



中國銀行

BANK OF CHINA

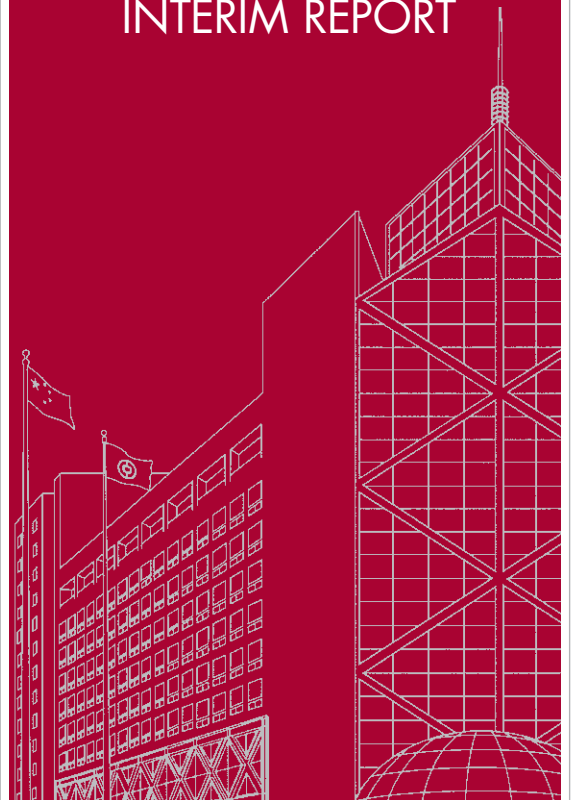
DELIVERING GROWTH AND  
**EXCELLENCE**

**2010**  
INTERIM REPORT

**Bank of China Limited**

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

Stock Code: 3988



# Contents

---

<b>Financial Highlights</b>	2
<b>Corporate Information</b>	3
<b>Overview of Operating Performance</b>	4
<b>Management Discussion and Analysis</b>	6
Financial Review	6
Business Review	16
Risk Management	24
Channel Development	30
IT Blueprint Implementation	32
Social Responsibilities	32
Outlook	33
<b>Changes in Share Capital and Shareholdings of Substantial Shareholders</b>	34
<b>Directors, Supervisors, Senior Management and Staff</b>	40
<b>Corporate Governance</b>	44
<b>Significant Events</b>	50
<b>Report on Review of Interim Financial Information</b>	57
<b>Interim Financial Information</b>	58
<b>Definitions</b>	143

# Financial Highlights

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

Unit: RMB million

	Note	For the six month period ended 30 June 2010	For the six month period ended 30 June 2009
<b>Results of operations</b>			
Net interest income		91,864	74,722
Non-interest income	1	41,015	33,120
Operating income		132,879	107,842
Operating expenses		(53,094)	(41,966)
Impairment losses on assets		(9,951)	(10,081)
Operating profit		69,834	55,795
Profit before income tax		70,287	56,053
Profit for the period		54,375	43,234
Profit attributable to the equity holders of the Bank		52,022	41,005
Earnings per share for profit attributable to the equity holders of the Bank (basic and diluted, RMB)		0.20	0.16
<b>Key financial ratios</b>			
Return on average total assets (%)	2	1.18	1.14
Return on average equity (%)	3	19.79	17.39
Net interest margin (%)	4	2.04	2.04
Non-interest income to operating income (%)	5	30.87	30.71
Cost to income (calculated under domestic regulations, %)	6	29.79	31.42
Credit cost (%)	7	0.44	0.37
		As at 30 June 2010	As at 31 December 2009
<b>Statement of financial position items</b>			
Total assets		9,685,812	8,751,943
Loans, net		5,270,161	4,797,408
Investment securities	8	1,966,655	1,816,679
Total liabilities		9,118,496	8,206,549
Due to customers		7,219,334	6,620,552
Capital and reserves attributable to the equity holders of the Bank		536,384	514,992
Net assets per share (RMB)	9	2.11	2.03
<b>Capital adequacy ratios</b>			
Core capital adequacy ratio (%)		9.33	9.07
Capital adequacy ratio (%)		11.73	11.14
<b>Asset quality</b>			
Identified impaired loans to total loans (%)	10	1.23	1.55
Non-performing loans to total loans (%)	11	1.20	1.52
Allowance for loan impairment losses to non-performing loans (%)	12	188.44	151.17

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

# 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

YEUNG Cheung Ying

## 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

8/F, 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 CSRC to Publish the Interim Report

<http://www.sse.com.cn>

## Website Designated by the Hong Kong Exchanges and Clearing Limited to Publish the Interim Report

<http://www.hkexnews.hk>

## Places Where the Interim Report can be Obtained

Major business locations

## Securities Information A Share

Shanghai Stock Exchange

Stock Name: 中國銀行

Stock Code: 601988

## H Share

The Stock Exchange of Hong Kong Limited

Stock Name: Bank of China

Stock Code: 3988

## A-Share Convertible Bonds

Shanghai Stock Exchange

Securities Name: 中行轉債

Securities Code: 113001

## A-Share Registrar

Shanghai Branch of China Securities Depository and Clearing Corporation Limited

36/F, China Insurance Building

166 East Lujiazui Road

Pudong New Area, Shanghai

Telephone: (86) 21-3887 4800

## H-Share Registrar

Computershare Hong Kong Investor Services Limited

Rooms 1712-1716, 17/F, Hopewell Centre

183 Queen's Road East, Wan Chai

Hong Kong

Telephone: (852) 2862 8555

## Sponsors for A-Share Convertible Bonds

BOC International (China) Limited

CITIC Securities Co., Ltd.

# Overview of Operating Performance

In the first half of 2010, the Bank continued to adopt the scientific outlook on development and pushed forward the implementation of its strategic development plan amid a complex and volatile operating environment. By earnestly implementing the principles of “streamlining structure, scaling up, managing risks and sharpening competitiveness”, the Bank achieved sound operating results. As at the end of June 2010, the Bank’s total assets, liabilities and equity attributable to the shareholders of the Bank amounted to RMB9,685.812 billion<sup>1</sup>, RMB9,118.496 billion and RMB567.316 billion, representing an increase of 10.67%, 11.11% and 4.02% from the prior year-end, respectively. The Bank achieved a profit after tax of RMB54.375 billion, an increase of 25.77% compared with the same period of 2009 and a profit attributable to the equity holders of RMB52.022 billion, up 26.87% from the first half of 2009. Return on average total assets (ROA) and return on average equity (ROE) were 1.18% and 19.79%, respectively, an increase of 0.04 percentage point and 2.40 percentage points compared with the first half of 2009. Impaired loans amounted to RMB66.192 billion, a decrease of RMB9.814 billion compared with the prior year-end. The ratio of identified impaired loans to total loans was 1.23%, down by 0.32 percentage point compared with the prior year-end. Allowance for loan impairment losses to non-performing loans was 188.44%, a substantial increase of 37.27 percentage points compared with the prior year-end.

## Rapid Development of All Business Lines

In the first half of 2010, the Bank actively responded to the changes in the macro-economic environment by continuously improving its asset and liability management and achieving a comprehensive balance between streamlining structure, scaling up and managing risks. Thanks to these efforts, the Bank’s deposit and loan businesses, domestic and overseas businesses and diversification all achieved balanced growth. As at the end of June 2010, the Group’s deposits and loans increased by 9.04% and 9.81%, respectively, compared with the prior year-end. Profit after income tax of domestic and overseas operations increased by 30.57% and 10.35%, respectively, compared with the first half of 2009. Pre-tax profit contributions from non-commercial banking businesses accounted for 6.49%<sup>2</sup>, an increase of 0.73 percentage point compared with the first half of 2009.

The Bank further optimised its asset structure. As at the end of June 2010, the proportion of the Group’s interest-earning assets to total assets was 96.61%, up by 0.12 percentage point compared with the prior year-end; the proportion of the Group’s RMB-denominated assets accounted for 74.75% of total, an increase of 2.30 percentage points compared with the prior year-end; and the Group’s RMB-denominated investment securities represented 73.14% of total, up by 2.66 percentage points compared with the prior year-end.

<sup>1</sup> The unit of currency in “Overview of Operating Performance” and “Management Discussion and Analysis” is RMB, unless indicated otherwise. RMB-denominated businesses are domestic RMB businesses. The market share is based on the PBOC statistics.

<sup>2</sup> Proportions of pre-tax profits of segments to that of the Group are calculated based on data before inter-segment elimination.

## Comprehensive Strengthening in Risk Management

The Bank reinforced risk control over credit assets, with particular focus on credit extended to local government financing platforms, real estate sector and industries with overcapacity. The Bank raised the entry threshold and tightened the approval criteria for new loans to these three focused areas, and strictly controlled its total credit exposure. The Bank comprehensively reassessed credit extended to local government financing platforms and took remedial and necessary credit enhancement measures. Complying with the State's real estate macro-control policy, the Bank dynamically adjusted credit entry threshold and pricing measures on a timely basis and carried out special self-examination on the new loans extended to real estate sector and industries with overcapacity in the first half of 2010. The Bank strengthened the overall process management and executed payments of loans based on practical consumption or investment needs.

The Bank proactively strengthened its market risk management with close monitoring of market changes. The Bank introduced a dynamic assessment and classification system for the sovereignty risk of high-risk countries. It reinforced risk monitoring of its bond investment businesses, with a focus on interest rate risk associated with RMB and foreign currency bond investments and structural risk of securitised products.

The Bank launched its campaign of "Year of Internal Control and Fraud Prevention System Execution", strengthening monitoring and identification of fraud risk of its lower tier organisations. The Bank made continued efforts to prevent fraud and scrutinise associated risk with account and cash handling. It also actively applied off-site audit procedures and explored means in establishing an effective precautionary mechanism over risk.

## Solid Development of Infrastructure Construction

The Bank achieved significant progress in its IT Blueprint implementation and successfully launched the Core Banking System Version 2.0 at 17 domestic tier-1 branches. The acceleration of the implementation of key IT projects significantly enhanced IT support for its business development and further consolidation of technology infrastructure.

The Bank accelerated progress in Basel II implementation with the launch of ten Basel II related IT systems including the CAR calculation engine and actively converted the staged outcome into productivity.

The Bank continued to promote its outlet transformation to improve the overall performance of its outlets. Online banking functionalities continued to improve, resulting in a significant growth in the number of customers and transaction volume, with substantial increase in both the customer coverage and business substitution ratios. Overseas online banking and cross-border group services were extended to 27 countries and regions. Mobile banking was also successfully rolled out.

In the second half of 2010, the Bank will further strengthen its research and analysis, both domestically and internationally, on economic and financial trends, regulatory movements, industry development, as well as on customers and peer group, and closely monitor new approaches and measures relating to Chinese economic and financial system reform. By reinforcing core capability construction, deepening structure optimisation and accelerating business transformation, the Bank will continue to achieve a sound, fast and sustainable development.

# Management Discussion and Analysis

## Financial Review

### Economic and Financial Environment

In the first half of 2010, the global economy continued to maintain the trend of weak recovery. Domestic demand in emerging markets was robust, particularly in Asia. Driven by these factors, developed countries in the Pacific Rim registered relative rapid economic growth. Affected by the sovereignty debt crises in some countries, the recovery of the European economy was slowed down. International commodity prices maintained steady recovery, developed economies experienced mild inflation whilst emerging markets were under pressure of increasing price level. The central banks of major countries maintained low interest rate levels, except for a few countries which raised their interest rates. Some countries began to consider reducing their fiscal deficits in order to achieve sustainable development.

Given the anticipation of economic stimulus policy withdrawals and the outbreak of the Greek sovereignty debt crisis, international financial markets again experienced turmoil and the world's major stock indices dropped sharply. Major European currencies drastically depreciated while the US Dollar index increased sharply. The international bullion price hit a record high and crude oil prices fluctuated widely. Treasury bond yields in major economies decreased and liquidity within the inter-bank markets remained relatively stable. Profitability of the international banking industry recorded relative improvement, while growth of monetary supply and credit in developed countries remained slow.

The Chinese government continued to proactively adjust its economic structure and transform its mode of growth, enabling the national economy to develop as directed by the government's macro-control policies. In the first half of 2010, Chinese GDP increased by 11.1% compared with the first half of 2009 and CPI rose by 2.6%. Compared with the first half of 2009, total fixed assets investment grew by 25.0%, total retail sales of consumer goods increased by 18.2%, foreign trade volume increased by 43.1%, and the international payments were more balanced.

The domestic financial system remained stable. In the first half of 2010, the benchmark interest rates of RMB-denominated deposits and loans remained unchanged throughout the period, while the RMB statutory reserve ratio was increased for three times. The exchange rate of RMB against US dollar remained stable, and the exchange rate regime reform continued to develop. Outstanding broad money supply (M2) rose by 18.5% compared with the first half of 2009, with RMB-denominated loans for all financial institutions increased by 18.2% and RMB-denominated deposits by 19.0% compared with the first half of 2009. Affected by changes in the external economic environment and the macro-control policy over the domestic real estate sector, the Shanghai Stock Exchange Composite Index fell by 26.8% from the end of 2009 to 30 June 2010. The debt securities market saw an increase in issuance with active trading. As at the end of June 2010, the market value of outstanding bonds increased by 11.3% compared with the prior year-end.

## Income Statement Analysis

In the first half of 2010, the Group achieved a profit after tax of RMB54.375 billion, an increase of 25.77% compared with the same period of 2009, and a profit attributable to the equity holders of the Bank of RMB52.022 billion, up 26.87% from the first half

of 2009. Earnings per share stood at RMB0.20, an increase of RMB0.04 over the same period of 2009. Return on average total assets (ROA) and return on average equity (ROE) stood at 1.18% and 19.79%, an increase of 0.04 percentage point and 2.40 percentage points respectively compared with the same period of 2009.

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

Unit: RMB million

Items	For the six month period ended 30 June 2010	For the six month period ended 30 June 2009
Net interest income	91,864	74,722
Non-interest income	41,015	33,120
Including: net fee and commission income	28,306	22,955
Operating income	132,879	107,842
Operating expenses	(53,094)	(41,966)
Impairment losses on assets	(9,951)	(10,081)
Operating profit	69,834	55,795
Profit before income tax	70,287	56,053
Income tax expense	(15,912)	(12,819)
Profit for the period	54,375	43,234
Profit attributable to the equity holders of the Bank	52,022	41,005

### Net Interest Income and Net Interest Margin

In the first half of 2010, the Group earned a net interest income of RMB91.864 billion, an increase of RMB17.142 billion or 22.94%, compared with the first half of 2009. The average balances<sup>3</sup> and

average interest rates of the Group's major interest-earning assets and interest-bearing liabilities as well as analysis of the impact of changes in volume and interest rate<sup>4</sup> on the Group's interest income and expense are summarised in the following table:

<sup>3</sup> Average balances of interest-earning assets and interest-bearing liabilities are average daily balances derived from the Bank's management accounts (unreviewed).

<sup>4</sup> 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. Impacts relating to the combined changes in both volume and interest rate have been classified as changes in interest rates.



Unit: RMB million, except percentages

Items	For the six month period ended 30 June 2010			For the six month period ended 30 June 2009			Analysis of interest income/expense variances		
	Average balance	Interest income/ expense	Average interest rate	Average balance	Interest income/ expense	Average interest rate	Volume	Interest rate	Total
<b>Group</b>									
<b>Interest-earning assets</b>									
Loans	5,265,040	107,676	4.12%	3,728,565	89,478	4.84%	36,877	(18,679)	18,198
Investment debt securities <sup>1</sup>	1,930,793	26,115	2.73%	1,836,550	24,996	2.74%	1,281	(162)	1,119
Balances with central banks <sup>2</sup>	1,255,668	8,797	1.41%	1,271,261	8,750	1.39%	(107)	154	47
Due from banks and other financial institutions	651,381	5,437	1.68%	541,875	4,108	1.53%	831	498	1,329
Total	9,102,882	148,025	3.28%	7,378,251	127,332	3.48%	38,882	(18,189)	20,693
<b>Interest-bearing liabilities</b>									
Due to customers	7,041,850	44,549	1.28%	5,713,957	45,145	1.59%	10,470	(11,066)	(596)
Due to banks and other financial institutions and due to central banks	1,363,261	9,198	1.36%	1,018,941	5,340	1.06%	1,810	2,048	3,858
Other borrowed funds <sup>3</sup>	128,751	2,414	3.78%	109,618	2,125	3.91%	371	(82)	289
Total	8,533,862	56,161	1.33%	6,842,516	52,610	1.55%	12,651	(9,100)	3,551
<b>Net interest income</b>		91,864			74,722		26,231	(9,089)	17,142
<b>Net interest margin</b>			2.04%			2.04%			
<b>Domestic RMB businesses</b>									
<b>Interest-earning assets</b>									
Loans	3,757,689	93,952	5.04%	2,786,409	76,530	5.54%	26,683	(9,261)	17,422
Investment debt securities	1,391,783	19,087	2.77%	1,213,492	16,884	2.81%	2,484	(281)	2,203
Balances with central banks	1,129,245	8,388	1.50%	962,756	7,924	1.66%	1,371	(907)	464
Due from banks and other financial institutions	494,216	4,846	1.98%	210,899	1,478	1.41%	1,981	1,387	3,368
Total	6,772,933	126,273	3.76%	5,173,556	102,816	4.01%	32,519	(9,062)	23,457
<b>Interest-bearing liabilities</b>									
Due to customers	5,712,592	42,180	1.49%	4,476,498	41,620	1.87%	11,462	(10,902)	560
Due to banks and other financial institutions and due to central banks	746,395	7,495	2.02%	515,351	3,725	1.46%	1,673	2,097	3,770
Other borrowed funds	82,675	1,655	4.04%	66,000	1,486	4.54%	375	(206)	169
Total	6,541,662	51,330	1.58%	5,057,849	46,831	1.87%	13,510	(9,011)	4,499
<b>Net interest income</b>		74,943			55,985		19,009	(51)	18,958
<b>Net interest margin</b>			2.23%			2.18%			
<b>Domestic foreign currency businesses</b>									
<b>Interest-earning assets</b>									
Loans	100,117	815	1.64%	48,483	795	3.31%	848	(828)	20
Investment debt securities	24,999	332	2.68%	32,327	493	3.08%	(112)	(49)	(161)
Due from banks and other financial institutions <sup>4</sup>	26,467	96	0.73%	64,384	353	1.11%	(209)	(48)	(257)
Total	151,583	1,243	1.65%	145,194	1,641	2.28%	527	(925)	(398)
<b>Interest-bearing liabilities</b>									
Due to customers	55,771	134	0.48%	54,265	243	0.90%	7	(116)	(109)
Due to banks and other financial institutions and due to central banks	61,450	199	0.65%	41,198	183	0.90%	90	(74)	16
Other borrowed funds	3,616	43	2.40%	4,391	60	2.76%	(11)	(6)	(17)
Total	120,837	376	0.63%	99,854	486	0.98%	86	(196)	(110)
<b>Net interest income</b>		867			1,155		441	(729)	(288)
<b>Net interest margin</b>			1.15%			1.60%			

Notes:

- 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.
- Balances with central banks include the mandatory reserve fund, the surplus reserve fund, balances under reserve repo agreements and other deposits.
- Other borrowed funds include bonds issued and other borrowings.
- This item includes balances with central banks.

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

Unit: RMB million, except percentages

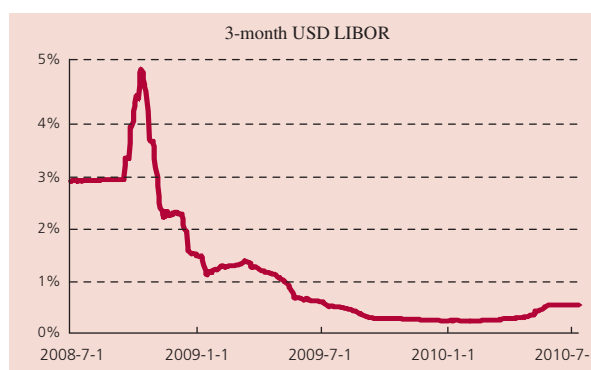
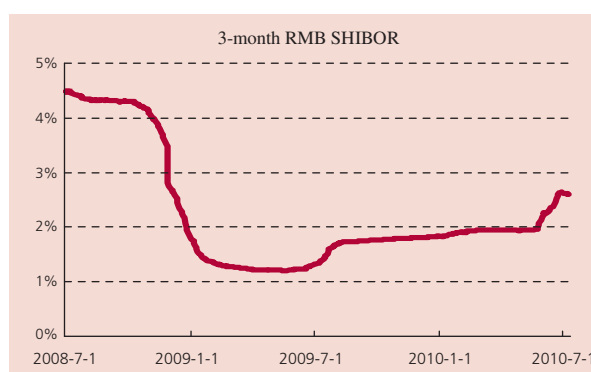
Items	For the six month period ended 30 June 2010		For the six month period ended 30 June 2009		Change	
	Average balance	Average interest rate	Average balance	Average interest rate	Average balance	Average interest rate
<b>Domestic RMB businesses</b>						
<b>Loans</b>						
Corporate loans	2,522,690	5.33%	1,819,794	6.00%	702,896	(67) BPs
Personal loans	1,070,527	4.72%	699,781	5.62%	370,746	(90) BPs
Trade bills	164,472	2.69%	266,834	2.16%	(102,362)	53 BPs
Total	3,757,689	5.04%	2,786,409	5.54%	971,280	(50) BPs
Including:						
Medium and long term loans	2,675,170	5.16%	1,674,666	6.01%	1,000,504	(85) BPs
1-year short term loans and others	1,082,519	4.75%	1,111,743	4.82%	(29,224)	(7) BPs
<b>Due to customers</b>						
Corporate demand deposits	1,676,471	0.70%	1,210,744	0.65%	465,727	5 BPs
Corporate time deposits	1,048,773	2.16%	729,973	2.66%	318,800	(50) BPs
Personal demand deposits	775,366	0.37%	622,954	0.36%	152,412	1 BP
Personal time deposits	1,758,768	2.29%	1,604,334	3.02%	154,434	(73) BPs
Other	453,214	1.70%	308,493	1.90%	144,721	(20) BPs
Total	5,712,592	1.49%	4,476,498	1.87%	1,236,094	(38) BPs
<b>Domestic foreign currency businesses</b>						
<b>Loans</b>	100,117	1.64%	48,483	3.31%	51,634	(167) BPs
<b>Due to customers</b>						
Corporate demand deposits	19,876	0.13%	17,068	0.06%	2,808	7 BPs
Corporate time deposits	5,171	0.94%	5,597	1.48%	(426)	(54) BPs
Personal demand deposits	9,654	0.09%	9,259	0.07%	395	2 BPs
Personal time deposits	18,338	0.83%	18,925	1.63%	(587)	(80) BPs
Other	2,732	1.29%	3,416	2.42%	(684)	(113) BPs
Total	55,771	0.48%	54,265	0.90%	1,506	(42) BPs

In the first half of 2010, the Group's net interest margin was 2.04%, the same as the first half of 2009. Net interest margin of domestic RMB businesses increased, but that of domestic foreign currency businesses moderately decreased compared with the first half of 2009. Major factors impacting the Group's net interest margin as compared with the same period of 2009 include:

(1) The Bank further strengthened its asset and liability management, making timely adjustments to the structure of its asset business to increase the proportion of high-yield assets and decrease that of low-interest assets, while actively developing its RMB businesses to expand the scale and proportion of its RMB-denominated assets. As at the end of June 2010, loans represented 57.84% of the average balance of interest-earning assets, an increase of 7.31 percentage points compared with the first half of 2009; the proportion of the Group's RMB-denominated assets increased by 14.19% compared with the prior year-end to RMB7.24 trillion, representing 74.75% of total assets, an increase of 2.30 percentage points from the prior year-end.

(2) RMB market interest rates increased whilst foreign currency market interest rates decreased. In the first half of 2010, RMB liquidity moved gradually from ample to appropriate, and RMB market interest rates were steady with slight increase. Meanwhile, as the global economy gradually recovered, liquidity pressure was eased and USD market interest rates decreased compared with the same period of 2009. In the first half of 2010, the average 3-month RMB SHIBOR was 2.0117%, an increase of 0.7273

percentage point compared with the first half of 2009, while the average 3-month USD LIBOR was 0.3463%, a decrease of 0.6974 percentage point compared with the first half of 2009.



(3) The domestic interest rate on small-amount deposits in foreign currencies remained largely stable compared with the same period of the prior 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 the first half of 2010, the average yield for domestic foreign currency interest-earning assets decreased by 0.63 percentage point, and the average interest rate for foreign currency interest-bearing liabilities decreased by 0.35 percentage point compared with the same period of 2009.

### ***Non-interest Income***

In the first half of 2010, the Group reported a non-interest income of RMB41.015 billion, an increase of RMB7.895 billion or 23.84% compared with the first half of 2009. This represented 30.87% of operating income, up by 0.16 percentage point compared with the same period of 2009.

#### *Net Fee and Commission Income*

In the first half of 2010, the Group earned a net fee and commission income of RMB28.306 billion, an increase of RMB5.351 billion or 23.31% compared with the same period of 2009. This accounted for 21.30% of the Bank's operating income, up by 0.01 percentage point compared with the same period of 2009.

In 2010, the Group has continued to enhance product innovation and consolidate its traditional competitive advantages in the international settlement business, where it has maintained a leading position. At the same time, the Bank has strived to develop RMB businesses and new businesses in order to further optimise its revenue structure, resulting in rapid growth in bank card fees, loan commitments and agency commissions. Please refer to Note III.2 to the Condensed Consolidated Interim Financial Information for more detailed information.

#### *Other Non-interest Income*

In the first half of 2010, the Group realised other non-interest income of RMB12.709 billion, an increase of RMB2.544 billion or 25.03% compared with the same period of 2009. Precious metals business income, insurance premiums, aircraft leasing income and investment property income saw rapid growth. Please refer to Note III.3, 4 to the Condensed Consolidated Interim Financial Information for more detailed information.

### ***Operating Expenses***

In the first half of 2010, the Group recorded operating expenses of RMB53.094 billion, an increase of RMB11.128 billion or 26.52% compared with the same period of 2009. 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 as scheduled, resulting in an increase in staff costs; (2) the Bank continued to increase funding support for infrastructure construction, marketing and the development of key businesses; (3) the Bank witnessed rapid development of its insurance business and precious metals business, with related expenses increasing; and (4) growth in operating income resulted in increased business taxes.

The Group's cost to income (calculated under domestic regulations) was 29.79%, a decrease of 1.63 percentage points compared with the first half of 2009. Please refer to Note III.5 to the Condensed Consolidated Interim Financial Information for more detailed information.

### Impairment Losses on Assets

#### Impairment Losses on Loans and Advances

In the first half of 2010, the Group further improved the quality of its loans and advances, and both the amount of identified impaired loans and the ratio of identified impaired loans to total loans decreased. The Group's impairment losses on loans and advances amounted to RMB11.441 billion with a credit cost of 0.44%. Please refer to the "Risk Management – Credit Risk" section and Notes III.7, 15 and IV.1 to the Condensed Consolidated Interim Financial Information for more detailed information on loan quality and allowance for loan impairment losses.

#### Impairment Losses on Other Assets

In the first half of 2010, the impairment losses on other assets were a net reversal of RMB1.490 billion, mainly as a result of the reversal of impairment losses on debt securities amounting to RMB1.393 billion. Please refer to Note III.7 and Note IV.1 to the Condensed Consolidated Interim Financial Information for more detailed information.

### Financial Position Analysis

As at 30 June 2010, the Group's total assets were RMB9,685.812 billion, an increase of RMB933.869 billion or 10.67% compared with the prior year-end. The Group's total liabilities amounted to RMB9,118.496 billion, an increase of RMB911.947 billion or 11.11% compared with the prior year-end.

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

Unit: RMB million

Items	As at 30 June 2010	As at 31 December 2009
<b>Assets</b>		
Loans and advances to customers, net	5,270,161	4,797,408
Investment securities <sup>1</sup>	1,966,655	1,816,679
Balances with central banks	1,288,440	1,111,351
Due from banks and other financial institutions	723,643	618,199
Other assets	436,913	408,306
<b>Total</b>	<b>9,685,812</b>	<b>8,751,943</b>
<b>Liabilities</b>		
Due to customers	7,219,334	6,620,552
Due to banks and other financial institutions and due to central banks	1,406,519	1,152,424
Other borrowed funds <sup>2</sup>	164,625	113,984
Other liabilities	328,018	319,589
<b>Total</b>	<b>9,118,496</b>	<b>8,206,549</b>

Notes:

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

### **Loans and Advances to Customers**

As at 30 June 2010, the Group's loans and advances to customers increased by RMB481.521 billion to RMB5,391.879 billion, up 9.81% from the prior year-end. Of which, the Group's RMB-denominated loans increased by RMB384.017 billion or 10.89% from the prior year-end to RMB3,909.035 billion. As at the end of June 2010, the ratio of identified impaired loans to total loans was 1.23%, a decrease of 0.32 percentage point from the prior year-end. The ratio of non-performing loans to total loans was 1.20%, a decrease of 0.32 percentage point from the prior year-end. The ratio of allowance for loan impairment losses to non-performing loans was 188.44%, a significant increase of 37.27 percentage points from the prior year-end. Please refer to "Risk Management – Credit Risk" section for more detailed information on loan quality.

