	544,996	190,814	117,155	852,965
Subtotal	1,022,475	239,955	130,209	1,392,639
Operating lease commitments	2,097	5,052	1,821	8,970
Capital commitments	3,217	1,677	6	4,900
Total	1,027,789	246,684	132,036	1,406,509

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value of financial assets and liabilities

6.1 Financial instruments not measured at fair value

Financial assets and liabilities not presented at their fair value on the statement of financial position mainly represent balances with central banks, due from banks and other financial institutions, placements with and loans to banks and other financial institutions, loans and advances to customers, investment securities classified as held to maturity and loans and receivables, due to central banks, due to banks and other financial institutions, certificates of deposit and placements from banks and other financial institutions, due to customers and bonds issued.

The tables below summarise the carrying amounts and fair values of investment securities classified as held to maturity and loans and receivables, and bonds issued not presented at fair value on the statement of financial position.

Group

	As at 31 December			
	Carrying value		Fair value	
	2009	2008	**2009**	2008
Financial assets				
Investment securities (1)				
– Held to maturity	**744,693**	365,838	**744,835**	371,024
– Loans and receivables	**387,782**	439,954	**387,786**	439,999
Financial liabilities				
Bonds issued (2)	**76,798**	65,393	**74,606**	67,194

Bank

	As at 31 December			
	Carrying value		Fair value	
	2009	2008	**2009**	2008
Financial assets				
Investment securities (1)				
– Held to maturity	**674,861**	268,389	**675,174**	276,483
– Loans and receivables	**374,132**	426,488	**374,132**	426,489
Financial liabilities				
Bonds issued (2)	**78,081**	66,152	**75,897**	67,960

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value of financial assets and liabilities (Continued)

6.1 Financial instruments not measured at fair value (Continued)

(1) Investment securities classified as held to maturity and loans and receivables

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

(2) Bonds issued

The aggregate fair values are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

Other than above, those financial assets and liabilities not presented at their value on the statement of financial position are measured using a discounted cash flow model. The differences between their carrying amounts and their fair value are insignificant.

6.2 Financial instruments measured at fair value

Financial instruments measured at fair value are classified into following three levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities, including listed equity securities on exchange or debt instrument issued by certain governments.

- Level 2: Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. This level includes the majority of the over-the-counter derivative contracts, debt securities for which quotations are available from pricing services providers, traded loans and issued structured deposits.

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

The Group uses valuation techniques or counterparty quotations to determine the fair value of financial instruments when unable to obtain the open market quotation in active markets.

The main parameters used in valuation techniques for financial instruments held by the Group include bond prices, interest rates, foreign exchange rates, equity and stock prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are all observable and obtainable from open market.

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value of financial assets and liabilities (Continued)

6.2 Financial instruments measured at fair value (Continued)

For certain illiquid debt securities (mainly asset-backed securities), unlisted equity (private equity) and over-the-counter structured derivatives transactions held by the Group, management obtains valuation quotations from counterparties. The fair value of these financial instruments may be based on unobservable inputs which may have significant impact on the valuation of these financial instruments, and therefore, these instruments have been classified by the Group as level 3. Management assesses the impact of changes in macro-economic factors, engage external valuer and other inputs, including loss coverage ratios, to determine the fair value for the Group's level 3 financial instruments. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

	As at 31 December 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial assets at fair value through profit or loss				
– Debt securities	**4,452**	**50,851**	**119**	**55,422**
– Fund investments	**2,995**	**–**	**–**	**2,995**
– Loans	**–**	**1,248**	**–**	**1,248**
– Equity securities	**2,135**	**97**	**–**	**2,232**
Derivative financial assets	**12,166**	**16,205**	**143**	**28,514**
Investment securities available for sale				
– Debt securities	**60,762**	**538,701**	**8,746**	**608,209**
– Fund investments and other	**62**	**–**	**1,655**	**1,717**
– Equity securities	**6,294**	**1,233**	**4,854**	**12,381**
Financial liabilities				
Financial liabilities at fair value through profit or loss	**–**	**(44,234)**	**–**	**(44,234)**
Derivative financial liabilities	**(8,266)**	**(14,515)**	**(442)**	**(23,223)**

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value of financial assets and liabilities (Continued)

6.2 Financial instruments measured at fair value (Continued)

Reconciliation of Level 3 Items:

	Financial assets at fair value through profit or loss	Investment securities available for sale			Derivative financial instrument
	Debt securities	Debt securities	Fund investments and other	Equity securities	
As at 1 January 2009	1,903	13,115	1,044	4,397	(296)
Total gains or losses					
– profit or loss	(161)	1,019	1	65	6
– other comprehensive income	–	(67)	(127)	(192)	–
Sales	(704)	(5,445)	(168)	(146)	–
Purchases	–	2,999	905	730	–
Issues	–	–	–	–	–
Settlements	–	–	–	–	(9)
Transfers (out of)/into Level 3, net	(919)	(2,875)	–	–	–
As at 31 December 2009	119	8,746	1,655	4,854	(299)
Total gains or losses for the period included in the profit or loss for assets/liabilities held at the end of the reporting period	(49)	94	–	–	6

Total gains or losses for the year ended 31 December 2009 included in profit or loss as well as total gains or losses relating to financial instruments held at 31 December 2009 are presented in "Net trading gains", "Net gains on investment securities" or "Impairment losses of assets" depending on the nature or category of the related financial instruments.

There have been no significant transfers between levels 1 and 2 during 2009.

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management

The Group follows the principles below with regard to capital management:

- maintain high asset quality and adequate capital to support the implementation of the strategic development plan and meet the regulatory requirements;

- fully identify, quantify, monitor, mitigate and control all kinds of major risks, and maintain adequate capital for the Bank's risk exposure and risk management needs;

- optimise asset structure and allocate economic capital in a reasonable manner to ensure the sustainable development of the Bank.

Capital adequacy and regulatory capital are monitored by Group management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBRC, for supervisory purposes. The required information is filed with the CBRC on a quarterly basis.

The CBRC requires each bank or banking group to maintain a ratio of total regulatory capital to its risk-weighted assets at or above the agreed minimum of 8%, and a core capital ratio of above 4%.

The Group's regulatory capital as managed by its Financial Management Department is divided into two tiers:

- Core capital: share capital, capital reserve, specified reserves, retained earnings, minority interests; and

- Supplementary: long-term subordinated bond issued, collective impairment allowances and others.

Goodwill, investments in entities engaged in banking and financial activities which are not consolidated in the financial statements, investment properties, investments in commercial corporations and other deductible items are deducted from core and supplementary capital to arrive at the regulatory capital.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management (Continued)

The on-balance sheet risk-weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of, and reflecting an estimate of, credit and other risks associated with each asset and customer, and taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure with adjustments to reflect the contingent nature of the potential losses. The market risk capital adjustment is measured by means of a standardised approach.

The tables below summarise the capital adequacy ratios and the composition of regulatory capital of the Group as at 31 December 2009 and 31 December 2008. The Group complied with the externally imposed capital requirements to which it is subject.

	As at 31 December	
	2009	2008
Capital adequacy ratio	**11.14%**	13.43%
Core capital adequacy ratio	**9.07%**	10.81%

The capital adequacy ratios above are calculated in accordance with the rules and regulations promulgated by the CBRC, and the generally accepted accounting principles of the PRC (“CAS”).

