中国农业银行
AGRICULTURAL BANK OF CHINA

Agricultural Bank of China Limited

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

Stock Code: 1288

2010 Interim Report




Contents

Basic Corporate Information	2
Financial Highlights	4
Major Financial Data	4
Financial Indicators	4
Regulatory Indicators	5
Message from the Chairman	6
Message from the President	8
Management's Discussion and Analysis	10
Economic and Financial Environment	10
Financial Statements Analysis	12
Business Review	32
County Area Banking Business	41
Risk Management	45
Capital Management	57
Outlook	60
Details of Changes in Share Capital and Shareholding of Substantial Shareholders	61
Directors, Supervisors, Senior Management, Employees and Institutions	63
Significant Events	64
Definitions	68
Appendix 1: Auditor's Report and Financial Statements	
Appendix 2: Unaudited Supplementary Financial Information	

Basic Corporate Information

Legal name in Chinese and abbreviation	中國農業銀行股份有限公司 中國農業銀行
Legal name in English and abbreviation	AGRICULTURAL BANK OF CHINA LIMITED AGRICULTURAL BANK OF CHINA (ABC)
Legal representative	XIANG Junbo
Authorized representative	ZHANG Yun LI Zhenjiang
Board Secretary and Company Secretary	LI Zhenjiang Address: No. 69, Jianguomen Nei Avenue, Dongcheng District, Beijing, 100005, PRC Tel: 86-10-85109619 Fax: 86-10-85108557 E-mail: ir@abchina.com
Registered office address	No. 69 Jianguomen Nei Avenue, Dongcheng District, Beijing, 100005, PRC
Internet website	www.abchina.com
Principal place of business in Hong Kong	23/F, Tower I, Admiralty Center, No. 18 Harcourt Road, Hong Kong
Selected newspaper for information disclosure	China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily, and Financial News
Website of Shanghai Stock Exchange publishing the interim report (A share)	www.sse.com.cn
Website of The Stock Exchange of Hong Kong Limited publishing the interim report (H share)	www.hkex.com.hk
Location where copies of this interim report are kept	Office of the Board of Directors, Agricultural Bank of China Limited

Listing exchange of A shares	Shanghai Stock Exchange
Stock name	農業銀行
Stock code	601288
Share registrar	China Securities Depository and Clearing Corporation Limited, Shanghai Branch (Address: 36/F, China Insurance Building, No. 166 Lujiazui Dong Road, Pudong New Area, Shanghai, PRC)
Listing exchange of H shares	The Stock Exchange of Hong Kong Limited
Stock name	ABC
Stock code	1288
Share registrar	Computershare Hong Kong Investor Services Limited (Room 1712–1716, 17 Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong)
Date of registration modification and registration authority	29 April 2010 State Administration for Industry and Commerce, PRC
Corporate business license registration No.	100000000005472
Organization code	10000547-4
Financial license registration No.	B0002H111000001
Tax registration certificate No.	Jing Shui Zheng Zi 110108100005474
Name and address of domestic legal advisor	King & Wood PRC Lawyers 40/F, Office Tower A, Beijing Fortune Plaza, 7 East 3rd Ring Middle Road, Chaoyang District, Beijing
Name and address of Hong Kong legal advisor	Freshfields Bruckhaus Deringer 11/F, Two Exchange Square, Central, Hong Kong
Name and address of domestic auditor	Deloitte Touche Tohmatsu CPA Ltd 30/F, No. 222, Yan An East Road, Shanghai
Name and address of international auditor	Deloitte Touche Tohmatsu 35/F, One Pacific Place, 88 Queensway, Hong Kong

Financial Highlights

Financial data and indicators recorded in this Interim Report are prepared in accordance with International Financial Reporting Standards ("IFRSs") and denominated in Renminbi (RMB), unless otherwise stated.

The consolidated financial information of our Bank for the six months ended 30 June 2010 is as follows:

Major Financial Data

	30 June 2010	31 December 2009	31 December 2008
ASSETS AND LIABILITIES (in millions of RMB)			
Total assets	9,695,967	8,882,588	7,014,351
Loans and advances to customers, net	4,478,230	4,011,495	3,014,984
Investment securities and other financial assets, net	2,597,857	2,616,672	2,309,077
Total liabilities	9,341,550	8,539,663	6,723,810
Deposits from customers	8,348,820	7,497,618	6,097,428
Equity attributable to equity holders of the parent company	354,263	342,819	290,445

	Six months ended 30 June 2010	Six months ended 30 June 2009	Year ended 31 December 2009
PROFIT AND LOSS (in millions of RMB)			
Net interest income	111,708	83,896	181,639
Net fee and commission income	22,459	17,017	35,640
Operating expenses	58,468	44,146	109,567
Provisions for impairment losses	19,623	17,545	40,142
Net profit	45,863	32,720	65,002
Net profit attributable to equity holders of the Bank	45,840	32,714	64,992

Financial Indicators

	Six months ended 30 June 2010	Six months ended 30 June 2009	Year ended 31 December 2009
PROFITABILITY (%)			
Return on average total assets[1]	0.99*	0.84*	0.82
Return on weighted average net assets[2]	25.10*	21.60*	20.53
Net interest margin[3]	2.47*	2.21*	2.28
Net interest spread[4]	2.41*	2.13*	2.20
Ratio of net fee and commission income to operating income	16.50	16.29	15.94
Cost-to-income ratio[5]	37.45	36.46	43.37
DATA PER SHARE (RMB)			
Basic earnings per share[2]	0.17	0.13	0.25

	30 June 2010	31 December 2009	31 December 2008
ASSET QUALITY (%)			
Non-performing loan ("NPL") ratio[6]	2.32	2.91	4.32
Allowance to NPLs[7]	136.11	105.37	63.53
Allowance to total loans[8]	3.15	3.06	2.75
CAPITAL ADEQUACY (%)			
Core capital adequacy ratio[9]	6.72	7.74	8.04
Capital adequacy ratio[9]	8.31	10.07	9.41
Total equity to total assets ratio	3.66	3.86	4.14
Risk-weighted assets to total assets ratio	53.34	49.23	48.42
DATA PER SHARE (RMB)			
Net assets per share attributable to equity holders of the Bank	1.31	1.32	1.12

Notes:
1. *Calculated by dividing net profit by the average amount of total assets at the beginning and end of the period.*
2. *Calculated in accordance with the "Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No. 9 — Computation and Disclosure of Return on Net Assets and Earnings per Share" (Revision in 2010) issued by CSRC.*
3. *Calculated by dividing net interest income by average balance of interest-earning assets.*
4. *Calculated as the difference between the average yield on interest-earning assets and average cost on interest-bearing liabilities.*
5. *Calculated by dividing operating expenses (excluding business tax and surcharges) by operating income.*
6. *Calculated by dividing the balance of NPLs by total amount of loans and advances to customers.*
7. *Calculated by dividing allowance for impairment losses on loans and advances to customers by total balance of NPLs.*
8. *Calculated by dividing allowance for impairment losses on loans and advances to customers by total amount of loans and advances to customers.*
9. *Calculated in accordance with the relevant regulations of CBRC.*

* *indicates the annualised data.*

Regulatory Indicators

		Regulatory Standard	30 June 2010	31 December 2009	31 December 2008
Liquidity ratio (%)[1]	RMB	≥25	40.77	40.99	44.79
	Foreign Currency	≥25	185.37	122.54	205.54
Loan-to-deposit ratio (%)[2]	RMB and Foreign Currency	≤75	55.38	55.19	50.84
Percentage of loans to the largest single customer[3] (%)		≤10	4.02	4.41	6.04
Percentage of loans to top ten customers[4] (%)			24.12	22.47	33.96
Loan migration ratio[5]	Normal		1.63	5.00	12.67
	Special mention		1.99	6.51	14.46
	Substandard		12.77	39.33	55.58
	Doubtful		2.74	5.83	15.93

Notes:
1. *Calculated by dividing current assets by current liabilities in accordance with the relevant regulations of CBRC.*
2. *Calculated by dividing balance of loans and advances to customers by balance of deposits.*
3. *Calculated by dividing loans to the single largest customer by net capital base.*
4. *Calculated by dividing loans to top ten customers by net capital base.*
5. *Calculated in accordance with the relevant provisions of CBRC and are domestic data.*

Message from the Chairman

Completing our joint-stock reform and our initial public offering is a critical part of our ongoing efforts in becoming an internationally leading commercial bank. We formally embarked on our IPO project on April 15, 2010, and successfully completed our IPO in Shanghai and Hong Kong on 15 July and 16 July, respectively. Despite the challenging market condition, we were successful in executing our plan, and our IPO has become the world's largest ever in terms of the amount of total proceeds. Our successful IPO evidences investors' confidence in the strengths of our business, including our unique market positioning in both China's urban and rural areas, nationwide distribution channels and banking network, vast and diversified customer base and our continuously improving risk control system and leading IT platform.