### **Investment Securities**

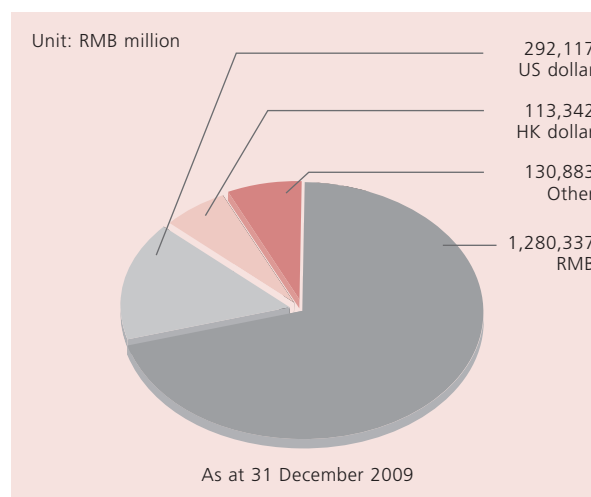
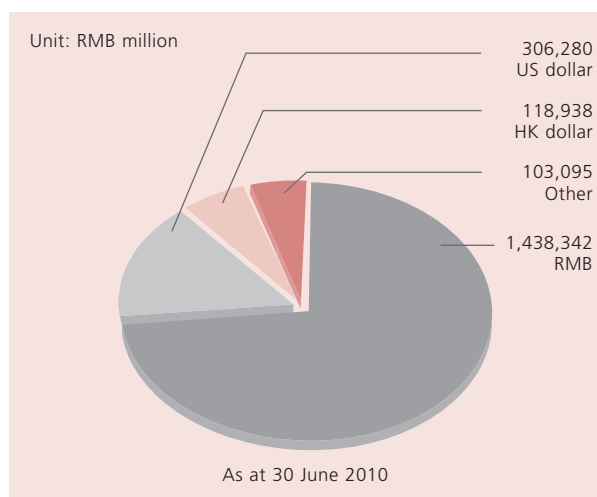
As at 30 June 2010, the Group held investment securities of RMB1,966.655 billion, an increase of RMB149.976 billion or 8.26% from the prior year-end. RMB-denominated investment securities amounted to RMB1,438.342 billion, an increase of RMB158.005 billion or 12.34% from the prior year-end. Foreign currency-denominated investment securities amounted to USD77.797 billion, a decrease of USD0.751 billion or 0.96% from the prior year-end. The Group's RMB-denominated investment securities accounted for 73.14% of total investment securities, up by 2.66 percentage points compared with the prior year-end.

The classification of the Group's investment securities portfolio is set out below:

Unit: RMB million, except percentages

<b>Items</b>	<b>As at 30 June 2010</b>		<b>As at 31 December 2009</b>	
	<b>Amount</b>	<b>% of total</b>	<b>Amount</b>	<b>% of total</b>
Financial assets at fair value through profit or loss	<b>81,793</b>	<b>4.16</b>	61,897	3.40
Securities available for sale	<b>597,020</b>	<b>30.36</b>	622,307	34.26
Securities held to maturity	<b>918,288</b>	<b>46.69</b>	744,693	40.99
Securities classified as loans and receivables	<b>369,554</b>	<b>18.79</b>	387,782	21.35
<b>Total</b>	<b>1,966,655</b>	<b>100.00</b>	1,816,679	100.00

### Investment Securities by Currency



As at 30 June 2010, 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 USD3.690 billion (or RMB25.058 billion), and the related impairment allowance was USD3.072 billion (or RMB20.862 billion).

As at 30 June 2010, the carrying value of debt securities issued by US Freddie Mac and Fannie Mae held by the Group was USD0.819 billion (or RMB5.559 billion). The carrying value of mortgage-backed securities guaranteed by these two agencies

was USD1.664 billion (or RMB11.302 billion). The principal and interest payments on these securities are currently on schedule.

As at 30 June 2010, the total carrying value of debt securities issued by Portugal, Ireland, Italy, Greece and Spain held by the Group was RMB3.395 billion, a decrease of RMB3.625 billion from the prior year-end, principally a result of disposal of part of the debt securities issued by these governments and financial institutions. The total carrying value of these debt securities held by the Group exceeded cost.

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

Unit: RMB million

Country	Issuers				Total
	Governments	Public sector and quasi-governments	Financial institutions	Corporate	
Italy	907	–	1,007	–	1,914
Spain	–	–	104	–	104
Ireland	–	–	1,034	268	1,302
Portugal	–	–	75	–	75
Greece	–	–	–	–	–
Total	907	–	2,220	268	3,395

#### **Due to Customers**

As at 30 June 2010, the Group's deposits from customers amounted to RMB7,219.334 billion, an increase of RMB598.782 billion or 9.04% from the prior year-end. This included RMB-denominated deposits of RMB5,893.668 billion, an increase of RMB545.989 billion or 10.21% compared with the prior year-end.

In 2010, the Bank strengthened its marketing activities of deposit-taking business, robustly expanded its customer base, promoted the construction of outlets and e-channels, enhanced outlet efficiency and consolidated customer services. Through these measures, customer deposits achieved rapid growth, providing funds to support the development of the Bank's asset businesses.

#### **Equity**

As at 30 June 2010, the Group's total equity was RMB567.316 billion, an increase of RMB21.922 billion or 4.02% from the prior year-end. This change was mainly attributable to:

- (1) Profit after income tax for the first half of 2010 of RMB54.375 billion; and
- (2) A cash dividend of RMB35.537 billion paid in respect of the 2009 profit approved by the equity holders of the Bank at the Annual General Meeting.

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

The operating performance and financial position of geographical and business segments are set forth in Note III.31 to the Condensed Consolidated Interim Financial Information.



## Business Review

In the first half of 2010, the Group continued to implement its strategic development plan and achieved steady growth across all business lines. The following table sets forth the profit before income tax for each line of business:

Unit: RMB million, except percentages

Items	For the six month period ended 30 June 2010		For the six month period ended 30 June 2009	
	Amount	% of total	Amount	% of total
Commercial banking business				
Including:				
Corporate banking business	<b>42,632</b>	<b>60.65</b>	37,225	66.41
Personal banking business	<b>19,049</b>	<b>27.10</b>	12,645	22.56
Treasury operations	<b>4,046</b>	<b>5.76</b>	2,955	5.27
Investment banking and insurance	<b>1,231</b>	<b>1.75</b>	1,256	2.24
Others and elimination	<b>3,329</b>	<b>4.74</b>	1,972	3.52
<b>Total of profit before tax</b>	<b>70,287</b>	<b>100.00</b>	56,053	100.00

Note: According to the internal reporting, the Group reclassified certain services among corporate banking business, personal banking business, treasury operations and others. Comparatives for the first half of 2009 have been reclassified.

## Commercial Banking Business

In the first half of 2010, the Group's commercial banking business grew rapidly. A detailed review of the Group's principal deposits and loans as at the end of June 2010 is presented in the following table:

Unit: RMB million

Items	As at 30 June 2010	As at 31 December 2009	As at 31 December 2008
<b>Corporate deposits</b>			
Domestic: RMB	2,759,061	2,554,742	1,712,083
Foreign currency	181,235	166,341	139,177
Overseas	397,117	352,440	310,887
<b>Sub-total</b>	<b>3,337,413</b>	3,073,523	2,162,147
<b>Savings deposits</b>			
Domestic: RMB	2,659,505	2,407,931	2,020,900
Foreign currency	192,938	198,139	175,403
Overseas	568,142	573,815	527,208
<b>Sub-total</b>	<b>3,420,585</b>	3,179,885	2,723,511
<b>Other customer deposits</b>			
Domestic: RMB	417,375	348,728	198,662
Foreign currency	6,708	5,792	8,045
Overseas	37,253	12,624	11,044
<b>Sub-total</b>	<b>461,336</b>	367,144	217,751
<b>Financial institution deposits</b>			
Domestic: RMB	837,030	545,594	308,701
Foreign currency	271,543	274,613	188,327
<b>Sub-total</b>	<b>1,108,573</b>	820,207	497,028
<b>Corporate loans</b>			
Domestic: RMB	2,767,465	2,531,164	1,684,690
Foreign currency	657,442	655,084	323,881
Overseas	665,720	576,628	484,143
<b>Sub-total</b>	<b>4,090,627</b>	3,762,876	2,492,714
<b>Personal loans</b>			
Domestic: RMB	1,122,162	979,072	653,994
Foreign currency	695	393	239
Overseas	178,395	168,017	149,199
<b>Sub-total</b>	<b>1,301,252</b>	1,147,482	803,432

Note: Financial institution deposits herein are included in "Due to banks and other financial institutions", and corporate deposits, savings deposits, other customer deposits are included in "Due to customers" in the Condensed Consolidated Interim Financial Information.

### Domestic Commercial Banking Business

In the first half of 2010, the commercial banking business of the Group's domestic operations recorded a profit before income tax of RMB56.632 billion, an increase of 29.09% compared with the first half of 2009. The principal components are set forth below:

Unit: RMB million, except percentages

Items	For the six month period ended 30 June 2010		For the six month period ended 30 June 2009	
	Amount	% of total	Amount	% of total
Corporate banking business	38,436	67.87	33,116	75.49
Personal banking business	16,536	29.20	10,397	23.70
Treasury operations	1,660	2.93	357	0.81
Total of profit before tax	56,632	100.00	43,870	100.00

Note: According to the internal reporting, the Group reclassified certain services among corporate banking business, personal banking business, treasury operations and others. Comparatives for the first half of 2009 have been reclassified.

#### Corporate Banking Business

In the first half of 2010, the domestic corporate banking business recorded a profit before income tax of RMB38.436 billion, an increase of RMB5.320 billion or 16.06%, compared with the first half of 2009.

Credit extension was integrated with loan portfolio optimisation. The Bank increased its efforts to restructure and optimise its credit portfolio by strictly controlling the pace, timing, magnitude and orientation of lending activity. In the first half of 2010, the Bank's RMB-denominated corporate loans and foreign currency-denominated corporate loans increased by RMB236.301 billion and USD0.874 billion, or 9.34% and 0.91%, respectively, compared with the prior year-end. The proportion of loans granted to key industries, including transportation, water conservation and electric power, increased by almost 1 percentage point compared with the prior year-end, whereas that to the manufacturing

industry dropped by 1 percentage point and that to other industries with overcapacity also decreased continuously.

Liabilities businesses and fee-based businesses were developed in a coordinated manner. In the first half of 2010, the Bank intensified expansion efforts for its corporate deposits business. As a result, RMB and foreign currency-denominated corporate deposits increased by RMB204.319 billion and USD2.327 billion, or 8.00% and 9.55%, respectively, compared with the prior year-end, whilst RMB-denominated deposits from financial institutions increased by RMB291.436 billion, or 53.42%. Newly-opened pension accounts and funds under custody increased by 50% and 280% to 1.16 million and nearly RMB20 billion compared with the same period of 2009, respectively. The Bank's corporate banking business realised a net income of RMB15.399 billion in fee-based businesses, an increase of 20.78% compared with the first half of 2009.

Trade finance business maintained its market-leading advantages. The Bank attached great importance to the development of its trade finance business, making full use of the opportunities inherent in China's foreign trade recovery to further strengthen its market advantages. The transaction volume for international trade settlement reached USD398.115 billion, up 38.58% compared with the same period of 2009, and its market share increased over the beginning of the year. The balance of trade finance in RMB increased by RMB35.943 billion, up 45.82% compared with the prior year-end, whilst trade finance in foreign currency saw stable development and dual-factoring export business continued to rank first in the world. The Bank also continued to lead the market in cross-border RMB trade settlement transactions, conducting 1,324 transactions totalling RMB23.268 billion in the first half of 2010. The Bank accelerated its domestic settlement product research and development programme, resulting in a comprehensive domestic settlement product suite containing 65 product types under 8 categories.

Large enterprises business and SME business maintained stable growth. The Bank continued to develop its service system for key customers, initiated a pilot marketing scheme for large corporate customers, and established a system of managing key customers at the branch level. The Bank also made outstanding progress in key project marketing and served as the lead arranger and agent bank in a

series of large-scale projects, including acquisitions of oil and gas resources, financing for nuclear power projects and M&A related to overseas mineral resources. The Bank was honoured with the "Best M&A Service Bank" and "Best M&A Project" awards by the *Securities Times*. The Bank's small enterprises business advanced steadily. As at the end of June 2010, the number of small enterprise customers reached 18.2 thousand, an increase of 8.85% from the prior year-end. The Bank's outstanding loans extended to small enterprises rose by 21.11% from the prior year-end to RMB214.556 billion. Non-performing loans stood at RMB8.311 billion, a decrease of RMB1.502 billion compared with the prior year-end, with the ratio of non-performing loans to total loans down by 1.67 percentage points.

Financial institutions business grew robustly across the board. Efforts were made to promote comprehensive cooperation with financial institution customers by expanding such businesses as placements with banks and other financial institutions and credit assets transfer. The Bank vigorously promoted its overseas RMB businesses, holding a leading market position in the number of RMB accounts opened for overseas correspondent banks. The Bank worked with foreign correspondent banks to initiate the "China Desk", a new business model that provides tailor-made financial services in overseas areas without branches or subsidiaries of the Bank for those Chinese "Going-Global" companies.

### *Personal Banking Business*

In the first half of 2010, the Bank's domestic personal banking business realised a profit before income tax of RMB16.536 billion, an increase of RMB6.139 billion or 59.05% compared with the same period of 2009.

Savings deposits grew steadily. The Bank strengthened the development of personal accounts, launched the combined marketing of payroll services, introduced small-amount foreign currency savings deposits products with preferential interest rates, and enhanced the competitiveness of its traditional businesses, thus achieving rapid growth in savings deposits. As at the end of June 2010, RMB-denominated savings deposits increased by RMB251.574 billion, or 10.45% compared with the prior year-end. The Bank continued to rank first by market share in foreign currency-denominated savings deposits, with an increase of 0.60 percentage point from 2009.

Personal loans business structure dynamically optimised. The Bank actively implemented the State's real estate macro-control policies, optimised its personal loans business structure, implemented a differentiated pricing structure based on lending rates, and again became the exclusive managing bank to grant national student loans to higher education institutions affiliated to central ministries. As at the end of June 2010, RMB-denominated personal loans increased by RMB143.090 billion, or 14.61% from the prior year-end, with its interest income increasing by 28.59% compared with the first half of 2009.

Development of the wealth management business structure was accelerated. As at the end of June 2010, the number of wealth management centres and prestigious wealth management centres reached 1,275 and 85, respectively. Private banking branches

were established in 15 cities. An investment advisory information platform covering all the branches of wealth management system was built, and the portfolio product of selected private placed funds (Trust of Trust) was first introduced in the market. The number of middle and high-end customers increased by 22.74%, and their related financial assets under management also grew by 16.79% compared with the prior year-end.

Bank card business continuously improved. As at the end of June 2010, the Bank's domestic operations had issued 176 million bank cards, an increase of 18,926.1 thousand compared with the prior year-end. Bank card consumption amounted to RMB372.451 billion, an increase of 58.55% compared with the same period of 2009. RMB card merchant acquiring transactions recorded the largest increase among the peers, and the Bank maintained its leading market share in the volume of FX card merchant acquiring transactions. Reimbursement-by-installment credit card business witnessed rapid growth, becoming a new profit contributor.

Fee-based businesses delivered rapid growth. The Bank promoted its financial services offering for customers going abroad, and signed a comprehensive strategic cooperation agreement with the Chinese Service Centre for Scholarly Exchange under the Chinese Ministry of Education. The Bank introduced personal international remittance services in collaboration with MoneyGram International Ltd. The Bank acted as a pioneer by offering the foreign exchange settlement and sales service through its online banking and self-service terminals and formally offered the buy-and-sale of the New Taiwan Dollar. Moreover, the Bank led the market in individual foreign exchange settlement and sales. The Bank's personal banking business realised a net income of RMB6.660 billion in fee-

based businesses, an increase of 41.25% compared with the first half of 2009.

#### *Financial Markets Business*

The Bank drove a healthy and sustainable growth in its financial markets business by deepening its strategic businesses transformation, strengthening its “customer-centric” service concept and extending the competitive advantages of its foreign currency and proprietary businesses to its RMB and client businesses.

#### Investments

The Bank continuously improved its investment management by maintaining the appropriate pace of RMB-denominated securities investments, improving its investment management approach, optimising decision-making procedures and strengthening its ability to analyse credit risk. The Bank also dynamically adjusted its foreign currency-denominated securities investments and reduced the holdings of high-risk structured bonds in a timely manner. Holdings of bonds issued by southern European countries and other bonds issued by European financial institutions with relatively high risks were reduced before the European sovereignty debt crises worsened.

#### Trading

The Bank further strengthened its leading position in foreign exchange settlement and sales, precious metals trading and RMB-denominated bonds trading, while continually striving to increase its market-making capabilities. The Bank established the Precious

Metals Trading Centre to strengthen professional management. The Bank also launched a market-making business for spot exchange trading of the Russian Rouble against the RMB, pushed forward a “Dual-way FX/paper gold trading business”, rolled out a RMB-denominated paper gold trading business, and engaged in an own-brand physical gold trading business. It also proactively provided risk avoidance plans and transaction services to China’s “Going-Global” companies.

#### Client business

The Bank maintained its market advantage in foreign currency-denominated products and strived to enhance its competitiveness in RMB-denominated products. Star products such as “Happy Weekend”, “7-day Continuous” and “T+0” were continuously optimised. The Bank also launched the BOC Bond Market Express wealth management plan and increased its issuance of tailor-made products. The Bank underwrote short-term and medium-term bonds for a variety of clients, including the Ministry of Railways, PetroChina Company Limited, COFCO Limited, China Minmetals Corporation, Shenhua Group Corporation Limited and China Huaneng Group. In addition, the Bank successfully underwrote the first RMB-denominated bond for foreign bank issued in the inter-bank market and provided innovative FX and interest rate risk management solution. In the first half of 2010, the Bank acted as the lead underwriter or joint lead underwriter for 31 issues of short-term financing bills and medium-term notes totalling RMB48.50 billion and amounting to a market share of 7.50%.

### Custody business

The Bank actively expanded its cross-border custody business for key customers by promoting the construction of a global custody network and system. In addition, the Bank enhanced its value-added custody service by developing the industry-leading practice of a weekly Value-at-Risk (VAR) estimator to enhance assessment of portfolio's investment performance. The Bank also maintained its market leading position in providing custody services for Collective Separately Managed Accounts. As at the end of June 2010, the number of institutional customers such as fund companies, securities firms, insurance companies, the National Council for Social Security Fund and enterprise annuities reached 267, an increase of 18.76% compared with the prior year-end. The Bank promoted 917 custody products, an increase of 20.03% from the prior year-end, and its assets under custody were valued at RMB889.9 billion.

### **Overseas Commercial Banking Business**

#### *Bank of China (Hong Kong)*

In the first half of 2010, BOCHK registered a profit after income tax of RMB6.461 billion, an increase of 6.35% compared with the same period of 2009.

By capturing the financing needs in the market, BOCHK recorded satisfactory growth in loans to customers. It succeeded in maintaining its top position in the Hong Kong-Macau syndicated loan market and leading the market in the underwriting of new residential mortgages. BOCHK also took advantage of opportunities arising from the expansion of RMB businesses in Hong Kong. BOCHK took the lead in conducting cross-border RMB trade settlement

transactions in the newly selected pilot cities. On 13 July 2010, BOCHK was authorised by the PBOC as the Clearing Bank of RMB cashnotes business for Taiwan. BOCHK launched the first RMB life insurance product with settlement being made in Hong Kong Dollars. The issuance of its RMB-HKD dual currency credit cards continued to grow. RMB deposits in Hong Kong rose strongly. Facing intense competition, BOCHK adopted various measures to achieve sustainable growth in customer deposits. Its credit card business grew, with both card holder spending and merchant acquiring volume continuing to increase. BOCHK strengthened channel developments in order to offer unique and tailored services to customers. At the same time, BOCHK strengthened its proactive risk management by adopting preventive control measures to safeguard its asset quality.

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

#### *Commercial Banking Business in Other Regions*

In the first half of 2010, the Bank leveraged the consolidated strength across the Group to make fresh progress in the integrated development of its domestic and overseas operations.

The Bank accelerated the development of a global financial services framework, established a mechanism for managing large overseas customers and key overseas projects and expanded its overseas corporate customer base. The Bank made further efforts to enhance the Global Relationship Manager System and market overseas operations of Chinese enterprises and their overseas business partners, providing "Going-Global" enterprises with comprehensive financial services.

The Bank expedited the development of its overseas personal financial product centre, extending the service area step by step from the Asia-Pacific region to Europe and America. The Bank also pushed forward its overseas bank card business by issuing the first UnionPay RMB-PHP debit card in the Philippines and becoming the first Chinese bank to issue overseas RMB and MYR prepaid cards in Malaysia.

The Bank has been proactively promoting its overseas RMB businesses. The Bank has constantly enriched its product list, expanded the regions for its RMB service and begun to enjoy comprehensive benefits as a result.

The Bank has continued to extend its overseas network. In the first half of 2010, four branches were established, including Bank of China Limited Brisbane Branch in Australia and three branches in Indonesia, i.e. Bank of China Limited Kelapa Gading Sub-branch, Bank of China Limited CBD Pluit Sub-branch, and Bank of China Limited The East Plaza Sub-branch.

### **Diversified Business Platform**

In accordance with the Group's development strategies, the Bank's subsidiaries leveraged their competitive advantages to deliver strong revenue performances and maximise value for the Group. The contribution of non-commercial banking business to the Group's overall operating income further increased.

BOC International Holdings Limited ("BOCI") strengthened its marketing and project execution capability to achieve healthy business development in the first half of 2010. Its equity and bond underwriting business continued to grow; its asset management business maintained a leading market position, and its equities

sales business developed steadily. In the first half of 2010, BOCI realised a profit after income tax of RMB754 million.

In line with the Group's development strategies, BOCG Investment seized market opportunities in a prudent manner, worked to increase cooperation within the Group, consolidated its business channels and forged ahead with innovation. In the first half of 2010, BOCG Investment recorded a profit after income tax of RMB2.166 billion, representing a sharp increase of 87.21% compared with the same period of 2009.

BOCG Insurance has continuously put effort to promote high quality insurance products, and fully made use of the Group's network and customer base to boost sales. Gross premium income grew continuously. In the first half of 2010, BOCG Insurance's property insurance business recorded a gross premium income of HKD893 million, an increase of HKD66 million or 8.02% compared with the same period of 2009.

BOC Aviation positioned itself well for changes in the economic environment. Its fleet size expanded and investment gains grew steadily. In the first half of 2010, profit after income tax was USD76.87 million, representing an increase of USD11.50 million or 17.59% over the same period of last year.

BOCIM responded proactively to a volatile market environment, enriched its product offering and continued to develop its Collective Investment Management services. The scale of BOCIM's assets under management continued to expand. As at the end of June 2010, assets under management reached RMB31.1 billion, up 3.67% from the prior year-end.



## Risk Management

The Bank endeavoured to enhance the integrity, intensiveness, pertinence and effectiveness of its risk management framework. With an emphasis on strengthening credit asset management, enhancing the Group's overall market risk control capabilities and pushing forward Basel II implementation, the Bank proactively managed and mitigated risks and promoted the structural optimisation and adjustment, and thus strongly supported business development.

### Credit Risk

The Bank continued to exercise centralised management over credit approval, credit rating and risk classification. It closely monitored changes in the international and domestic economic situation and adjusted credit policy accordingly, enhanced its risk judgment capacity, strengthened credit control, and made its risk management function more proactive and forward-looking.

With respect to corporate banking, the Bank formulated the Guidelines for Industry Credit Granting of 2010, which expanded upon and refined previous guidelines in line with the State's macro-control policies. The Bank continued to adopt an industry-based approach to portfolio management, encouraging the growth of some sectors while discouraging expansion in others. The Bank extended more credit resources to regions and enterprises that have a positive impact on energy saving and emissions reduction, identifying in detail the specific industries, customers, projects, technologies and products that merit support. It accelerated the withdrawal of credit support from those outdated capacity projects. The Bank further strengthened the management of credit extension to local government financing platforms. The Bank

reassessed credit extended to local government financing platforms and took an array of mitigation measures against loans with potentially high risk exposure, such as increasing the number of repayment entities, guarantors and collaterals, as well as actively withdrawing from some of such loans. The Bank reinforced the risk management of credit extended to real estate industry in strict adherence to the real estate macro-control policy of the State Council and the requirements of the CBRC. It strictly complied with capital requirements for real estate projects, dynamically adjusted credit entry threshold and credit conditions, and increased the standards for loan collaterals. It also rigorously executed the closed-off management of development loans, strengthened the monitoring of sales revenue collection, and required borrowers to repay loans in accordance with the sales and time schedule of projects. The Bank tightened the risk management of credit extended to overcapacity industries. It continued to adhere to high entry threshold, set strict conditions for new lending activity, pursued a deeper restructuring of existing loans, and proactively withdrew from industries that are not in compliance with the State's industrial policy. The Bank intensified the management of payment of loans based on practical consumption or investment needs, and reinforced controls throughout the loan process. The Bank enhanced post-disbursement control and further defined its post-disbursement control mechanism. It also strengthened the risk-warning management system, tracked risk information in real-time across policy, industry, enterprise, environmental protection and other dimensions, and sounded the warnings in a timely manner. The Bank also reinforced the monitoring of group customers in its overall credit portfolio as well as in some key areas.

In terms of personal banking, the Bank strictly executed the requirements specified under the *Tentative Measures for the Management of Personal Loans* formulated by the CBRC to curtail credit risk in personal loans. In line with the policy of the State Council and the requirements of the financial regulators, the Bank rigorously executed a dynamic and differentiated personal housing loan policy in order to promote the healthy development of its mortgage loan business. The Bank intensified the analysis and monitoring of personal loans and credit cards, including devising a monitoring tool template and operation manual for personal loans.

The Bank strengthened its group-wide consolidated management and optimised consolidated management

of institutions across borders and industries. The Bank steadily forged ahead with the country risk management, pushed forward the country risk limit controls and actively guided the regional allocation of credit resources.

The Bank measured and managed the quality of credit risk-bearing assets based on the *Guidelines for Loan Credit Risk Classification* issued by the CBRC. As at the end of June 2010, the Group's non-performing loans totalled RMB64.591 billion, representing a decrease of RMB10.127 billion from the prior year-end. The ratio of non-performing loans to total loans dropped to 1.20%, down by 0.32 percentage point compared with the prior year-end.

#### Five-category loan classification

Unit: RMB million, except percentages

	As at 30 June 2010		As at 31 December 2009	
	Amount	% of total	Amount	% of total
<b>Group</b>				
Pass	5,181,057	96.09	4,696,573	95.65
Special-mention	146,231	2.71	139,067	2.83
Substandard	27,930	0.52	35,858	0.73
Doubtful	23,957	0.44	26,148	0.53
Loss	12,704	0.24	12,712	0.26
Total	5,391,879	100.00	4,910,358	100.00
NPLs	64,591	1.20	74,718	1.52
<b>Domestic</b>				
Pass	4,349,461	95.64	3,965,698	95.20
Special-mention	135,901	2.99	128,222	3.07
Substandard	26,484	0.58	33,752	0.81
Doubtful	23,532	0.52	25,655	0.62
Loss	12,386	0.27	12,386	0.30
Total	4,547,764	100.00	4,165,713	100.00
NPLs	62,402	1.37	71,793	1.72

## Migration ratios

Unit: %

	For the six month period ended 30 June 2010	2009	2008
Pass	0.85	2.40	3.65
Special-mention	3.15	10.07	8.02
Substandard	13.64	25.60	33.51
Doubtful	6.13	9.76	7.89

Note: Migration ratios for the six month period ended 30 June 2010 are not annualised.

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 30 June 2010, the Group reported identified impaired loans totalling RMB66.192 billion, a decrease of RMB9.814 billion from the prior year-end; and the ratio of impaired loans to total loans decreased to 1.23%, down by 0.32 percentage point compared with the prior year-end.

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

Unit: %

Main regulatory ratios	Regulatory Standard	As at 30 June 2010	As at 31 December 2009	As at 31 December 2008
Loan concentration ratio of the largest single borrower	≤10	3.3	3.8	3.4
Loan concentration ratio of the ten largest borrowers	≤50	23.4	28.0	17.6

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

---

Please refer to Note III.15 and Note IV.1 to the Condensed Consolidated Interim Financial Information for more detailed information on the geographical distribution of loans and classification of identified impaired loans.