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management (Continued)

Group

	As at 31 December	
	2009	2008
Components of capital base		
Core capital:		
Share capital	**253,796**	253,822
Reserves [(1)]	**218,813**	164,529
Minority interests	**30,402**	25,629
Total core capital	**503,011**	443,980
Supplementary capital:		
Collective impairment allowances	**60,128**	43,192
Long-term subordinated bonds issued	**73,930**	60,000
Other [(1)]	**5,587**	14,203
Total supplementary capital	**139,645**	117,395
Total capital base before deductions	**642,656**	561,375
Deductions:		
Goodwill	**(1,929)**	(1,877)
Investments in entities engaged in banking and financial activities which are not consolidated	**(9,260)**	(5,677)
Investment properties	**(15,952)**	(9,637)
Investments in commercial corporations	**(16,021)**	(11,391)
Other deductible items [(2)]	**(24,470)**	–
Total capital base after deductions	**575,024**	532,793
Core capital base after deductions[(3)]	**468,231**	428,751
Risk-weighted assets and market risk capital adjustment	**5,163,848**	3,966,943

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management (Continued)

(1) Pursuant to regulations released by CBRC in November 2007, all net unrealised fair value gains after tax consideration are removed from the core capital calculation. The fair value gains on trading activities recognised in profit and loss are included in the supplementary capital. Only a certain percentage of fair value gain recognised in equity can be included in the supplementary capital.

(2) Pursuant to the relevant regulations, other deductible items include investments in asset backed securities, long-term subordinated debts issued by other banks and acquired by the Group after 1 July 2009.

(3) Pursuant to the relevant regulations, 100% of goodwill and 50% of other deductions were applied in deriving the core capital base.

8 Insurance risk

Insurance contracts are mainly sold in Chinese mainland and Hong Kong denominated in Renminbi and Hong Kong dollar. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. This risk is inherently random and, therefore, unpredictable. The Group manages its portfolio of insurance risks through its underwriting strategy and policies, portfolio management techniques, adequate reinsurance arrangements and proactive claims handling and processing. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk and industry.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of the claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality. In order to assess the uncertainty due to the mortality assumption and lapse assumption, the Group conducted mortality rate studies and policy lapse studies in order to determine the appropriate assumptions.

Unaudited Supplementary Financial Information

(Amount in millions of Renminbi, unless otherwise stated)

According to Hong Kong Listing Rule and disclosure regulations of banking industry, the Group discloses the following supplementary financial information:

1 LIQUIDITY RATIOS

	As at 31 December	
	2009	2008
RMB current assets to RMB current liabilities	**45.31%**	48.77%
Foreign currency current assets to foreign currency current liabilities	**55.58%**	76.61%

The liquidity ratios are calculated in accordance with the relevant provisions of the PBOC and CBRC. Financial data as at 31 December 2009 and 31 December 2008 is based on the Chinese Accounting Standards 2006.

2 CURRENCY CONCENTRATIONS

The following information is computed in accordance with the provisions of the CBRC.

	Equivalent in millions of Renminbi			
	USD	HKD	Other	Total
As at 31 December 2009				
Spot assets	**1,023,289**	**54,283**	**242,096**	**1,319,668**
Spot liabilities	**(623,249)**	**(190,378)**	**(229,463)**	**(1,043,090)**
Forward purchases	**817,830**	**334,862**	**225,336**	**1,378,028**
Forward sales	**(1,173,293)**	**(216,442)**	**(235,151)**	**(1,624,886)**
Net options position*	**375**	**(311)**	**(70)**	**(6)**
Net long/(short) position	**44,952**	**(17,986)**	**2,748**	**29,714**
Net structural position	**3,531**	**101,635**	**17,281**	**122,447**
As at 31 December 2008				
Spot assets	895,019	28,639	319,212	1,242,870
Spot liabilities	(532,785)	(115,475)	(207,967)	(856,227)
Forward purchases	551,648	197,710	381,516	1,130,874
Forward sales	(888,579)	(128,232)	(497,926)	(1,514,737)
Net options position*	107	(43)	(65)	(1)
Net long/(short) position	25,410	(17,401)	(5,230)	2,779
Net structural position	(5,579)	89,192	14,319	97,932

* The net option position is calculated using the delta equivalent approach as set out in the requirements of the CBRC.

(Amount in millions of Renminbi, unless otherwise stated)

3 CROSS-BORDER CLAIMS

The Group is principally engaged in business operations within the Chinese mainland, and regards all claims on third parties outside the Chinese mainland as cross-border claims.

Cross-border claims include balances with central banks, placements with and loans to banks and other financial institutions, government certificates of indebtedness for bank notes issued, financial assets at fair value through profit or loss, loans and advances to customers and investment securities.

Cross-border claims have been disclosed by country or geographical area. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	Banks and other financial institutions	Public sector entities	Other	Total
As at 31 December 2009				
Asia Pacific excluding Chinese mainland				
Hong Kong	34,593	58,480	420,697	513,770
Other Asia Pacific locations	85,392	26,240	102,569	214,201
Subtotal	119,985	84,720	523,266	727,971
North and South America	75,484	64,341	138,856	278,681
Europe	165,661	15,103	55,695	236,459
Middle East and Africa	4,300	–	15,115	19,415
Total	365,430	164,164	732,932	1,262,526

3 CROSS-BORDER CLAIMS (Continued)

	Banks and other financial institutions	Public sector entities	Other	Total
As at 31 December 2008				
Asia Pacific excluding Chinese mainland				
Hong Kong	93,220	45,016	382,430	520,666
Other Asia Pacific locations	106,419	39,581	94,713	240,713
Subtotal	199,639	84,597	477,143	761,379
North and South America	72,928	104,201	342,597	519,726
Europe	278,810	3,456	102,923	385,189
Middle East and Africa	3,337	–	6,652	9,989
Total	554,714	192,254	929,315	1,676,283

(Amount in millions of Renminbi, unless otherwise stated)

4 OVERDUE ASSETS

For the purposes of the table below, loans and advances to customers and placements with and loans to banks and other financial institutions are considered overdue if either principal or interest payment is overdue.

(1) Total amount of overdue loans and advances to customers

	As at 31 December	
	2009	2008
Total loans and advances to customers which have been overdue for		
below 3 months	**28,328**	38,717
between 3 and 6 months	**3,193**	6,400
between 6 and 12 months	**7,659**	6,393
over 12 months	**38,091**	46,420
Total	**77,271**	97,930
Percentage		
below 3 months	**0.57%**	1.18%
between 3 and 6 months	**0.07%**	0.19%
between 6 and 12 months	**0.16%**	0.19%
over 12 months	**0.77%**	1.41%
Total	**1.57%**	2.97%

(2) Total amount of overdue placements with and loans to banks and other financial institutions

The total amount of overdue placements with and loans to banks and other financial institutions as at 31 December 2009 and 31 December 2008 is not considered material.

5 CONTINUING CONNECTED TRANSACTIONS

In late November 2007, the Bank and BOCHK Holdings established BOC Services Co., Ltd, which is indirectly held 55% by the Bank and 45% by BOCHK Holdings. Upon the establishment of BOC Services Co., Ltd, BOCHK Holdings became a connected person of the Bank by reason of its being a substantial shareholder of BOC Services Co., Ltd, an indirect subsidiary of the Bank.