In the first half of 2010, with a focus on enhancing corporate value, we continued to advance our system and mechanism reform, improved our corporate governance system, expedite our business transformation and reinforce our County Area Banking Business. During this period, we achieved remarkable improvement in our operating results and experienced the continued optimization of our various risk indicators. For the first six months of 2010, we achieved a net profit of RMB45,863 million, representing an increase of 40.2% over the same period in 2009; our return on average total assets and return on weighted average net assets reached 0.99% and 25.1%, up 0.15% and 3.50%, over the same period in 2009. As of June 30, 2010, the balance of our NPLs decreased by RMB13,155 million from the end of 2009, our NPL ratio dropped by 0.59% to 2.32%, and allowance to NPLs increased by 30.74% to 136.11%.

We have continued to improve upon our corporate governance through benchmarking to sound corporate governance practices. We amended or formulated a series of corporate governance documents, including our Articles of Association, Internal Audit Charter, Basic Regulations on Internal Control and Guidelines on Related-Party Transactions Management, which as a whole further clarified and standardized our governance procedures. We also expedited our process development, optimized our operation and management organizational framework and core processes, and continued to build a process-based operational framework and platform featuring timely response and efficient operation. We have been preparing for the implementation of the New Basel Capital Accord, improved our risk governance environment, optimized our risk management policies and regulations, conducted compliance inspection and risk identification and prevention on an organization-wide basis, and further enhanced our risk control and management ability.

Focusing on optimizing our operating structure and strengthening our comprehensive competitiveness, we accelerated the implementation of our development strategies and the transformation of our business operations. We actively implemented China's macro-control policies, appropriately controlled the pace of our credit extension, and devoted special efforts in optimizing our customer structure, product structure, industry structure and the structure of our geographical footprint. We have strengthened our market and customer segmentation, intensified efforts on product and service innovation and marketing, and facilitated the coordinated growth of our assets and liabilities and fee-based businesses. We implemented the strategy of prioritizing the development of key urban branches, broke down the traditional tier-based branch management mode by reforming our authorization and credit system, resource allocation mode and performance review mechanism, improved the front office-centered marketing support system, and further enhanced the operational vitality and profitability of our urban branches.

We continued to promote the reform of our County Area banking division and further solidify our leading position in the County Area financial market. We formulated medium- and long-term development plans for our County Area Banking Business and further improved the organizational framework, accounting system and operational mechanism of our County Area banking division. We accelerated the reform of our county-level sub-branches, decentralized their operations, innovated our service modes, improved our evaluation mechanism and enhanced our ability in serving customers in the County Areas and strengthened our market competitiveness. We continued to widen the coverage of our Huinong Cards, proactively participating in emerging business areas such as new rural cooperative medical insurance and new rural pension insurance schemes, vigorously expand in County Area corporate banking market, actively develop high-quality retail customers in the County Areas, and foster new business and sources of profit growth. As of 30 June 2010, loans of our County Area Banking Business amounted to RMB1,407,079 million, up 17.9% from the end of 2009. During the same period, the loan growth rate of our County Area Banking Business was 6.2% higher than the average loan growth rate of our Bank. Furthermore, we achieved a pre-tax profit of RMB14,519 million in the first half of 2010, which represented an increase of 81.9% over the same period in 2009.

Our successful IPO also marked the accomplishment of our three-year development target as well as the completion of our historical transformation from a state-owned commercial bank to a joint-stock commercial bank, and then to a listed bank owned by the investment public. These achievements are attributable to the long-term support from the general public and our loyal customers as well as the painstaking efforts and selfless contributions of our employees. On behalf of the Board of Directors of ABC, I would like to express our most heartfelt gratitude to them.

In our next step, with a view towards becoming a leading listed commercial bank, we are committed to achieving our next "leap-forward" from our groundbreaking IPO and striving to become a modern commercial bank with strong value creation capabilities and outstanding public image through developing our unique competitive edges and an outstanding talent team, strengthening our corporate governance and enhancing our risk control ability.

項俊波

Chairman: XIANG Junbo
27 August 2010

Message from the President

In the first half of 2010, the Management earnestly implemented China's macro-control policies, actively enforced the resolutions of the General Meeting of Shareholders and the strategic decisions of the Board of Directors, and firmly pushed forward various reforms and development measures. Thanks to these efforts, we achieved outstanding operating results and exceeded our major business and operation targets.

We further improved our development mechanism. In the first half of the year, while steadily advancing our IPO plan, we continued to press ahead with our internal reform and mechanism development and formulated a series of comprehensive reform measures. Specifically, we steadily implemented the pilot reform program in our County Area banking division and gradually established our County Area credit system. We formulated and issued the evaluation measures for our 50 key urban branches and 110 key county-level sub-branches and prioritized the development of these key urban branches and key county-level sub-branches. We gradually implemented comprehensive human resources reform. We also continuously furthered our treasury and finance reform, launched a new accounting and reporting system, and achieved a remarkable improvement in the quality of financial and accounting information. In addition, we have achieved a significant progress in building back office centers and established a preliminary bank-wide centralized processing platform.

We further solidified our development momentum. In the first half of 2010, our deposits increased by RMB851,202 million or 11.4% over the end of 2009. Through the active implementation of China's macro-control policies, we achieved steady loan growth, with an increase of RMB485,796 million or an increase of 11.7% in gross loans over the end of 2009. Net fee and commission income reached RMB22,459 million, representing an increase of RMB5,442 million or 32% over the same period in 2009. Net profit increased by RMB13,143 million or 40.2% from the same period in 2009 to RMB45,863 million.

We further highlighted our development characteristics. In line with our unique market positioning, we continued to sharpen our competitive edge in both the urban and rural markets. In the first half of 2010, the effect of giving priority to the development of our key urban branches was further brought into play. The deposits and loans of our 50 key urban branches increased rapidly, representing on a combined basis a continuously expanding share of our overall business growth. Our County Area Banking Business continued to develop. The growth rate of loans of County Area Banking Business was 6.2% higher than the average growth rate of our total loans. In the first half of 2010, we issued a total of 13.34 million Huinong Cards. We actively explored into the emerging rural cooperative medical insurance and new rural pension insurance scheme business, and continue to tap into other emerging financial service areas in the County Areas. Among the first batch of state-designated 320 pilot county-level branches for the new rural pension insurance scheme, 117 county-level sub-branches of our Bank were selected; among the pilot county-level branches for the new rural pension insurance scheme designated by provincial governments, 89 county-level sub-branches of our Bank were selected.

We further optimized our development structure. In the first half of 2010, we performed a comprehensive review of the three-tier core customer list of our Head Office and branches. Our customer mix and business structure kept improving, and the proportion of high-quality customers among all of our customers continued to increase. Retail loans rose by RMB231,074 million from the end of 2009, 17.6% higher than the growth rate of our total loans. Our private banking department started trial operation, and we became the second licensed private banking operation institution in China. The number of our electronic banking customers exceeded 100 million, and the number of our ATM terminals reached 47,000. Transactions through various electronic channels accounted for 53.9% of our total transactions, representing a 4.1% increase compared to the year 2009. With the operation of our Chengdu and Shanghai customer service centers, our integrated customer service center system has taken shape. Our investment structure continued to improve, and we achieved high market ranking in terms of the total amount of debt financing instruments we underwrote.