### Market Risk

The Bank continued to strengthen monitoring and pre-warning of market risk at the group level, adjusted the structure of its investment portfolios, enhanced its banking book interest rate and exchange rate risk management, and continuously optimised its limit structure and risk monitoring procedures through the implementation of the Basel II programme, thus further improving its market risk management. In terms of market risk management of the trading book, the Bank strengthened risk monitoring and analysis of the Group's trading business on the basis of centralised management. In terms of banking book interest rate risk management, the Bank assessed interest rate risk mainly through repricing gap analysis. The Bank further strengthened centralised management of the Group's bond portfolio and convened meetings of the Securities Investment and Management Committee on a regular basis to review and adjust its bond investment strategies. In terms of exchange rate risk management, the Bank effectively controlled its foreign exchange exposure by ensuring currency matching of sources and uses

of funds whilst employing economic hedging and other transactions. Please refer to Note IV. 2 to the Condensed Consolidated Interim Financial Information for more detailed information on market risk.

### Liquidity Risk

In the first half of 2010, the PBOC adjusted liquidity by raising the statutory reserve ratio three times and by using open market operations and other monetary policy instruments. In response to the challenge, the Bank increased core deposits, thus improving the stability of its liabilities. It also maintained an appropriate level of liquidity assets and achieved a balance between bond investment and credit extension.

Anticipation of RMB appreciation caused foreign currency liquidity in the domestic market to become constrained in the first half of 2010. The Bank continued to develop a centralised and integrated overseas fund pool to promote efficient use of the Group's foreign funds. In addition, the Bank raised foreign capital through various channels to broaden funding sources, so as to coordinate the development of its RMB and foreign currency businesses as well as its domestic and overseas businesses.

As at 30 June 2010, the Bank's liquidity position met regulatory requirements, as shown in the table below: (liquidity ratio is the primary indicator of the Group's liquidity while loan to deposit ratio, excess reserve ratio and inter-bank ratios are the indicators of liquidity for the Bank's domestic operations):

Unit:%

		Regulatory standard	As at 30 June 2010	As at 31 December 2009	As at 31 December 2008
Liquidity ratio	RMB	≥25	<b>42.7</b>	45.3	48.8
	Foreign currency	≥25	<b>56.5</b>	55.6	76.6
Loan to deposit ratio	RMB & foreign currency	≤75	<b>70.6</b>	70.3	61.3
Excess reserve ratio	RMB	–	<b>2.4</b>	2.7	3.5
	Foreign currency	–	<b>5.7</b>	10.3	20.5
Inter-bank ratios	Inter-bank borrowings ratio	≤4	<b>0.13</b>	1.04	1.91
	Inter-bank loans ratio	≤8	<b>1.95</b>	2.82	1.67

Notes:

- Liquidity ratio = current assets/current liabilities. Liquidity ratio is calculated in accordance with the relevant provisions of the PBOC and CBRC.
- Loan to deposit ratio = balance of loans/balance of deposits
- RMB excess reserve ratio = (reserve in excess of the mandatory requirements + cash)/(balance of deposits + remittance payables)
- 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
- Inter-bank borrowings ratio = total RMB inter-bank borrowings from other banks and financial institutions/total RMB deposits
- Inter-bank loans ratio = total RMB inter-bank loans to other banks and financial institutions/total RMB deposits

### Internal Control and Operational Risk

In the first half of 2010, the Bank emphasised the role of the three internal control defence lines and enhanced the effectiveness of internal control. The Bank conducted internal audits and inspections of its key business lines on a unified basis in order to assess

the adequacy and effectiveness of internal control. The audits and inspections focused on systematic and major risks were conducted with the goal of promoting management and control measures and compliance with regulatory requirements. In addition, the audit function was fitted into the roll-out of the Bank's IT Blueprint project in a coordinated manner.

The Bank continued to improve its operational risk management framework and strived to enhance its operational risk management capability. Pursuant to the regulatory requirements of the CBRC, the Bank initiated various tasks to satisfy the requirements of operational risk standardised approach under the Basel II framework (STA). It further improved the Group's governance framework over operational risk and standardised reporting mechanism, applied diversified management tools to actively identify and dynamically monitor operational risk, closely monitored operational risk and control status in its business activities through onsite and offsite inspections, promoted the employees' risk awareness and professional skills and established a strong culture of operational risk management via multi-level trainings.

The Bank continuously improved its anti-money laundering (AML) IT system supporting capabilities, its ability to detect suspicious transactions and the monitoring of terrorist and sanction lists. The Bank steadily promoted the general implementation of the AML contingency IT system, optimising its programmes and functions to improve efficiency. The Bank established and optimised suspicious transactions filter models, and focused on electronic banking to cooperate with the government's efforts to combat internet gambling.

### **Basel II Implementation**

The Bank further sped up its ongoing Basel II implementation plan in line with the principles of "adaptability and applicability". The implementation was executed phase by phase and steady progress

was achieved. So far, multiple projects required for compliance with the regulatory requirements under phase one have been launched and applied steadily.

In the field of credit risk, the Bank has established a unified IRB framework, further improved its credit risk policy system and set up an independent validation system. For corporate customers, the Bank upgraded its existing PD model, successfully launched facility rating system and initially established a two-dimensional internal rating 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, and provided an important foundation for portfolio management, loan pricing, impairment allowance and other management areas. The construction of the market risk and operational risk management system went ahead as scheduled. The Bank continued to improve the internal models approach (IMA) for market risk, conducted model verification, formally launched the IT implementation system under IMA to market risk under Basel II and established the market risk database. In the field of operational risk, the Bank completed the segmentation of its eight business lines and related capital measurement and promoted three management tools at the branch level in line with the requirements of Basel II. The Bank formally launched the risk-weighted asset (RWA) system, which applies RWA calculations to corporate loans and personal housing loans and automatically generates the corresponding regulatory reports. Work related to Pillar II and III is under progress and constantly improved the Bank's capital utilisation.

## Channel Development

The Bank pushed forward with great efforts the outlet transformation programme for its corporate banking business, enhanced corporate customer marketing and service functions of its retail outlets and continued to bolster specialised sales service teams for corporate banking business. The Bank improved its sales service system to enable customer managers and product managers to cooperate with outlet heads, bank clerks and lobby managers, thus combining marketing efforts from within and outside of the outlets in an innovative manner and preliminarily forming a mechanism to improve the corporate banking and personal banking businesses on a mutually promoting and coordinated basis.

The Bank optimised the planning and management mechanism for its outlets and pushed forward unified outlets transformation. As at the end of June 2010, the Bank had completed such transformation on 9,439 outlets. The Bank developed a dynamic value contribution-based classification method on its outlets, in order to increase the proportion of full-function outlets. The Bank's ATMs and self-service terminals on the Chinese mainland totalled 20,189 and 12,454, an increase of 11.78% and 5.39% respectively, compared with the prior year-end. The number and volume of transaction of deposit and withdrawal on ATMs grew by 33.39% and 42.82%, respectively, compared with the same period of 2009.

The Bank intensified and improved its e-banking channels by enriching product functions and

strengthening marketing efforts. As at the end of June 2010, the number of e-banking customers reached 66.6895 million, up 23.86% compared with the prior year-end, while the number of e-banking transactions accounted for 51.59% of the Bank's total transaction numbers, up by 10.45 percentage points compared with the same period of 2009. The Bank's online banking services function continued to enrich with the competitiveness of its key services such as money transfer and remittance of personal customers, purchase of wealth management products, group customers services and cash management significantly sharpened. The Bank further expanded the coverage of its overseas online banking service and consolidated its competitive advantages in cross-border services. As at the end of June 2010, the total number of domestic and overseas personal online banking customers soared to 18.4256 million, an increase of 46.78% compared with the prior year-end, and the transaction volume of corporate online banking reached RMB17.80 trillion. The Bank launched its mobile phone banking service, which provides a range of services such as account management, money transfer and remittance, credit card, bill payment, investment and wealth management (foreign exchange trading and third-party custody) and mobile payment. The Bank made progress in its development of the telephone banking system. As at the end of June 2010, the Bank's total number of contracted telephone banking customers amounted to 47.79 million.

Geographic distribution of assets, organisations and employees

Items	Assets		Organisations		Employees	
	Total assets (RMB million)	% of total	Number of branches and outlets	% of total	Number of employees	% of total
Northern China	3,959,331	33.85	1,454	13.22	42,383	16.17
Northeastern China	517,908	4.43	894	8.13	23,237	8.86
Eastern China	2,589,300	22.13	3,399	30.91	77,369	29.52
Central and Southern China	1,873,782	16.02	2,696	24.52	61,760	23.56
Western China	827,007	7.07	1,581	14.38	30,739	11.73
Hong Kong and Macau	1,425,229	12.18	855	7.78	24,367	9.30
Other overseas operations	505,850	4.32	117	1.06	2,259	0.86
Eliminations	(2,012,595)					
<b>Total</b>	<b>9,685,812</b>	<b>100.00</b>	<b>10,996</b>	<b>100.00</b>	<b>262,114</b>	<b>100.00</b>

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



## IT Blueprint Implementation

In the first half of 2010, the Bank achieved a breakthrough in implementing its IT Blueprint project. In early February, the IT Blueprint Version 2.0 was successfully launched in the Hebei Branch. Subsequent to that, as the base version, it was successfully rolled out in three batches across 16 domestic branches: five branches in Northwest China (Shaanxi Branch, Gansu Branch, Ningxia Branch, Xinjiang Branch, Qinghai Branch), five branches in Southwest China (Yunnan Branch, Guizhou Branch, Sichuan Branch, Chongqing Branch, Tibet Branch), and six other branches (Heilongjiang Branch, Jilin Branch, Inner Mongolia Branch, Shanxi Branch, Jiangxi Branch, Anhui Branch). The system has been operating smoothly in the 17 branches, supporting healthy business development. The roll-out programme is being steadily pushed forward as scheduled.

## Social Responsibilities

When the drought hit China's southwest provinces in the spring of 2010, employees and institutions at all levels of the Bank donated more than RMB9.90 million to bolster efforts to combat the drought and restore production in the seriously affected areas of Yunnan, Guangxi and Guizhou.

On 14 April 2010, a violent 7.1-magnitude earthquake occurred in Yushu County of Yushu Tibetan Autonomous Prefecture in Qinghai Province. The Bank rapidly initiated its emergency response plan, organised staff to carry out earthquake relief work and made a tremendous effort to ensure the normal operation of its outlets in the affected area. A "Green Channel" for donation was opened in its domestic and overseas outlets to fast-track donation remittances to the earthquake area free of charge. Employees and domestic and overseas institutions at all levels of the Bank donated more than RMB37 million.

In 2010, the Bank continued to robustly support cultural and educational undertakings. It became the first Chinese enterprise to hold a seat on the Board of Directors of the Lincoln Center for the Performing Arts, and made efforts to advance Sino-US cultural exchange and cooperation. The Bank continued to support "Show the World: the Culture-Based Development Goodwill Action for Ethnic Minorities in China", a programme launched by the United Nations Development Programme (UNDP) China and Ms. ZHU Zheqin (a.k.a. Dadawa). It also donated to the China Foundation for International Studies and Academic Exchanges, Nanjing University, Zhejiang University and other public welfare institutions and colleges. In addition, the Bank won the bid to become the sole lender for 2010-2014 for government-sponsored student loans to central ministry affiliated universities, and helped students in financial difficulty complete their studies.

---

## Outlook

In the second half of 2010, the global economic recovery will continue to face a number of uncertainties. However, China's economy is now developing towards the anticipated goal that macro-economic policies strive for, and the government will continue to deal well with the relationship between stimulating smooth and fast economy growth, promoting restructuring and managing inflation expectation, maintain the continuity and stability of macro-economic policy, and intensify the pertinence and flexibility of macro-control measures, with an aim to solidify and push forward good economic momentum.

Adhering to the scientific outlook on development, the Bank will continue to implement the State's macro-economic policies and vigorously strengthen the core capability construction, further deepen structural adjustment and business transformation, improve its asset and liability management, pursue an innovative development strategy, strengthen risk management capability, consolidate development foundations and speed up the development of its professional workforce strategy, thus ensuring healthy and rapid business development.

# 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 2010		Increase/decrease during the reporting period					30 June 2010	
	Number of shares	Percentage	Issue of new shares	Bonus shares	Shares transferred from the surplus reserve	Others	Subtotal	Number of shares	Percentage
<b>I. Shares subject to selling restrictions</b>	-	-	-	-	-	-	-	-	-
1. State-owned shares									
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									
<b>II. Shares not subject to selling restrictions</b>	<b>253,839,162,009</b>	<b>100.00%</b>	-	-	-	-	-	<b>253,839,162,009</b>	<b>100.00%</b>
1. RMB-denominated ordinary shares	177,818,910,740	70.05%	-	-	-	-	-	177,818,910,740	70.05%
2. Domestically listed foreign shares									
3. Overseas listed foreign shares	76,020,251,269	29.95%	-	-	-	-	-	76,020,251,269	29.95%
4. Others									
<b>III. Total</b>	<b>253,839,162,009</b>	<b>100.00%</b>	-	-	-	-	-	<b>253,839,162,009</b>	<b>100.00%</b>

#### Notes:

- As at 30 June 2010, 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.
- As at 30 June 2010, none of the Bank's 177,818,910,740 A Shares and 76,020,251,269 H Shares were subject to selling restrictions.
- "Shares subject to selling restrictions" refers to shares held by shareholders who are subject to restrictions on selling in accordance with laws, regulations and rules or commitments.

## Number of Shareholders and Shareholdings

Number of shareholders: 1,281,193 (including 1,033,353 A-Share Holders and 247,840 H-Share Holders)

Top ten shareholders as at 30 June 2010

Unit: Share

No.	Name of shareholder	Number of shares held	Percentage in total share capital	Number of shares subject to selling restrictions	Number of shares pledged or frozen	Type of shareholder	Type of shares
1	Central Huijin Investment Ltd.	171,412,138,186	67.53%	-	None	State	A
2	HKSCC Nominees Limited	70,905,387,987	27.93%	-	Unknown	Foreign legal person	H
3	Li Ka Shing	3,066,790,989	1.21%	-	Unknown	Foreign natural person	H
4	Asian Development Bank	506,679,102	0.20%	-	Unknown	Foreign legal person	H
5	The Bank of Tokyo-Mitsubishi UFJ Ltd.	473,052,000	0.19%	-	Unknown	Foreign legal person	H
6	China Life Insurance Company Limited – dividend – personal dividend – 005L – FH002Shanghai	240,055,583	0.09%	-	None	State-owned legal person	A
7	China Southern Power Grid Co., Ltd.	90,909,000	0.04%	-	None	State-owned legal person	A
7	Aluminium Corporation of China	90,909,000	0.04%	-	None	State-owned legal person	A
7	Shenhua Group Corporation Limited	90,909,000	0.04%	-	None	State-owned legal person	A
10	China Life Insurance Company Limited – traditional – ordinary insurance products – 005L – CT001Shanghai	78,999,871	0.03%	-	None	State-owned legal person	A

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.

During the reporting period, the number of shares in the Bank held by Huijin did not change.

“China Life Insurance Company Limited – dividend – personal dividend – 005L – FH002Shanghai” and “China Life Insurance Company Limited – traditional – ordinary insurance products – 005L – CT001Shanghai” are both products of China Life Insurance Company Limited. Save for that, the Bank is not aware of any connected relations or concerted action among the aforementioned shareholders.

HKSCC Nominees Limited acted as the nominee for all institutional and individual investors that maintain an account with it as at 30 June 2010. The aggregate number of H Shares held by HKSCC Nominees Limited included the shares held by the National Council for Social Security Fund PRC and Temasek Holdings (Private) Limited.

## Convertible Bonds

### Issuance

With the approval of the CBRC (Yinjianfu [2010] No.148) and the CSRC (Zhengjianxuke [2010] No.723), the Bank issued RMB40 billion of convertible bonds on 2 June 2010. With the approval of the Shanghai Stock Exchange (Shangzhengfazi [2010] No.17), the RMB40 billion of convertible bonds were listed on the Shanghai Stock Exchange on 18 June 2010.

### Convertible bondholders and guarantors

---

Number of convertible bondholders as at 30 June 2010: 42,303

---

Guarantor of the Bank's convertible bonds: none

---

Top ten convertible bondholders as at 30 June 2010

No.	Name of convertible bondholders	Amount of convertible bonds held at the end of the reporting period (in RMB)	Percentage of total issued convertible bonds
1	New China Life Company Limited – dividend – group dividend – 018L – FH001Shanghai	2,378,427,000	5.95%
2	China Life Insurance Company Limited – dividend – personal dividend – 005L – FH002Shanghai	1,278,506,000	3.20%
3	Morgan Stanley & Co. International PLC.	1,119,706,000	2.80%
4	CITIC Securities Co., Ltd.	966,226,000	2.42%
5	China Life Insurance Company Limited – traditional – ordinary insurance products – 005L – CT001Shanghai	674,548,000	1.69%
6	CITIC Trust & Investment Co., Ltd. – win-win No.10	600,000,000	1.50%
7	Industrial Convertible Bond Mixed Securities Investment Fund	395,623,000	0.99%
8	Guosen Securities Company Limited	393,298,000	0.98%
9	China Pacific Insurance (Group) Co., Ltd. – dividend – personal dividend	378,298,000	0.95%
9	China Petroleum Finance Co., Ltd.	378,298,000	0.95%

No.	Name of convertible bondholders	Amount of convertible bonds held at the end of the reporting period (in RMB)	Percentage of total issued convertible bonds
9	China Pacific Insurance (Group) Co., Ltd. – traditional – ordinary insurance products	378,298,000	0.95%
9	New China Life Company Limited – dividend – personal dividend – 018L – FH002Shanghai	378,298,000	0.95%
9	China National Offshore Oil Finance Co., Ltd.	378,298,000	0.95%
9	An-Bang Property Insurance Co., Ltd. – ordinary insurance products	378,298,000	0.95%
9	An-Bang Property Insurance Co., Ltd. – capital account	378,298,000	0.95%
9	GF Securities Co., Ltd.	378,298,000	0.95%
9	China Shipbuilding Industry Finance Corporation	378,298,000	0.95%
9	China Life Insurance Company Limited – dividend – group dividend – 005L – FH001Shanghai	378,298,000	0.95%
9	China Pacific Insurance (Group) Co., Ltd. – traditional – ordinary insurance products – 013C – CT001Shanghai	378,298,000	0.95%
9	GuoTai JunAn Securities Company Limited	378,298,000	0.95%

*Changes in convertible bonds during the reporting period*

Unit: RMB

Name of convertible bond	Before the change	Increase/decrease				After the change
		Conversion	Redemption	Back-sell	Others	
Bank of China A-Share convertible bond	40,000,000,000	-	-	-	-	40,000,000,000

### *Accumulated conversion of convertible bonds during the reporting period*

The conversion period of the Bank's convertible bonds covers a period from the first trading day six months after the issuance of the convertible bonds until the date of maturity, i.e. 2 December 2010 to 2 June 2016. As at the end of the reporting period, the Bank's convertible bonds had not entered into the conversion period.

### *Historical adjustments of conversion price*

On 27 May 2010, the Bank's 2009 profit distribution plan was approved at its 2009 Annual General Meeting. The Bank published its announcement on A-Share dividend distribution in the newspapers selected for information disclosure, namely *China Securities*, *Shanghai Securities* and *Securities Times*, as well as the website of the Shanghai Stock Exchange, on 31 May 2010. The Bank adjusted the conversion price from RMB4.02 to RMB3.88 per share in accordance with the "Determination and Adjustment of Conversion Price" provision, effective from 3 June 2010 (equity registration day for dividend distribution). The conversion price of the convertible bonds on the first day of trading was RMB3.88. For details, please refer to the *Prospectus of Public Offering of Convertible Bonds of Bank of China Limited* published on the website of the Shanghai Stock Exchange.

### *The Bank's outstanding debts, creditworthiness and availability of cash for repayment of debts in future years*

Dagong International Credit Rating Co., Ltd. (Dagong International) assigned a credit rating on the convertible bonds issued by the Bank. The published rating report assigned an AAA counterparty rating to the Bank and an AAA credit rating to its convertible bonds. Dagong International believes that the Bank is able to provide significantly strong support to the repayment of the issued bonds.

The Bank is one of the large-scale state-controlled commercial banks in China. The Bank's business covers commercial banking, investment banking and insurance, inter alia, providing comprehensive and quality financial services to personal and corporate customers worldwide. The Bank's risk management capacity is continually improving along with its increasingly enhanced capital base and overall operational sophistication. The Bank's adequate capital, stable mix of assets and liabilities and healthy profitability provide a solid foundation for the repayment of its various debts.

Under a sound corporate governance mechanism, the Bank is transparent in its finances, efficient in its management and prudent in its operations. The Bank has healthy liquidity and has no historical record of default. The Bank will further enhance its management, promote business development and improve operational efficiency in the future. It is capable of repaying debts in a timely manner.

## Disclosure of Shareholding under H-Share Regulation

### Substantial Shareholder Interests

The register maintained by the Bank pursuant to section 336 of the SFO recorded that, as at 30 June 2010, the following corporations were substantial shareholders (as defined in the SFO) having the following interests in the Bank:

Unit: Share

Name of shareholder	Capacity	Number of shares held/ number of underlying shares	Type of shares	Percentage of total issued A Shares	Percentage of total issued H Shares	Percentage of 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	10,641,776,129	H	–	13.99%	4.19%
Temasek Holdings (Private) Limited	Attributable interest	10,481,591,118	H	–	13.79%	4.13%

Note: 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.

All of the interests stated above represented long positions. Save as disclosed above, as at 30 June 2010, no other interests or short positions were recorded in the register maintained by the Bank under section 336 of the SFO.



# Directors, Supervisors, Senior Management and Staff

## Directors, Supervisors and Senior Management

### Honorary Director<sup>1</sup>

Name	Position
CHEN Muhua	Honorary Chairperson

### Board of Directors

Name	Position	Name	Position
XIAO Gang	Chairman	WANG Gang	Non-executive Director
LI Lihui	Vice Chairman and President	LIN Yongze	Non-executive Director
LI Zaohang	Executive Director and Executive Vice President	SEAH Lim Huat Peter	Non-executive Director
ZHOU Zaiqun	Executive Director and Executive Vice President	Anthony Francis NEOH	Independent Non-executive Director
ZHANG Jinghua	Non-executive Director	Alberto TOGNI	Independent Non-executive Director
HONG Zhihua	Non-executive Director	HUANG Shizhong	Independent Non-executive Director
HUANG Haibo	Non-executive Director	HUANG Danhan	Independent Non-executive Director
CAI Haoyi	Non-executive Director		

#### Notes:

- 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.
- The 2010 Second Extraordinary General Meeting of the Bank held on 20 August 2010 approved the re-election of Ms. HONG Zhihua, Ms. HUANG Haibo and Mr. CAI Haoyi as Non-executive Directors of the Bank, the election of Ms. SUN Zhijun, Ms. LIU Lina and Ms. JIANG Yansong as Non-executive Directors of the Bank, and the election of Mr. CHOW Man Yiu, Paul as Independent Non-executive Director of the Bank. The appointment of Ms. SUN Zhijun, Ms. LIU Lina, Ms. JIANG Yansong and Mr. CHOW Man Yiu, Paul shall be subject to the approval of the CBRC.
- During the reporting period, none of the aforementioned Directors held any share of the Bank.

## Board of Supervisors

Name	Position	Name	Position
LI Jun	Chairman of the Board of Supervisors	JIANG Kuiwei	Employee Supervisor
WANG Xueqiang	Supervisor	QIN Rongsheng	External Supervisor
LIU Wanming	Supervisor	BAI Jingming	External Supervisor
LI Chunyu	Employee Supervisor		

### Notes:

1. On 19 March 2010, Mr. LI Jun was elected a supervisor of the Bank at the 2010 First Extraordinary General Meeting with a term of office until the date of Annual General Meeting in 2013. He was elected Chairman of the Board of Supervisors at the first meeting of 2010 of the Bank's second Board of Supervisors on 19 March 2010.
2. Mr. LIU Ziqiang resigned as 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.
3. During the reporting period, two new members joined the Bank's Board of Supervisors. Mr. QIN Rongsheng and Mr. BAI Jingming were approved to be external supervisors of the Bank at the Bank's 2009 Annual General Meeting held on 27 May 2010. They serve a term of office of three years from 27 May 2010 until the date of the Bank's Annual General Meeting in 2013.
4. During the reporting period, none of the aforementioned Supervisors held any share of the Bank.

## Senior Management

Name	Position	Name	Position
LI Lihui	President	ZHU Shumin	Executive Vice President
LI Zaohang	Executive Vice President	YUE Yi	Executive Vice President
ZHOU Zaiqun	Executive Vice President	CHIM Wai Kin	Chief Credit Officer
ZHANG Lin	Secretary of Party Discipline Committee	NG Peng Khian	Chief Audit Officer
WANG Yongli	Executive Vice President	ZHANG Bingxun	Secretary to the Board of Directors
CHEN Siqing	Executive Vice President		

### Notes:

1. The Board of Director of the Bank appointed Mr. ZHU Shumin as Executive Vice President on 23 July 2010. His position has been approved by the CBRC.
2. The Board of Director of the Bank appointed Mr. YUE Yi as Executive Vice President on 23 July 2010. His position has been approved by the CBRC.
3. Madam ZHANG Yanling resigned as Executive Vice President on 23 July 2010.
4. During the reporting period, none of the aforementioned senior management personnel held any share of the Bank.

## Organisational Information, Human Resources Management and Development

### Organisational Information

As at 30 June 2010, the Bank had a total of 10,996 domestic and overseas branches, subsidiaries and outlets, an increase of 35 from the beginning of 2010, which include 10,024 domestic operations and 972 operations in Hong Kong, Macau and other overseas countries and regions. On the Chinese mainland, there were 37 tier one branches, 285 tier two branches and 9,699 outlets. Hong Kong, Macau, overseas branches and subsidiaries accounted for 691 operating outlets (including 166 on the Chinese mainland) and 281 non-operating outlets.

In the first half of 2010, the Bank further reengineered and restructured its organisational framework. The Head Office set up the Risk Management Unit to reinforce the unity and effectiveness of risk management and internal control. The Head Office further optimised the organisational framework of the Personal Banking Unit and Financial Markets Unit to improve customer service capacity. The Bank further increased the allocation of resources to identified key regions and businesses in order to support business development.

### Human Resources Management and Development

As at 30 June 2010, the Bank had 262,114 employees (including 57,832 external contractual staff with the Bank's domestic commercial business), of which 26,756 were employed in branches, subsidiaries and representative offices in Hong Kong, Macau and other countries and regions (including 8,962 staff with these institutions' business operations on the Chinese mainland). In the first half of 2010, the Bank paid retirement expenses for a total of 6,859 retirees.

In the first half of 2010, the Bank has continued to promote a forward-looking talent development strategy in line with the Group's strategic development plan. By focusing on talent cultivation and training, optimising strategy-driven resource allocation mechanisms and accelerating human resources service reform, the Bank has further enhanced its market-oriented, strategically-aligned and service-focused human resources management system.

---

The Bank's human resources management system places great emphasis on management training, professional training, international training and succession planning. In terms of resource allocation, the Bank has optimised performance-related pay mechanisms and put priority policies in place to ensure that appropriate level of human resources and staffing budget is being allocated to meet the organisational requirements of key regions and businesses on the Chinese mainland. At the same time, the Bank took steps to reform its human resources services by establishing the Human Resources Shared Services Centre. As for the Bank's human resources management system, the performance management system has been optimised so as to ensure greater alignment with the Group's strategic development plan. The Bank's professional talent development mechanisms have been further enhanced, with a focus on establishing policies

designed to develop specialised talents in syndicated loans and international settlement. Remuneration policies have been optimised, and the Bank has explored measures regarding incentive and restraint mechanisms. The human resources management systems of the Bank's overseas branches and subsidiaries have continued to be optimised so as to promote their business development.

In the first half of 2010, the Bank continued to implement the Training and Development Plan for 2009-2012. In line with the requirements of the Group's strategic development plan and the rollout of the IT Blueprint, the Bank strengthened training programme provision for employees at various levels and positions. During the first half of 2010, 29,905 training sessions were offered, with 997,536 class participants.

# Corporate Governance

During the reporting period, the Bank made a collective effort to further improve its corporate governance. The Bank amended its Articles of Association, made adjustments to several items regarding the delegation of authorities by the shareholders' meeting to the Board of Directors, and formulated and implemented the *Rules Governing Persons with Knowledge of Inside Information of Bank of China Limited (Trial)*. Executive directors and a number of non-executive directors were re-elected or elected at the shareholders' meeting of the Bank. An additional independent non-executive director was elected and the proportion of independent non-executive directors on the Board was thus increased. Two external supervisors were elected at the shareholders' meeting and the structure of the Board of Supervisors was further improved. The Duty Performance and Due Diligence Supervision Committee and the Finance and Internal Control Supervision Committee were established under the Board of Supervisors to support the fulfilment of its duties and obligations. The implementation scheme of profit distribution was adjusted and further improved aiming at delivering dividends to shareholders at the earliest time. Shareholders' interests are therefore better guaranteed.