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the on-going transactions pursuant to the Services and Relationship Agreement between the Bank and BOCHK Holdings and its associates in the ordinary and usual course of its business constitute continuing connected transactions of the Bank. Such transactions include General Connected Transactions, Investment Connected Transactions and Inter-bank Connected Transactions.

On 2 January 2008, the Bank made an announcement to set out annual caps in respect of each continuing connected transaction for the years from 2008 to 2010. The Bank's independent shareholders approved the annual caps of the Investment Connected Transactions and the Inter-bank Connected Transactions at its annual general meeting held on 19 June 2008.

The annual caps and amounts of these continuing connected transactions occurring in 2009 are set out below.

Type of Transactions*	2009 Annual Caps		2009 Actual Amount	
	HKD million	RMB million equivalent	HKD million	RMB million equivalent
General Connected Transactions				
Information Technology Services	**1,100**	**969**	**40**	**35**
Property Transactions	**1,100**	**969**	**94**	**83**
Bank-note Delivery	**1,100**	**969**	**76**	**67**
Provision of Insurance Cover	**1,100**	**969**	**85**	**75**
Credit Card Services	**1,100**	**969**	**59**	**52**
Investment Connected Transactions				
Securities Transactions	**4,000**	**3,522**	**441**	**388**
Fund Distribution Transactions	**4,000**	**3,522**	**45**	**39**
Insurance Agency	**4,000**	**3,522**	**159**	**140**
Inter-bank Connected Transactions				
Foreign Exchange Transactions	**4,000**	**3,522**	**105**	**93**
Trading of Financial Assets	**75,000**	**66,038**	**12,177**	**10,722**
Inter-Bank Capital Markets	**75,000**	**66,038**	**5,186**	**4,566**

* The definition of each type of the transactions is the same as the definition set out in the Bank's announcement "Continuing Connected Transactions" dated 2 January 2008.

Supplementary Information – Financial Statements Prepared in Accordance with CAS

(Amount in millions of Renminbi, unless otherwise stated)

1 CONSOLIDATED INCOME STATEMENT

	2009	2008
Operating income	**232,198**	228,288
Net interest income	**158,881**	162,936
Interest income	**261,424**	286,927
Interest expense	**(102,543)**	(123,991)
Net fee and commission income	**46,013**	39,947
Fee and commission income	**50,234**	43,712
Fee and commission expense	**(4,221)**	(3,765)
Investment income	**21,357**	34,438
Including: Investment in associates and joint ventures	**821**	726
Fair value change gains/(losses)	**(9,244)**	(529)
Foreign exchange gains and losses	**(1,938)**	(25,695)
Other operating income	**17,129**	17,191
Operating expenses	**(121,640)**	(142,135)
Business tax and surcharges	**(11,645)**	(11,367)
Operating and administration expenses	**(81,076)**	(71,957)
Impairment losses on assets	**(14,987)**	(45,031)
Other operating expenses	**(13,932)**	(13,780)
Operating profit	**110,558**	86,153
Add: Non-operating income	**1,194**	1,243
Less: Non-operating expenses	**(655)**	(1,145)
Profit before income tax	**111,097**	86,251
Income tax expense	**(25,748)**	(21,178)
Profit for the period	**85,349**	65,073
Attributable to equity holders of the Bank	**80,819**	63,539
Minority interests	**4,530**	1,534
	85,349	65,073
Earnings per share (expressed in RMB per ordinary share)		
– Basic	**0.32**	0.25
– Diluted	**0.32**	0.25
Other Comprehensive income	**838**	2,929
Total comprehensive income for the year	**86,187**	68,002
Total comprehensive income attributable to:		
– Equity holders of the Bank	**79,854**	68,862
– Minority interests	**6,333**	(860)

2 CONSOLIDATED BALANCE SHEET

	As at 31 December	
	2009	2008
ASSETS		
Cash and balances with central banks	**1,086,037**	1,097,471
Due from banks	**394,755**	111,220
Precious metals	**59,655**	42,479
Placements with and loans to banks and other financial institutions	**138,933**	311,572
Financial assets held for trading	**61,897**	87,814
Derivative financial assets	**28,514**	76,124
Agreements to re-sell	**149,422**	248,348
Interest receivable	**34,390**	34,690
Loans and advances to customers	**4,797,408**	3,189,652
Available for sale financial assets	**622,307**	752,602
Held to maturity investments	**744,693**	365,838
Loan and receivable debt securities	**387,782**	439,954
Long-term equity investment	**10,668**	7,376
Investment property	**15,952**	9,637
Fixed assets	**109,954**	88,898
Intangible assets	**11,910**	12,250
Goodwill	**1,929**	1,877
Deferred income tax assets	**23,518**	16,067
Other assets	**72,219**	61,825
Total assets	**8,751,943**	6,955,694

(Amount in millions of Renminbi, unless otherwise stated)

2 CONSOLIDATED BALANCE SHEET (Continued)

	As at 31 December	
	2009	2008
LIABILITIES		
Due to central banks	**61,615**	55,596
Due to banks and other financial institutions	**904,166**	724,228
Placements from banks and other financial institutions	**104,796**	76,819
Financial liabilities held for trading	**44,234**	67,549
Derivative financial liabilities	**23,223**	59,482
Repurchase agreement	**81,847**	1,402
Due to customers	**6,685,049**	5,173,352
Employee benefit obligations	**21,006**	18,394
Current tax liabilities	**17,801**	24,827
Interest payable	**49,555**	52,999
Provision	**1,510**	2,503
Debt investment payable	**76,798**	65,393
Deferred income tax liabilities	**3,386**	2,093
Other liabilities	**131,563**	137,156
Total liabilities	**8,206,549**	6,461,793
EQUITY		
Share capital	**253,839**	253,839
Capital reserve	**81,460**	83,409
Less: Treasury shares	**(43)**	(17)
Statutory reserves	**30,391**	23,429
General risk reserves	**60,328**	40,973
Undistributed profits	**100,758**	79,349
Currency translation differences	**(11,741)**	(12,710)
Capital and reserves attributable to equity holders of the Bank	**514,992**	468,272
Minority interests	**30,402**	25,629
Total equity	**545,394**	493,901
Total liabilities and equity	**8,751,943**	6,955,694

3 RECONCILIATION OF DIFFERENCES BETWEEN CAS AND IFRS FINANCIAL INFORMATION

	Equity		Net profit attributed to equity holders of the Bank	
	As at 31 December		Year ended 31 December	
	2009	2008	**2009**	2008
CAS figures	**545,394**	493,901	**80,819**	63,539
Adjustments for accounting standard differences:				
– Reversal of asset revaluation surplus and corresponding depreciation/ amortisation and other (1)	**(5,021)**	(5,352)	**332**	428
– Refund to Huijin for initial funding of Annuity Plan	**–**	–	**–**	500
– Deferred income tax impact (2)	**1,255**	1,338	**(83)**	(107)
Subtotal	**(3,766)**	(4,014)	**249**	821
IFRS figures	**541,628**	489,887	**81,068**	64,360

(1) Reversal of revaluation surplus and corresponding depreciation/amortisation

Under CAS, the Group recorded an asset revaluation adjustment of RMB10,432 million as of 31 December 2003, related principally to land use rights, in connection with the Joint Stock Reform Plan. The revalued land use rights will be amortised over their remaining useful lives. Under IFRS, relevant asset revaluation surplus and corresponding depreciation/amortisation recognised under CAS should be reversed.