We further improved our development quality. In the first half of 2010, we carried out credit inspection, assessed the risks arising from government financing vehicles, real estate and retail loans, launched compliance culture improvement activities on a large scale, and organized compliance inspections to mitigate potential risks in a timely manner. The balance and ratio of our NPLs continued to decline, and allowance to NPLs reached 136.11%; loans recovered upon maturity accounted for 99.27% of our total loans; we reduced the loans to customers categorized as with potential risks by RMB16 billion. Moreover, we actively supported the earthquake relief and post-disaster reconstruction in Yushu, Qinghai and the drought relief in five Southwestern provinces. We also achieved remarkable results through providing financial services to Shanghai 2010 Expo, through which we further enhanced our public image.

In the first half of 2010, we achieved significant results in our operational management, laying the groundwork for our IPO. On 15 and 16 July, we successfully completed the initial public offering of A shares and H shares, respectively, opening a new chapter for our reform and development history. Looking forward, we will continue to promote internal reform, enhance comprehensive risk management, expedite transformation of our development modes, continuously improve our operating results and strive towards becoming a leading listed major commercial bank.

President: ZHANG Yun
27 August 2010

Economic and Financial Environment

In the first half of 2010, major developed economies gradually walked out of the recession and the world economy witnessed signs of recovery. According to the IMF, the world economy is expected to grow by 4.6% this year, compared with -0.6% in 2009 and 3% in 2008. With the economic recovery outlook becoming clearer, discontinuing the economic stimulus policy that was pursued in response to the financial crisis has been placed on the agenda of the government and the central bank of each country. However, the European sovereign debt crisis has posed certain adverse impact on the world's economic recovery, as evidenced by a slowdown in the economic recovery of the US. Now, each government is striving to seek a balance between financial prudence, inflation management and economic recovery by taking economic reform measures such as tightening fiscal budget and strengthening financial supervision. Recently, the US Congress adopted a new financial reform act, which sets forth more stringent regulatory requirements on derivative trading, consumer financial services and management of the capital and liquidity of financial institutions, and may play an exemplary role in the international financial regulatory reform.

The European sovereign debt crisis led to an influx of risk-averse funds into the US. At the end of June, the USD index closed at 86.05, an increase of 10.4% over the end of 2009, and US dollar appreciated by 16.6% against Euro. The interest rates on major financial markets went up slightly, with a 0.28 percentage point increase in the three-month LIBOR to 0.5339%. Driven by risk hedging demands, the yields of treasury bonds of major economies first went up and then down, and at the end of June that of 10-year treasury bonds once dropped to the lowest level since April 2009. At the end of June 2010, MSCI closed at 268.25, a decrease of 10.4% over the end of 2009; the total market capitalization of global stock market was USD41.49 trillion, down 9.7% over the end of 2009.

In the first half of 2010, the Chinese government continued to pursue a proactive fiscal policy and moderately loose monetary policy that was launched last year. Meanwhile, with a focus on tightening control over the real estate market, improving local financing vehicle management and imposing restrictions on and eliminating outdated production capacity, the government has further improved macro-economic control policy to promote economic restructuring and development transformation. In the first half of 2010, China's nominal GDP reached RMB17,284 billion, representing an increase of 11.1% compared to the same period of 2009. Due to the macro-economic control policies and base effect, GDP growth rate decreased by 0.8 percentage point in the second quarter from the previous quarter. In the first half of 2010, compared to the same period of 2009, total investments in fixed assets stood at RMB11.4 trillion, up 25%, 0.5 percentage point down from the growth rate of previous year; total retail sales of consumer goods totalled RMB7.3 trillion, up 18.2%, 2.7 percentage points higher than the growth rate of previous year; foreign trade rebound strongly in the first half of 2010, with a growth of 35.2% and 52.7% in exports and imports, respectively, and a decline of 42.5% in trade surplus. CPI and PPI increased by 2.6% and 6.0%, respectively, in the first half of this year.

In order to control the market liquidity within a reasonable band, the PBOC raised the mandatory deposit reserve ratio of financial institutions for three times, each by 0.5 percentage point, in the first half of 2010, increasing the ratio for large financial institutions to 17%, a relatively high level. On June 19, the PBOC announced a plan to resume RMB exchange rate system reform. At the end of June, the median exchange rate of RMB to USD was 6.7909 to 1, representing an appreciation of 0.55% over the beginning of the year.

During the first half of 2010, the PRC financial market was stable as a whole, and market interest rates increased from the previous year. As at the end of June, broad money supply (M2) reached RMB56.89 trillion, an increase of 18.5% over the end of 2009 but down 9.2 percentage points from the end of 2009; narrow money supply (M1) stood at RMB24.06 trillion, an increase of 24.6% over the end of 2009 but down 7.8 percentage points from the end of 2009. RMB deposits and RMB loans increased by RMB7.6 trillion and RMB4.6 trillion, respectively, in the first half of 2010, representing decreases of RMB2.4 trillion and RMB2.7 trillion, respectively, in the growth over the same period of last year. During the first half of 2010, the accumulated transaction value of inter-bank lending market increased by 40.5% to RMB11.1 trillion compared to the same period of 2009; the transaction value of pledged bond repos increased by 7.9% to RMB36.8 trillion; the transaction value of buyout bond repos grew by 4% to RMB1.6 trillion. The average interest rates on the inter-bank lending market, pledged bond repos and buyout bond repos during the first half of 2010 were 1.58%, 1.63% and 1.53%, an increase of 0.50, 0.56 and 0.46 percentage points compare to last full year, respectively.

Financial Statements Analysis

Income Statement Analysis

In the first half of 2010, we generated a net profit of RMB45,863 million, representing an increase of RMB13,143 million or 40.2% compared to the same period of 2009. This was primarily due to (1) the rebound of net interest margin and our continued business growth, with an increase of 33.2% in net interest income compared to the same period of 2009; and (2) an increase of 32.0% in the net fee and commission income compared to the same period of 2009 which were partly offset by the increase in operating expenses and income tax expense.

Changes in key Income Statements Items

In millions of RMB, except for percentages

Item	Six months ended 30 June 2010	Six months ended 30 June 2009	Increase/ (Decrease)	Growth rate (%)
Net interest income	111,708	83,896	27,812	33.2
Net fee and commission income	22,459	17,017	5,442	32.0
Other net income	1,951	3,523	-1,572	-44.6
Operating income	**136,118**	**104,436**	**31,682**	**30.3**
Less: Operating expenses	58,468	44,146	14,322	32.4
Provisions for impairment losses	19,623	17,545	2,078	11.8
Profit before tax	58,027	42,745	15,282	35.8
Less: Income tax expense	12,164	10,025	2,139	21.3
Net profit	**45,863**	**32,720**	**13,143**	**40.2**
Attributable to: Equity holders of the parent company	45,840	32,714	13,126	40.1
Minority interests	23	6	17	283.3

Net Interest Income

Net interest income is the major component of our operating income, accounting for 82.1% of our total operating income in the first half of 2010. During the period, we recorded a net interest income of RMB111,708 million, an increase of 33.2% compared to the same period of 2009, of which, an increase of RMB7,332 million in the net interest income was contributed by the change in interest rate and RMB20,480 million contributed by increase in average balance.

The table below sets out the average balance, interest income/expense and average yield/cost of interest-earning assets and interest-bearing liabilities.