In order to implement the Bank's strategy and promote its business development, the Board of Directors of the Bank convened special board meetings and extraordinary general meetings in a timely manner to review and approve capital-raising plans. Convertible bonds of RMB40 billion were listed on the Shanghai Stock Exchange on 18 June 2010 and a rights issue of A Shares and H Shares was approved by the Bank's 2010 Second Extraordinary General Meeting, the 2010 First A-Share Holders Class Meeting and the 2010 First H-Share Holders Class Meeting held on 20 August 2010.

## Shareholders' Meeting

The Bank held the 2010 First Extraordinary General Meeting in Beijing on 19 March 2010, which reviewed and approved the proposal on the election of Mr. LI Jun as a supervisor of the Bank, the Bank's 2010-2012 capital planning, a proposal to obtain a general mandate to issue new shares and a proposal to issue A-Share convertible bonds.

On 27 May 2010, the Bank held the 2009 Annual General Meeting in Beijing and Hong Kong by way of video conference, which reviewed and approved proposals including the 2009 Work Report of the Board of Directors, 2009 Work Report of the Board of Supervisors, the profit distribution plan for 2009, the re-election of directors, adjustments on several items regarding the delegation of authorities by the shareholders' meeting to the Board of Directors, the election of external supervisors, an amendment to the Articles of Association and a proposal to obtain a general mandate to issue new shares.

The Bank held the 2010 Second Extraordinary General Meeting, the 2010 First A-Share Holders Class Meeting and the 2010 First H-Share Holders Class Meeting in Beijing on 20 August 2010. The 2010 Second Extraordinary General Meeting reviewed and approved a proposal on a rights issue of A Shares and H Shares, a proposal on the election of non-executive directors and the remuneration plan for directors and supervisors. The proposal on a rights issue of A Shares and H Shares was also approved respectively by the 2010 First A-Share Holders Class Meeting and the 2010 First H-Share Holders Class Meeting of the Bank.

All of the aforementioned meetings were convened and held in strict compliance with the relevant governing laws and regulations, including the listing rules of the Chinese mainland and Hong Kong. The Bank's Directors, Supervisors and senior management members attended the meetings and communicated with shareholders on issues of their concern.

### Directors and the Board of Directors

As considered and approved by the 2009 Annual General Meeting, Mr. XIAO Gang, Mr. LI Lihui, Mr. LI Zaohang and Mr. ZHOU Zaiqun were re-elected as the Bank's executive directors, and Mr. Anthony Francis NEOH, Mr. HUANG Shizhong and Ms. HUANG Danhan were re-elected as the Bank's independent non-executive directors. All the directors above assume a term of office of three years starting from 27 May 2010 to the date of the Bank's Annual General Meeting to be held in 2013.

As considered and approved by the 2010 Second Extraordinary General Meeting, Ms. HONG Zhihua, Ms. HUANG Haibo and Mr. CAI Haoyi were re-elected as the Bank's non-executive directors; Ms. SUN Zhijun, Ms. LIU Lina and Ms. JIANG Yansong were elected as the Bank's non-executive directors, and Mr. CHOW Man Yiu, Paul was elected as the Bank's independent non-executive director. All the directors above assume a term of office of three years. The terms of Ms. HONG Zhihua, Ms. HUANG Haibo and Mr. CAI Haoyi

start from 27 May 2010 until the date of the Bank's Annual General Meeting in 2013. The terms of Ms. SUN Zhijun, Ms. LIU Lina, Ms. JIANG Yansong and Mr. CHOW Man Yiu, Paul start from the date of approval by the CBRC until the date of the Bank's Annual General Meeting in 2013. Non-executive Director Mr. ZHANG Jinghua, Mr. WANG Gang and Mr. LIN Yongze's term of office has come to expiration. In accordance with the Bank's Articles of Association, where re-election is not carried out promptly after the expiry of the term of office of a director, then the former director shall still perform the duties of a director and exercise the director's power pursuant to laws, administrative regulations and the Articles of Association before the re-elected director begins to serve the position.

During the reporting period, the Board of Directors held five on-site meetings, which reviewed proposals such as the issuance of A-Share convertible bonds, the 2009 annual report, the profit distribution plan for 2009, the first quarter report of 2010, market risk limits, amendment to the Articles of Association, nomination and appointment of directors and a rights issue of A Shares and H Shares. Moreover, during the reporting period, the Board of Directors also approved 10 items by means of written resolutions, including the *Rules Governing Persons with Knowledge of Inside Information of Bank of China Limited (Trial)* and a proposal to donate to the earthquake afflicted area in Qinghai Province, among others.

There are five special committees reporting directly to the Board of Directors: the Strategic Development Committee, the Audit Committee, the Risk Policy Committee, the Personnel and Remuneration Committee and the Connected Transactions Control Committee. The work performance of each special committee during the reporting period is as follows:

Committee	Work Performance
Strategic Development Committee	The Committee held two meetings, in which it mainly reviewed the 2009 Profit Distribution Plan and other proposals including the issuance of convertible bonds.
Audit Committee	The Committee held two formal meetings and three communication meetings, in which it mainly reviewed the 2009 financial report, the 2010 first quarter report, the 2009 self-evaluation report on internal control, the report on internal audit work related to Basel II, the report on internal fraud cases in 2009, and the report on the progress of the Bank's implementation of the <i>Basic Standards for Enterprise Internal Control</i> . It also approved the internal audit's work report for 2009, the work plan and budget for 2010, the <i>Medium and Long-term Development Plan for Group Internal Audit of Bank of China</i> , and the performance objectives and evaluation of the Chief Audit Officer for 2010. Jointly with the Strategic Development Committee, the Committee reviewed the profit distribution plan for 2009 and related issues of the Bank.
Risk Policy Committee	The Committee held three meetings, in which it reviewed the progress report on the key tasks of risk management, the key risk indicators report and regularly review the Bank's risk appetite indicators, as well as receiving a report on the Group's foreign currency bond investment. It examined and approved the <i>Bank of China 2010 Market Risk Limit</i> , the <i>Liquidity Risk Management Policy of Bank of China (2010)</i> , the <i>Administration Policy of Group Reputation Risk of Bank of China (2010 Edition)</i> , proposals regarding significant credit transactions beyond the approval authority of the management and issues related to Basel II implementation.
Personnel and Remuneration Committee	The Committee held four meetings, in which it mainly reviewed proposals on the 2009 performance evaluation results and remuneration plan for the Chairman of the Board of Directors, the Chairman of the Board of Supervisors, supervisors, executive directors and senior management members, the remuneration plan for external supervisors, the 2010 group performance targets, the 2010 performance appraisal targets for the Chairman of the Board of Directors, the President and other senior management members, and the proposal on nomination and appointment of non-executive directors.
Connected Transactions Control Committee	The Committee held one meeting, in which it mainly reviewed the statement of funds provided to the controlling shareholder and its related parties in 2009 and the statement of continuing connected transactions of the Bank in 2009.

---

## Supervisors and the Board of Supervisors

The Bank's Board of Supervisors is composed of seven supervisors, including three supervisors assumed by representatives of shareholders (including Chairman of the Board of Supervisors), two supervisors assumed by staff representatives and two external supervisors.

The Bank's 2009 Annual General Meeting approved the Board of Supervisors' proposal on amendments to the Articles of Association of the Bank, which proposes that the Bank establish the Duty Performance and Due Diligence Supervision Committee and the Finance and Internal Control Supervision Committee under the Board of Supervisors, and that the Board of Supervisors be authorised to establish other special committees and make adjustments to the current committee structure in accordance with the Bank's practical needs. The Duty Performance and Due Diligence Supervision Committee shall be responsible for supervising the performance of the Bank's Board of Directors, senior management and their respective members, while the Finance and Internal Control Supervision Committee

shall be headed by external supervisors and shall be responsible for supervising the finance, internal control, risk management and compliance of the Bank. The Board of Supervisors also promulgated the *Detailed Work Rules of Duty Performance and Due Diligence Supervision Committee of the Board of Supervisors of Bank of China Limited*, the *Detailed Work Rules of Finance and Internal Control Supervision Committee of the Board of Supervisors of Bank of China Limited* and the *Work Rules of the Board of Supervisors' Office of Bank of China Limited*. Through the aforementioned measures, the Bank's Board of Supervisors further improved its organisational setup, enhanced its professional capacity and standardised its operational procedures.

The Board of Supervisors examines and supervises the Bank's operational and financial activities through regular meetings, examination of relevant documents, and debriefing on management work reports and reports on specific issues. During the reporting period, the Annual General Meeting approved the 2009 work report of the Board of Supervisors.



## Senior Management

In the first half of 2010, 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 2010, and pushed forward its development strategy according to the guidelines of "optimising structure, scaling up, managing risk and sharpening competitiveness". Thanks to these efforts, the senior management has led the Bank to achieve sound results.

During the reporting period, the Group Executive Committee held 18 regular meetings in which it discussed and decided upon a series of significant operating and management matters regarding risk management, construction of the IT Blueprint and other IT systems, and product innovation, etc. It also held 46 special meetings to discuss and decide upon the business development of its corporate banking business, personal banking business and financial markets business.

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 of the committees diligently fulfilled their duties and responsibilities as per the powers specified in the committee charters and the rights delegated by the Group Executive Committee.

## Investor Relations and Information Disclosure

In the first half of 2010, the Bank conducted investor relations activities based around results releases and other important issues of the Bank in the spirit of timeliness, proactivity, openness and fairness. During March and April, the Bank successively released its 2009 annual results and 2010 Q1 results. These results announcements were supported by news releases and analyst briefings that delivered the Bank's operating information to the market while also listening to the market's feedback and concerns. According to market practice, the Bank organised a global non-deal roadshow after the 2009 annual results announcement in 13 cities including Hong Kong and cities on the Chinese mainland, Europe and North America, visiting over 110 institutional investors. The proactive approach to investor communication was warmly welcomed by the market.

---

During the first half of 2010, the Bank proactively communicated with investors on its capital management planning and capital-raising plans. On 22 January 2010, the Bank issued its *Announcement on Proposal to Obtain General Mandate to Issue New Shares* and *Announcement on Proposal to Issue A-Share Convertible Bonds*. The Bank subsequently organised an analyst conference call in a timely manner so as to efficiently communicate with investors on issues related to the capital raising. At the end of May, after the Bank initiated the issuance of A-Share convertible bonds, senior management of the Bank took part in a range of investor communication activities including online and offline roadshows. The Bank achieved great success in its convertible bonds issuance with extensive support and active subscription from investors. On 2 July 2010, the Bank issued the *Announcement on Proposal of Rights Issue of A Shares and H Shares* and held another conference call with analysts for further communication.

The Bank attaches great importance to day-to-day communication with the investor community by means of multi-faceted investor relations activities and timely information disclosure. During the reporting period, senior management and representatives from major business departments of the Bank attended over 130 meetings with domestic and overseas institutional investors and analysts, effectively promoting the investment proposition of the Bank to the investment community. At the same time, the Bank also continued to improve the Investor Relations webpage on its website and enhance the effectiveness of its telephone hotlines and email communication.

It also explored different means of communication to enable institutional and retail investors to readily access information on the Bank's latest developments.

The Bank performs its information disclosure obligations 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. In the first half of 2010, the Bank fully implemented regulatory rules on information disclosure, ensuring the timely and complete disclosure of information including the issuance of convertible bonds. At the same time, the Bank kept enhancing internal control and appraisal on information disclosure in a bid to promote a culture of compliance within the Group. The design of the Bank's 2009 annual report broke new ground from previous practice. The Bank's printed annual reports were reduced in both volume size and quantity, fulfilling the Bank's corporate social responsibilities. The Bank's 2009 annual report received "Platinum Award" and "Best Financial Report" from the League of American Communications Professionals.

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.

# Significant Events

## Dividend Distribution Policy and Profit Distribution during the Reporting Period

The 2009 Annual General Meeting approved the Bank's profit distribution plan as follows: RMB7.019 billion to be appropriated as statutory surplus reserve; RMB173 million to be added to the undistributed profits for 2009 due to the requirements of some overseas regulators under which the Bank operates to appropriate or revert statutory reserves and regulatory reserves, as well as other matters impacting the undistributed profits; RMB19.566 billion to be appropriated to the general reserve and no appropriation to be made to the discretionary reserve. The profit distribution plan proposed a dividend of RMB0.14 (before tax) per share to be distributed to the Bank's shareholders, amounting to approximately RMB35.537 billion in total. Dividend distribution was completed by 22 June 2010. The Bank will not distribute an interim dividend for the period ended 30 June 2010, nor did it propose any capitalisation of capital reserve into share capital during the reporting period.

## Corporate Governance

For details about the corporate governance of the Bank, please refer to the section on Corporate Governance contained in this report.

## Purchase and Sale, Merger and Acquisition of Assets

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

## Material Litigation and Arbitration Cases

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

## Significant Related Party Transactions

The Bank undertook no 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 III.30 to the Condensed Consolidated Interim Financial Information for details.

## Major Contracts and 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 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 guarantee business and carried 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.

### **Undertakings**

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

### **Existence of Unfulfilled Results Commitments or Unfulfilled Commitments of Capital Injection and Asset Restructuring as of the Date of Announcement of this Report**

Not applicable.

### **Extension of Lock-up Holding Commitment by Shareholders Holding Shares of More than 5% of the Bank**

Not applicable.

### **Disciplinary Action Regarding 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 were investigated, disciplined or reprimanded by the CSRC or publicly reprimanded by the stock exchanges.

No other regulatory administration imposed any penalty on the Bank that had a material impact on the Bank's operations.

### **Alteration of Business Plan**

During the reporting period, the Bank made no alteration to its business plan.

### **Alert of and Explanations for Predicted Loss in Net Profit for the Period from the Beginning of the Year to the End of the Next Reporting Period or Substantial Change Compared with the Same Period of the Previous Year**

Not applicable.

### **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.

### **Use of Raised Funds**

All proceeds from the domestic and overseas initial public offerings 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.

With the approval of the CBRC and PBOC, the Bank issued RMB40 billion of RMB-denominated subordinated bonds and RMB24.93 billion of RMB-denominated subordinated bonds in China's inter-bank bond market on 6 July 2009 and 9 March 2010, respectively. The RMB24.93 billion of RMB-denominated subordinated bonds issued on 9 March 2010 was within the approved subordinated bonds quota by the CBRC, and replaced the redeemed subordinated bonds issued in 2005. For details, please refer to the announcement of resolutions of the 2009 First Extraordinary General Meeting and announcements published by the Bank on 29 June 2009, 7 July 2009 and 12 March 2010 and the Note III.22 to the Condensed Consolidated Interim Financial Information.

With the approval of the CBRC and CSRC, the Bank issued RMB40 billion of A-Share convertible bonds on 2 June 2010. The total proceeds after deduction of the administrative expenses were RMB39,776,221,747, which has been fully used for the replenishment of the Bank's supplementary capital and will be used for the replenishment of the Bank's core capital after conversion to equities. For details, please refer to the circular of the Bank's shareholders' meeting, *Prospectus of Public Offering of A-Share Convertible Bonds of Bank of China Limited* and the Note III.22 to the Condensed Consolidated Interim Financial Information.

### **Significant Changes to the Profitability, Asset Condition and Creditworthiness of the Convertible Bonds Guarantor**

There is no guarantee or security in relation to the Bank's issuance of the convertible bonds.

### **Purchase, Sale or Redemption of the Bank's Shares**

As of 30 June 2010, the total number of the Bank's treasury shares was approximately 17.31 million.

### **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 of Directors' 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.

## Shares in Other Listed Companies and Financial Enterprises Held by the Bank

### Investment Securities

The investment securities held by the Bank and its subsidiaries during the regular course of business are as follows:

No.	Type of securities	Securities code	Company/ securities name	Initial investment cost (unit: RMB)	Securities held	Carrying value at period end (unit: RMB)	Proportion of the total investment securities at period end	Gains/(losses) during the reporting period (unit: RMB)
1	Fund	-	Fortis-Flex III China Fund I	1,160,916,631	133,176	1,169,298,254	17%	8,459,767
2	Fund	-	Fortis Plan Target Click Fund (USD) 2035	552,105,323	1,620,690	575,067,227	8%	(11,336,338)
3	Stock	823 HK	Link Reit	348,098,678	22,812,914	385,700,500	6%	(2,160,059)
4	Stock	1398 HK	ICBC	300,321,774	59,855,106	299,114,351	4%	(8,475,760)
5	Fund	2823 HK	iShare FTSE Xinhua A50 China Index EFF	236,000,402	20,212,145	202,427,704	3%	(45,392,370)
6	Stock	939 HK	CCB	142,296,958	25,159,936	139,160,009	2%	(16,784,749)
7	Fund	2800 HK	Tracker Fund of Hong Kong	141,338,750	7,521,340	134,527,710	2%	(6,322,186)
8	Stock	5 HK	HSBC Holdings PLC	142,927,201	2,055,128	130,253,725	2%	(8,633,021)
9	Fund	2828 HK	Hang Seng Investment Index Funds Series	130,472,351	1,149,666	115,842,846	2%	(12,304,528)
10	Stock	552 HK	China Communications Services Co., Ltd.	129,502,479	34,002,783	112,723,306	2%	(302,495)
Other investment securities held at period end				3,824,783,557	-	3,691,094,479	52%	105,765,793
Gains/(losses) of investment securities sold during the reporting period				-	-	-	-	(345,427,327)
Total				7,108,764,104	-	6,955,210,111	100%	(342,913,273)

#### 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, open-ended and close-ended fund which are classified under financial assets at fair value through profit or loss.
3. "Other investment securities held at period end" refers to investment securities other than the top ten investment securities listed above held by the Group by the end of the reporting period.
4. The unit for stocks and funds is a share.

## Significant Events

### 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 during the reporting period (unit: RMB)	Increase/ (decrease) of equity during the reporting period (unit: RMB)	Accounting classification	Source of shares
189 HK	Dongyue Group Ltd.	205,566,923	5.20%	149,808,528	3,297,672	14,132,880	Available for sale equity security	IPO
2009 HK	BBMG	341,464,979	5.20%	428,660,968	-	(19,605,013)	Available for sale equity security	IPO
2008 HK	Phoenix Satellite Television Holdings Ltd.	340,019,239	8.30%	650,566,128	7,188,576	(53,914,320)	Available for sale equity security	Joint-stock reform
549 HK	Jilin Qifeng Chemical Fiber Co., Ltd.	60,308,534	10.95%	60,317,403	-	13,403,867	Available for sale equity security	Joint-stock reform
Total		947,359,675	-	1,289,353,027	10,486,248	(45,982,586)	-	-

#### Notes:

- The table lists stocks of listed companies in which the Group had a shareholding of 5% or above, which are classified as long-term equity investments or available for sale equity securities.
- "Gains 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 during the reporting period (unit: RMB)	Increase of the equity during the reporting period (unit: RMB)	Accounting classification	Source of shares
JCC Financial Co., Ltd.	50,882,198	-	20%	89,338,727	6,792,798	-	Investment in associates and joint ventures	Investment
China Debt Credit Enhancement Investment Co., Ltd.	989,859,064	-	17%	1,004,708,170	-	14,849,107	Available for sale equity investment	Investment
The Debt Management Company Limited	14,482	1,660	11%	14,482	-	-	Available for sale equity investment	Investment
Bank of Ningxia Co., Ltd.	435,962,202	-	11%	435,962,202	-	-	Investment in associates and joint ventures	Investment
Hunan Hualing Financial Co., Ltd.	62,793,958	-	10%	75,994,498	4,703,597	-	Investment in associates and joint ventures	Investment
Total	1,539,511,904	-	-	1,606,018,079	11,496,395	14,849,107	-	-

#### Notes:

- Financial companies include securities firms, commercial banks, insurance companies, futures companies, trust companies, etc.
- The table lists equity investments in unlisted financial companies in which the Group held a proportion of 5% or more of the total shares.
- Carrying value is after the reduction of impairment allowance.
- "Gains during the reporting period" refers to the relevant investment's contribution to the Group's consolidated profits for the period.

## The Audit Committee

The Audit Committee of the Bank is composed of non-executive directors only, including three non-executive directors and four independent non-executive directors. Mr. HUANG Shizhong, an Independent Non-executive Director, is the Chairman. Ms. HUANG Haibo, Mr. WANG Gang, Mr. SEAH Lim Huat Peter, Mr. Anthony Francis NEOH, Mr. Alberto TOGNI and Ms. HUANG Danhan are members of the Committee. Acting in line with the principle of independence, the Committee assists the Board of Directors in supervising the Group's financial reporting, internal control, and internal and external audit.

The Audit Committee of the Bank has reviewed the interim results of the Bank. The Bank's external auditors have conducted a review of the interim financial statements in accordance with the *International Standards on Review Engagements No. 2410*. The Audit Committee has discussed matters relating to the accounting standards and practices adopted by the financial statements, internal control and financial reporting.

Particulars of the outstanding options granted to the Directors of the Bank under the Pre-listing Share Option Scheme as of 30 June 2010 are set out below:

Name	Date of grant	Exercise price per share (HK\$)	Exercisable period	Granted on 5 July 2002	Number of share options				Balance as of 30 June 2010
					Balance as of 1 January 2010	Exercised during the period	Surrendered during the period	Lapsed during the period	
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

## Appointment or Termination of External Auditors

The Bank has appointed PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers Hong Kong as its domestic and international external auditors respectively for the year 2010.

## 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 HKD8.50 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.



Save as disclosed above, during the reporting period, 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 30 June 2010, none of the Directors or Supervisors of the Bank or their respective associates has any interests or short positions in the shares, underlying shares or debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register 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 contained in Appendix 10 of the Hong Kong Listing Rules (the "Model Code").

### **Compliance with the Code on Corporate Governance Practices of the Hong Kong Listing Rules**

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

### **Securities Transactions by Directors and Supervisors**

Pursuant to overseas and local securities regulators' 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 senior management personnel of the Bank. The terms of the Management Rules are more stringent than the mandatory standards set out in the Model Code. The Bank has made specific enquiries to all Directors and Supervisors, all of whom confirmed that they have complied with the standards set out in the Management Rules throughout the reporting period.

### **Compliance with International Accounting Standard No. 34 (IAS 34)**

The 2010 interim report of the Bank is in compliance with International Accounting Standard No. 34 – Interim Financial Reporting.

### **Interim Report**

Shareholders may write to the Bank's H-Share Registrar, Computershare Hong Kong Investor Services Limited (Address: 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) to request the interim report prepared under IFRS or go to the Bank's business locations for copies (Chinese version) prepared under CAS 2006. You may also access this interim report (Chinese and/or English version) at the following websites: [www.boc.cn](http://www.boc.cn), [www.sse.com.cn](http://www.sse.com.cn), and [www.hkexnews.hk](http://www.hkexnews.hk).

Should there be any queries about how to obtain copies of this interim report or access the document on the Bank's website, please dial the Bank's hotlines at: (852) 2862 8688 or (86)10-6659 2638.

# Report on Review of Interim Financial Information



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 Board of Directors of Bank of China Limited**  
(Incorporated in the People's Republic of China with limited liability)

## Introduction

We have reviewed the interim financial information set out on pages 59 to 139, which comprises the condensed consolidated statement of financial position of Bank of China Limited (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2010 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six month period then ended, and a summary of significant accounting policies and other explanatory notes (the "Interim Financial Information"). The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Bank are responsible for the preparation and presentation of this Interim Financial Information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this Interim Financial Information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Interim Financial Information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 26 August 2010

# Interim Financial Information

## CONTENTS

<b>CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (UNAUDITED)</b>	
CONDENSED CONSOLIDATED INCOME STATEMENT . . . . .	59
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME . . . . .	60
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION . . . . .	61
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY . . . . .	63
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS . . . . .	65
<b>NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION</b>	
I. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES . . . . .	67
II. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES. . . . .	69
III. NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION	
1. Net interest income . . . . .	70
2. Net fee and commission income . . . . .	71
3. Net trading gains . . . . .	71
4. Other operating income . . . . .	72
5. Operating expenses . . . . .	72
6. Staff costs . . . . .	73
7. Impairment losses on assets . . . . .	74
8. Income tax expense . . . . .	75
9. Earnings per share (basic and diluted). . . . .	77
10. Cash and due from banks and other financial institutions . . . . .	79
11. Balances with central banks . . . . .	79
12. Placements with and loans to banks and other financial institutions. . . . .	80
13. Financial assets at fair value through profit or loss. . . . .	81
14. Derivative financial instruments . . . . .	82
15. Loans and advances to customers, net . . . . .	83
16. Investment securities . . . . .	87
17. Property and equipment . . . . .	90
18. Investment property . . . . .	91
19. Other assets. . . . .	91
20. Financial liabilities at fair value through profit or loss. . . . .	92
21. Due to customers. . . . .	92
22. Bonds issued . . . . .	93
23. Share option schemes . . . . .	94
24. Deferred income taxes . . . . .	95
25. Other liabilities. . . . .	97
26. Reserve for fair value changes of available for sale securities . . . . .	98
27. Dividends. . . . .	98
28. Contingent liabilities and commitments. . . . .	98
29. Note to condensed consolidated statement of cash flows . . . . .	103
30. Related party transactions . . . . .	103
31. Segment information . . . . .	106
32. Events after the financial reporting date . . . . .	111
IV. FINANCIAL RISK MANAGEMENT	
1. Credit risk . . . . .	112
2. Market risk . . . . .	125
3. Liquidity risk . . . . .	136
4. Capital management . . . . .	138
APPENDIX I – UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION	
1. Liquidity ratios . . . . .	140
2. Currency concentrations. . . . .	140
3. Cross-border claims . . . . .	141
4. Overdue assets. . . . .	142
5. Subsidiaries . . . . .	142
APPENDIX II – SUPPLEMENTARY INFORMATION – RECONCILIATION OF DIFFERENCES BETWEEN CAS AND IFRS FINANCIAL INFORMATION . . . . .	
	142

## Condensed Consolidated Income Statement

For the six month period ended 30 June 2010  
(Amount in millions of Renminbi, unless otherwise stated)

	Note	For the six month period ended 30 June	
		2010 unaudited	2009 unaudited (restated)*
Interest income	III.1	148,025	127,332
Interest expense	III.1	(56,161)	(52,610)
<b>Net interest income</b>		<b>91,864</b>	74,722
Fee and commission income	III.2	30,505	24,850
Fee and commission expense	III.2	(2,199)	(1,895)
<b>Net fee and commission income</b>		<b>28,306</b>	22,955
Net trading gains	III.3	1,190	1,729
Net gains on investment securities		1,828	1,532
Other operating income	III.4	9,691	6,904
<b>Operating income</b>		<b>132,879</b>	107,842
Operating expenses	III.5	(53,094)	(41,966)
Impairment losses on assets	III.7	(9,951)	(10,081)
<b>Operating profit</b>		<b>69,834</b>	55,795
Share of results of associates and joint ventures		453	258
<b>Profit before income tax</b>		<b>70,287</b>	56,053
Income tax expense	III.8	(15,912)	(12,819)
<b>Profit for the period</b>		<b>54,375</b>	43,234
<b>Attributable to:</b>			
Equity holders of the Bank		52,022	41,005
Non-controlling interests		2,353	2,229
		<b>54,375</b>	43,234
Earnings per share for profit attributable to the equity holders of the Bank during the period (Expressed in RMB per ordinary share)	III.9		
– Basic		0.20	0.16
– Diluted		0.20	0.16

\* For details of the restatement please refer to basis of presentation and principal accounting policies.

The accompanying notes form an integral part of this interim financial information.

## Condensed Consolidated Statement of Comprehensive Income

For the six month period ended 30 June 2010  
(Amount in millions of Renminbi, unless otherwise stated)

	Note	For the six month period ended 30 June	
		2010 unaudited	2009 unaudited (restated)
<b>Profit for the period</b>		<b>54,375</b>	43,234
<b>Other comprehensive income:</b>			
Fair value gains/(losses) on available for sale financial assets:			
Amount taken to equity		<b>6,097</b>	(2,973)
Less: related income tax impact		<b>(1,431)</b>	1,394
Amount transferred to income statement		<b>(3,170)</b>	912
Less: related income tax impact		<b>511</b>	(325)
Net-of-tax amount transferred to income statement		<b>(2,659)</b>	587
Subtotal		<b>2,007</b>	(992)
Share of other comprehensive income of associates and joint ventures accounted under the equity method		<b>107</b>	(169)
Less: related income tax impact		<b>(2)</b>	–
Subtotal		<b>105</b>	(169)
Exchange differences on translating foreign operations		<b>(1,601)</b>	708
Less: net amount transferred to income statement from other comprehensive income		<b>31</b>	(77)
Subtotal		<b>(1,570)</b>	631
Other		<b>293</b>	144
<b>Other comprehensive income for the period, net of tax</b>		<b>835</b>	(386)
<b>Total comprehensive income for the period</b>		<b>55,210</b>	42,848
Total comprehensive income attributable to:			
Equity holders of the Bank		<b>52,798</b>	39,522
Non-controlling interests		<b>2,412</b>	3,326
		<b>55,210</b>	42,848

The accompanying notes form an integral part of this interim financial information.