(2) Deferred income tax impact

As described above in Note 1, there are differences between the carrying value of relevant assets under CAS and under IFRS. Under IFRS, the tax base of relevant assets is the revalued amount, which resulted in the recognition of deferred income tax assets accordingly.

The difference between CAS and IFRS will be gradually eliminated in accordance with depreciation, amortisation and disposal of related assets.

Reference for Shareholders

Financial Calendar for 2010

Announcement of 2009 annual results	23 March 2010
Annual report of 2009	To be printed and dispatched to H-Share Holders in late April 2010
Annual General Meeting of 2009	To be held on 27 May 2010
Announcement of 2010 interim results	To be announced not later than 31 August 2010

Annual General Meeting

The Bank has scheduled the 2009 Annual General Meeting at Central Garden Hotel, No. 18 Gaoliangqiaoxiejie, Xizhimenwai Ave., Haidian District, Beijing, and Island Shangeri-la, Hong Kong, Supreme Court Road, Central, Hong Kong at 9:30 a.m. on 27 May 2010 (Thursday).

Dividends

The Board has recommended a final dividend of RMB0.14 per share (before tax) subject to the approval of shareholders at the Annual General Meeting of 2009.

Share Information

Listing

The Bank's ordinary shares were listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange on 1 June and 5 July 2006 respectively.

Ordinary Shares

Issued shares:	253,839,162,009 shares
Including:	
A Share:	177,818,910,740 shares
H Share:	76,020,251,269 shares

Market Capitalisation

As of the last trading day in 2009 (31 December 2009 for H Share and A Share), the Bank's market capitalisation was RMB1,051.084 billion (based on the closing price of H Shares and A Shares on 31 December 2009, and exchange rate 100HKD = 88.048RMB as published by the SAFE on 31 December 2009).

Share Price

	Closing price on 31 December 2009	Highest trading price in 2009	Lowest trading price in 2009
A Share	RMB4.33	RMB4.95	RMB2.91
H Share	HKD4.20	HKD4.98	HKD1.82

Stock Code

Stock name: Bank of China

H Share:		**A Share:**	
Hong Kong Stock Exchange	3988	Shanghai Stock Exchange	601988
Reuters	3988.HK	Reuters	601988.SS
Bloomberg	3988 HK	Bloomberg	601988 CH

Shareholder Enquiry

If a shareholder wishes to enquire about share transfers, changes of name or address, or loss of share certificates, or to receive other information concerning the shares held, he/she may write to the Bank at the following address:

H-Share Holders:

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong
Telephone: (852) 2862 8555
Facsimile: (852) 2865 0990

A-Share Holders:

Shanghai Branch of China Securities Depository and Clearing Corporation Limited
36F, China Insurance Building, 166 East Lujiazui Road, Pudong New Area, Shanghai
Telephone: (86) 21-3887 4800

Credit Rating (Long Term, Foreign Currency)

Moody's Investors Services:	A1
Standard & Poor's:	A-
Fitch Ratings:	A
Rating and Investment Information, Inc.:	A
Dagong Global Credit Rating Co., Ltd. (RMB):	AAA

Index Constituents

Hang Seng Index (with effect from 4 December 2006)
Hang Seng China H-Financial Index (launched on 27 November 2006)
Hang Seng China Enterprises Index
Hang Seng China A Industry Top Index
Hang Seng Composite Index (HSCI) Series
Hang Seng Freefloat Index (HSFI) Series
MSCI China Index Series
Shanghai Stock Exchange Index Series
FTSE/Xinhua China 25 Index
FTSE/Xinhua Hong Kong Index
FTSE Index Series

Investor Enquiry

Investor Relations Team of Bank of China Limited
8/F, Bank of China Building, 1 Fuxingmen Nei Dajie, Beijing, China
Telephone: (86)10-6659 2638
Facsimile: (86)10-6659 4568
E-mail: bocir@bank-of-china.com

Other Information

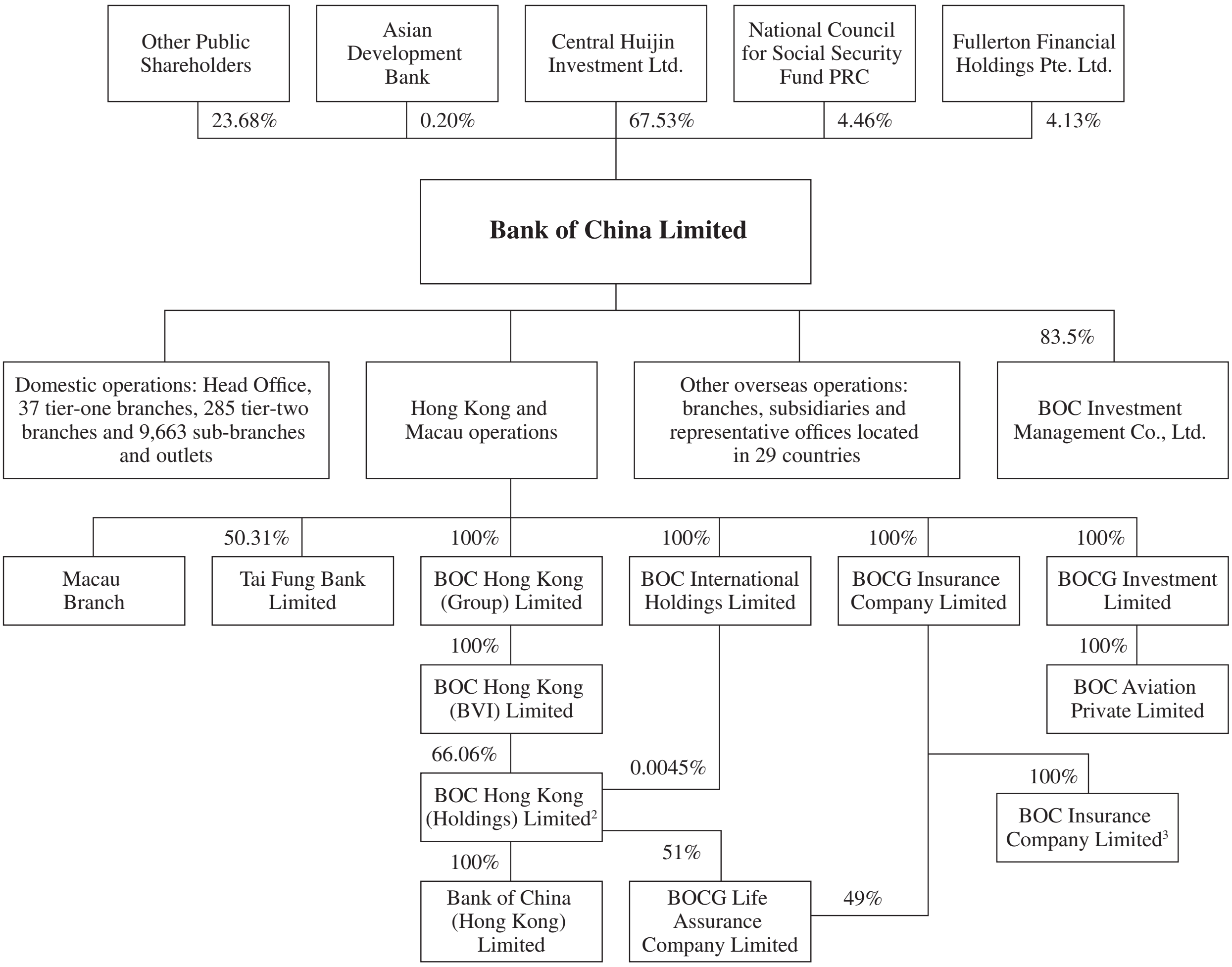
You may obtain a copy of the annual report, prepared in accordance with International Financial Reporting Standards, by writing to the Bank's H-Share Registrar, Computershare Hong Kong Investor Services Limited (address: 17M, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong), and the annual report prepared in accordance with Chinese Accounting Standards from any of the Bank's places of business.