In millions of RMB, except for percentages

Item	Six months ended 30 June 2010			Six months ended 30 June 2009		
	Average balance	Interest income/ expense	Average yield/cost (%)	Average balance	Interest income/ expense	Average yield/cost (%)
Assets						
Loans and advances to customers	4,394,824	113,335	5.16	3,440,287	93,552	5.44
Debt securities investments[1]	2,555,138	38,319	3.00	2,382,571	37,132	3.12
Non-restructuring-related debt securities	1,845,724	27,095	2.94	1,634,108	25,272	3.09
Restructuring-related debt securities[2]	709,414	11,224	3.16	748,463	11,860	3.17
Balances with central banks	1,580,827	12,193	1.54	1,230,888	8,959	1.46
Amounts due from banks and other financial institutions[3]	503,936	4,433	1.76	535,416	2,600	0.97
Total interest-earning assets	**9,034,725**	**168,280**	**3.73**	**7,589,162**	**142,243**	**3.75**
Allowance for impairment losses[4]	(136,425)			(94,385)		
Non-interest-earning assets[4]	424,912			302,784		
Total assets	9,323,212			7,797,561		
Liabilities						
Deposits from customers	7,865,436	50,335	1.28	6,629,790	53,562	1.62
Amounts due to banks and other financial institutions[5]	623,967	5,304	1.70	556,093	4,492	1.62
Other interest-bearing liabilities[6]	57,185	933	3.26	16,653	293	3.52
Total interest-bearing liabilities	**8,546,588**	**56,572**	**1.32**	**7,202,536**	**58,347**	**1.62**
Non-interest-bearing liabilities[4]	350,955			275,115		
Total liabilities	8,897,543			7,477,651		
Net interest income		111,708			83,896	
Net interest spread			**2.41**			**2.13**
Net interest margin			**2.47**			**2.21**

Notes:

1. *Debt securities investments includes debt securities investments at fair value through profit or loss, available-for-sale debt securities investments, held-to-maturity investments and debt securities classified as receivables.*
2. *Restructuring-related debt securities include MOF receivables and special PRC government bonds.*
3. *Amounts due from banks and other financial institutions primarily include the deposits and placements with banks and other financial institutions, and the financial assets held under resale agreements.*
4. *The average balances of non-interest-earning assets, non-interest-bearing liabilities and allowance for impairment losses are the average of their respective balances at the beginning and the end of the reporting period.*
5. *Amounts due to banks and other financial institutions primarily include the deposits and placement from banks and other financial institutions, as well as the financial assets sold under repurchase agreements.*
6. *Other interest-bearing liabilities primarily include the issued certificates of deposits and the subordinated bonds issued.*

The table below sets out the changes in net interest income due to changes in volume and interest rate.

In millions of RMB

	Increase/(decrease) due to		Net increase/
	Volume	Interest rate	(decrease)
Assets			
Loans and advances to customers	24,616	(4,833)	19,783
Debt securities investments	2,588	(1,401)	1,187
Balances with central banks	2,699	535	3,234
Amounts due from banks and other financial institutions	(277)	2,110	1,833
Changes in interest income	29,626	(3,589)	26,037
Liabilities			
Deposits from customers	7,908	(11,135)	(3,227)
Amounts due to banks and other financial institutions	577	235	812
Other interest-bearing liabilities	661	(21)	640
Changes in interest expense	9,146	(10,921)	(1,775)
Change in net interest income	**20,480**	**7,332**	**27,812**

Note: Changes resulted from the combination of volume and interest rate have been allocated to the changes resulted from volume.

Net Interest Margin and Net Interest Spread

In the first half of 2010, the net interest margin increased by 26 basis points to 2.47% compared to the same period of 2009; and the net interest spread increased by 28 basis points to 2.41% compared to the same period of 2009. Reasons for the increase in net interest margin and net interest spread include: (1) most deposits and loans were re-priced at lower interest rates due to the PBOC's cuts of the benchmark interest rate in the second half of 2008, but the decrease of average yield of loans is lower than that of average cost of deposits, leading to a wider interest spread; (2) we continuously adjusted credit asset profiles in an effort to increase the proportion of more profitable loans to entities; and (3) in the first half of 2010, the interest rates on the money market increased and the average yield of amounts due from banks and other financial institutions increased.

Interest Income

We generated an interest income of RMB168,280 million in the first half of 2010, an increase of RMB26,037 million or 18.3% compared to the same period of 2009. The increase of interest income was principally due to the increase in the average balance of interest-earning assets and was partly offset by the decrease in the average yield on interest-earning assets. The decrease in the average yield was primarily because of the decrease in the average yield on loans and was partly offset by the increase in the average yield on amounts due from banks and other financial institutions and adjustment of the structure of interest-earning assets.

Interest Income from Loans and Advances to Customers

Interest income from loans and advances to customers increased by RMB19,783 million or 21.1% over the same period of last year to RMB113,335 million. The increase in interest income was primarily due to an increase in average balance from RMB3,440,287 million in the first half of 2009 to RMB4,394,824 million in the first half of 2010 and was partly offset by the decrease in the average yield. The increase in average balance was primarily due to the steady growth in our loan size since 2009. The decrease in average yield was mainly because PBOC cut benchmark loan rate in the second half of 2008 and some of our loans were re-priced at lower interest rates after the first half of 2009. During the reporting period, we adjusted and optimized credit structure, enhanced loan pricing capability, effectively mitigated the impact of the cut of benchmark loan rate, and generated a quarter-on-quarter increase in the average yield on loans.

The table below sets out the average balance, interest income and average yield on loans and advances to customers by product type.

In millions of RMB, except for percentages

	Six months ended 30 June 2010			Six months ended 30 June 2009		
Item	**Average balance**	**Interest income**	**Average yield (%)**	**Average balance**	**Interest income**	**Average yield (%)**
Corporate loans	3,249,899	86,485	5.32	2,503,538	75,193	6.01
Short-term corporate loans	1,334,172	33,868	5.08	1,176,876	34,295	5.83
Medium- and long-term corporate loans	1,915,727	52,617	5.49	1,326,662	40,898	6.17
Discounted bills	199,376	3,151	3.16	414,035	4,593	2.22
Retail loans	915,751	23,346	5.10	506,395	13,526	5.34
Overseas and others	29,798	353	2.37	16,319	240	2.94
Total loans and advances to customers	**4,394,824**	**113,335**	**5.16**	**3,440,287**	**93,552**	**5.44**

Interest income from corporate loans increased by RMB11,292 million or 15.0% to RMB86,485 million compared to the same period of 2009. The increase was primarily due to the increase in the average balance from RMB2,503,538 million in the first half of 2009 to RMB3,249,899 million in the first half of 2010 and was partly offset by the decrease in the average yield. The increase in average balance was principally because of the increase in our credits to key projects and high quality customers. The decrease in average yield mainly reflected the accumulative effect of the PBOC's consecutive cuts of benchmark interest rates in the second half of 2008.

Interest income from discounted bills decreased by RMB1,442 million or 31.4% to RMB3,151 million compared to the same period of 2009. The decrease was primarily due to the decrease of average balance from RMB414,035 million in the first half of 2009 to RMB199,376 million in the first half of 2010 and was partly offset by the increase in the average yield. The decrease in average balance was principally because we actively adjusted the structure of loan products, and reduced the scale of relatively lower-yielding discounted bills in order to meet the credit demands of key projects and high quality enterprises. The increase in average yield was mainly because the market liquidity was relatively strained in the first half of 2010, and the interest rate of discounted bills rebounded markedly from the beginning of this year.

Interest income from retail loans increased by RMB9,820 million or 72.6% to RMB23,346 million compared to the same period of 2009. The increase was primarily due to the increase in the average balance from RMB506,395 million in the first half of 2009 to RMB915,751 million in the first half of 2010 and was partly offset by the decrease in the average yield. The increase in the average balance was mainly because of the increase of the residential mortgage loans, loans to private businesses and loans to rural households from 2009, leading to a rapid growth of retail loans. The decrease in the average yield principally reflected the accumulative effect of PBOC's cuts of benchmark interest rate in the second half of 2008.

Interest income from overseas and other loans increased by RMB113 million or 47.1% to RMB353 million compared to the same period of 2009. The increase was mainly due to an increase of 82.6% in the average balance and was partly offset by the decrease in the average yield. The increase in the average balance was mainly because we made great efforts to develop overseas commodity trade financing and syndicated loans, leading to a rapid expansion of overseas business. The decrease in the average yield was mainly due to the decrease in LIBOR.

Interest Income from Debt Securities Investments

Interest income from debt securities investments was the second largest component of our interest income. In the first half of 2010, the interest income from debt securities investments increased by RMB1,187 million to RMB38,319 million compared to the same period of 2009.

Interest income from restructuring-related debt securities investments amounted to RMB11,224 million, a decrease of RMB636 million compared to the same period of 2009. The decrease was mainly due to the decrease in the average balance of restructuring-related debt securities, as MOF successively repaid part of MOF receivables to our Bank from the second half of 2009.

Interest income from non-restructuring-related debt securities investments increased by RMB1,823 million to RMB27,095 million compared to the same period of 2009. The increase was primarily due to the increase of RMB211,616 million in the average balance, partially offset by the decrease in the average yield from 3.09% in the first half of 2009 to 2.94% in the first half of 2010. The increase in the average balance was mainly because we increased the size of investments in debt securities issued by PRC policy banks and enterprises. The decrease in the average yield was mainly because the interest rate on the debt securities market continued to maintain at a low level since 2009, original debt securities were re-priced after becoming due, and the yield on newly purchased debt securities declined.