## Condensed Consolidated Statement of Financial Position

As at 30 June 2010

(Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 30 June 2010 unaudited	As at 31 December 2009 audited (restated)
<b>ASSETS</b>			
Cash and due from banks and other financial institutions	III.10	551,639	434,351
Balances with central banks	III.11	1,288,440	1,111,351
Placements with and loans to banks and other financial institutions	III.12	215,563	223,444
Government certificates of indebtedness for bank notes issued		39,047	36,099
Precious metals		66,476	59,655
Financial assets at fair value through profit or loss	III.13	81,793	61,897
Derivative financial assets	III.14	35,313	28,514
Loans and advances to customers, net	III.15	5,270,161	4,797,408
Investment securities	III.16		
– available for sale		597,020	622,307
– held to maturity		918,288	744,693
– loans and receivables		369,554	387,782
Investment in associates and joint ventures		11,032	10,668
Property and equipment	III.17	111,569	109,954
Investment property	III.18	15,877	15,952
Deferred income tax assets	III.24	22,559	23,518
Other assets	III.19	91,481	84,350
<b>Total assets</b>		<b>9,685,812</b>	<b>8,751,943</b>

The accompanying notes form an integral part of this interim financial information.

## Condensed Consolidated Statement of Financial Position (Continued)

As at 30 June 2010  
(Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 30 June 2010 unaudited	As at 31 December 2009 audited (restated)
<b>LIABILITIES</b>			
Due to banks and other financial institutions		1,159,390	904,166
Due to central banks		70,075	61,615
Bank notes in circulation		39,072	36,154
Placements from banks and other financial institutions		177,054	186,643
Financial liabilities at fair value through profit or loss	III.20	52,236	44,234
Derivative financial liabilities	III.14	29,923	23,223
Due to customers	III.21	7,219,334	6,620,552
Bonds issued	III.22	130,420	76,798
Other borrowings		34,205	37,186
Current tax liabilities		12,571	17,801
Retirement benefit obligations		6,595	6,867
Deferred income tax liabilities	III.24	3,757	3,386
Other liabilities	III.25	183,864	187,924
<b>Total liabilities</b>		<b>9,118,496</b>	<b>8,206,549</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Bank</b>			
Share capital		253,839	253,839
Capital reserve		81,170	76,710
Treasury shares		(60)	(43)
Statutory reserves		30,518	30,391
General and regulatory reserves		60,700	60,328
Undistributed profits		116,166	100,758
Reserve for fair value changes of available for sale securities	III.26	7,105	4,750
Currency translation differences		(13,054)	(11,741)
		<b>536,384</b>	<b>514,992</b>
<b>Non-controlling interests</b>		<b>30,932</b>	<b>30,402</b>
<b>Total equity</b>		<b>567,316</b>	<b>545,394</b>
<b>Total equity and liabilities</b>		<b>9,685,812</b>	<b>8,751,943</b>

Approved and authorised for issue by the Board of Directors on 26 August 2010.

The accompanying notes form an integral part of this interim financial information.



Xiao Gang  
Director



Li Lihui  
Director

## Condensed Consolidated Statement of Changes in Equity

For the six month period ended 30 June 2010  
(Amount in millions of Renminbi, unless otherwise stated)

	Note	Unaudited Attributable to equity holders of the Bank									Total
		Share capital	Capital reserve	Statutory reserves	General and regulatory reserves	Undistributed profits	Reserve for fair value changes of available for sale securities	Currency translation differences	Treasury shares	Non-controlling interests	
As at 1 January 2010 as restated		253,839	76,710	30,391	60,328	100,758	4,750	(11,741)	(43)	30,402	545,394
Profit for the period		-	-	-	-	52,022	-	-	-	2,353	54,375
Other comprehensive income		-	312	-	-	-	1,777	(1,313)	-	59	835
Total comprehensive income for the period		-	312	-	-	52,022	1,777	(1,313)	-	2,412	55,210
Issuance of convertible bonds	III.22	-	4,148	-	-	-	-	-	-	-	4,148
Appropriation to statutory reserves		-	-	128	-	(128)	-	-	-	-	-
Appropriation to general reserve and regulatory reserve		-	-	-	377	(377)	-	-	-	-	-
Dividends	III.27	-	-	-	-	(35,537)	-	-	-	(1,949)	(37,486)
Exercise of subsidiary share options		-	-	-	-	-	-	-	-	3	3
Net change in treasury shares		-	-	-	-	-	-	-	(17)	-	(17)
Others		-	-	(1)	(5)	(572)	578	-	-	64	64
As at 30 June 2010		253,839	81,170	30,518	60,700	116,166	7,105	(13,054)	(60)	30,932	567,316

The accompanying notes form an integral part of this interim financial information.



## Condensed Consolidated Statement of Changes in Equity (Continued)

For the six month period ended 30 June 2010  
(Amount in millions of Renminbi, unless otherwise stated)

	Unaudited (restated)										Total
	Attributable to equity holders of the Bank										
	Note	Share capital	Capital reserve	Statutory reserves	General and regulatory reserves	Undistributed profits	Reserve for fair value changes of available for sale securities	Currency translation differences	Treasury shares	Non-controlling interests	
As at 1 January 2009 as previously reported		253,839	66,166	23,429	40,973	83,427	7,534	(11,093)	(17)	25,629	489,887
Early adoption of IFRS 1 amendment		-	10,431	-	-	(4,078)	(722)	(1,617)	-	-	4,014
As at 1 January 2009 as restated		253,839	76,597	23,429	40,973	79,349	6,812	(12,710)	(17)	25,629	493,901
Profit for the period as previously reported		-	-	-	-	41,123	-	-	-	2,229	43,352
Early adoption of IFRS 1 amendment		-	-	-	-	(118)	-	-	-	-	(118)
Profit for the period as restated		-	-	-	-	41,005	-	-	-	2,229	43,234
Other comprehensive income		-	99	-	-	-	(2,219)	637	-	1,097	(386)
Total comprehensive income for the period		-	99	-	-	41,005	(2,219)	637	-	3,326	42,848
Appropriation to statutory reserves		-	-	148	-	(148)	-	-	-	-	-
Appropriation to general reserve and regulatory reserve		-	-	-	97	(97)	-	-	-	-	-
Dividends		-	-	-	-	(32,999)	-	-	-	(287)	(33,286)
Net change in treasury shares		-	-	-	-	-	-	-	9	-	9
Others		-	(2)	(226)	9	123	(14)	-	-	(381)	(491)
As at 30 June 2009		253,839	76,694	23,351	41,079	87,233	4,579	(12,073)	(8)	28,287	502,981
Profit for the period as previously reported		-	-	-	-	39,944	-	-	-	2,301	42,245
Early adoption of IFRS 1 amendment		-	-	-	-	(130)	-	-	-	-	(130)
Profit for the period as restated		-	-	-	-	39,814	-	-	-	2,301	42,115
Other comprehensive income		-	16	(2)	-	-	171	332	-	706	1,223
Total comprehensive income for the period		-	16	(2)	-	39,814	171	332	-	3,007	43,338
Appropriation to statutory reserves		-	-	7,042	-	(7,042)	-	-	-	-	-
Appropriation to general reserve and regulatory reserve		-	-	-	19,250	(19,250)	-	-	-	-	-
Dividends		-	-	-	-	-	-	-	-	(926)	(926)
Exercise of subsidiary share options		-	-	-	-	-	-	-	-	19	19
Net change in treasury shares		-	-	-	-	-	-	-	(35)	-	(35)
Others		-	-	-	(1)	3	-	-	-	15	17
As at 31 December 2009		253,839	76,710	30,391	60,328	100,758	4,750	(11,741)	(43)	30,402	545,394

The accompanying notes form an integral part of this interim financial information.

## Condensed Consolidated Statement of Cash Flows

For the six month period ended 30 June 2010  
(Amount in millions of Renminbi, unless otherwise stated)

	Note	For the six month period ended 30 June	
		2010 unaudited	2009 unaudited (restated)
<b>Cash flows from operating activities</b>			
Profit before income tax		<b>70,287</b>	56,053
Adjustments:			
Impairment losses on assets		<b>9,951</b>	10,081
Depreciation of property and equipment		<b>4,244</b>	3,495
Amortisation of intangible assets and other assets		<b>771</b>	699
Net gains on disposal of property and equipment, intangible assets and other long-term assets		<b>(209)</b>	(30)
Net gains on disposal of investment in subsidiaries, associates and joint ventures		<b>(128)</b>	–
Share of results of associates and joint ventures		<b>(453)</b>	(258)
Interest income arising from investment securities		<b>(25,050)</b>	(23,696)
Dividends arising from investment securities		<b>(101)</b>	(74)
Net gains on derecognition of investment securities		<b>(1,828)</b>	(1,532)
Interest expense arising from bonds issued		<b>1,986</b>	1,514
Net changes in operating assets and liabilities:			
Net increase in balances with central banks		<b>(183,365)</b>	(209,982)
Net increase in due from banks and placements with and loans to banks and other financial institutions		<b>(42,960)</b>	(79,455)
Net increase in precious metals		<b>(6,821)</b>	(8,003)
Net (increase)/decrease in financial assets at fair value through profit or loss		<b>(24,180)</b>	28,884
Net increase in loans and advances to customers		<b>(483,973)</b>	(1,023,172)
Net decrease in other assets		<b>5,043</b>	34,083
Net increase in due to banks and other financial institutions		<b>255,224</b>	66,216
Net increase in due to central banks		<b>8,460</b>	16,892
Net (decrease)/increase in placements from banks and other financial institutions		<b>(9,589)</b>	69,317
Net increase in due to customers		<b>598,782</b>	1,149,409
Net decrease in other borrowings		<b>(2,981)</b>	(2,650)
Net increase/(decrease) in other liabilities		<b>11,353</b>	(85,162)
Net cash flow from operating activities		<b>184,463</b>	2,629
Income tax paid		<b>(20,893)</b>	(19,156)
Net cash inflow/(outflow) from operating activities		<b>163,570</b>	(16,527)

The accompanying notes form an integral part of this interim financial information.

## Condensed Consolidated Statement of Cash Flows (Continued)

For the six month period ended 30 June 2010  
(Amount in millions of Renminbi, unless otherwise stated)

	Note	For the six month period ended 30 June	
		2010 unaudited	2009 unaudited (restated)
<b>Cash flows from investing activities</b>			
Proceeds from disposal of property and equipment, intangible assets and other long-term assets		879	521
Proceeds from disposal of investment in subsidiaries, associates and joint ventures		475	–
Dividends received		330	270
Interest income received from investment securities		25,356	23,593
Proceeds from disposal/maturity of investment securities		582,321	865,117
Increase in investment in subsidiaries, associates and joint ventures		(348)	(87)
Purchase of property and equipment, intangible assets and other long-term assets		(4,438)	(11,918)
Purchase of investment securities		(672,504)	(993,420)
Net cash outflow from investing activities		(67,929)	(115,924)
<b>Cash flows from financing activities</b>			
Cash received from issuance of bonds		81,509	–
Repayments for debts issued		(24,930)	(798)
Cash payments for interest on bonds issued		(1,463)	(1,568)
Dividend payments to equity holders of the Bank		(35,537)	–
Dividend payments to non-controlling interests		(1,949)	(287)
Other cash inflows from financing activities		68	17
Other cash outflows from financing activities		(17)	(499)
Net cash inflow/(outflow) from financing activities		17,681	(3,135)
Effect of exchange rate changes on cash and cash equivalents		(5,768)	4,204
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>107,554</b>	<b>(131,382)</b>
Cash and cash equivalents at beginning of the period		586,319	921,407
Cash and cash equivalents at end of the period	III.29	693,873	790,025

The accompanying notes form an integral part of this interim financial information.

# Notes to the Condensed Consolidated Interim Financial Information

(Amount in millions of Renminbi, unless otherwise stated)

## I BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) and should be read in conjunction with the annual financial statements for the year ended 31 December 2009.

Except as described below, the principal accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial information are consistent with those used in the Group’s annual financial statements for the year ended 31 December 2009.

### Standards, amendments and interpretations effective in 2010

On 1 January 2010, the Group adopted the following new standards, amendments and interpretations.

IAS 27 Revised	Consolidated and Separate Financial Statements
IAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Amendments for Eligible hedged items
IFRS 3 Revised	Business Combinations
IFRIC 17	Distribution of Non-Cash Assets to Owners
Improvements to IFRSs 2009 (issued in April 2009)	

The adoption of these standards, amendments and interpretations does not have a significant impact on operating results, financial position or comprehensive income of the Group.

### Amendments that are not yet effective but have been early adopted by the Group in 2010

#### Amendments to IFRS 1 – First-time Adoption of International Financial Reporting Standards

The Group early adopted the amendments to IFRS 1 – First-time Adoption of International Financial Reporting Standards included in the Annual Improvements 2010 issued in May 2010. The Group retrospectively applied the exemption to use as deemed cost the revaluation of certain assets and liabilities on 31 December 2003 during the financial restructuring of the Bank. The impact of the restatement, principally effecting carrying value of land use rights which is included in other assets, increased both the consolidated total assets and total equity of the Group as at 31 December 2009 by RMB3,766 million and decreased the net profit for the six month period ended 30 June 2009 by RMB118 million.

## I BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

### Amendments that are not yet effective but have been early adopted by the Group in 2010 (continued)

#### Amendments to IFRS 7 – Financial Instruments: Disclosures

The Group early adopted the amendments to IFRS 7 – Financial Instruments: Disclosures included in the Annual Improvements 2010 issued in May 2010. The impact of the amendment was to remove certain disclosures required by the previous standard. The adoption of these amendments had no impact on the operating results, financial position or comprehensive income of the Group.

### Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2010

	Effective for annual period beginning on or after
• IAS 32 Amendment – Classification of rights issues	1 February 2010
• IFRS 9 – Financial Instruments: Classification and measurement	1 January 2013
• IFRIC 14 Amendment – Prepayments of a minimum funding requirement	1 January 2011
• IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
• IAS 24 – Related Party Disclosures*	1 January 2011

\* The Group early adopted the partial exemption regarding disclosure requirements for transactions with government-related entities in its annual financial statements for the year ended 31 December 2009.

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.

In addition, Annual Improvements 2010 were issued in May 2010. This annual improvements process provides a vehicle for making non-urgent but necessary amendments to IFRSs. Most of the amendments are effective for annual or interim periods beginning on or after 1 January 2011. Apart from the improvements to IFRS 1 and IFRS 7, no other amendment was early adopted by the Group and no material changes to accounting policies are expected as a result of these improvements.

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.

### Accounting policies for convertible bonds

The liability component of convertible bonds issued is initially recognised at the fair value, calculated using the market interest rate of a similar liability that does not have an equity conversion option, and measured at amortised cost using the effective interest method subsequently. The equity component of convertible bonds issued is initially recognised in the capital surplus as the difference between the proceeds received from the convertible bond as a whole and the amount of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds.

## I BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

### Accounting policies for convertible bonds (continued)

On conversion of the bond into shares, the amount transferred to share capital is calculated as the par value of the shares multiplied by the number of shares converted. The difference between the carrying value of the related component of the converted bond and the amount transferred to share capital is recognised in the capital reserve.

### Comparatives

In accordance with industry practice, as at 31 December 2009 fixed deposits made by the Group to banks and other financial institutions are reclassified from "Placements with and loans to banks and other financial institutions" to "Cash and due from banks and other financial institutions" and fixed deposits held by the Group from banks and other financial institutions are reclassified from "Placements from banks and other financial institutions" to "Due to banks and other financial institutions".

To conform with the revised presentation, cash flows of RMB38,105 million from fixed deposits held by the Group have been reclassified from "Net (decrease)/increase in placements from banks and other financial institutions" to "Net increase in due to banks and other financial institutions" in the condensed consolidated statement of cash flows for the six month period ended 30 June 2009; and the Group's cash equivalent of RMB26,894 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 30 June 2009.

The Group has reclassified certain services among corporate banking, personal banking and treasury operations based on the Group's internal reporting. Comparatives as at 31 December 2009 and for the six month period ended 30 June 2009 have been reclassified.

## II CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The nature and assumptions related to the Group's accounting estimates are consistent with those used in the Group's financial statements for the year ended 31 December 2009.

As disclosed in the Group's financial statements for the year ended 31 December 2009, the BOC Hong Kong Group entered into an agreement dated 22 July 2009 among the Securities and Futures Commission, the HKMA and 13 other distributing banks, pursuant to which the BOC Hong Kong Group has repurchased from eligible customers their holdings in outstanding Lehman Brothers minibonds ("Minibonds"). The amount recoverable by the BOC Hong Kong Group from the Minibonds remains uncertain and is dependent on a number of factors including resolution of certain legal matters, which may result in a wide range of recovery outcomes.

The final amount recovered by the BOC Hong Kong Group could be different from the assessment made for the purposes of the Group's financial statements and may result in a considerable credit being recognised in the income statement in the period when it is realised.

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

#### 1 Net interest income

	For the six month period ended 30 June	
	2010	2009
Interest income		
Loans and advances to customers	107,676	89,478
Investment securities and financial assets at fair value through profit or loss	26,115	24,996
Due from central banks	8,797	8,750
Due from and placements with and loans to banks and other financial institutions	5,437	4,108
Subtotal	148,025	127,332
Interest expense		
Due to customers	(44,549)	(45,145)
Due to and placements from banks and other financial institutions	(9,198)	(5,340)
Other borrowed funds	(2,414)	(2,125)
Subtotal	(56,161)	(52,610)
Net interest income <sup>(1)</sup>	91,864	74,722
Interest income accrued on impaired financial assets (included within interest income)	559	1,008

- (1) Included within interest income and interest expenses are RMB146,994 million (2009: RMB126,015 million) and RMB55,641 million (2009: RMB52,221 million) for financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 2 Net fee and commission income

	For the six month period ended 30 June	
	2010	2009
Credit commitment fees	5,947	4,565
Agency commissions	5,269	4,649
Settlement and clearing fees	4,685	3,673
Bank card fees	4,455	2,772
Spread income from foreign exchange business	3,404	3,676
Consultancy and advisory fees	3,075	2,999
Custodian and other fiduciary service fees	869	612
Other	2,801	1,904
Fee and commission income	30,505	24,850
Fee and commission expense	(2,199)	(1,895)
Net fee and commission income	28,306	22,955

#### 3 Net trading gains

	For the six month period ended 30 June	
	2010	2009
Net gains from foreign exchange and foreign exchange products <sup>(1)</sup>	1,521	936
Net (losses)/gains from interest rate products	(358)	370
Net (losses)/gains from equity products	(135)	173
Net gains from commodity products	162	250
Total <sup>(2)</sup>	1,190	1,729

(1) The net gains from foreign exchange and foreign exchange products include gains in connection with the retranslation of foreign currency denominated monetary assets and liabilities of RMB5,676 million (2009: losses of RMB5,204 million), and net realised and unrealised losses on foreign exchange derivatives (including those entered into in conjunction with the Group's asset and liability management and funding arrangements) of RMB4,155 million (2009: gains of RMB6,140 million).

(2) Included in "Net trading gains" above for the six month period ended 30 June 2010 are gains of RMB791 million in relation to financial assets and financial liabilities designated at fair value through profit or loss (2009: losses of RMB1,318 million).



### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 4 Other operating income

	For the six month period ended 30 June	
	2010	2009
Insurance premiums		
– Life insurance contracts	2,421	1,993
– Non-life insurance contracts	1,409	1,195
Revenue from sale of precious metals products	2,173	828
Aircraft leasing income	1,696	1,245
Gains on disposal of property and equipment, intangible assets and other assets	241	64
Dividend income	128	81
Changes in fair value of investment properties (Note III.18)	504	471
Gains on disposal of subsidiaries, associates and joint ventures	128	–
Other	991	1,027
<b>Total</b>	<b>9,691</b>	<b>6,904</b>

#### 5 Operating expenses

	For the six month period ended 30 June	
	2010	2009
Staff costs (Note III.6)	22,761	19,651
General operating and administrative expenses <sup>(1)</sup>	11,852	10,040
Business and other taxes	6,908	5,650
Depreciation and amortisation	5,015	4,194
Insurance benefits and claims		
– Life insurance contracts	3,400	810
– Non-life insurance contracts	827	791
Cost of sale of precious metals products	1,958	717
Allowance/(Reversal) for litigation losses	14	(47)
Losses on disposal of property and equipment	32	36
Other	327	124
<b>Total</b>	<b>53,094</b>	<b>41,966</b>

(1) Included in the general operating and administrative expenses are operating lease rental expenses of RMB1,715 million and other premises and equipment related expenses of RMB3,128 million (2009: RMB1,482 million and RMB2,783 million) respectively.

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 6 Staff costs

	For the six month period ended 30 June	
	2010	2009
Salary, bonus and subsidy	16,425	14,514
Staff welfare	852	720
Retirement benefits	195	(26)
Social insurance, including:	2,795	2,388
– Medical	612	545
– Pension	1,638	1,361
– Annuity	373	318
– Unemployment	94	98
– Injury at work	35	30
– Maternity insurance	43	36
Housing funds	1,217	1,000
Labour union fee and staff education fee	574	405
Reimbursement for cancellation of labour contract	7	10
Other	696	640
<b>Total</b>	<b>22,761</b>	<b>19,651</b>

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 7 Impairment losses on assets

	For the six month period ended 30 June	
	2010	2009
Loans and advances <sup>(1)</sup>		
– Individually assessed	(2,641)	(2,529)
– Collectively assessed	14,082	9,556
Subtotal	11,441	7,027
Investment securities <sup>(2)</sup>		
– Available for sale	(1,346)	2,437
– Held to maturity	(47)	477
– Loans and receivables	–	51
Subtotal	(1,393)	2,965
Other	(97)	89
Total	9,951	10,081

(1) Details of movements in allowances for loans and advances are disclosed in Note III.15.

(2) Impairment (reversal)/charges on investment securities:

	For the six month period ended 30 June	
	2010	2009
US Subprime mortgage related debt securities	(704)	1,104
US Alt-A mortgage-backed securities	(210)	377
US Non-Agency mortgage-backed securities	(276)	1,353
Other securities	(203)	131
Total (reversal)/charges	(1,393)	2,965

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 8 Income tax expense

	For the six month period ended 30 June	
	2010	2009
Current income tax		
– Chinese Mainland income tax	<b>13,530</b>	15,829
– Hong Kong profits tax	<b>1,266</b>	1,104
– Overseas taxation	<b>697</b>	527
Subtotal	<b>15,493</b>	17,460
Deferred income tax (Note III.24)	<b>419</b>	(4,641)
Total	<b>15,912</b>	12,819

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.

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.

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 8 Income tax expense (continued)

The tax rate on the Group's profit before tax differs from the theoretical amount that would arise using the basic domestic tax rate of the Bank as follows:

	For the six month period ended 30 June	
	2010	2009
Profit before income tax	<b>70,287</b>	56,053
Tax calculated at applicable statutory tax rate	<b>17,572</b>	14,013
Effect of different tax rates on Overseas Operations	<b>(1,086)</b>	(896)
Supplementary PRC tax on overseas income	<b>529</b>	677
Income not subject to tax <sup>(1)</sup>	<b>(1,804)</b>	(1,266)
Items not deductible for tax purposes <sup>(2)</sup>	<b>748</b>	465
Other	<b>(47)</b>	(174)
Income tax expense	<b>15,912</b>	12,819

(1) Income not subject to tax mainly comprises interest income from PRC treasury bills.

(2) Non-deductible items primarily included 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.

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 9 Earnings per share (basic and diluted)

##### Basic earnings per share

Basic earnings per share were computed by dividing the profit attributable to the equity holders of the Bank for the six month period by the weighted average number of ordinary shares in issue during the period.

	For the six month period ended 30 June	
	2010	2009
Profit attributable to equity holders of the Bank	<b>52,022</b>	41,005
Weighted average number of ordinary shares in issue (in million shares)	<b>253,820</b>	253,832
Basic earnings per share (in RMB)	<b>0.20</b>	0.16

Weighted average number of ordinary shares in issue (in million shares)

	For the six month period ended 30 June	
	2010	2009
Issued ordinary shares	<b>253,839</b>	253,839
Weighted average number of treasury shares	<b>(19)</b>	(7)
Weighted average number of ordinary shares in issue	<b>253,820</b>	253,832

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 9 Earnings per share (basic and diluted) (continued)

##### Diluted earnings per share

Diluted earnings per share were computed by dividing the adjusted profit attributable to the equity holders of the Bank based on conversion of all potential dilutive shares for the six month period by the adjusted weighted average number of ordinary shares in issue. The Group has convertible bonds as dilutive potential ordinary shares.

	For the six month period ended 30 June	
	2010	2009
Profit attributable to equity holders of the Bank	52,022	41,005
Add: Interest expense on convertible bonds (net of tax)	69	–
Profit used to determine diluted earnings per share	52,091	41,005
Adjusted weighted average number of ordinary shares in issue (in million shares)	253,820	253,832
Add: Weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	1,652	–
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	255,472	253,832
Diluted earnings per share (in RMB)	0.20	0.16

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 10 Cash and due from banks and other financial institutions

	As at 30 June 2010	As at 31 December 2009
Cash	43,559	39,596
Due from domestic banks	496,418	355,849
Due from domestic other financial institutions	938	936
Due from overseas banks	10,724	37,970
<b>Total</b>	<b>551,639</b>	434,351

#### 11 Balances with central banks

	As at 30 June 2010	As at 31 December 2009
Mandatory reserves <sup>(1)</sup>	974,707	793,698
Surplus reserves <sup>(2)</sup>	140,203	135,951
Balance under reverse repo agreements <sup>(3)</sup>	60,000	64,910
Other deposits <sup>(4)</sup>	113,530	116,792
<b>Total</b>	<b>1,288,440</b>	1,111,351

(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 30 June 2010, mandatory reserve funds placed with the PBOC were calculated at 17% (31 December 2009: 15.5%) and 5% (31 December 2009: 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 accepted 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 represents balances, other than mandatory reserves and surplus reserves, placed with central banks of other countries by Overseas Operations.



### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 12 Placements with and loans to banks and other financial institutions

	As at 30 June 2010	As at 31 December 2009
Placements with and loans to:		
Domestic banks	55,485	54,391
Other domestic financial institutions	74,771	72,051
Overseas banks	84,527	96,558
Other overseas financial institutions	1,069	810
Subtotal	215,852	223,810
Allowance for impairment losses	(289)	(366)
Total	215,563	223,444
Impaired placements	289	366
Percentage of impaired placements to total placements with and loans to banks and other financial institutions	0.13%	0.16%

Placements with and loans to banks and other financial institutions include balances arising from reverse repo agreements and collateralized financing agreements. These are presented by collateral type as follows:

	As at 30 June 2010	As at 31 December 2009
Debt securities		
– Government	47,623	41,306
– Policy banks	29,515	38,184
– Financial institutions	5,006	5,022
Precious metals	14,027	–
Total	96,171	84,512

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 13 Financial assets at fair value through profit or loss

	As at 30 June 2010	As at 31 December 2009
<b>Trading financial assets</b>		
Trading debt securities		
Chinese Mainland issuers		
– Government	4,761	4,396
– Public sector and quasi-governments	100	30
– Policy banks	3,624	2,849
– Financial institutions	183	104
– Corporate	822	115
Overseas issuers		
– Governments	32,168	17,591
– Public sector and quasi-governments	908	340
– Financial institutions	937	1,267
– Corporate	4,396	2,720
	<b>47,899</b>	29,412
Other trading financial assets		
Fund investments	774	568
Equity securities	1,519	1,034
Subtotal	<b>50,192</b>	31,014
<b>Financial assets designated at fair value through profit or loss</b>		
Debt securities designated at fair value through profit or loss		
Chinese Mainland issuers		
– Government	169	233
– Policy banks	1,743	1,730
– Financial institutions	360	359
Overseas issuers		
– Governments	258	655
– Public sector and quasi-governments	741	1,377
– Financial institutions	18,324	17,076
– Corporate	4,212	4,580
	<b>25,807</b>	26,010
Other financial assets designated at fair value through profit or loss		
Fund investments	3,102	2,427
Loans	1,278	1,248
Equity securities	1,414	1,198
Subtotal	<b>31,601</b>	30,883
Total	<b>81,793</b>	61,897
Analysed as:		
Listed in Hong Kong	6,513	5,868
Listed outside Hong Kong	22,716	18,974
Unlisted	52,564	37,055
Total	<b>81,793</b>	61,897

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 14 Derivative financial instruments

The Group enters into foreign currency exchange rate, interest rate, equity, credit or precious metals and other commodity related derivative financial instruments for trading, asset and liability management and on behalf of customers.

The contractual/notional amounts and fair values of derivative instruments held by the Group are set out in the following tables. The contractual/notional amounts of financial instruments provide a basis for comparison with fair value 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.