The Chinese and/or English versions of the annual report for 2009 are also available on the following websites: www.boc.cn, www.sse.com.cn and www.hkexnews.hk.

If you have any queries about how to obtain copies of the annual report or how to access the document on the Bank's website, please dial the Bank's Registrar at (852) 2862 8688 or the Bank's hotlines at (86) 10-6659 2638.

Organisational Chart

The organisational chart[1] of the Group as of 31 December 2009 is as follows:



Notes:

1. H Shares held are in accordance with the interests recorded in the register maintained pursuant to section 336 of the SFO.

2. Listed on the Hong Kong Stock Exchange.

3. Incorporated in the Chinese mainland.

List of Domestic and Overseas Operations

MAJOR DOMESTIC OPERATIONS

HEAD OFFICE

1 FUXINGMEN NEI DAJIE,
BEIJING,
CHINA
SWIFT: BKCH CN BJ
TLX: 22254 BCHO CN
TEL: (86) 010-66596688
FAX: (86) 010-66016871
POST CODE: 100818
Website:www.boc.cn

BEIJING BRANCH

2 CHAOYANGMEN NEI DAJIE,
DONGCHENG DISTRICT,
BEIJING,
CHINA
SWIFT: BKCH CN BJ 110
TEL: (86) 010-85122288
FAX: (86) 010-85121739
POST CODE: 100010

TIANJIN BRANCH

80 JIEFANG NORTH ROAD,
HEPING DISTRICT,
TIANJIN,
CHINA
SWIFT: BKCH CN BJ 200
TEL: (86) 022-27102335
022-27102329
FAX: (86) 022-23312809
022-27102349
POST CODE: 300040

HEBEI BRANCH

80 XINHUA ROAD,
SHIJIAZHUANG,
HEBEI PROV.,
CHINA
SWIFT: BKCH CN BJ 220
TEL: (86) 0311-87866357
FAX: (86) 0311-87866403
POST CODE: 050000

SHANXI BRANCH

288 YINGZE DAJIE,
TAIYUAN,
SHANXI PROV.,
CHINA
SWIFT: BKCH CN BJ 680
TEL: (86) 0351-8266282
FAX: (86) 0351-4040364
POST CODE: 030001

INNER MONGOLIA BRANCH

12 XINHUA DAJIE,
XIN CHENG DISTRICT,
HUHHOT,
INNER MONGOLIA
AUTONOMOUS REGION,
CHINA
SWIFT: BKCH CN BJ 880
TEL: (86) 0471-4690088
FAX: (86) 0471-4690039
POST CODE: 010010

LIAONING BRANCH

9 ZHONGSHAN SQUARE,
ZHONGSHAN DISTRICT,
DALIAN,
LIAONING PROV.,
CHINA
SWIFT: BKCH CN BJ 810
TEL: (86) 0411-82586301
FAX: (86) 0411-82586366
POST CODE: 116001

JILIN BRANCH

699 XI AN DA LU,
CHANGCHUN,
JILIN PROV.,
CHINA
SWIFT: BKCH CN BJ 840
TLX: 83006 CCBOC CN
TEL: (86) 0431-8409055
FAX: (86) 0431-8409054
POST CODE: 130061

HEILONGJIANG BRANCH

19 HONGJUN STREET,
NANGANG DISTRICT,
HARBIN,
HEILONGJIANG PROV.,
CHINA
SWIFT: BKCH CN BJ 860
TLX: 87009 BCHB CN
TEL: (86) 0451-53626785
FAX: (86) 0451-53624147
POST CODE: 150001

SHANGHAI BRANCH

200 MID. YINCHENG RD.,
PUDONG NEW DISTRICT,
SHANGHAI,
CHINA
SWIFT: BKCH CN BJ 300
TLX: 33062 BOCSH CN
TEL: (86) 021-50372274
FAX: (86) 021-50372601
POST CODE: 200120

JIANGSU BRANCH

148 ZHONG SHAN NAN LU,
NANJING,
JIANGSU PROV.,
CHINA
SWIFT: BKCH CN BJ 940
TLX: 34116 BOCJS CN
TEL: (86) 025-84207888 ext. 60353
FAX: (86) 025-84207888 ext. 60340
POST CODE: 210005

ZHEJIANG BRANCH

321 FENG QI ROAD,
HANGZHOU,
ZHEJIANG PROV.,
CHINA
SWIFT: BKCH CN BJ 910
TLX: 35019 BOCHZ CN
TEL: (86) 0571-85011888
FAX: (86) 0571-87918371
POST CODE: 310003

ANHUI BRANCH

313 MID. CHANGJIANG ROAD,
HEFEI,
ANHUI PROV.,
CHINA
SWIFT: BKCH CN BJ 780
TEL: (86) 0551-2926835
FAX: (86) 0551-2926834
POST CODE: 230061

FUJIAN BRANCH

BOC BLDG., 136 WUSI ROAD,
FUZHOU,
FUJIAN PROV.,
CHINA
SWIFT: BKCH CN BJ 720
TLX: 92109 BOCFJ CN
TEL: (86) 0591-87848741
0591-87849504
FAX: (86) 0591-87848741
POST CODE: 350003

JIANGXI BRANCH

1 ZHANQIAN WEST ROAD,
NANCHANG,
JIANGXI PROV.,
CHINA
SWIFT: BKCH CN BJ 550
TLX: 95013 BOCNC CN
TEL: (86) 0791-6471519
FAX: (86) 0791-6471515
POST CODE: 330002

SHANDONG BRANCH

59 MID. XIANGGANG ZHONG LU,
QINGDAO,
SHANDONG PROV.,
CHINA
SWIFT: BKCH CN BJ 500
TEL: (86) 0532-81858201
FAX: (86) 0532-81858185
POST CODE: 266071

HENAN BRANCH

40 HUA YUAN ROAD,
ZHENGZHOU,
HENAN PROV.,
CHINA
SWIFT: BKCH CN BJ 530
TEL: (86) 0371-65779204
FAX: (86) 0371-65779200
POST CODE: 450008

HUBEI BRANCH

65 HUANGSHI ROAD,
WUHAN,
HUBEI PROV.,
CHINA
SWIFT: BKCH CN BJ 600
TEL: (86) 027-82813723
027-82811707
FAX: (86) 027-82838479
POST CODE: 430013

HUNAN BRANCH

593 MID. FURONG ROAD (1 DUAN),
CHANGSHA,
HUNAN PROV.,
CHINA
SWIFT: BKCH CN BJ 970
TEL: (86) 0731-82580879
FAX: (86) 0731-82580873
POST CODE: 410005

GUANGDONG BRANCH

197 DONGFENG XI LU,
GUANGZHOU,
GUANGDONG PROV.,
CHINA
SWIFT: BKCH CN BJ 400
TLX: 441042 GZBOC CN
TEL: (86) 020-83338080
FAX: (86) 020-83363822
POST CODE: 510180