Interest Income from Balances with Central Banks

Interest income from balances with central banks increased by RMB3,234 million to RMB12,193 million compared to the same period of 2009, mainly due to the increase in both average balance and average yield. The increase in the average balance was primarily due to the continuous growth of our deposits and the increase of statutory deposit reserve ratio by PBOC for three times in the first half of 2010. The average yield increased from 1.46% in the first half of 2009 to 1.54% in the first half of 2010, mainly because of a decrease in the proportion of surplus deposit reserves, which are relatively lower-yielding.

Interest Income from Amounts Due from Banks and Other Financial Institutions

Interest income from amounts due from banks and other financial institutions increased by RMB1,833 million to RMB4,433 million compared to the same period of 2009. The increase was primarily due to the increase in the average yield and was partly offset by the decline in the average balance. The average yield increased from 0.97% in the first half of 2009 to 1.76% in the first half of 2010, mainly due to the relatively strained liquidity in the market, which resulted in an increase in interest rates on the money market in the first half of 2010 compared to the same period of 2009.

Interest Expense

Interest expense decreased by RMB1,775 million to RMB56,572 million compared to the same period of 2009. The decrease was mainly because of the decrease in the average cost of interest-bearing liabilities from 1.62% in the first half of 2009 to 1.32% in the first half 2010 and was partly offset by the increase in the average balance.

Interest Expense on Deposits from Customers

Interest expense on deposits from customers decreased by RMB3,227 million to RMB50,335 million compared to the same period of 2009. The decrease was primarily due to a decrease in the average cost from 1.62% in the first half of 2009 to 1.28% in the first half of 2010 and was partly offset by the increase in the average balance. The decrease in the average cost was mainly because (1) the existing time deposits were repriced at lower rates after PBOC cut benchmark deposit rates in the second half of 2008; and (2) the proportion of demand deposits increased slightly.

Analysis of Average Cost of Deposits by product

In millions of RMB, except for percentages

	Six months ended 30 June 2010			Six months ended 30 June 2009		
Item	**Average balance**	**Interest expense**	**Average cost (%)**	**Average balance**	**Interest expense**	**Average cost (%)**
Corporate deposits						
Time	932,292	10,939	2.35	752,651	10,364	2.75
Demand	2,314,626	6,553	0.57	1,812,893	5,127	0.57
Sub-total	3,246,918	17,492	1.08	2,565,544	15,491	1.21
Retail deposits						
Time	2,491,648	28,970	2.33	2,307,295	34,865	3.02
Demand	2,126,870	3,873	0.36	1,756,951	3,206	0.36
Sub-total	4,618,518	32,843	1.42	4,064,246	38,071	1.87
Total deposits from customers	**7,865,436**	**50,335**	**1.28**	**6,629,790**	**53,562**	**1.62**

Interest Expense on Amount Due to Banks and Other Financial Institutions

Interest expense on amounts due to banks and other financial institutions increased by RMB812 million to RMB5,304 million compared to the same period of 2009, mainly because of (1) increase in the average balance of amounts due to banks and other financial institutions as a result of the increase in financial assets sold under repurchase agreements; (2) the increase in the average cost as a result of the tightened liquidity on the market in the first half of 2010 and the consequent increase in interest rates on the money market.

Interest Expense on Other Interest-bearing Liabilities

Interest expense on other interest-bearing liabilities increased by RMB640 million to RMB933 million compared to the same period of 2009, mainly due to the issuance of the subordinated bonds (with a nominal value of RMB50 billion) in May 2009, which had an interest period of merely over one month in the first half of 2009, but had an interest period of six months in the first half of 2010.

Net Fee and Commission Income

In the first half of 2010, we generated net fee and commission income of RMB22,459 million, a increase of RMB5,442 million or 32.0% compared to the same period of 2009. The proportion of net fee and commission income in our operating income was 16.50%, an increase of 0.21 percentage point compared to the same period of 2009. After deduction of agency commissions from the MOF for our disposal of and recovery on non-performing assets on its behalf, net fee and commission income increased by 60.0% compared to the same period of 2009.

Composition of Net Fee and Commission Income

In millions of RMB, except for percentages

	Six months ended 30 June 2010	Six months ended 30 June 2009	Increase/ (decrease)	Growth rate (%)
Settlement and clearing fees	7,075	5,681	1,394	24.5
Agency commissions	5,593	6,244	-651	-10.4
Consultancy and advisory fee	5,424	2,232	3,192	143.0
Bank card fees	2,881	2,146	735	34.2
Electronic banking service fees	1,063	533	530	99.4
Credit Commitment fees	689	238	451	189.5
Custodian and other fiduciary service fees	401	266	135	50.8
Others	50	188	-138	-73.4
Fee and commission income	**23,176**	**17,528**	**5,648**	**32.2**
Less: Fee and commission expenses	717	511	206	40.3
Net fee and commission income	**22,459**	**17,017**	**5,442**	**32.0**

Settlement and clearing fees income increased by RMB1,394 million or 24.5% to RMB7,075 million. This was mainly due to our efforts to enhance our traditional competitive business and continuously promote settlement product innovation, which resulted in an increase in the number of settlement customers and the volume of settlement transactions.

Agency commissions income decreased by RMB651 million or 10.4% to RMB5,593 million compared to the same period of 2009. The decrease was primarily due to a decrease in the agency commissions from the MOF for our disposal of and recovery on non-performing assets on its behalf, and was partly offset by the increase in insurance and fund agent sales income. In the first half of 2010, we further strengthened cooperation with insurance and fund companies, and generated insurance and fund agency income of RMB2,667 million and RMB708 million, a increase of 71.2% and 95.0%, respectively compared to the same period of 2009.

Consultancy and advisory fee income increased by RMB3,192 million or 143.0% to RMB5,424 million compared to the same period of 2009, mainly due to the development of investment banking business that focus on financial advisory, asset management and financing planning business.

Bank card fees income increased by RMB735 million or 34.2% to RMB2,881 million compared to the same period of 2009, mainly because we leveraged our extensive distribution network and large customer base, continuously improved bank card functions and varieties, and generated continuous growth in the number of issued cards and the bankcard transaction volumes.

Electronic banking service fees increased by RMB530 million or 99.4% to RMB1,063 million compared to the same period of 2009, mainly because we generated rapid growth in the number of electronic banking customers and transaction volumes by continuously improving electronic banking system, increasing investment to the development of electronic banking channel and improving electronic banking services.

Credit Commitment fee income increased by RMB451 million or 189.5% to RMB689 million compared to the same period of 2009, mainly because we expanded business scale and market share by setting pertinent and competitive commitment fee rates.

Custodian and other fiduciary service fees increased by RMB135 million or 50.8% to RMB401 million, mainly due to the growth in our insurance and pension custody business.

Other Net Income

In the first half of 2010, other net income amounted to RMB1,951 million, a decrease of RMB1,572 million compared to the same period of 2009. This was primarily because we recorded a net loss on the financial instruments designated as at fair value through profit or loss in the first half of 2010, compared with a net profit in the same period of the previous year.

Net loss on the financial instruments designated as at fair value through profit or loss was RMB170 million, mainly because we recorded a net loss of RMB216 million due to decline in the fair value of financial guarantee contracts held by our Bank. In the same period of last year, due to the recovery of international financial market, the fair value of financial guarantee contracts increased, contributing a net profit of RMB1,019 million to our Bank.

Composition of Other Net Income

In millions of RMB

Item	Six months ended 30 June 2010	Six months ended 30 June 2009
Net trading gain	463	532
Net (loss)/gain on the financial instruments designated as at fair value through profit or loss	(170)	973
Net gain on securities investment	143	335
Net income from other operations	1,515	1,683
Total	**1,951**	**3,523**

Operating Expenses

In the first half of 2010, our operating expenses increased by RMB14,322 million to RMB58,468 million compared to the same period of 2009; cost-to-income ratio (excluding business taxes and surcharges) increased by 0.99 percentage point to 37.45% compared to the same period of 2009.