	As at 30 June 2010			As at 31 December 2009		
	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 <sup>(1)</sup>	2,094,011	25,501	(17,361)	1,629,325	20,810	(12,353)
Currency options	7,011	60	(20)	4,331	16	(14)
Subtotal	2,101,022	25,561	(17,381)	1,633,656	20,826	(12,367)
Interest rate derivatives						
Interest rate swaps	531,339	7,919	(10,859)	459,885	6,213	(9,404)
Interest rate options	2,532	–	(105)	839	–	(4)
Interest rate futures	8,253	9	(7)	1,958	6	(3)
Subtotal	542,124	7,928	(10,971)	462,682	6,219	(9,411)
Equity derivatives	8,151	165	(137)	4,548	102	(106)
Commodity derivatives	31,609	1,656	(1,434)	20,611	1,224	(915)
Credit derivatives	543	3	–	3,482	143	(424)
Total	2,683,449	35,313	(29,923)	2,124,979	28,514	(23,223)

- (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.

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 15 Loans and advances to customers, net

##### 15.1 Analysis of loans and advances to customers

	Group		Chinese Mainland	
	As at 30 June 2010	As at 31 December 2009	As at 30 June 2010	As at 31 December 2009
Corporate loans and advances				
Loans and advances	<b>3,924,871</b>	3,534,685	<b>3,263,102</b>	2,961,094
Discounted bills	<b>165,756</b>	228,191	<b>161,805</b>	225,154
Subtotal	<b>4,090,627</b>	3,762,876	<b>3,424,907</b>	3,186,248
Personal loans				
Mortgages	<b>1,016,620</b>	907,912	<b>865,001</b>	764,362
Credit cards	<b>43,898</b>	31,336	<b>37,371</b>	24,702
Other	<b>240,734</b>	208,234	<b>220,485</b>	190,401
Subtotal	<b>1,301,252</b>	1,147,482	<b>1,122,857</b>	979,465
Total loans and advances	<b>5,391,879</b>	4,910,358	<b>4,547,764</b>	4,165,713
Allowance for impairment losses				
Individually assessed	<b>(37,948)</b>	(42,415)	<b>(37,053)</b>	(41,311)
Collectively assessed	<b>(83,770)</b>	(70,535)	<b>(78,905)</b>	(66,335)
Total allowance for impairment losses	<b>(121,718)</b>	(112,950)	<b>(115,958)</b>	(107,646)
Loans and advances to customers, net	<b>5,270,161</b>	4,797,408	<b>4,431,806</b>	4,058,067

15.2 Analysis of loans and advances to customers by geographical area, industry, collateral type and analysis of overdue loans and advances to customers is presented in Note IV.1.1.

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 15 Loans and advances to customers, net (continued)

##### 15.3 Analysis of loans and advances to customers by collective and individual allowance assessments

###### Group

	Loans and advances for which allowance is collectively assessed <sup>(1)</sup>	Identified impaired loans and advances <sup>(2)</sup>			Subtotal	Total	Identified impaired loans and advances as % of total loans and advances
		for which allowance is collectively assessed	for which allowance is individually assessed				
<b>As at 30 June 2010</b>							
Total loans and advances	5,325,687	14,347	51,845	66,192	5,391,879	1.23%	
Allowance for impairment losses	(74,349)	(9,421)	(37,948)	(47,369)	(121,718)		
Loans and advances to customers, net	5,251,338	4,926	13,897	18,823	5,270,161		
<b>As at 31 December 2009</b>							
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		

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 15 Loans and advances to customers, net (continued)

##### 15.3 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 <sup>(1)</sup>	Identified impaired loans and advances <sup>(2)</sup>			Subtotal	Total	Identified impaired loans and advances as % of total loans and advances
		for which allowance is collectively assessed	for which allowance is individually assessed				
<b>As at 30 June 2010</b>							
Total loans and advances	4,483,278	14,239	50,247	64,486	4,547,764	1.42%	
Allowance for impairment losses	(69,561)	(9,344)	(37,053)	(46,397)	(115,958)		
Loans and advances to customers, net	4,413,717	4,895	13,194	18,089	4,431,806		
<b>As at 31 December 2009</b>							
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		

(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 certain amount which are impaired); or
- collectively (portfolios of individually insignificant homogenous loans, which includes insignificant corporate loans and advances and all personal loans which are impaired).

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 15 Loans and advances to customers, net (continued)

##### 15.4 Reconciliation of allowance account for impairment losses on loans and advances to customers

###### Group

	2010	2009
As at 1 January	112,950	106,494
Impairment losses for the period/year	30,391	41,768
Reversal	(18,950)	(26,323)
Written off and transfer out	(2,702)	(9,038)
Recovery of loans and advances written off in previous years	497	649
Unwind of discount on allowance	(221)	(632)
Exchange differences	(247)	32
As at 30 June/31 December	121,718	112,950

###### Chinese Mainland

	2010	2009
As at 1 January	107,646	100,757
Impairment losses for the period/year	29,526	40,431
Reversal	(18,539)	(25,370)
Written off and transfer out	(2,504)	(7,709)
Recovery of loans and advances written off in previous years	187	142
Unwind of discount on allowance	(210)	(590)
Exchange differences	(148)	(15)
As at 30 June/31 December	115,958	107,646

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 16 Investment securities

	As at 30 June 2010	As at 31 December 2009
<b>Investment securities available for sale</b>		
Debt securities available for sale		
Chinese Mainland issuers		
– Government	99,527	126,549
– Public sector and quasi-government	2,364	5,659
– Policy banks	107,496	111,362
– Financial institutions	16,727	20,342
– Corporate	61,217	51,262
Overseas issuers		
– Governments	73,637	79,664
– Public sector and quasi-governments	39,642	42,948
– Financial institutions	154,405	142,091
– Corporate	26,935	28,332
	<b>581,950</b>	608,209
Equity securities	12,179	12,381
Fund investments and other	2,891	1,717
Total investment securities available for sale	<b>597,020</b>	622,307
<b>Debt securities held to maturity</b>		
Chinese Mainland issuers		
– Government	575,919	418,925
– Public sector and quasi-government	11,698	9,332
– Policy banks	129,013	111,943
– Financial institutions	19,066	19,874
– Corporate	78,293	58,103
Overseas issuers		
– Governments	35,586	40,120
– Public sector and quasi-governments	17,997	20,610
– Financial institutions	45,379	58,304
– Corporate	5,812	8,016
	<b>918,763</b>	745,227
Allowance for impairment losses	(475)	(534)
Total debt securities held to maturity	<b>918,288</b>	744,693
<b>Debt securities classified as loans and receivables</b>		
Chinese Mainland issuers		
– China Orient Bond <sup>(1)</sup>	160,000	160,000
– PBOC Special Bills	82	82
– PBOC Target Bills <sup>(2)</sup>	97,845	113,484
– Special Purpose Treasury Bond	42,500	42,500
– Financial institutions	15,260	14,560
– Certificate and Saving-type Treasury Bonds and other	40,860	37,660
Overseas issuers		
– Public sector and quasi-governments	2,885	6,372
– Financial institutions	10,202	13,232
	<b>369,634</b>	387,890
Allowance for impairment losses	(80)	(108)
Total debt securities classified as loans and receivables	<b>369,554</b>	387,782
<b>Total investment securities</b>	<b>1,884,862</b>	1,754,782



### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 16 Investment securities (continued)

	As at 30 June 2010	As at 31 December 2009
Analysed as follows:		
<b>Investment securities available for sale</b>		
Debt securities		
– Listed in Hong Kong	14,857	12,214
– Listed outside Hong Kong	390,586	407,370
– Unlisted	176,507	188,625
Equity, fund and other		
– Listed in Hong Kong	4,960	5,368
– Listed outside Hong Kong	1,368	1,054
– Unlisted	8,742	7,676
<b>Debt securities held to maturity</b>		
– Listed in Hong Kong	1,787	2,636
– Listed outside Hong Kong	839,132	642,224
– Unlisted	77,369	99,833
<b>Debt securities classified as loans and receivables</b>		
– Unlisted	369,554	387,782
<b>Total</b>	<b>1,884,862</b>	1,754,782
Listed in Hong Kong	21,604	20,218
Listed outside Hong Kong	1,231,086	1,050,648
Unlisted	632,172	683,916
<b>Total</b>	<b>1,884,862</b>	1,754,782

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 16 Investment securities (continued)

The market values of the above listed held to maturity securities are set out below:

	As at 30 June 2010		As at 31 December 2009	
	Carrying value	Market value	Carrying value	Market value
Debt securities held to maturity				
Listed in Hong Kong	<b>1,787</b>	<b>1,906</b>	2,636	2,722
Listed outside Hong Kong	<b>839,132</b>	<b>843,105</b>	642,224	641,993

- (1) The Bank transferred certain non-performing assets to China Orient Asset Management Corporation (“China Orient”) in 1999 and 2000. On 1 July 2000, China Orient issued a ten-year bond (“Orient Bond”) with a par value of RMB160,000 million and interest rate of 2.25% to the Bank as consideration. During the period, the maturity of this bond was extended to 30 June 2020 with the same terms. The MOF shall continue to provide funding support for the payment of the principal and interest of the Orient Bond held by the Bank pursuant to Caijin [2004] No. 87 “Notice of the MOF regarding Relevant Issues relating to the Principal and Interest of Debt Securities of Financial Asset Management Companies Held by Bank of China and China Construction Bank”.
- (2) The Target Bill issued by the PBOC on 8 March 2007 with a par value of RMB16,000 million matured on 9 March 2010 and the Bank received the principal and interest amount in full.

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 17 Property and equipment

	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
<b>As at 30 June 2010</b>					
Cost	68,995	33,228	12,036	42,320	156,579
Accumulated depreciation	(18,946)	(22,013)	–	(2,964)	(43,923)
Allowance for impairment losses	(808)	–	(279)	–	(1,087)
Net book amount	49,241	11,215	11,757	39,356	111,569
<b>As at 31 December 2009</b>					
Cost	68,622	33,403	11,680	38,260	151,965
Accumulated depreciation	(18,000)	(20,625)	–	(2,288)	(40,913)
Allowance for impairment losses	(819)	–	(279)	–	(1,098)
Net book amount	49,803	12,778	11,401	35,972	109,954
<b>Six month period ended 30 June 2010</b>					
Beginning net book amount	49,803	12,778	11,401	35,972	109,954
Additions	73	736	2,083	3,548	6,440
Transfer from investment property, net (Note III.18)	427	–	–	–	427
Reclassification	248	214	(1,707)	1,245	–
Disposals	(80)	(56)	(1)	(480)	(617)
Depreciation charge	(1,078)	(2,444)	–	(722)	(4,244)
Exchange differences	(152)	(13)	(19)	(207)	(391)
Closing net book amount	49,241	11,215	11,757	39,356	111,569
<b>Year ended 31 December 2009</b>					
Beginning net book amount	49,006	11,021	7,581	21,290	88,898
Additions	1,668	5,300	7,936	15,176	30,080
Transfer to investment property, net (Note III.18)	(139)	–	(13)	–	(152)
Reclassification	1,610	571	(3,936)	1,755	–
Disposals	(271)	(82)	(166)	(1,140)	(1,659)
Depreciation charge	(2,096)	(4,045)	–	(1,085)	(7,226)
Allowance for impairment losses	(4)	–	–	–	(4)
Exchange differences	29	13	(1)	(24)	17
Closing net book amount	49,803	12,778	11,401	35,972	109,954

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 18 Investment property

	2010	2009
As at 1 January	15,952	9,637
Additions	–	4,267
Transfer (to)/from property and equipment, net (Note III.17)	(427)	152
Disposals	(56)	(48)
Fair value changes (Note III.4)	504	1,933
Exchange differences	(96)	11
As at 30 June/31 December	15,877	15,952

#### 19 Other assets

	As at 30 June 2010	As at 31 December 2009
Interest receivable	39,329	34,390
Accounts receivable and prepayments	31,100	28,776
Intangible assets	2,237	2,411
Land use rights	9,265	9,498
Repossessed assets <sup>(1)</sup>	1,741	1,950
Goodwill	1,899	1,929
Other	5,910	5,396
Total	91,481	84,350

(1) Repossessed assets

The Group obtained repossessed assets by taking possession of collateral held as security. Such repossessed assets of the Group are as follows repossessed:

	As at 30 June 2010	As at 31 December 2009
Commercial properties	2,274	2,476
Residential properties	392	497
Other	1,157	1,145
	3,823	4,118
Allowance for impairment	(2,082)	(2,168)
Repossessed assets, net	1,741	1,950

The total book value of repossessed assets disposed for the six month period ended 30 June 2010 amounted to RMB512 million (for the year ended 31 December 2009: RMB1,325 million). The Group plans to dispose the repossessed assets held at 30 June 2010 by auction, bidding or transfer.

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 20 Financial liabilities at fair value through profit or loss

	As at 30 June 2010	As at 31 December 2009
Trading financial liabilities		
– Short position in debt securities	24,785	12,464
Financial liabilities designated at fair value through profit or loss <sup>(1)</sup>		
– Structured deposit	27,451	31,770
<b>Total</b>	<b>52,236</b>	<b>44,234</b>

(1) There were no significant changes in the Group's credit and therefore there were no significant gains or losses attributable to changes in the Group's credit for those financial liabilities designated by the Group at fair value through profit or loss in the six month period ended 30 June 2010 or for the year 2009.

#### 21 Due to customers

	As at 30 June 2010	As at 31 December 2009
Demand deposits		
– Corporate deposits	2,055,842	1,948,036
– Personal deposits	1,281,411	1,194,533
<b>Subtotal</b>	<b>3,337,253</b>	<b>3,142,569</b>
Time deposits		
– Corporate deposits	1,281,571	1,125,487
– Personal deposits	2,139,174	1,985,352
<b>Subtotal</b>	<b>3,420,745</b>	<b>3,110,839</b>
Security and margin deposits	440,883	367,144
Certificates of deposit	20,453	–
<b>Total</b>	<b>7,219,334</b>	<b>6,620,552</b>

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 22 Bonds issued

	Issue date	Maturity date	Interest rate	As at 30 June 2010	As at 31 December 2009
<b>Subordinated bonds issued</b>					
2005 RMB Debt Securities					
First Tranche <sup>(1)</sup>	18 February 2005	4 March 2015	4.83%	–	15,930
Second Tranche (fixed rate)	18 February 2005	4 March 2020	5.18%	9,000	9,000
Second Tranche (floating rate) <sup>(1)</sup>	18 February 2005	4 March 2015	Floating interest rate	–	9,000
2009 RMB Debt Securities					
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
2010 RMB Debt Securities <sup>(2)</sup>					
	9 March 2010	11 March 2025	4.68%	24,930	–
2010 US Dollar Subordinated notes issued by BOCHK					
	11 February 2010	11 February 2020	5.55%	17,898	–
Subtotal				91,828	73,930
<b>Convertible bonds issued</b>					
2010 RMB Convertible Bond <sup>(3)</sup>					
	2 June 2010	2 June 2016	Step-up interest rate	35,704	–
<b>Other bonds issued</b>					
1994 US Dollar Debt Securities					
	10 March 1994	15 March 2014	8.25%	151	151
2007 RMB Debt Securities issued in Hong Kong					
Tranche B	28 September 2007	28 September 2010	3.35%	701	692
2008 RMB Debt Securities issued in Hong Kong					
Tranche A	22 September 2008	22 September 2010	3.25%	1,314	1,306
Tranche B	22 September 2008	22 September 2011	3.40%	722	719
Subtotal				2,888	2,868
Total bonds issued				130,420	76,798

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 22 Bonds issued (continued)

- (1) On 4 March 2010, the Bank exercised the option to early redeem at face value 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.
- (2) The Bank has the option to redeem all or part of the bonds at face value on 11 March 2020. If the Bank does not exercise this option, the annual coupon rate of the bonds for the third 5-year period shall be the original coupon rate plus 3%, and shall remain fixed until the maturity date.
- (3) Pursuant to approval by the relevant PRC authorities, on 2 June 2010, the Bank issued A-share convertible bonds with principal amount of RMB40 billion. The convertible bonds have a maturity of six years and bear a fixed interest rate of 0.5% for the first year, with an annual increase of 0.3% through the remaining term. The convertible bond holders may exercise their rights to convert the convertible bonds into the Bank's A shares at the stipulated conversion price immediately following the expiry of six months after the date of issuance of the convertible bonds until the maturity date. Within 5 trading days after maturity, the Bank shall redeem the outstanding convertible bonds at 106% of par value, including interest for the sixth year.

During the conversion period of the convertible bonds, if the closing price of the Bank's A Shares is not lower than or equal to 130% of the prevailing conversion price in at least 15 trading days out of any 30 consecutive trading days, the Bank has the right to redeem all or part of the outstanding convertible bonds based on par value plus accrued interest only once during each year, on the first day on which the redemption criteria is met during that year. Subject to the Board approval, the Bank also has the right to redeem all the convertible bonds at par value plus accrued interest should the total outstanding amount to less than RMB30 million.

During the term of the convertible bonds, if the closing price of the A Shares in any 15 trading days out of 30 consecutive trading days is lower than 80% of the prevailing conversion price of the convertible bonds, the Board may propose downward adjustments to the conversion price for the Shareholders' approval.

As at 30 June 2010, the carrying amounts of liability components and equity components of convertible bonds were RMB35,704 million and RMB4,148 million, respectively.

#### 23 Share option schemes

##### 23.1 Share appreciation rights plan

No share appreciation rights were granted since the inception of the plan.

##### 23.2 BOCHK (Holdings) share option scheme and sharesave plan

No options were granted by BOC Hong Kong (Holdings) Limited pursuant to the share option scheme or the sharesave plan during the period.

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 23 Share option schemes (continued)

##### 23.3 BOCHK (Holdings) pre-listing share option scheme

During the six month period ended 30 June 2010, no share options were exercised by the directors or key management of the Group (2009: 239,000). The number of share options granted to the directors and key management of the Group outstanding at 30 June 2010 and 31 December 2009 was 3,976,500.

#### 24 Deferred income taxes

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes are related to the same fiscal authority. The table below includes the deferred income tax assets and liabilities of the Group after offsetting qualifying amounts:

	As at 30 June 2010	As at 31 December 2009
Deferred income tax assets	22,559	23,518
Deferred income tax liabilities	(3,757)	(3,386)
Net	18,802	20,132

The movements of the deferred income tax asset and liability account are as follows:

	2010	2009
As at 1 January	20,132	13,974
(Charged)/credited to income statement of the period/year (Note III.8)	(419)	5,198
(Charged)/credited to equity	(922)	1,052
Acquisition of subsidiaries	(38)	–
Exchange differences	49	(92)
As at 30 June/31 December	18,802	20,132



### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 24 Deferred income taxes (continued)

Deferred income tax assets/(liabilities) and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

	As at 30 June 2010		As at 31 December 2009	
	Temporary difference	Deferred tax assets/(liabilities)	Temporary difference	Deferred tax assets/(liabilities)
<b>Deferred income tax assets</b>				
Asset impairment allowances	86,749	21,668	85,626	21,391
Fair value changes of financial instruments at fair value through profit or loss, and derivative financial instruments	13,264	3,317	9,406	2,351
Fair value changes of available for sale investment securities credited to equity	96	31	118	35
Pension and other benefit costs	4,184	1,046	4,493	1,123
Other temporary differences	10,751	2,637	13,822	3,374
Subtotal	115,044	28,699	113,465	28,274
<b>Deferred income tax liabilities</b>				
Fair value changes of financial instruments at fair value through profit or loss, and derivative financial instruments	(15,208)	(3,803)	(11,057)	(2,766)
Fair value changes of available for sale investment securities charged to equity	(7,828)	(1,819)	(3,736)	(901)
Depreciation of property and equipment	(5,323)	(1,180)	(7,433)	(1,204)
Revaluation of property and investment property	(13,866)	(2,448)	(14,262)	(2,300)
Other temporary differences	(5,154)	(647)	(6,369)	(971)
Subtotal	(47,379)	(9,897)	(42,857)	(8,142)
Net	67,665	18,802	70,608	20,132

As at 30 June 2010, deferred tax liabilities relating to temporary differences of RMB25,897 million associated with the Group's investments in subsidiaries have not been recognised (31 December 2009: RMB20,939 million).

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 24 Deferred income taxes (continued)

The deferred income tax credit in the condensed consolidated income statement comprises the following temporary differences:

	For the six month period ended 30 June	
	2010	2009
Asset impairment allowances	277	757
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	(71)	2,231
Pension and other benefit costs	(77)	(72)
Other temporary differences	(548)	1,725
<b>Total</b>	<b>(419)</b>	<b>4,641</b>

#### 25 Other liabilities

	As at 30 June 2010	As at 31 December 2009
	Interest payable	57,772
Items in the process of clearance and settlement	45,143	58,798
Insurance liabilities		
– Life insurance contract	30,578	29,416
– Non-life insurance contract	4,185	3,912
Salary and welfare payable	10,567	14,139
Provision	1,496	1,510
Other	34,123	30,594
<b>Total</b>	<b>183,864</b>	<b>187,924</b>

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 26 Reserve for fair value changes of available for sale securities

	2010	2009
As at 1 January	4,750	6,812
Net changes in fair value	5,588	(1,589)
Share of associates' reserve for fair value changes of available for sale securities	74	(185)
Net impairment charges transferred to income statement	(1,334)	(89)
Net fair value changes transferred to income statement on derecognition	(1,705)	(1,517)
Deferred income taxes	(846)	1,332
Other	578	(14)
As at 30 June/31 December	7,105	4,750

#### 27 Dividends

A dividend of RMB35,537 million in respect of 2009 profits was approved by the equity holders of the Bank at the Annual General Meeting held on 27 May 2010. The dividend was distributed on 22 June 2010.

#### 28 Contingent liabilities and commitments

##### 28.1 Legal proceedings

As at 30 June 2010, the Group was involved in certain lawsuits as defendants arising from its normal business operations. As at 30 June 2010, provisions of RMB669 million (31 December 2009: RMB672 million) were made based on court judgments or the advice of counsel. 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 operating results of the Group.

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 28 Contingent liabilities and commitments (continued)

##### 28.2 Assets pledged

Assets pledged as collateral for placement, repurchase, short positions and derivatives transactions with other banks and financial institutions and for local statutory requirements are set forth in the table below. These transactions are conducted under standard terms in the normal course of business.

	As at 30 June 2010	As at 31 December 2009
Debt securities	<b>83,533</b>	107,089
Precious metals	<b>13,870</b>	27,371
Total	<b>97,403</b>	134,460

##### 28.3 Collateral accepted

The Group accepts securities collateral and precious metals collateral that it is permitted to sell or re-pledge in connection with its placements and reverse repurchase agreements with banks and other financial institutions. As at 30 June 2010, the fair value of collateral received from banks and financial institutions accepted by the Group amounted to RMB33,867 million (31 December 2009: RMB17,131 million). As at 30 June 2010, the Group had an obligation to return securities collateral that it has sold or pledged with a fair value of RMB1,798 million (31 December 2009: Nil). These transactions are conducted under standard terms in the normal course of business.

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 28 Contingent liabilities and commitments (continued)

##### 28.4 Capital commitments

	As at 30 June 2010	As at 31 December 2009
Property and equipment		
– Contracted but not provided for	24,513	31,031
– Authorised but not contracted for	6,615	3,491
Intangible assets		
– Contracted but not provided for	395	334
– Authorised but not contracted for	15	1
<b>Total</b>	<b>31,538</b>	<b>34,857</b>

##### 28.5 Operating leases

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

	As at 30 June 2010	As at 31 December 2009
Within one year	2,845	2,903
One to two years	2,487	2,309
Two to three years	1,860	2,342
Above three years	4,426	4,651
<b>Total</b>	<b>11,618</b>	<b>12,205</b>

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 28 Contingent liabilities and commitments (continued)

##### 28.6 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 those bonds. The MOF will not provide funding for the early redemption of these Treasury bonds on a back-to-back basis but will pay interest and repay the principal at maturity. The redemption price is the principal value of the bonds plus unpaid interest in accordance with the early redemption arrangement.

As at 30 June 2010, the outstanding principal value of the Treasury bonds sold by the Bank amounted to RMB61,374 million (31 December 2009: RMB55,193 million). The original maturities of these bonds vary from 1 to 5 years and management expects the amount of redemption before the maturity dates of those bonds through the Bank will not be material.

##### 28.7 Credit commitments

	As at 30 June 2010	As at 31 December 2009
Loan commitments <sup>(1)</sup>		
with an original maturity of under one year	<b>221,785</b>	200,205
with an original maturity of one year or over	<b>520,496</b>	620,645
Letters of guarantee issued <sup>(2)</sup>	<b>598,643</b>	574,090
Bank bill acceptance	<b>339,625</b>	283,927
Letters of credit issued	<b>164,730</b>	147,726
Accepted bill of exchange under letter of credit	<b>74,648</b>	45,708
Other	<b>4,642</b>	3,098
<b>Total</b>	<b>1,924,569</b>	1,875,399

(1) Loan commitments mainly represent undrawn loans agreed and granted to customers.

(2) Letters of guarantee issued include financial guarantees and performance guarantees.

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 28 Contingent liabilities and commitments (continued)

##### 28.7 Credit commitments (continued)

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 30 June 2010	As at 31 December 2009
Credit commitments	<b>671,424</b>	664,183

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.

##### 28.8 Underwriting obligations

The unexpired underwriting obligations of securities are as follows:

	As at 30 June 2010	As at 31 December 2009
Underwriting obligations	<b>44,805</b>	45,502

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 29 Note to condensed consolidated statement of cash flows

For the purposes of the condensed consolidated statement of cash flows, cash and cash equivalents comprise the following balances with a maturity of less than three months:

	As at 30 June 2010	As at 30 June 2009
Cash and due from banks and other financial institutions	199,157	136,140
Balances with central banks	240,730	258,957
Placements with and loans to banks and other financial institutions	178,889	200,846
Short term bills and notes	75,097	194,082
Total	693,873	790,025

#### 30 Related party transactions

Related parties are those parties that have the ability to control, joint control 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, joint control or significant influence. Related parties may be individuals or other entities.

30.1 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 at commercial terms.



### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 30 Related party transactions (continued)

##### 30.2 Transactions with Huijin and companies under 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

	2010	2009
As at 1 January	10,107	44,668
Received during the period/year	37,703	33,938
Repaid during the period/year	(27,042)	(68,499)
As at 30 June/31 December	20,768	10,107

The Group entered into banking transactions with Huijin in the normal course of its business at commercial terms.

###### (3) Transactions with companies under Huijin

Companies under Huijin include its equity interests in subsidiaries, joint ventures and associates in certain other bank and non-bank entities in the PRC. The Group enters into banking transactions with these companies at commercial terms in the normal course of business which include mainly purchase and sale of debt securities and money market transactions.

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 30 Related party transactions (continued)

##### 30.3 Transactions with government authorities, agencies, affiliates and other state controlled entities

The State Council of the PRC Government directly and indirectly controls a significant number of entities through its government authorities, agencies, affiliates and other state controlled entities. The Group enters into extensive banking transactions with these entities in the normal course of business at commercial terms.

Transactions conducted with government authorities, agencies, affiliates and other state controlled entities include purchase and redemption of investment securities issued by government agencies, underwriting and distribution of treasury bonds issued by government agencies through the Group's branch network, foreign exchange and interest rate derivative transactions, lending, provision of credit and guarantees and deposit placing and taking.

##### 30.4 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 30 June 2010	As at 31 December 2009
Placements with and loans to banks and other financial institutions	194	1,328
Loans and advances to customers	474	580
Deposit	(7,626)	(9,526)

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 30 Related party transactions (continued)

##### 30.5 Transactions with the Annuity Plan

The deposit balance of the employee defined contribution plan (the "Annuity Plan") in the Bank is RMB1,477 million as at 30 June 2010 (31 December 2009: RMB2,484 million).

##### 30.6 Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and Executive officers.

The Group enters into banking transactions with key management personnel in the normal course of business. During the six month period ended 30 June 2010 and the year ended 31 December 2009, there were no material transactions and balances with key management personnel on an individual basis.

#### 31 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.

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 31 Segment information (continued)

##### Geographical segments

Chinese Mainland – Corporate banking, personal banking and treasury operations are performed in 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 centralized 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, lending, 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.