GUANGXI BRANCH

39 GUCHENG ROAD,
NANNING,
GUANGXI ZHUANG
AUTONOMOUS REGION,
CHINA
SWIFT: BKCH CN BJ 480
TLX: 48122 BOCGX CN
TEL: (86) 0771-2879607
FAX: (86) 0771-2811267
POST CODE: 530022

HAINAN BRANCH

33 DATONG ROAD,
HAIKOU,
HAINAN PROV.,
CHINA
SWIFT: BKCH CN BJ 740
TLX: 490172 HABOC CN
TEL: (86) 0898-66562367
FAX: (86) 0898-66562375
POST CODE: 570102

SICHUAN BRANCH

35 MID. RENMIN ROAD (2 DUAN),
CHENGDU,
SICHUAN PROV.,
CHINA
SWIFT: BKCH CN BJ 570
TLX: 60306 BOCCD CN
TEL: (86) 028-86403213
028-86403248
FAX: (86) 028-86403212
POST CODE: 610015

GUIZHOU BRANCH

30 DUSI ROAD,
GUIYANG,
GUIZHOU PROV.,
CHINA
SWIFT: BKCH CN BJ 240
TEL: (86) 0851-5815261
FAX: (86) 0851-5825746
POST CODE: 550002

YUNNAN BRANCH

515 BEIJING ROAD,
KUNMING,
YUNNAN PROV.,
CHINA
SWIFT: BKCH CN BJ 640
TLX: 64034 KMBNK CN
TEL: (86) 0871-3192915
FAX: (86) 0871-3175553
POST CODE: 650051

TIBET BRANCH

7 LINKUO XI LU,
LHASA,
TIBET AUTONOMOUS REGION,
CHINA
SWIFT: BKCH CN BJ 900
TEL: (86) 0891-6835078
FAX: (86) 0891-6835078
POST CODE: 850000

SHAANXI BRANCH

246 DONGXIN JIE,
XINCHENG DISTRICT,
XI'AN,
SHAANXI PROV.,
CHINA
SWIFT: BKCH CN BJ 620
TEL: (86) 029-87509114
FAX: (86) 029-87509922
POST CODE:710005

GANSU BRANCH

525 TIANSHUI SOUTH ROAD,
LANZHOU,
GANSU PROV.,
CHINA
SWIFT: BKCH CN BJ 660
TEL: (86) 0931-8410884
FAX: (86) 0931-8831988 ext. 80308
POST CODE: 730000

QINGHAI BRANCH

218 DONGGUAN STREET,
XINING,
QINGHAI PROV.,
CHINA
SWIFT: BKCH CN BJ 280
TEL: (86) 0971-8176883
FAX: (86) 0971-8174971
POST CODE: 810000

NINGXIA BRANCH

37 XINCHANG EAST ROAD,
JINFENG DISTRICT,
YINCHUAN,
NINGXIA HUI AUTONOMOUS
REGION,
CHINA
SWIFT: BKCH CN BJ 260
TEL: (86) 0951-5681593
FAX: (86) 0951-5681593
POST CODE: 750002

XINJIANG BRANCH

BANK OF CHINA BUILDING,
1 DONGFENG ROAD,
URUMQI,
XINJIANG UYGUR AUTONOMOUS REGION,
CHINA
SWIFT: BKCH CN BJ 760
TEL: (86) 0991-2835117
0991-2372176
FAX: (86) 0991-2828619
POST CODE: 830002

CHONGQING BRANCH

218 ZHONG SHAN YI ROAD,
YU ZHONG DISTRICT,
CHONGQING,
CHINA
SWIFT: BKCH CN BJ 59A
TEL: (86) 023-63889471
023-63889461
FAX: (86) 023-63889585
POST CODE: 400013

SHENZHEN BRANCH

INTERNATIONAL FINANCE BUILDING,
2022 JIANSHE ROAD,
LUOHU DISTRICT,
SHENZHEN,
GUANGDONG PROV.,
CHINA
SWIFT: BKCH CN BJ 45A
TLX: 420309 BOCSZ CN
420243 BOCSZ CN
TEL: (86) 0755-22338888
FAX: (86) 0755-82259209
POST CODE: 518005

SUZHOU BRANCH

188 GANJIANG WEST ROAD,
SUZHOU,
JIANGSU PROV.,
CHINA
SWIFT: BKCH CN BJ 95B
TEL: (86) 0512-67555205
FAX: (86) 0512-65112043
POST CODE: 215002

NINGBO BRANCH

139 YAOHANG JIE,
NINGBO,
ZHEJIANG PROV.,
SWIFT: BKCH CN BJ 92A
TLX: 37039 NBBOC CN
TEL: (86) 0574-87196666
FAX: (86) 0574-87198889
POST CODE: 315000

BANK OF CHINA INVESTMENT MANAGEMENT

45/F, BOC BUILDING
200 MID. YINCHENG ROAD,
PUDONG NEW DISTRICT,
SHANGHAI,
CHINA
TEL: (86) 021-38834999
FAX: (86) 021-68872488
POST CODE: 200120
Website: www.bocim.com

MAJOR HONG KONG AND MACAU OPERATIONS

BOC HONG KONG (GROUP) LIMITED

52/F, BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG
TEL: (852) 28462700
FAX: (852) 28105830

BOC INTERNATIONAL HOLDINGS LIMITED

26/F, BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG
TEL: (852) 22308888
FAX: (852) 21479065
Website: www.bocigroup.com
EMAIL: info@bocigroup.com

HONG KONG BRANCH

8/F, BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG
TEL: (852) 28101203
FAX: (852) 25377609
EMAIL: boch@bocgroup.com

BANK OF CHINA GROUP INSURANCE COMPANY LIMITED

9/F, WING ON HOUSE,
71 DES VOEUX ROAD,
CENTRAL, HONG KONG
TEL: (852) 28670888
FAX: (852) 25221705
Website: www.bocgroup.com/bocg-ins/
EMAIL: info_ins@bocgroup.com

BANK OF CHINA GROUP INVESTMENT LIMITED

23/F, BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG
TEL: (852) 22007500
FAX: (852) 28772629
Website: www.bocgi.com
EMAIL: bocginv_bgi@bocgroup.com

MACAU BRANCH

BANK OF CHINA BUILDING,
AVENIDA DOUTOR MARIO SOARES,
MACAU
SWIFT: BKCHMOMX
TEL: (853) 28781828
FAX: (853) 28781833
Website: www.bocmacau.com

TAI FUNG BANK LIMITED

418, ALAMEDA DR. CARLOS,
D'ASSUMPCAO,
MACAU
SWIFT: TFBLMOMX
TEL: (853)28322323
TLX: 88212 TFUNG OM
FAX: (853)28570737
Website: www.taifungbank.com

MAJOR OVERSEAS OPERATIONS

ASIA-PACIFIC AREA

SINGAPORE BRANCH

4 BATTERY ROAD,
BANK OF CHINA BUILDING,
SINGAPORE 049908
SWIFT: BKCHSGSG
TEL: (65) 65352411
FAX: (65) 65343401
EMAIL: Service_SG@bank-of-china.com

TOKYO BRANCH

BOC BLDG,
3-4-1 AKASAKA MINATO-KU,
TOKYO, 107-0052 JAPAN
SWIFT: BKCHJPJT
TEL: (813) 35058818
FAX: (813) 35058433
EMAIL: Service_JP@bank-of-china.com