Staff cost increased by RMB10,007 million to RMB32,599 million compared to the same period of 2009, mainly because this year we strengthened the balance of expenses, eased the fluctuation of personnel expenditure between seasons and ensured the synchronization of staff remuneration and business plan so as to truly reflect the staff cost of each period.

General operating and administrative expenses increased by RMB2,528 million to RMB12,888 million compared to the same period of 2009, mainly because we strengthened the balance of expenses and appropriately increased business supporting expenses with the continuous and rapid development of business.

Depreciation and amortization increased by RMB206 million to RMB5,595 million compared to the same period of 2009, primarily reflecting the effect of our efforts to expand our electronic distribution channel and upgrade our branch outlets in recent years, which increase investments in fixed and intangible assets.

Composition of Operating Expenses

In millions of RMB, except for percentages

Item	Six months ended 30 June 2010	Six months ended 30 June 2009	Increase/ (decrease)	Growth rate (%)
Staff cost	32,599	22,592	10,007	44.3
General operating and administrative expenses	12,888	10,360	2,528	24.4
Business taxes and surcharges	7,489	6,069	1,420	23.4
Depreciation and amortization	5,595	5,389	206	3.8
Others	(103)	(264)	161	-61.0
Total	**58,468**	**44,146**	**14,322**	**32.4**

Provisions for Impairment Losses

In the first half of 2010, our provisions for impairment losses increased by RMB2,078 million to RMB19,623 million.

The provisions for impairment loss on loans increased by RMB933 million to RMB19,728 million, primarily due to (1) an overall growth in our loan portfolio; and (2) our continued implementation of a conservative provisioning for impairment loss on loans in response to macro-economic uncertainties.

Income Tax Expense

In the first half of 2010, our income tax expense amounted to RMB12,164 million, and the effective tax rate was 20.96%, lower than the 25% statutory tax rate, mainly because the interest income derived from the Chinese government bonds held by our Bank was exempted from income tax.

Segment Information

We assess our performance and determine the allocation of resources based on the segment reporting. The segment information was reported in the same manner as the internal management and reporting. At present, we manage our business along geographical lines, business lines and County Area banking business.

Our major business lines include corporate banking, retail banking, treasury operations and others. The table below sets out our operating income by business segment.

In millions of RMB, except for percentages

Item	Six months ended 30 June 2010 Amount	Six months ended 30 June 2010 Percentage (%)	Six months ended 30 June 2009 Amount	Six months ended 30 June 2009 Percentage (%)
Corporate banking business	76,982	56.5	59,215	56.7
Retail banking business	47,732	35.1	27,595	26.4
Treasury operation	10,742	7.9	17,248	16.5
Other business	662	0.5	378	0.4
Total operating income	**136,118**	**100.0**	**104,436**	**100.0**

The table below sets out our operating income by geographical segment.

In millions of RMB, except for percentages

Item	Six months ended 30 June 2010 Amount	Six months ended 30 June 2010 Percentage (%)	Six months ended 30 June 2009 Amount	Six months ended 30 June 2009 Percentage (%)
Head Office	13,674	10.1	18,969	18.2
Yangtze River Delta	32,315	23.7	19,678	18.9
Pearl River Delta	19,189	14.1	13,381	12.8
Bohai Rim	20,532	15.1	14,661	14.0
Central China	16,674	12.2	12,574	12.0
Western China	29,110	21.4	21,205	20.3
Northeastern China	4,050	3.0	3,449	3.3
Overseas and others	574	0.4	519	0.5
Total operating income	**136,118**	**100.0**	**104,436**	**100.0**

Note: Please refer to "Note 46 to the Financial Statements: Segment Information" for definition of geographical segments.

The table below sets out our operating income of the County Area banking and Urban Area banking business.

In millions of RMB, except for percentages

Item	Six months ended 30 June 2010 Amount	Six months ended 30 June 2010 Percentage (%)	Six months ended 30 June 2009 Amount	Six months ended 30 June 2009 Percentage (%)
County Area Banking Business	50,172	36.9	33,101	31.7
Urban Area Banking Business	85,946	63.1	71,335	68.3
Total operating income	**136,118**	**100.0**	**104,436**	**100.0**

Balance Sheet Analysis

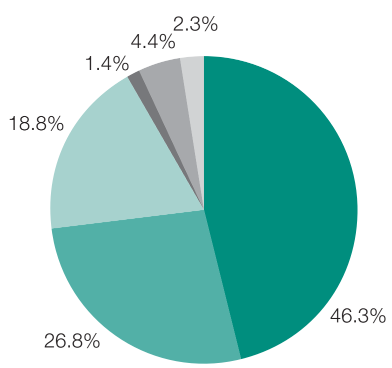
As at 30 June 2010, our total assets amounted to RMB9,695,967 million, representing an increase of RMB813,379 million or 9.2% as compared to the end of 2009. Among the assets, net loans and advances to customers increased by RMB466,735 million or 11.6%; net investment securities and other financial assets decreased by RMB18,815 million or 0.7%; cash and balances with central banks increased by RMB308,669 million or 20.3%; deposits and placements with banks and other financial institutions increased by RMB26,201 million or 23.6%; and financial assets held under resale agreements increased by RMB10,214 million or 2.4%.

Key Items of Assets

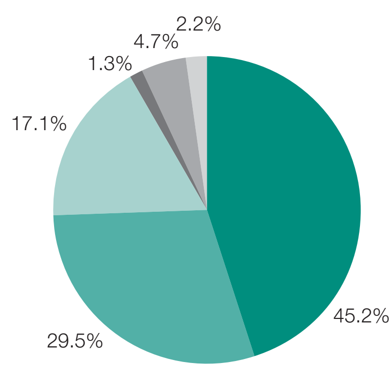
In millions of RMB, except for percentages

Item	30 June 2010 Amount	30 June 2010 Percentage (%)	31 December 2009 Amount	31 December 2009 Percentage (%)
Total loans and advances to customers	4,623,983	—	4,138,187	—
Less: Allowance for impairment losses on loans	145,753	—	126,692	—
Loans and advances to customers, net	4,478,230	46.3	4,011,495	45.2
Investment securities and other financial assets, net	2,597,857	26.8	2,616,672	29.5
Cash and balances with central banks	1,826,475	18.8	1,517,806	17.1
Deposits and placements with banks and other financial institutions	137,329	1.4	111,128	1.3
Financial assets held under resale agreements	431,307	4.4	421,093	4.7
Others	224,769	2.3	204,394	2.2
Total assets	**9,695,967**	**100.0**	**8,882,588**	**100.0**

Composition of Assets at 30 June 2010



Composition of Assets at 31 December 2009



- Loans and advances to customers, net
- Cash and balances with central banks
- Financial assets held under resale agreements
- Investment securities and other financial assets, net
- Deposits and placements with banks and other financial institutions
- Others

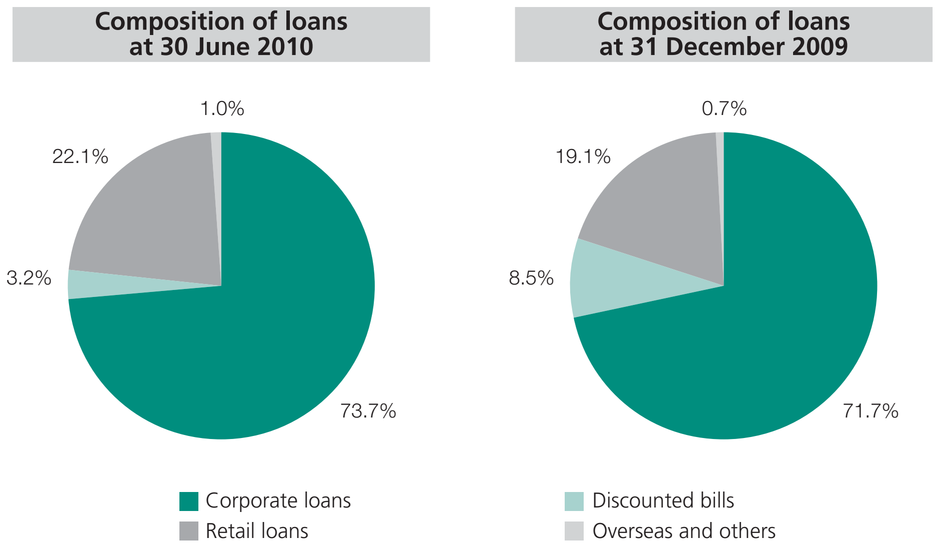
Loans and Advances to Customers

In first half of 2010, in response to changes in the economic conditions and the national macro-economic control policy, we controlled the total loans volume and growth rates, adjusted the structure of loan portfolio, and supported the credit demand in key areas of economic development. As at 30 June 2010, our total loans and advances to customers amounted to RMB4,623,983 million, representing an increase of RMB485,796 million or 11.7% over the end of the previous year.