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 31 Segment information (continued)

As at and for the six month period ended 30 June 2010

	Hong Kong and Macau						Total
	Chinese Mainland	BOC Hong Kong Group	Other	Subtotal	Other overseas locations	Elimination	
Interest income	134,751	9,822	1,508	11,330	3,311	(1,367)	148,025
Interest expense	(53,896)	(1,685)	(698)	(2,383)	(1,249)	1,367	(56,161)
<b>Net interest income</b>	<b>80,855</b>	<b>8,137</b>	<b>810</b>	<b>8,947</b>	<b>2,062</b>	<b>-</b>	<b>91,864</b>
Fee and commission income	24,160	3,951	1,735	5,686	1,245	(586)	30,505
Fee and commission expense	(604)	(951)	(674)	(1,625)	(408)	438	(2,199)
<b>Net fee and commission income</b>	<b>23,556</b>	<b>3,000</b>	<b>1,061</b>	<b>4,061</b>	<b>837</b>	<b>(148)</b>	<b>28,306</b>
Net trading gains	414	229	319	548	228	-	1,190
Net gains on investment securities	296	355	1,156	1,511	21	-	1,828
Other operating income <sup>(1)</sup>	2,627	3,227	3,870	7,097	47	(80)	9,691
<b>Operating income</b>	<b>107,748</b>	<b>14,948</b>	<b>7,216</b>	<b>22,164</b>	<b>3,195</b>	<b>(228)</b>	<b>132,879</b>
Operating expenses <sup>(1)</sup>	(41,363)	(7,375)	(3,525)	(10,900)	(1,059)	228	(53,094)
Impairment losses on assets	(9,566)	141	(183)	(42)	(343)	-	(9,951)
<b>Operating profit</b>	<b>56,819</b>	<b>7,714</b>	<b>3,508</b>	<b>11,222</b>	<b>1,793</b>	<b>-</b>	<b>69,834</b>
Share of results of associates and joint ventures	-	(1)	454	453	-	-	453
<b>Profit before income tax</b>	<b>56,819</b>	<b>7,713</b>	<b>3,962</b>	<b>11,675</b>	<b>1,793</b>	<b>-</b>	<b>70,287</b>
Income tax expense	(13,770)	(1,252)	(323)	(1,575)	(567)	-	(15,912)
<b>Profit for the period</b>	<b>43,049</b>	<b>6,461</b>	<b>3,639</b>	<b>10,100</b>	<b>1,226</b>	<b>-</b>	<b>54,375</b>
Segment assets	8,116,297	1,122,777	291,420	1,414,197	505,850	(361,564)	9,674,780
Investment in associates and joint ventures	-	47	10,985	11,032	-	-	11,032
<b>Total assets</b>	<b>8,116,297</b>	<b>1,122,824</b>	<b>302,405</b>	<b>1,425,229</b>	<b>505,850</b>	<b>(361,564)</b>	<b>9,685,812</b>
Include: non-current assets <sup>(2)</sup>	67,331	19,710	52,440	72,150	5,107	(161)	144,427
Segment liabilities	7,693,497	1,038,226	258,537	1,296,763	489,640	(361,404)	9,118,496
Other segment items:							
Intersegment net interest income	225	13	(15)	(2)	(223)	-	-
Intersegment net fee and commission income	242	54	40	94	(188)	(148)	-
Capital expenditure	2,166	143	4,270	4,413	47	-	6,626
Depreciation and amortization	3,719	370	865	1,235	61	-	5,015
Credit commitments	1,620,144	276,335	27,375	303,710	121,877	(121,162)	1,924,569

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 31 Segment information (continued)

As at 31 December 2009 and for the six month period ended 30 June 2009

	Hong Kong and Macau						Total
	Chinese Mainland	BOC Hong Kong Group	Other	Subtotal	Other overseas locations	Elimination	
Interest income	114,035	10,185	1,420	11,605	3,842	(2,150)	127,332
Interest expense	(50,155)	(2,046)	(888)	(2,934)	(1,671)	2,150	(52,610)
<b>Net interest income</b>	<b>63,880</b>	<b>8,139</b>	<b>532</b>	<b>8,671</b>	<b>2,171</b>	<b>-</b>	<b>74,722</b>
Fee and commission income	19,508	3,441	1,304	4,745	776	(179)	24,850
Fee and commission expense	(463)	(827)	(606)	(1,433)	(99)	100	(1,895)
<b>Net fee and commission income</b>	<b>19,045</b>	<b>2,614</b>	<b>698</b>	<b>3,312</b>	<b>677</b>	<b>(79)</b>	<b>22,955</b>
Net trading gains/(losses)	1,850	(791)	567	(224)	103	-	1,729
Net gains on investment securities	901	60	531	591	40	-	1,532
Other operating income <sup>(1)</sup>	1,274	2,669	2,961	5,630	71	(71)	6,904
<b>Operating income</b>	<b>86,950</b>	<b>12,691</b>	<b>5,289</b>	<b>17,980</b>	<b>3,062</b>	<b>(150)</b>	<b>107,842</b>
Operating expenses <sup>(1)</sup>	(34,081)	(4,453)	(2,711)	(7,164)	(871)	150	(41,966)
Impairment losses on assets	(8,930)	(983)	(55)	(1,038)	(113)	-	(10,081)
<b>Operating profit</b>	<b>43,939</b>	<b>7,255</b>	<b>2,523</b>	<b>9,778</b>	<b>2,078</b>	<b>-</b>	<b>55,795</b>
Share of results of associates and joint ventures	-	-	258	258	-	-	258
<b>Profit before income tax</b>	<b>43,939</b>	<b>7,255</b>	<b>2,781</b>	<b>10,036</b>	<b>2,078</b>	<b>-</b>	<b>56,053</b>
Income tax expense	(10,969)	(1,180)	(264)	(1,444)	(406)	-	(12,819)
<b>Profit for the period</b>	<b>32,970</b>	<b>6,075</b>	<b>2,517</b>	<b>8,592</b>	<b>1,672</b>	<b>-</b>	<b>43,234</b>
Segment assets	7,364,064	1,056,048	263,288	1,319,336	426,799	(368,924)	8,741,275
Investment in associates and joint ventures	-	51	10,617	10,668	-	-	10,668
<b>Total assets</b>	<b>7,364,064</b>	<b>1,056,099</b>	<b>273,905</b>	<b>1,330,004</b>	<b>426,799</b>	<b>(368,924)</b>	<b>8,751,943</b>
Include: non-current assets <sup>(2)</sup>	68,872	19,751	49,811	69,562	5,224	(161)	143,497
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	1,196	(387)	40	(347)	(849)	-	-
Intersegment net fee and commission income	25	52	(53)	(1)	55	(79)	-
Capital expenditure	1,897	131	9,797	9,928	93	-	11,918
Depreciation and amortization	3,157	376	596	972	65	-	4,194
Credit commitments	1,565,265	243,367	28,634	272,001	111,848	(73,715)	1,875,399

(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.

(Amount in millions of Renminbi, unless otherwise stated)

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 31 Segment information (continued)

As at and for the six month period ended 30 June 2010

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	88,792	50,495	35,871	265	680	189	(28,267)	148,025
Interest expense	(29,981)	(22,668)	(31,227)	(53)	–	(499)	28,267	(56,161)
<b>Net interest income/(expense)</b>	<b>58,811</b>	<b>27,827</b>	<b>4,644</b>	<b>212</b>	<b>680</b>	<b>(310)</b>	<b>–</b>	<b>91,864</b>
Fee and commission income	17,772	9,470	2,023	1,213	1	302	(276)	30,505
Fee and commission expense	(720)	(735)	(142)	(329)	(471)	(30)	228	(2,199)
<b>Net fee and commission income</b>	<b>17,052</b>	<b>8,735</b>	<b>1,881</b>	<b>884</b>	<b>(470)</b>	<b>272</b>	<b>(48)</b>	<b>28,306</b>
Net trading gains/(losses)	260	226	66	177	502	(38)	(3)	1,190
Net gains on investment securities	10	3	554	–	92	1,169	–	1,828
Other operating income	89	2,151	169	41	4,070	3,940	(769)	9,691
<b>Operating income</b>	<b>76,222</b>	<b>38,942</b>	<b>7,314</b>	<b>1,314</b>	<b>4,874</b>	<b>5,033</b>	<b>(820)</b>	<b>132,879</b>
Operating expenses	(21,877)	(20,215)	(4,657)	(550)	(4,624)	(1,991)	820	(53,094)
Impairment losses on assets	(11,713)	322	1,389	–	(9)	60	–	(9,951)
<b>Operating profit</b>	<b>42,632</b>	<b>19,049</b>	<b>4,046</b>	<b>764</b>	<b>241</b>	<b>3,102</b>	<b>–</b>	<b>69,834</b>
Share of results of associates and joint ventures	–	–	–	226	–	227	–	453
<b>Profit before income tax</b>	<b>42,632</b>	<b>19,049</b>	<b>4,046</b>	<b>990</b>	<b>241</b>	<b>3,329</b>	<b>–</b>	<b>70,287</b>
Income tax expense								(15,912)
<b>Profit for the period</b>								<b>54,375</b>
Segment assets	4,466,506	1,387,971	3,646,996	34,775	42,466	173,224	(77,158)	9,674,780
Investment in associates and joint ventures	–	–	–	1,973	19	9,081	(41)	11,032
<b>Total assets</b>	<b>4,466,506</b>	<b>1,387,971</b>	<b>3,646,996</b>	<b>36,748</b>	<b>42,485</b>	<b>182,305</b>	<b>(77,199)</b>	<b>9,685,812</b>
Segment liabilities	4,879,452	3,493,635	660,949	31,501	37,615	92,340	(76,996)	9,118,496
Other segment items:								
Intersegment net interest income	4,990	23,034	(27,824)	6	16	(222)	–	–
Intersegment net fee and commission income	2	28	(1)	–	(201)	220	(48)	–
Capital expenditure	649	715	34	57	4	5,167	–	6,626
Depreciation and amortization	1,666	2,043	317	44	6	939	–	5,015

### III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

#### 31 Segment information (continued)

As at 31 December 2009 and for the six month period ended 30 June 2009

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	69,549	49,486	36,333	428	560	105	(29,129)	127,332
Interest expense	(22,515)	(27,213)	(31,258)	(247)	(24)	(482)	29,129	(52,610)
<b>Net interest income/(expense)</b>	<b>47,034</b>	<b>22,273</b>	<b>5,075</b>	<b>181</b>	<b>536</b>	<b>(377)</b>	<b>-</b>	<b>74,722</b>
Fee and commission income	15,061	7,021	1,759	1,032	1	184	(208)	24,850
Fee and commission expense	(581)	(668)	(42)	(315)	(431)	(28)	170	(1,895)
<b>Net fee and commission income</b>	<b>14,480</b>	<b>6,353</b>	<b>1,717</b>	<b>717</b>	<b>(430)</b>	<b>156</b>	<b>(38)</b>	<b>22,955</b>
Net trading gains/(losses)	172	223	2,296	375	(1,359)	22	-	1,729
Net gains on investment securities	19	4	978	-	3	528	-	1,532
Other operating income	147	951	35	34	3,302	3,148	(713)	6,904
<b>Operating income</b>	<b>61,852</b>	<b>29,804</b>	<b>10,101</b>	<b>1,307</b>	<b>2,052</b>	<b>3,477</b>	<b>(751)</b>	<b>107,842</b>
Operating expenses	(18,663)	(16,133)	(4,181)	(403)	(1,949)	(1,388)	751	(41,966)
Impairment losses on assets	(5,964)	(1,026)	(2,965)	-	(13)	(113)	-	(10,081)
<b>Operating profit</b>	<b>37,225</b>	<b>12,645</b>	<b>2,955</b>	<b>904</b>	<b>90</b>	<b>1,976</b>	<b>-</b>	<b>55,795</b>
Share of results of associates and joint ventures	-	-	-	298	(36)	(4)	-	258
<b>Profit before income tax</b>	<b>37,225</b>	<b>12,645</b>	<b>2,955</b>	<b>1,202</b>	<b>54</b>	<b>1,972</b>	<b>-</b>	<b>56,053</b>
Income tax expense								(12,819)
<b>Profit for the period</b>								<b>43,234</b>
Segment assets	3,994,300	1,208,265	3,377,731	38,321	40,232	173,842	(91,416)	8,741,275
Investment in associates and joint ventures	-	-	-	1,962	281	8,467	(42)	10,668
<b>Total assets</b>	<b>3,994,300</b>	<b>1,208,265</b>	<b>3,377,731</b>	<b>40,283</b>	<b>40,513</b>	<b>182,309</b>	<b>(91,458)</b>	<b>8,751,943</b>
Segment liabilities	4,318,184	3,192,090	628,337	34,486	35,754	88,953	(91,255)	8,206,549
Other segment items:								
Intersegment net interest income	2,207	27,878	(29,895)	(14)	14	(190)	-	-
Intersegment net fee and commission income	2	22	-	-	(153)	167	(38)	-
Capital expenditure	623	686	33	34	15	10,527	-	11,918
Depreciation and amortisation	1,513	1,702	293	36	1	649	-	4,194

#### 32 Events after the financial reporting date

On 20 August 2010, the Board's proposal to offer rights issues to all shareholders of the Bank in the proportion of up to 1.1 rights shares for every 10 existing A and H shares of the Bank was approved by way of resolution at the 2010 Second Extraordinary General meeting, the 2010 First A-Share Holders Class Meeting and the 2010 First H-Share Holders Class Meeting. This proposal is subject to the approval by the relevant PRC and Hong Kong authorities.



## IV FINANCIAL RISK MANAGEMENT

### 1 Credit risk

#### 1.1 Loans and advances

##### (1) Concentrations of risk for loans and advances to customers

The total loans and advances of the Group are set out below:

- (i) Analysis of loans and advances to customers by geographical area

#### Group

	As at 30 June 2010		As at 31 December 2009	
	Amount	% of total	Amount	% of total
Chinese Mainland	4,547,764	84.34%	4,165,713	84.84%
Hong Kong, Macau	611,748	11.35%	536,097	10.92%
Other Overseas Operations	232,367	4.31%	208,548	4.24%
Total loans and advances to customers	5,391,879	100.00%	4,910,358	100.00%

#### Chinese Mainland

	As at 30 June 2010		As at 31 December 2009	
	Amount	% of total	Amount	% of total
Northern China	762,096	16.76%	709,698	17.03%
Northeastern China	308,147	6.78%	279,162	6.70%
Eastern China	1,851,163	40.70%	1,673,645	40.18%
Central and Southern China	1,148,588	25.26%	1,065,836	25.59%
Western China	477,770	10.50%	437,372	10.50%
Total loans and advances to customers	4,547,764	100.00%	4,165,713	100.00%

## IV FINANCIAL RISK MANAGEMENT (continued)

### 1 Credit risk (continued)

#### 1.1 Loans and advances (continued)

##### (1) Concentrations of risk for loans and advances to customers (continued)

##### (ii) Analysis of loans and advances to customers by customer type

#### Group

	As at 30 June 2010				As at 31 December 2009			
	Chinese Mainland	Hong Kong, Macau	Other overseas operations	Total	Chinese Mainland	Hong Kong, Macau	Other overseas operations	Total
Corporate loans								
– Trade bills	594,590	63,285	58,921	716,796	611,260	36,767	39,974	688,001
– Other	2,830,317	374,715	168,799	3,373,831	2,574,988	335,813	164,074	3,074,875
Personal loans	1,122,857	173,748	4,647	1,301,252	979,465	163,517	4,500	1,147,482
Total loans and advances to customers	4,547,764	611,748	232,367	5,391,879	4,165,713	536,097	208,548	4,910,358

## IV FINANCIAL RISK MANAGEMENT (continued)

### 1 Credit risk (continued)

#### 1.1 Loans and advances (continued)

##### (1) Concentrations of risk for loans and advances to customers (continued)

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

#### Group

	As at 30 June 2010		As at 31 December 2009	
	Amount	% of total	Amount	% of total
<b>Corporate loans and advances</b>				
Manufacturing	1,135,976	21.07%	1,059,185	21.57%
Commerce and services	773,460	14.35%	725,227	14.77%
Transportation and logistics	525,158	9.74%	489,527	9.97%
Real estate	425,051	7.88%	366,630	7.47%
Production and supply of electronic power, gas and water	368,170	6.83%	353,284	7.19%
Water, environment and public utility management	263,468	4.89%	251,154	5.11%
Mining	229,750	4.26%	197,414	4.02%
Financial services	120,276	2.23%	111,515	2.27%
Public utilities	96,425	1.79%	84,329	1.72%
Construction	72,739	1.35%	60,558	1.23%
Other	80,154	1.49%	64,053	1.31%
Subtotal	4,090,627	75.88%	3,762,876	76.63%
<b>Personal loans</b>				
Mortgages	1,016,620	18.85%	907,912	18.49%
Credit cards	43,898	0.81%	31,336	0.64%
Other	240,734	4.46%	208,234	4.24%
Subtotal	1,301,252	24.12%	1,147,482	23.37%
Total loans and advances to customers	5,391,879	100.00%	4,910,358	100.00%

## IV FINANCIAL RISK MANAGEMENT (continued)

### 1 Credit risk (continued)

#### 1.1 Loans and advances (continued)

##### (1) Concentrations of risk for loans and advances to customers (continued)

##### (iii) Analysis of loans and advances to customers by industry (continued)

#### Chinese Mainland

	As at 30 June 2010		As at 31 December 2009	
	Amount	% of total	Amount	% of total
<b>Corporate loans and advances</b>				
Manufacturing	1,052,301	23.14%	996,856	23.92%
Commerce and services	609,733	13.41%	598,411	14.37%
Transportation and logistics	448,058	9.85%	416,844	10.01%
Real estate	288,910	6.35%	241,824	5.81%
Production and supply of electronic power, gas and water	352,650	7.75%	339,938	8.16%
Water, environment and public utility management	263,457	5.79%	250,235	6.01%
Mining	142,714	3.14%	113,885	2.73%
Financial services	95,997	2.11%	86,449	2.08%
Public utilities	92,984	2.05%	81,606	1.96%
Construction	59,216	1.30%	49,704	1.19%
Other	18,887	0.42%	10,496	0.25%
Subtotal	3,424,907	75.31%	3,186,248	76.49%
<b>Personal loans</b>				
Mortgages	865,001	19.02%	764,362	18.35%
Credit cards	37,371	0.82%	24,702	0.59%
Other	220,485	4.85%	190,401	4.57%
Subtotal	1,122,857	24.69%	979,465	23.51%
Total loans and advances to customers	4,547,764	100.00%	4,165,713	100.00%

## IV FINANCIAL RISK MANAGEMENT (continued)

### 1 Credit risk (continued)

#### 1.1 Loans and advances (continued)

##### (1) Concentrations of risk for loans and advances to customers (continued)

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

#### Group

	As at 30 June 2010		As at 31 December 2009	
	Amount	% of total	Amount	% of total
Unsecured loans	1,533,414	28.44%	1,431,414	29.15%
Guaranteed loans	1,325,923	24.59%	1,186,715	24.17%
Collateralised and other secured loans				
– Loans secured by property and other immovable assets	1,766,912	32.77%	1,596,514	32.51%
– Other pledged loans	765,630	14.20%	695,715	14.17%
Total loans and advances to customers	5,391,879	100.00%	4,910,358	100.00%

#### Chinese Mainland

	As at 30 June 2010		As at 31 December 2009	
	Amount	% of total	Amount	% of total
Unsecured loans	1,222,068	26.87%	1,152,167	27.66%
Guaranteed loans	1,153,908	25.37%	1,048,895	25.18%
Collateralised and other secured loans				
– Loans secured by property and other immovable assets	1,522,072	33.47%	1,361,253	32.68%
– Other pledged loans	649,716	14.29%	603,398	14.48%
Total loans and advances to customers	4,547,764	100.00%	4,165,713	100.00%

## IV FINANCIAL RISK MANAGEMENT (continued)

### 1 Credit risk (continued)

#### 1.1 Loans and advances (continued)

##### (2) Analysis of impaired loans and advances to customers

##### (i) Impaired loans and advances by geographical area

#### Group

	As at 30 June 2010			As at 31 December 2009		
	Impaired loans	% of total	Impaired loan ratio	Impaired loans	% of total	Impaired loan ratio
Chinese Mainland	64,486	97.42%	1.42%	73,680	96.94%	1.77%
Hong Kong and Macau	1,177	1.78%	0.19%	1,561	2.05%	0.29%
Other Overseas Operations	529	0.80%	0.23%	765	1.01%	0.37%
<b>Total</b>	<b>66,192</b>	<b>100.00%</b>	<b>1.23%</b>	<b>76,006</b>	<b>100.00%</b>	<b>1.55%</b>

#### Chinese Mainland

	As at 30 June 2010			As at 31 December 2009		
	Impaired loans	% of total	Impaired loan ratio	Impaired loans	% of total	Impaired loan ratio
Northern China	13,907	21.56%	1.82%	16,636	22.58%	2.34%
Northeastern China	5,745	8.91%	1.86%	6,352	8.62%	2.28%
Eastern China	16,773	26.01%	0.91%	18,708	25.39%	1.12%
Central and Southern China	20,847	32.33%	1.82%	22,462	30.49%	2.11%
Western China	7,214	11.19%	1.51%	9,522	12.92%	2.18%
<b>Total</b>	<b>64,486</b>	<b>100.00%</b>	<b>1.42%</b>	<b>73,680</b>	<b>100.00%</b>	<b>1.77%</b>

## IV FINANCIAL RISK MANAGEMENT (continued)

### 1 Credit risk (continued)

#### 1.1 Loans and advances (continued)

##### (2) Analysis of impaired loans and advances to customers (continued)

##### (ii) Impaired loans and advances by customer type

#### Group

	As at 30 June 2010			As at 31 December 2009		
	Impaired loans	% of total	Impaired loan ratio	Impaired loans	% of total	Impaired loan ratio
Corporate loans and advances	57,089	86.25%	1.40%	65,822	86.60%	1.75%
Personal loans	9,103	13.75%	0.70%	10,184	13.40%	0.89%
Total	66,192	100.00%	1.23%	76,006	100.00%	1.55%

#### Chinese Mainland

	As at 30 June 2010			As at 31 December 2009		
	Impaired loans	% of total	Impaired loan ratio	Impaired loans	% of total	Impaired loan ratio
Corporate loans and advances	55,484	86.04%	1.62%	63,626	86.35%	2.00%
Personal loans	9,002	13.96%	0.80%	10,054	13.65%	1.03%
Total	64,486	100.00%	1.42%	73,680	100.00%	1.77%

## IV FINANCIAL RISK MANAGEMENT (continued)

### 1 Credit risk (continued)

#### 1.1 Loans and advances (continued)

##### (2) Analysis of impaired loans and advances to customers (continued)

##### (iii) Impaired loans and advances by geography and industry

	As at 30 June 2010			As at 31 December 2009		
	Impaired loans	% of total	Impaired loan ratio	Impaired loans	% of total	Impaired loan ratio
<b>Chinese Mainland</b>						
Corporate loans and advances						
Manufacturing	24,160	36.50%	2.30%	26,163	34.42%	2.62%
Commerce and services	10,527	15.90%	1.73%	13,530	17.80%	2.26%
Transportation and logistics	10,489	15.85%	2.34%	11,957	15.73%	2.87%
Real estate	2,278	3.44%	0.79%	3,591	4.72%	1.48%
Production and supply of electronic power, gas and water	4,100	6.19%	1.16%	4,712	6.20%	1.39%
Water, environment and public utility management	1,019	1.54%	0.39%	844	1.11%	0.34%
Mining	220	0.33%	0.15%	276	0.36%	0.24%
Financial services	3	0.01%	0.00%	23	0.03%	0.03%
Public utilities	1,631	2.46%	1.75%	1,773	2.33%	2.17%
Construction	783	1.18%	1.32%	443	0.58%	0.89%
Other	274	0.41%	1.45%	314	0.43%	2.99%
Subtotal	55,484	83.81%	1.62%	63,626	83.71%	2.00%
Personal loans						
Mortgage loans	4,189	6.33%	0.48%	4,824	6.35%	0.63%
Credit cards	1,033	1.57%	2.76%	801	1.05%	3.24%
Other	3,780	5.71%	1.71%	4,429	5.83%	2.33%
Subtotal	9,002	13.61%	0.80%	10,054	13.23%	1.03%
Total for Chinese Mainland	64,486	97.42%	1.42%	73,680	96.94%	1.77%
<b>Overseas Operations</b>	1,706	2.58%	0.20%	2,326	3.06%	0.31%
Total	66,192	100.00%	1.23%	76,006	100.00%	1.55%



## IV FINANCIAL RISK MANAGEMENT (continued)

### 1 Credit risk (continued)

#### 1.1 Loans and advances (continued)

##### (2) Analysis of impaired loans and advances to customers (continued)

##### (iv) Impaired loans and advances and related allowance by geographical area

	As at 30 June 2010			Net
	Impaired loans	Individually assessed allowance	Collectively assessed allowance	
Chinese Mainland	64,486	(37,053)	(9,344)	18,089
Hong Kong and Macau	1,177	(764)	(47)	366
Other overseas operations	529	(131)	(30)	368
<b>Total</b>	<b>66,192</b>	<b>(37,948)</b>	<b>(9,421)</b>	<b>18,823</b>

	As at 31 December 2009			Net
	Impaired loans	Individually assessed allowance	Collectively assessed allowance	
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
<b>Total</b>	<b>76,006</b>	<b>(42,415)</b>	<b>(10,407)</b>	<b>23,184</b>

For description of allowances on identified impaired loans and advances, refer to Note III 15.3 (2).

##### (3) Loans and advances rescheduled

Rescheduling (referring to loans and other assets that have been restructured and renegotiated) is a voluntary or, to a limited extent, court-supervised procedure, through which the Group and a borrower and/or its guarantor, if any, rescheduled credit terms as a result of deterioration in the borrower's financial condition or of the borrower's inability to make payments when due. The Group reschedules a non-performing loan only if the borrower has good prospects. In addition, prior to approving the rescheduling of loans, the Group typically requires additional guarantees, pledges and/or collateral, or the assumption of the loan by a borrower with better repayment ability.

## IV FINANCIAL RISK MANAGEMENT (continued)

### 1 Credit risk (continued)

#### 1.1 Loans and advances (continued)

##### (3) Loans and advances rescheduled (continued)

All rescheduled loans are 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.

As at 30 June 2010 and 31 December 2009, within impaired loans and advances, rescheduled loans and advances that were overdue for 90 days or less were insignificant.

##### (4) Overdue loans and advances to customers

Analysis of overdue loans and advances by geographical area

	As at 30 June 2010	As at 31 December 2009
Chinese Mainland	65,684	72,081
Hong Kong and Macau	4,519	4,978
Other Overseas Operations	1,685	212
Total	71,888	77,271
Less: total loans and advances to customers which have been overdue for less than 3 months	(30,324)	(28,328)
Total loans and advances to customers which have been overdue for more than 3 months	41,564	48,943
Individually assessed impairment allowance – for loans and advances to customers which have been overdue for more than 3 months	(26,922)	(29,406)

## IV FINANCIAL RISK MANAGEMENT (continued)

### 1 Credit risk (continued)

#### 1.2 Debt securities

The table below represents an analysis of the carrying value of debt securities by credit rating and credit risk characteristic.

	As at 30 June 2010					
	Unrated	AAA	AA	A	Lower than A	Total
Chinese Mainland issuers						
– Government	857,155	–	–	4,329	–	861,484
– Public sector and quasi-governments	14,162	–	–	–	–	14,162
– Policy banks	246,939	–	–	7,937	–	254,876
– Financial institutions	35,880	–	–	1,152	1,565	38,597
– Corporate	139,348	–	–	553	531	140,432
– China Orient	160,000	–	–	–	–	160,000
Subtotal	1,453,484	–	–	13,971	2,096	1,469,551
Overseas issuers						
– Governments	113,578	11,962	10,543	5,334	231	141,648
– Public sector and quasi-governments <sup>(2)</sup>	18,483	31,770	10,280	1,622	12	62,167
– Financial institutions	25,706	81,197	65,959	47,925	8,246	229,033
– Corporate	2,711	6,189	4,254	13,600	14,345	41,099
Subtotal <sup>(1)</sup>	160,478	131,118	91,036	68,481	22,834	473,947
Total <sup>(3)</sup>	1,613,962	131,118	91,036	82,452	24,930	1,943,498

(1) Included mortgage backed securities as follows:

	As at 30 June 2010					
	Unrated	AAA	AA	A	Lower than A	Total
US subprime mortgage related debt securities	50	1,755	2,220	787	7,955	12,767
US Alt-A mortgage-backed securities	–	265	246	337	3,394	4,242
US Non-Agency mortgage-backed securities	–	820	593	552	6,084	8,049
Total	50	2,840	3,059	1,676	17,433	25,058

## IV FINANCIAL RISK MANAGEMENT (continued)

### 1 Credit risk (continued)

#### 1.2 Debt securities (continued)

The table below represents an analysis of the carrying value of debt securities by credit rating and risk characteristic.

	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 <sup>(2)</sup>	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 <sup>(1)</sup>	176,260	124,595	94,463	63,603	25,840	484,761
Total <sup>(3)</sup>	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

## IV FINANCIAL RISK MANAGEMENT (continued)

### 1 Credit risk (continued)

#### 1.2 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 held are individually assessed for impairment. The Group's accumulated impairment charges on available for sale and held to maturity debt securities at 30 June 2010 amounted to RMB21,255 million and RMB475 million, respectively (31 December 2009: RMB24,326 million and RMB534 million). The carrying value of the available for sale and held to maturity debt securities considered impaired as at 30 June 2010 were RMB22,730 million and RMB1,613 million, respectively (31 December 2009: RMB24,568 million and RMB1,899 million).