SEOUL BRANCH

1/2F, YOUNG POONG BLDG,
33 SEOLIN-DONG,
CHONGRO-GU
SEOUL 110-752, KOREA
SWIFT: BKCHKRSEXXX
TEL: (822) 3996268/3996272
FAX: (822) 3996265/3995938
EMAIL: Service_KR@bank-of-china.com

BANGKOK BRANCH

179/4 BANGKOK CITY TOWER,
SOUTH SATHORN RD.,
TUNGMAHAMEK,
SATHORN DISTRICT,
BANGKOK 10120, THAILAND
SWIFT: BKCHTHBK
TLX: 81091 BOCBKK TH
TEL: (662) 2861010
FAX: (662) 2861020
EMAIL: Service_TH@bank-of-china.com

BANK OF CHINA (MALAYSIA) BERHAD

GROUND, MEZZANINE,
& 1st FLOOR,
PLAZA OSK,
25 JALAN AMPANG,
50450 KUALA LUMPUR,
MALAYSIA
SWIFT: BKCHMYKL
TEL: (603) 21626633
FAX: (603) 21615150
EMAIL: Service_MY@bank-of-china.com

HO CHI MINH CITY BRANCH

19/F, SUN WAH TOWER,
115 NGUYEN HUE BLVD.,
DISTRICT 1,
HO CHI MINH CITY, VIETNAM
SWIFT: BKCHVNVX
TEL: (848) 38219949
FAX: (848) 38219948
EMAIL: Service_VN@bank-of-china.com

MANILA BRANCH

G/F & 36/F PHILAMLIFE TOWER,
8767 PASEO DE ROXAS,
MAKATI CITY,
MANILA, PHILIPPINES
SWIFT: BKCHPHMM
TEL: (632) 8850111
FAX: (632) 8850532
EMAIL: Service_PH@bank-of-china.com

JAKARTA BRANCH

TAMARA CENTER,
SUITE 101&201,
JALAN JEND.
SUDIRMAN KAV. 24
JAKARTA 12920, INDONESIA
SWIFT: BKCHIDJA
TEL: (6221) 5205502
FAX: (6221) 5201113
EMAIL: Service_ID@bank-of-china.com

SYDNEY BRANCH

39 - 41 YORK STREET,
SYDNEY NSW 2000,
AUSTRALIA
SWIFT: BKCHAU2S
TEL: (612) 82355888
FAX: (612) 92621794
EMAIL: Service_AU@bank-of-china.com

BANK OF CHINA (AUSTRALIA) LIMITED

39 - 41 YORK STREET,
SYDNEY NSW 2000,
AUSTRALIA
SWIFT: BKCHAU2A
TEL: (612) 82355888
FAX: (612) 92621794
EMAIL: Service_AU@bank-of-china.com

JSC AB <BANK OF CHINA KAZAKHSTAN>

201, STR. GOGOL,
050026, ALMATY,
REPUBLIC OF KAZAKHSTAN
SWIFT: BKCHKZKA
TEL: (7727) 2585510
FAX: (7727) 2585514/2501896
EMAIL: Service_KZ@bank-of-china.com

BAHRAIN REPRESENTATIVE OFFICE

OFFICE 152,
AL JASRAH TOWER,
DIPLOMATIC AREA,
BUILDING 95,
ROAD 1702, BLOCK 317,
MANAMA,
KINGDOM OF BAHRAIN
TEL: (973) 17531119
FAX: (973) 17531009
EMAIL: Service_BH@bank-of-china.com

DUBAI REPRESENTATIVE OFFICE

OFFICE 2203,
DUBAI WORLD TRADE CENTER
SHEIKH ZAYED ROAD,
EMIRATE OF DUBAI,
UNITED ARAB EMIRATES
TEL: (9714) 3328822
FAX: (9714) 3328878

EUROPE

LONDON BRANCH

90 CANNON STREET,
LONDON EC4N 6HA, U.K.
SWIFT: BKCHGB2L
TLX: 886935 BKCHI G
TEL: (4420) 72828888
FAX: (4420) 76263892
EMAIL: Service_UK@bank-of-china.com

BANK OF CHINA (UK) LIMITED

90 CANNON STREET,
LONDON EC4N 6HA, U.K.
SWIFT: BKCHGB2U
TEL: (4420) 72828888
FAX: (4420) 79293674

BOC FINANCE (IRELAND) LIMITED

AIB INTERNATIONAL CENTRE,
I.F.S.C DUBLIN 1, IRELAND
TEL: (3531) 6720490
FAX: (3531) 6720489

PARIS BRANCH

23-25 AVENUE DE LA
GRANDE ARMEE
75116 PARIS, FRANCE
SWIFT: BKCHFRPP
TLX: 281 090 BDCSP
TEL: (331) 49701370
FAX: (331) 49701372
EMAIL: Service_FR@bank-of-china.com

FRANKFURT BRANCH

BOCKENHEIMER LANDSTR. 24
60323 FRANKFURT AM MAIN,
GERMANY
SWIFT: BKCHDEFF
TEL: (4969) 1700900
FAX: (4969) 170090500
Website: www.bocffm.com
EMAIL: Service_DE@bank-of-china.com

LUXEMBOURG BRANCH

37/39 BOULEVARD PRINCE
HENRI L-1724
LUXEMBOURG
P.O. BOX 114 L-2011,
LUXEMBOURG
SWIFT: BKCHLULL
TEL: (352) 221791/4667911
FAX: (352) 221795
Website:www.bank-of-china.com/lu/
EMAIL: Service_LU@bank-of-china.com

BANK OF CHINA (LUXEMBOURG) S.A.

37/39 BOULEVARD PRINCE
HENRI L-1724
LUXEMBOURG
P.O. BOX 721 L-2017,
LUXEMBOURG
TEL: (352) 228777/4667911
FAX: (352) 228776

MILAN BRANCH

VIA SANTA MARGHERITA,
14/16 20121
MILAN, ITALY
SWIFT: BKCHITMM
TEL: (3902) 864731
FAX: (3902) 89013411
EMAIL: Service_IT@bank-of-china.com

BANK OF CHINA (HUNGARY) CLOSE LTD.

BANK CENTER,
7 SZABADSAG TER,
1054 BUDAPEST, HUNGARY
SWIFT: BKCHHUHB
TEL: (361) 3543240
FAX: (361) 3029009
EMAIL: Service_HU@bank-of-china.com

BANK OF CHINA (ELUOSI)

24, STR. SPARTAKOVSKAYA,
105066 MOSCOW, RUSSIA
SWIFT: BKCHRUMM
TLX: 413973 BOCR RU
TEL: (7495) 7950451
FAX: (7495) 7950454
Website: www.boc.ru
EMAIL: Service_RU@bank-of-china.com

AMERICA

NEW YORK BRANCH

410 MADISON AVENUE
NEW YORK NY 10017, U.S.A.
SWIFT: BKCHUS33
TLX: 661723BKCHI
TEL: (1212) 9353101
FAX: (1212) 5931831
Website: www.bocusa.com
EMAIL: Service_US@bank-of-china.com

BANK OF CHINA (CANADA)

THE EXCHANGE TOWER,
130 KING STREET WEST,
SUITE 2730, P.O. BOX 356,
TORONTO, ONTARIO,
CANADA M5X 1E1
SWIFT: BKCHCATT
TEL: (1416) 3622991
FAX: (1416) 3623047
EMAIL: Service_CA@bank-of-china.com

GRAND CAYMAN BRANCH

GRAND PAVILION
COMMERCIAL CENTER
802 WEST BAY ROAD,
P.O. BOX 30995,
GRAND CAYMAN,
KY1-1204 CAYMAN ISLANDS
SWIFT: BKCHKYKY
TEL: (1345) 9452000
FAX: (1345) 9452200
EMAIL: Service_KY@bank-of-china.com

PANAMA BRANCH

P.O. BOX 0823-01030,
CALLE MANUEL, M.ICAZA NO.14
PANAMA,
REPUBLIC OF PANAMA
SWIFT: BKCHPAPA
TEL: (507) 2635522
FAX: (507) 2239960
EMAIL: Service_PA@bank-of-china.com

BANCO DA CHINA BRASIL S.A.