Distribution of Loans and Advances to Customers by Business Type

In millions of RMB, except for percentages

	30 June 2010		31 December 2009	
Item	**Amount**	**Percentage (%)**	**Amount**	**Percentage (%)**
Loans granted by domestic branches	4,577,843	99.0	4,110,263	99.3
Corporate loans	3,411,287	73.7	2,968,691	71.7
Discounted bills	146,140	3.2	352,230	8.5
Retail loans	1,020,416	22.1	789,342	19.1
Overseas and others	46,140	1.0	27,924	0.7
Total	**4,623,983**	**100.0**	**4,138,187**	**100.0**



Corporate loans increased by RMB442,596 million or 14.9% over the end of the previous year to RMB3,411,287 million, primarily due to continued demand for infrastructure loans propelled by national policy of boosting domestic demand in 2009, reflecting an increase in loans to major infrastructure construction projects and corporate customers in key industries. Meanwhile, we also adjusted the composition of our loan portfolio and further strengthened risk management. We focused on controlling the risks relating to loans to local government financing vehicles, real estate industry and the industries which are experiencing over-capacity through our implementation of more stringent customer criteria, improved credit access and exit procedure and customer selection process.

Retail loans increased by RMB231,074 million or 29.3% over the end of the previous year to RMB1,020,416 million. They accounted for 22.1% of our total loans, representing an increase of 3.0 percentage points as compared to the end of 2009. The increase was mainly because we continued to enhance the product innovation and marketing of retail loans, effectively supported the various demands for residential mortgage loans, personal consumption loans and credit card balances, and expanded the loans to rural households.

The discounted bills decreased by RMB206,090 million or 58.5% over the end of 2009 to RMB146,140 million, primarily due to our adjustment to the composition of our loan portfolio to increase the allocation of our funds to loans to our valued customers.

Distribution of Corporate Loans by Maturity

In millions of RMB, except for percentages

	30 June 2010		31 December 2009	
Item	**Amount**	**Percentage (%)**	**Amount**	**Percentage (%)**
Short-term corporate loans	1,372,342	40.2	1,239,973	41.8
Medium- and long-term corporate loans	2,038,945	59.8	1,728,718	58.2
Total	**3,411,287**	**100.0**	**2,968,691**	**100.0**

Distribution of Corporate Loans by Industry

In millions of RMB, except for percentages

	30 June 2010		31 December 2009	
Item	**Amount**	**Percentage (%)**	**Amount**	**Percentage (%)**
Manufacturing	1,011,443	29.7	886,729	29.9
Production and supply of electric power, gas and water	369,919	10.8	411,410	13.9
Real estate	536,381	15.7	427,253	14.4
Transportation, logistics and postal services	343,222	10.1	303,520	10.2
Retail and wholesale	272,616	8.0	227,546	7.7
Water, environment and public utilities management	205,737	6.0	155,365	5.2
Construction	135,784	4.0	99,700	3.4
Mining	102,826	3.0	93,340	3.1
Leasing and commercial services	198,615	5.8	144,755	4.9
Information transmission, computer services and software	22,116	0.6	28,199	0.9
Others	212,628	6.3	190,874	6.4
Total	**3,411,287**	**100.0**	**2,968,691**	**100.0**

As at 30 June 2010, the gross loans to corporate customers in five major industries, including manufacturing, production and supply of electric power, gas and water, real estate, transportation, logistics and postal services and retail and wholesale, accounted for 74.3% of our total corporate loans.

During the reporting period, in combination with the national macro-economic control policy and industry policy, we reinforced the guidelines under industry credit policy, actively implemented the limits on exposure to certain industries and the customer list-based management. We also increased support to our County Area banking business, the industries important to people's livelihood, revitalized industries and key infrastructure projects, oriented to ordinary commercial housing development projects and low-income housing development projects supported by the government's policies, and effectively reduced the loans granted to the energy-consuming, high-pollution and over-capacity industries, in an effect to improve the industrial structure of loans. The three industries with the highest increases, as a percentage of our total loans, were the real estate, leasing and commercial service industry, and the water, environment and public utilities management industry; and the production and supply of electric power, gas and water experienced the largest decrease as a percentage of our total loans.

Distribution of Retail Loans by Product Type

In millions of RMB, except for percentages

Item	30 June 2010		31 December 2009	
	Amount	Percentage (%)	Amount	Percentage (%)
Residential mortgage loans	641,667	62.9	497,946	63.1
Personal consumption loans	117,809	11.5	85,600	10.8
Loans to private businesses	118,901	11.7	105,953	13.4
Credit card balances	22,902	2.2	14,118	1.8
Loans to rural households	113,359	11.1	79,588	10.1
Others	5,778	0.6	6,137	0.8
Total	**1,020,416**	**100.0**	**789,342**	**100.0**

As at 30 June 2010, the residential mortgage loans increased by RMB143,721 million or 28.9% over the end of 2009 to RMB641,667 million, mainly due to the rapid growth in residential mortgage, as a result of our increased efforts to support the loans for first residential housing while maintaining prudential operations. Personal consumption loans increased by RMB32,209 million or 37.6% over the end of 2009 to RMB117,809 million, mainly because we seized opportunities brought by the macro-economic policy of expanding domestic demand and actively took efforts on marketing to medium-and high-end customers to meet their diversified demands for consumption finance. Loans to rural households increased by RMB33,771 million or 42.4% over the end of 2009 to RMB113,359 million, mainly because we increased loans to high-quality rural households by leveraging Huinong Card while reinforcing risk control.

Distribution of Loans by Geographic Region

In millions of RMB, except for percentages

Item	30 June 2010		31 December 2009	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	80,317	1.7	121,899	2.9
Yangtze River Delta	1,295,185	28.1	1,147,735	27.8
Pearl River Delta	677,063	14.6	613,918	14.8
Bohai Rim	797,023	17.2	705,560	17.0
Central China	556,181	12.0	488,156	11.8
Northeastern China	156,040	3.4	131,358	3.2
Western China	1,016,034	22.0	901,637	21.8
Overseas and others	46,140	1.0	27,924	0.7
Total	**4,623,983**	**100.0**	**4,138,187**	**100.0**

Investment

As at 30 June 2010, net investment securities and other financial assets decreased by RMB18,815 million or 0.7% to RMB2,597,857 million over the end of 2009.

Distribution of Investment by Types of Instruments

In millions of RMB, except for percentages

Item	30 June 2010		31 December 2009	
	Amount	Percentage (%)	Amount	Percentage (%)
Non-restructuring-related debt securities	1,845,620	71.0	1,833,221	70.1
Restructuring-related debt securities	694,481	26.7	728,839	27.8
Equity instruments	452	0.1	487	—
Others	57,304	2.2	54,125	2.1
Total	**2,597,857**	**100.0**	**2,616,672**	**100.0**

As at 30 June 2010, non-restructuring-related debt securities investments increased by RMB12,399 million or 0.7% to RMB1,845,620 million over the end of 2009. The restructuring-related debt securities investments decreased by RMB34,358 million to RMB694,481 million over the end of 2009, mainly because the MOF repaid part of MOF receivables during the reporting period.