#### 1.3 Repossessed assets

The Group obtained assets by taking possession of collateral held as security. Detailed information of such repossessed assets of the Group is disclosed in Note III.19 (1).

#### 1.4 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 credit risk weighted amounts of derivative financial instruments are as follow:

	As at 30 June 2010	As at 31 December 2009
<b>Credit risk weighted amounts</b>		
Exchange rate derivatives		
Currency forwards and swaps, and cross-currency interest rate swaps	<b>17,068</b>	11,461
Currency options	<b>25</b>	11
Interest rate derivatives		
Interest rate swaps	<b>5,014</b>	4,575
Interest rate options	<b>1</b>	–
Interest rate futures	<b>5</b>	2
Equity derivatives	<b>30</b>	45
Commodity derivatives	<b>650</b>	489
Credit derivatives	<b>1</b>	32
	<b>22,794</b>	16,615

The credit risk weighted amounts stated above have not taken into account any effects of netting arrangements.

---

---

---

---

---

---

---

---

## IV FINANCIAL RISK MANAGEMENT (continued)

### 2 Market Risk

#### 2.1 Market risk measurement techniques and limits

##### (1) *Trading book*

Market risk in trading book is managed by monitoring the total level of Value at Risk (VaR), stress testing, exposures limit and the utilisation of limits for each trading desk and dealer on a daily basis.

VaR is used to estimate the largest potential loss arising from adverse market movements in a specific holding period and within a certain confidence level.

VaR is performed separately by the Bank and its major subsidiaries that are exposed to market risk, BOC Hong Kong (Holdings) Limited (“BOCHK”) and BOC International Holdings Limited (“BOCI”). The Bank, BOCHK and BOCI used a 99% level of confidence (therefore 1% statistical probability that actual losses could be greater than the VaR estimate) and a historical simulation model to calculate the VaR estimate. The holding period of the VaR calculations is one day.

Accuracy and reliability of the VaR model is verified by daily back-testing the VaR result on trading book. The back-testing results are regularly reported to senior management.

As a supplement to VaR, 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.

## IV FINANCIAL RISK MANAGEMENT (continued)

### 2 Market Risk (continued)

#### 2.1 Market risk measurement techniques and limits (continued)

##### (1) Trading book (continued)

The table below shows the VaR of the trading book by types of risk:

Unit: USD million

	For the six month period ended 30 June					
	2010			2009		
	Average	High	Low	Average	High	Low
<b>Bank trading VaR</b>						
Interest rate risk	5.00	9.88	2.19	5.18	9.22	1.59
Foreign exchange risk	1.09	2.78	0.23	0.81	5.27	0.20
Volatility risk	0.12	0.61	0.01	0.45	2.82	0.03
<b>Total Bank trading VaR</b>	<b>4.74</b>	<b>10.29</b>	<b>1.87</b>	5.28	9.51	1.68

The Bank's VaR for the six month periods ended 30 June 2010 and 30 June 2009 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.

## IV FINANCIAL RISK MANAGEMENT (continued)

### 2 Market Risk (continued)

#### 2.1 Market risk measurement techniques and limits (continued)

##### (1) Trading book (continued)

	For the six month period ended 30 June					
	2010			2009		
	Average	High	Low	Average	High	Low
<b>BOCHK trading VaR</b>						
Interest rate risk	1.12	1.75	0.65	0.43	0.69	0.28
Foreign exchange risk	0.67	1.44	0.30	1.61	2.04	1.18
Equity risk	0.04	0.22	0.00	0.04	0.32	0.01
Commodity risk	0.00	0.02	0.00	0.00	0.01	0.00
<b>Total BOCHK trading VaR</b>	<b>1.35</b>	<b>2.01</b>	<b>0.89</b>	1.59	2.11	1.16
<b>BOCI trading VaR<sup>(i)</sup></b>						
Equity derivatives unit	1.28	1.92	0.88	1.65	2.74	0.89
Fixed income unit	0.85	1.38	0.51	1.87	2.46	1.17

- (i) 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 VaR does not add up to the total Group VaR due to the diversification effect as a result of correlation amongst the risk factors.

##### (2) Banking book

The banking book is exposed to interest rate risk arising from mismatches in maturities, repricing periods and inconsistent adjustments between the benchmark interest rates of assets and liabilities. The Group manages interest rate risk in the banking book primarily through interest rate repricing gap analysis. The interest rate gap analysis is set out in Note IV.2.2 and covers both the banking and trading books.



## IV FINANCIAL RISK MANAGEMENT (continued)

### 2 Market Risk (continued)

#### 2.2 GAP analysis

The table below summarises the Group's exposure to interest rate risks. It includes the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	As at 30 June 2010						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non- interest bearing	Total
<b>Assets</b>							
Cash and due from banks and other financial institutions	116,204	114,471	276,898	50	-	44,016	551,639
Balances with central banks	1,185,656	260	60,000	-	-	42,524	1,288,440
Placements with and loans to banks and other financial institutions	145,654	27,268	39,339	3,302	-	-	215,563
Government certificates of indebtedness for bank notes issued	-	-	-	-	-	39,047	39,047
Precious metals	-	-	-	-	-	66,476	66,476
Financial assets at fair value through profit or loss	12,378	21,134	5,629	20,782	14,913	6,957	81,793
Derivative financial assets	-	-	-	-	-	35,313	35,313
Loans and advances to customers, net	1,057,965	998,997	3,124,752	32,168	25,445	30,834	5,270,161
Investment securities							
– available for sale	50,571	61,779	139,503	221,910	107,130	16,127	597,020
– held to maturity	85,704	69,407	332,175	266,344	164,658	-	918,288
– loans and receivables	16,071	88,735	27,348	27,640	209,760	-	369,554
Investment in associates and joint ventures	-	-	-	-	-	11,032	11,032
Property and equipment	-	-	-	-	-	111,569	111,569
Investment property	-	-	-	-	-	15,877	15,877
Deferred income tax assets	-	-	-	-	-	22,559	22,559
Other assets	371	-	-	-	-	91,110	91,481
<b>Total assets</b>	<b>2,670,574</b>	<b>1,382,051</b>	<b>4,005,644</b>	<b>572,196</b>	<b>521,906</b>	<b>533,441</b>	<b>9,685,812</b>

## IV FINANCIAL RISK MANAGEMENT (continued)

### 2 Market Risk (continued)

#### 2.2 GAP analysis (continued)

	As at 30 June 2010						Total
	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	
<b>Liabilities</b>							
Due to banks and other financial institutions	657,534	81,227	209,775	153,659	47,000	10,195	1,159,390
Due to central banks	27,507	8,508	34,052	-	-	8	70,075
Bank notes in circulation	-	-	-	-	-	39,072	39,072
Placements from banks and other financial institutions	123,969	41,427	11,335	-	-	323	177,054
Financial liabilities at fair value through profit or loss	20,389	16,695	10,832	104	1,798	2,418	52,236
Derivative financial liabilities	-	-	-	-	-	29,923	29,923
Due to customers	4,283,279	715,565	1,800,500	359,864	1,085	59,041	7,219,334
Bonds issued	2,000	2,015	-	23,873	102,532	-	130,420
Other borrowings	2,513	5,305	10,835	7,031	5,897	2,624	34,205
Current tax liabilities	-	-	-	-	-	12,571	12,571
Retirement benefit obligations	-	-	-	-	-	6,595	6,595
Deferred income tax liabilities	-	-	-	-	-	3,757	3,757
Other liabilities	4,246	-	-	-	-	179,618	183,864
<b>Total liabilities</b>	<b>5,121,437</b>	<b>870,742</b>	<b>2,077,329</b>	<b>544,531</b>	<b>158,312</b>	<b>346,145</b>	<b>9,118,496</b>
<b>Total interest repricing gap</b>	<b>(2,450,863)</b>	<b>511,309</b>	<b>1,928,315</b>	<b>27,665</b>	<b>363,594</b>	<b>187,296</b>	<b>567,316</b>

## IV FINANCIAL RISK MANAGEMENT (continued)

### 2 Market Risk (continued)

#### 2.2 GAP analysis (continued)

	As at 31 December 2009						Total
	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	
<b>Assets</b>							
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	–	–	–	–	–	109,954	109,954
Investment property	–	–	–	–	–	15,952	15,952
Deferred income tax assets	–	–	–	–	–	23,518	23,518
Other assets	161	–	–	–	–	84,189	84,350
<b>Total assets</b>	<b>2,557,459</b>	<b>1,244,642</b>	<b>3,454,822</b>	<b>690,569</b>	<b>297,794</b>	<b>506,657</b>	<b>8,751,943</b>

## IV FINANCIAL RISK MANAGEMENT (continued)

### 2 Market Risk (continued)

#### 2.2 GAP analysis (continued)

	As at 31 December 2009						Total
	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	
<b>Liabilities</b>							
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
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
<b>Total liabilities</b>	<b>4,681,245</b>	<b>747,322</b>	<b>1,834,562</b>	<b>443,054</b>	<b>104,061</b>	<b>396,305</b>	<b>8,206,549</b>
<b>Total interest repricing gap</b>	<b>(2,123,786)</b>	<b>497,320</b>	<b>1,620,260</b>	<b>247,515</b>	<b>193,733</b>	<b>110,352</b>	<b>545,394</b>

## IV FINANCIAL RISK MANAGEMENT (continued)

### 2 Market Risk (continued)

#### 2.3 Foreign currency risk

The table below summarises the Group's exposure to foreign currency exchange rate risk as at 30 June 2010 and 31 December 2009. The Group'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 along with off-balance sheet positions and credit commitments in RMB equivalent, categorised by the original currency. Derivative financial instruments are included in net off-balance sheet position using notional amounts.

	As at 30 June 2010							Total
	RMB	USD	HKD	EURO	JPY	GBP	Other	
<b>Assets</b>								
Cash and due from banks and other financial institutions	507,506	19,484	7,128	8,435	3,003	634	5,449	551,639
Balances with central banks	1,216,248	34,002	3,473	20,626	6,703	-	7,388	1,288,440
Placements with and loans to banks and other financial institutions	129,552	47,733	13,715	3,597	42	12,035	8,889	215,563
Government certificates of indebtedness for bank notes issued	-	-	36,597	-	-	-	2,450	39,047
Precious metals	-	-	2,110	-	-	-	64,366	66,476
Financial assets at fair value through profit or loss	9,862	21,222	49,609	913	-	-	187	81,793
Derivative financial assets	1,840	12,985	13,672	2,245	448	2,739	1,384	35,313
Loans and advances to customers, net	3,805,202	901,406	428,920	42,316	25,360	4,022	62,935	5,270,161
Investment securities								
– available for sale	262,455	209,597	42,092	30,845	4,967	1,576	45,488	597,020
– held to maturity	809,558	67,751	24,744	5,660	2,546	32	7,997	918,288
– loans and receivables	356,467	7,710	2,493	-	-	-	2,884	369,554
Investment in associates and joint ventures	4,033	1,560	5,418	-	-	-	21	11,032
Property and equipment	54,423	41,952	11,259	143	1,225	1,363	1,204	111,569
Investment property	4,715	-	9,597	-	-	-	1,565	15,877
Deferred income tax assets	22,100	216	155	-	-	-	88	22,559
Other assets	56,574	12,145	18,338	1,237	563	932	1,692	91,481
<b>Total assets</b>	<b>7,240,535</b>	<b>1,377,763</b>	<b>669,320</b>	<b>116,017</b>	<b>44,857</b>	<b>23,333</b>	<b>213,987</b>	<b>9,685,812</b>

## IV FINANCIAL RISK MANAGEMENT (continued)

### 2 Market Risk (continued)

#### 2.3 Foreign currency risk (continued)

	As at 30 June 2010							Total
	RMB	USD	HKD	EURO	JPY	GBP	Other	
<b>Liabilities</b>								
Due to banks and other financial institutions	840,030	221,304	11,028	10,066	4,870	1,766	70,326	1,159,390
Due to central banks	381	60,157	7,707	1,820	-	-	10	70,075
Bank notes in circulation	-	-	36,597	-	-	-	2,475	39,072
Placements from banks and other financial institutions	17,000	126,691	6,234	18,860	327	5,016	2,926	177,054
Financial liabilities at fair value through profit or loss	12,901	7,961	25,768	1,729	-	143	3,734	52,236
Derivative financial liabilities	448	13,609	9,939	2,700	50	2,281	896	29,923
Due to customers	5,893,668	460,378	601,222	87,052	14,869	32,807	129,338	7,219,334
Bonds issued	112,371	18,049	-	-	-	-	-	130,420
Other borrowings	-	23,297	-	7,405	2,114	75	1,314	34,205
Current tax liabilities	8,460	204	2,902	92	-	357	556	12,571
Retirement benefit obligations	6,595	-	-	-	-	-	-	6,595
Deferred income tax liabilities	477	688	2,462	10	-	8	112	3,757
Other liabilities	97,048	33,546	44,740	3,442	1,011	1,537	2,540	183,864
<b>Total liabilities</b>	<b>6,989,379</b>	<b>965,884</b>	<b>748,599</b>	<b>133,176</b>	<b>23,241</b>	<b>43,990</b>	<b>214,227</b>	<b>9,118,496</b>
Net on-balance sheet position	251,156	411,879	(79,279)	(17,159)	21,616	(20,657)	(240)	567,316
Net off-balance sheet position	206,255	(372,329)	150,956	18,244	(18,468)	21,713	3,872	10,243
Credit commitments	1,026,314	572,964	201,521	76,160	12,365	9,452	25,793	1,924,569

## Notes to the Condensed Consolidated Interim Financial Information

(Amount in millions of Renminbi, unless otherwise stated)

### IV FINANCIAL RISK MANAGEMENT (continued)

#### 2 Market Risk (continued)

##### 2.3 Foreign currency risk (continued)

	As at 31 December 2009							Total
	RMB	USD	HKD	EURO	JPY	GBP	Other	
<b>Assets</b>								
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	55,787	38,909	11,183	171	1,182	1,449	1,273	109,954
Investment property	4,692	–	9,687	–	–	–	1,573	15,952
Deferred income tax assets	23,102	206	152	1	–	1	56	23,518
Other assets	58,952	10,358	11,093	1,193	338	734	1,682	84,350
<b>Total assets</b>	<b>6,341,049</b>	<b>1,330,987</b>	<b>679,000</b>	<b>126,359</b>	<b>53,978</b>	<b>16,845</b>	<b>203,725</b>	<b>8,751,943</b>

## IV FINANCIAL RISK MANAGEMENT (continued)

### 2 Market Risk (continued)

#### 2.3 Foreign currency risk (continued)

	As at 31 December 2009							Total
	RMB	USD	HKD	EURO	JPY	GBP	Other	
<b>Liabilities</b>								
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
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
<b>Total liabilities</b>	<b>6,192,026</b>	<b>918,179</b>	<b>731,220</b>	<b>104,089</b>	<b>25,145</b>	<b>40,453</b>	<b>195,437</b>	<b>8,206,549</b>
Net on-balance sheet position	149,023	412,808	(52,220)	22,270	28,833	(23,608)	8,288	545,394
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

#### 2.4 Price risk

The Group is exposed to equity risk on its available for sale listed equity securities. As at 30 June 2010, a 5 per cent variance in listed equity prices from the 30 June 2010 price would impact the fair value of available for sale listed equity positions by RMB316 million (31 December 2009: RMB321 million). For those available for sale equities considered impaired, the impact would be taken to the income statement.



## Notes to the Condensed Consolidated Interim Financial Information

(Amount in millions of Renminbi, unless otherwise stated)

### IV FINANCIAL RISK MANAGEMENT (continued)

#### 3 Liquidity risk

The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at financial reporting date to the contractual maturity date.

	As at 30 June 2010							Total
	Overdue	On Demand	Less than 1 month	Between 1-3 months	Between 3-12 months	Between 1-5 years	Over 5 years	
<b>Assets</b>								
Cash and due from banks and other financial institutions	-	53,308	101,813	115,471	220,997	60,050	-	551,639
Balances with central banks	-	230,949	997,231	260	60,000	-	-	1,288,440
Placements with and loans to banks and other financial institutions	-	-	144,978	27,554	39,499	3,532	-	215,563
Government certificates of indebtedness for bank notes issued	-	39,047	-	-	-	-	-	39,047
Precious metals	-	66,476	-	-	-	-	-	66,476
Financial assets at fair value through profit or loss	-	2,200	11,040	17,764	6,045	23,895	20,849	81,793
Derivative financial assets	-	12,257	2,467	3,475	8,855	4,007	4,252	35,313
Loans and advances to customers, net	12,770	54,221	239,183	486,426	1,330,214	1,496,304	1,651,043	5,270,161
Investment securities								
– available for sale	-	-	21,504	22,868	122,855	291,840	137,953	597,020
– held to maturity	-	-	60,397	38,694	312,922	306,206	200,069	918,288
– loans and receivables	-	-	16,069	88,735	27,349	27,641	209,760	369,554
Investment in associates and joint ventures	-	-	-	-	-	4,583	6,449	11,032
Property and equipment	-	-	-	-	-	-	111,569	111,569
Investment property	-	-	-	-	-	-	15,877	15,877
Deferred income tax assets	-	-	-	-	15	22,544	-	22,559
Other assets	264	6,873	21,494	11,410	20,888	8,394	22,158	91,481
<b>Total assets</b>	<b>13,034</b>	<b>465,331</b>	<b>1,616,176</b>	<b>812,657</b>	<b>2,149,639</b>	<b>2,248,996</b>	<b>2,379,979</b>	<b>9,685,812</b>
<b>Liabilities</b>								
Due to banks and other financial institutions	-	540,722	120,977	57,227	170,955	194,509	75,000	1,159,390
Due to central banks	-	21,244	4,621	10,158	34,052	-	-	70,075
Bank notes in circulation	-	39,072	-	-	-	-	-	39,072
Placements from banks and other financial institutions	-	-	120,981	42,135	13,938	-	-	177,054
Financial liabilities at fair value through profit or loss	-	-	20,574	17,093	11,185	1,586	1,798	52,236
Derivative financial liabilities	-	8,106	2,096	2,499	6,804	6,223	4,195	29,923
Due to customers	-	3,418,003	946,557	772,530	1,695,390	341,507	45,347	7,219,334
Bonds issued	-	-	-	2,015	-	873	127,532	130,420
Other borrowings	-	-	574	384	3,182	13,951	16,114	34,205
Current tax liabilities	-	-	105	5	12,461	-	-	12,571
Retirement benefit obligations	-	-	76	150	677	2,716	2,976	6,595
Deferred income tax liabilities	-	-	-	-	103	3,654	-	3,757
Other liabilities	-	58,991	24,102	16,053	43,123	30,385	11,210	183,864
<b>Total liabilities</b>	<b>-</b>	<b>4,086,138</b>	<b>1,240,663</b>	<b>920,249</b>	<b>1,991,870</b>	<b>595,404</b>	<b>284,172</b>	<b>9,118,496</b>
<b>Net Liquidity Gap</b>	<b>13,034</b>	<b>(3,620,807)</b>	<b>375,513</b>	<b>(107,592)</b>	<b>157,769</b>	<b>1,653,592</b>	<b>2,095,807</b>	<b>567,316</b>

## IV FINANCIAL RISK MANAGEMENT (continued)

### 3 Liquidity risk (continued)

	As at 31 December 2009							Total
	Overdue	On demand	Less than 1 month	Between 1-3 months	Between 3-12 months	Between 1-5 years	Over 5 years	
<b>Assets</b>								
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	-	-	-	-	-	-	109,954	109,954
Investment property	-	-	-	-	-	-	15,952	15,952
Deferred income tax assets	-	-	-	-	12	23,506	-	23,518
Other assets	124	12,335	15,594	14,125	19,815	4,656	17,701	84,350
<b>Total assets</b>	<b>14,912</b>	<b>474,705</b>	<b>1,346,739</b>	<b>675,238</b>	<b>2,063,971</b>	<b>2,233,089</b>	<b>1,943,289</b>	<b>8,751,943</b>
<b>Liabilities</b>								
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
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
<b>Total liabilities</b>	<b>-</b>	<b>3,832,517</b>	<b>1,039,136</b>	<b>745,282</b>	<b>1,931,212</b>	<b>488,551</b>	<b>169,851</b>	<b>8,206,549</b>
<b>Net Liquidity Gap</b>	<b>14,912</b>	<b>(3,357,812)</b>	<b>307,603</b>	<b>(70,044)</b>	<b>132,759</b>	<b>1,744,538</b>	<b>1,773,438</b>	<b>545,394</b>

## IV FINANCIAL RISK MANAGEMENT (continued)

### 4 Capital management

The tables below summarise the capital adequacy ratios and the composition of regulatory capital of the Group as at 30 June 2010 and 31 December 2009. The Group complied with the externally imposed capital requirements to which it is subject.

	As at 30 June 2010	As at 31 December 2009
Capital adequacy ratio	11.73%	11.14%
Core capital adequacy ratio	9.33%	9.07%

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").

	As at 30 June 2010	As at 31 December 2009
<b>Components of capital base</b>		
Core capital:		
Share capital	253,779	253,796
Reserves <sup>(1)</sup>	267,693	218,813
Non-controlling interests	30,932	30,402
Total core capital	552,404	503,011
Supplementary capital:		
Collective impairment allowances	53,919	60,128
Long-term subordinated bonds issued	73,930	73,930
Convertible bonds issued (Note III.22)	39,776	–
Other <sup>(1)</sup>	7,266	5,587
Total supplementary capital	174,891	139,645
Total capital base before deductions	727,295	642,656
Deductions:		
Goodwill	(1,899)	(1,929)
Investments in entities engaged in banking and financial activities which are not consolidated	(9,188)	(9,260)
Investment properties	(15,877)	(15,952)
Investments in commercial corporations	(16,956)	(16,021)
Other deductible items <sup>(2)</sup>	(25,681)	(24,470)
Total capital base after deductions	657,694	575,024
Core capital base after deductions <sup>(3)</sup>	522,967	468,231
Risk-weighted assets and market risk capital adjustment	5,606,587	5,163,848

---

## IV FINANCIAL RISK MANAGEMENT (continued)

### 4 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 certain other deductions were applied in deriving the core capital base.

# Appendix

(Amount in millions of Renminbi, unless otherwise stated)

## APPENDIX I UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

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 30 June 2010	As at 31 December 2009
RMB current assets to RMB current liabilities	<b>42.68%</b>	45.31%
Foreign currency current assets to foreign currency current liabilities	<b>56.49%</b>	55.58%

The liquidity ratios are calculated in accordance with the relevant provisions of PBOC and CBRC. Financial data as at 30 June 2010 and 31 December 2009 is based on the Chinese Accounting Standards 2006.

### 2 Currency concentrations

The following information is computed in accordance with the provisions of CBRC.

	Equivalent in millions of Renminbi			
	USD	HKD	Other	Total
<b>As at 30 June 2010</b>				
Spot assets	1,017,292	35,239	158,531	1,211,062
Spot liabilities	(622,471)	(187,485)	(193,975)	(1,003,931)
Forward purchases	1,033,089	333,047	294,054	1,660,190
Forward sales	(1,410,052)	(180,351)	(269,051)	(1,859,454)
Net options position*	208	9	(220)	(3)
Net long/(short) position	<b>18,066</b>	<b>459</b>	<b>(10,661)</b>	<b>7,864</b>
Net structural position	<b>9,832</b>	<b>83,572</b>	<b>17,685</b>	<b>111,089</b>
<b>As at 31 December 2009</b>				
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

\* The net option position is calculated using the delta equivalent approach as set out in the requirements of the CBRC.

## APPENDIX I UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (continued)

### 3 Cross-border claims

The Group is principally engaged in business operations within Chinese Mainland, and regards all claims on third parties outside Chinese Mainland as cross-border claims.

Cross-border claims include balances with central banks, placements with and loans to banks and other financial institutions, government certificates of indebtedness for bank notes issued, financial assets at fair value through profit or loss, loans and advances to customers and investment securities.

Cross-border claims have been disclosed by country or geographical areas. 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
<b>As at 30 June 2010</b>				
Asia Pacific excluding Chinese Mainland				
Hong Kong	20,097	9,299	518,012	547,408
Other Asia Pacific locations	72,823	15,563	138,363	226,749
Subtotal	92,920	24,862	656,375	774,157
North and South America	49,217	76,181	123,941	249,339
Europe	144,038	18,877	50,763	213,678
Middle East and Africa	3,080	–	13,984	17,064
Total	289,255	119,920	845,063	1,254,238

	Banks and other financial institutions	Public sector entities	Other	Total
<b>As at 31 December 2009</b>				
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

## Appendix

(Amount in millions of Renminbi, unless otherwise stated)

### APPENDIX I UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (continued)

#### 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 30 June 2010	As at 31 December 2009
Total loans and advances to customers which have been overdue for		
below 3 months	30,324	28,328
between 3 and 6 months	2,769	3,193
between 6 and 12 months	3,905	7,659
over 12 months	34,890	38,091
<b>Total</b>	<b>71,888</b>	77,271
Percentage		
below 3 months	0.56%	0.57%
between 3 and 6 months	0.05%	0.07%
between 6 and 12 months	0.07%	0.16%
over 12 months	0.65%	0.77%
<b>Total</b>	<b>1.33%</b>	1.57%

(2) Total amount of overdue placements with and loans to banks and other financial institutions

The total amount of overdue placements with and loans to banks and other financial institutions as at 30 June 2010 and 31 December 2009 is not considered material.

#### 5 Subsidiaries

There have been no significant acquisitions or disposals of subsidiaries during the six month period ended 30 June 2010. Please refer to 2009 annual report for the related information for the year ended 31 December 2009.

### APPENDIX II SUPPLEMENTARY INFORMATION – RECONCILIATION OF DIFFERENCES BETWEEN CAS AND IFRS FINANCIAL INFORMATION

There are no differences in the Group's operating results for the six month periods ended 30 June 2010 and 30 June 2009 or total equity as at 30 June 2010 and as at 31 December 2009 presented in the Group's condensed consolidated interim financial information prepared under IFRS and those prepared under Chinese Accounting Standards.

# Definitions

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

the Bank/the Group	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
BOC Aviation	BOC Aviation Private Limited
BOCG Insurance	Bank of China Group Insurance Company Limited
BOCG Investment	Bank of China Group Investment 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 (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.
Central and Southern China	The area including, for the purpose of this report, the branches of Henan, Hubei, Hunan, Guangdong, Shenzhen, Guangxi and Hainan
CBRC	China Banking Regulatory Commission
Convertible bonds	Corporate bonds that are vested for conversion to the A-Share stock of the Bank
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
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
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
RMB	Renminbi, the lawful currency of the PRC
SFO	Securities and Futures Ordinance of the laws of HKSAR
SHIBOR	Shanghai Inter-bank Offered Rate
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. Return on average total assets = profit for the period  $\div$  average total assets. Average total assets = (total assets at the beginning of reporting period + total assets at the end of reporting period)  $\div$  2, annualised.
3. Return on average equity = profit attributable to the equity holders of the Bank  $\div$  average owner's equity. Average owner's equity = (owner's equity, excluding minority interest, at the beginning of reporting period + owner's equity, excluding minority interest, at the end of reporting period)  $\div$  2, annualised.
4. Net interest margin = net interest income  $\div$  average balance of interest-earning assets, annualised. Average balance is average daily balance derived from the Bank's management accounts (unreviewed).
5. Non-interest income to operating income = non-interest income  $\div$  operating income
6. Cost to income ratio (calculated under domestic regulations) is calculated according to the *Interim Measures of the Performance Evaluation of State-owned and State Holding Financial Enterprises* (Cai Jin [2009] No.3).
7. Credit cost = impairment losses on loans  $\div$  average balance of loans. Average balance of loans = (balance of loans at the beginning of reporting period + balance of loans at the end of reporting period)  $\div$  2, annualised.
8. 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.
9. Net assets per share = capital and reserves attributable to the equity holders of the Bank at the end of reporting period  $\div$  number of ordinary shares in issue at the end of reporting period
10. Identified impaired loans to total loans = identified impaired loans at the end of reporting period  $\div$  total loans at the end of reporting period
11. Non-performing loans to total loans = non-performing loans at the end of reporting period  $\div$  total loans at the end of reporting period. It is calculated according to the *Guidelines on the Corporate Governance and Supervision of State-owned Commercial Banks* (Y.J.F [2006] No.22).
12. Allowance for loan impairment losses to non-performing loans = allowance for loan impairment losses at the end of reporting period  $\div$  non-performing loans at the end of reporting period. It is calculated according to the *Guidelines on the Corporate Governance and Supervision of State-owned Commercial Banks* (Y.J.F [2006] No.22).

The report is printed on FSC certified paper and is fully recyclable. The FSC logo identifies products which contain wood from well-managed forests and other controlled sources certified in accordance with the rules of the Forest Stewardship Council.





**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

Post code: 100818

Tel: (86) 10-6659 6688 Fax: (86) 10-6601 6871

<http://www.boc.cn>