CNPJ:10.690.848/0001-43 AV.
PAULISTA 283,
ANDAR 4 CEP 01.311-000
BELA VISTA,
SAO PAULO,
S.P.BRASIL
SWIFT: BKCHBRSP
TEL: (5511) 35083200
FAX: (5511) 35083299
EMAIL: Service_BR@bank-of-china.com

SAO PAULO REPRESENTATIVE OFFICE

AVENIDA PAULISTA,
1337-21 ANDAR,
CJ.212, 01311-200 SAO PAULO,
S.P.BRASIL
TEL: (5511) 35499958/35499978
FAX: (5511) 35499966
EMAIL: Service_BR@bank-of-china.com

AFRICA

BANK OF CHINA (ZAMBIA) LIMITED

PLOT NO. 2339,
KABELENGA ROAD, LUSAKA,
P.O. BOX 34550, ZAMBIA
SWIFT: BKCHZMLU
TEL: (260211) 238686/238688
FAX: (260211) 235350/225925
EMAIL: executive.zm@mail.notes.
bank-of-china.com

JOHANNESBURG BRANCH

4/F,SOUTH TOWER,
NELSON MANDELA SQUARE
SANDOWN,SANDTON,
SOUTH AFRICA
P.O. BOX 782616 SANDTON,
2146 RS

Definitions

In this report, unless the context otherwise requires, the following terms shall have the meaning set out below:

Our Bank/the Bank/ *the* Group/we/us	Bank of China Limited or its predecessors and, except where the context otherwise requires, all of the subsidiaries of Bank of China Limited
Articles of Association	The performing Articles of Association of the Bank
Basis Point	0.01 of a percentage point
BOC Aviation	BOC Aviation Private Limited
BOC Insurance	BOC Insurance Company Limited
BOCG Insurance	Bank of China Group Insurance Company Limited
BOCG Investment	Bank of China Group Investment Limited
BOCG Life	BOC Group Life Assurance Company Limited
BOCHK	Bank of China (Hong Kong) Limited, an authorised financial institution incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOCHK (Holdings)
BOCHK (BVI)	BOC Hong Kong (BVI) Limited
BOCHK (Group)	BOC Hong Kong (Group) Limited
BOCHK (Holdings)	BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong and the ordinary shares of which are listed on the Hong Kong Stock Exchange
BOCI	BOC International Holdings Limited
BOCIM	Bank of China Investment Management Co., Ltd.
BOCI China	BOC International (China) Limited

BOCI Group	BOC International Holdings Limited and its subsidiaries and associated companies
BOCI-Prudential	BOCI-Prudential Asset Management Limited
BPTL	BOCI-Prudential Trustee Limited
CBRC	China Banking Regulatory Commission
Central and Southern China	The area including, for the purpose of this report, the branches of Henan, Hubei, Hunan, Guangdong, Shenzhen, Guangxi and Hainan
CSRC	China Securities Regulatory Commission
Eastern China	The area including, for the purpose of this report, the branches of Shanghai, Jiangsu, Suzhou, Zhejiang, Ningbo, Anhui, Fujian, Jiangxi and Shandong
EURIBOR	Euro Inter-bank Offered Rate
Fullerton Financial	Fullerton Financial Holdings Pte. Ltd.
Fullerton Management	Fullerton Management Pte. Ltd.
Hong Kong Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Huijin	Central Huijin Investment Ltd.
LIBOR	London Inter-bank Offered Rate
MOF	Ministry of Finance, PRC
NCSSF	National Council for Social Security Fund

Northeastern China	The area including, for the purpose of this report, the branches of Heilongjiang, Jilin and Liaoning
Northern China	The area including, for the purpose of this report, the branches of Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia and the Head Office
PBOC	People's Bank of China, PRC
Prudential Corporation	Prudential Corporation Holdings Limited
RMB or Renminbi	Renminbi, the lawful currency of the PRC
SAT	State Administration of Taxation, PRC
SAFE	State Administration of Foreign Exchange, PRC
SFO	Securities and Futures Ordinance of the laws of HKSAR
SHIBOR	Shanghai Inter-bank Offered Rate
SSE	The Shanghai Stock Exchange
Temasek	Temasek Holdings (Private) Limited
Western China	The area including, for the purpose of this report, the branches of Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Ningxia, Qinghai, Tibet and Xinjiang

Notes to Financial Highlights

1. Non-interest income = net fee and commission income + net trading gains/(losses) + net gains/(losses) on investment securities + other operating income

2. Operating income = net interest income + non-interest income

3. Investment securities include securities available for sale, securities held to maturity, securities classified as loans and receivables and financial assets at fair value through profit or loss.

4. Dividend per share = total dividend ÷ number of ordinary shares in issue at the year-end

5. Net assets per share = capital and reserves attributable to the equity holders of the Bank at the year-end ÷ number of ordinary shares in issue at the year-end

6. Return on average total assets = profit for the year ÷ average total assets. Average total assets = (total assets at the beginning of the year + total assets at the year-end) ÷ 2

7. Return on average equity = profit attributable to the equity holders of the Bank ÷ average owner's equity. Average owner's equity = (owner's equity, excluding minority interest, at the beginning of year + owner's equity, excluding minority interest, at the year-end) ÷ 2

8. Net interest margin = net interest income ÷ average balance of interest-earning assets. Average balance is average daily balance derived from the Bank's management accounts (unaudited).

9. Non-interest income to operating income = non-interest income ÷ operating income

10. Cost to income ratio (calculated under domestic regulations) is calculated according to the *Guidelines on the Corporate Governance and Supervision of State-owned Commercial Banks* (Y.J.F [2006] No.22).

11. Identified impaired loans to total loans = identified impaired loans at the year-end ÷ total loans at the year-end

12. Non-performing loans to total loans = non-performing loans at the year-end ÷ total loans at the year-end. It is calculated according to the *Guidelines on the Corporate Governance and Supervision of State-owned Commercial Banks* (Y.J.F [2006] No.22).

13. Allowance for loan impairment losses to non-performing loans = allowance for loan impairment losses at the year-end ÷ non-performing loans at the year-end. It is calculated according to the *Guidelines on the Corporate Governance and Supervision of State-owned Commercial Banks* (Y.J.F [2006] No.22).

14. Credit cost = impairment losses on loans ÷ average balance of loans. Average balance of loans = (balance of loans at the beginning of the year + balance of loans at the year-end) ÷ 2

15. Number of employees of the Group includes temporary and contract staff.

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

1 Fuxingmen Nei Dajie, Beijing, China 100818
Tel: (86) 10-6659 6688   Fax: (86) 10-6601 6871
http://www.boc.cn