Distribution of Investments by Holding Purpose

In millions of RMB, except for percentages

Item	30 June 2010 Amount	30 June 2010 Percentage (%)	31 December 2009 Amount	31 December 2009 Percentage (%)
Financial assets at fair value through profit or loss	97,187	3.8	112,176	4.3
Available-for-sale financial assets	606,677	23.3	730,382	27.9
Held-to-maturity investments	1,082,844	41.7	883,915	33.8
Debt securities classified as receivables	811,149	31.2	890,199	34.0
Total	**2,597,857**	**100.0**	**2,616,672**	**100.0**

As at 30 June 2010, the financial assets at fair value through profit or loss decreased by RMB14,989 million over the end of 2009, and its proportion dropped by 0.5 percentage point, mainly because we speeded up the transformation of wealth management products, and continued to improve the composition of wealth management products, resulting in decline of the size of principal-guaranteed wealth management products. As at 30 June 2010, the available-for-sale financial assets decreased by RMB123,705 million over the end of 2009 and its proportion fell by 4.6 percentage points; the held-to-maturity financial assets increased by RMB198,929 million over the end of 2009, and its proportion grew by 7.9 percentage points, mainly because we proactively refined the investment portfolio, reduced the size of available-for-sale financial assets and increased the proportion of held-to-maturity investments; and as at 30 June 2010, the debt securities classified as receivables decreased by RMB79,050 million over the end of 2009 and its proportion fell by 2.8 percentage points.

Distribution of Non-restructuring-related Debt Securities Investment by Issuer

In millions of RMB, except for percentages

Item	30 June 2010 Amount	30 June 2010 Percentage (%)	31 December 2009 Amount	31 December 2009 Percentage (%)
Government bonds	546,859	29.7	535,291	29.2
PBOC bills	583,556	31.6	648,413	35.4
Bonds issued by PRC policy banks	450,008	24.4	408,363	22.3
Bonds issued by other banks and financial institutions	81,926	4.4	81,049	4.4
Bonds issued by entities in pubic sectors and quasi-governments	32,119	1.7	40,302	2.2
Corporate bonds	151,152	8.2	119,803	6.5
Total	**1,845,620**	**100.0**	**1,833,221**	**100.0**

In the first half of 2010, we further refined the composition of our investment portfolio, moderately increased our holding of bonds issued by PRC policy banks with relatively high interest rates and relatively high investment value as well as high-rating credit bonds, to enhance the yield of investment portfolio. As at 30 June 2010, our bonds issued by PRC policy banks increased by RMB41,645 million over the end of 2009, and its proportion in the total debt securities investments increased by 2.1 percentage points. The investment in corporate bonds increased by RMB31,349 million over the end of 2009, and its proportion in the total debt securities investments increased by 1.7 percentage points.

Distribution of Non-restructuring-related Debt Securities Investment by Remaining Maturity

In millions of RMB, except for percentages

	30 June 2010		31 December 2009	
Remaining Maturity	**Amount**	**Percentage (%)**	**Amount**	**Percentage (%)**
Overdue	6	—	7	—
Less than 3 months	328,103	17.8	330,325	18.0
3–12 months	390,743	21.2	423,421	23.1
1–5 years	721,776	39.1	721,045	39.3
More than 5 years	404,992	21.9	358,423	19.6
Total	**1,845,620**	**100.0**	**1,833,221**	**100.0**

As at 30 June 2010, our investments in bonds with a remaining maturity of less than 12 months, as percentage of total investments, decreased by 2.1 percentage points over the end of 2009. This was mainly because we moderately increased our investments in medium-and long-term debt securities with higher coupon rates and relatively high investment value and refined the maturity structure of our investment portfolio by closely following the bond market trends and considering the specific situation of our portfolio.

Distribution of Non-restructuring-related Debt Securities Investment by Currency

In millions of RMB, except for percentages

	30 June 2010		31 December 2009	
Item	**Amount**	**Percentage (%)**	**Amount**	**Percentage (%)**
RMB	1,767,601	95.8	1,748,548	95.4
USD	70,111	3.8	76,120	4.1
Other foreign currencies	7,908	0.4	8,553	0.5
Total	**1,845,620**	**100.0**	**1,833,221**	**100.0**

As at 30 June 2010, our investments in foreign currency-denominated bonds decreased by RMB6,654 million to RMB78,019 million over the end of 2009, mainly because (1) we sold a portion of short-term debt securities as the domestic USD liquidity tended to be tighter; and (2) we sold some of our debt securities denominated in foreign currencies with the market presented opportunities.

Investment in Financial Bonds

Financial bonds refer to the securities issued by PRC policy banks, commercial banks and other financial institutions that are to be repaid pursuant to a pre-determined schedule. As at 30 June 2010, the balance of financial bonds was RMB531,934 million, which were mainly the financial bonds issued by PRC policy banks. The table below sets out the top ten financial bonds held by our Bank as at 30 June 2010.

In millions of RMB, except for percentages

Bond	Face Value	Annual Interest Rate	Maturity Date	Impairment
2006 policy bank bonds	9,330	3.00%	18 October 2011	—
2008 policy bank bonds	7,660	4.83%	4 March 2015	—
2004 policy bank bonds	7,410	Interest rate for 1-year time deposits + 0.76%	5 March 2014	—
2010 policy bank bonds	7,410	3.21%	2 June 2017	—
2010 policy bank bonds	6,200	4.42%	7 April 2040	—
2007 policy bank bonds	6,120	4.13%	20 August 2017	—
2005 policy bank bonds	5,965	Interest rate for 1-year time deposits + 0.72%	27 April 2015	—
2002 policy bank bonds	5,755	2.85%	19 April 2012	—
2007 policy bank bonds	5,615	4.35%	30 August 2014	—
2004 policy bank bonds	5,570	Interest rate for 1-year time deposits + 1.53%	1 June 2011	—

Liabilities

As at 30 June 2010, our total liabilities increased by RMB801,887 million or 9.4% over the end of 2009 to RMB9,341,550 million. Deposits from customers increased by RMB851,202 million or 11.4%; deposits and placements from banks and other financial institutions decreased by RMB54,389 million or 9.1%; and financial assets sold under repurchase agreements increased by RMB19,858 million or 19.7%.

Key Items of Liabilities

In millions of RMB, except for percentages

Item	30 June 2010		31 December 2009	
	Amount	Percentage (%)	Amount	Percentage (%)
Deposits from customers	8,348,820	89.4	7,497,618	87.8
Deposits and placements from banks and other financial institutions	545,872	5.8	600,261	7.0
Financial assets sold under repurchase agreements	120,670	1.3	100,812	1.2
Subordinated bonds issued	49,958	0.5	49,955	0.6
Other liabilities	276,230	3.0	291,017	3.4
Total liabilities	**9,341,550**	**100.0**	**8,539,663**	**100.0**

Deposits from Customers

In the first half of 2010, we further expanded our customer base, strived to enhance our outlet effectiveness, continuously improved electronic channel construction, further consolidated the customer service platform, in an effort to promote continued fast growth in customer deposits. As at 30 June 2010, deposits from customers increased by RMB851,202 million or 11.4% over the end of 2009 to RMB8,348,820 million.

By the customer structure of deposits, both the corporate deposits and the retail deposits maintained relatively fast growth, and the corporate deposits increased by RMB392,614 million or 13.5% over the end of 2009; and the retail deposits increased by RMB437,878 million or 10.0% over the end of 2009. By the maturity of deposits, the proportion of demand deposits slightly increased by 0.3 percentage point over the end of 2009 to 55.8%.

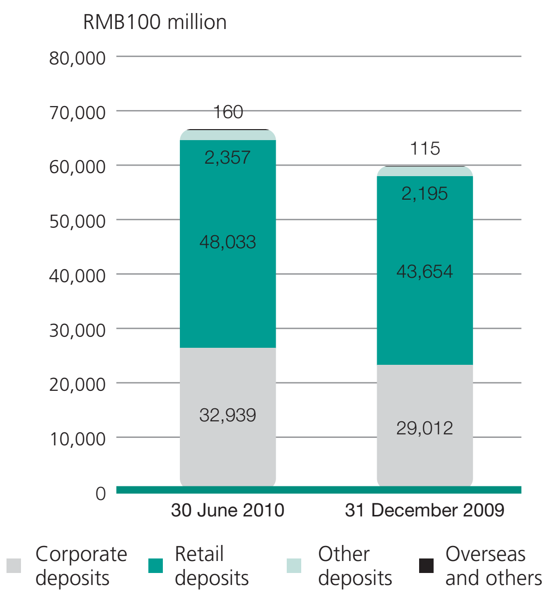
Distribution of Deposits from Customers by Business Type

In millions of RMB, except for percentages

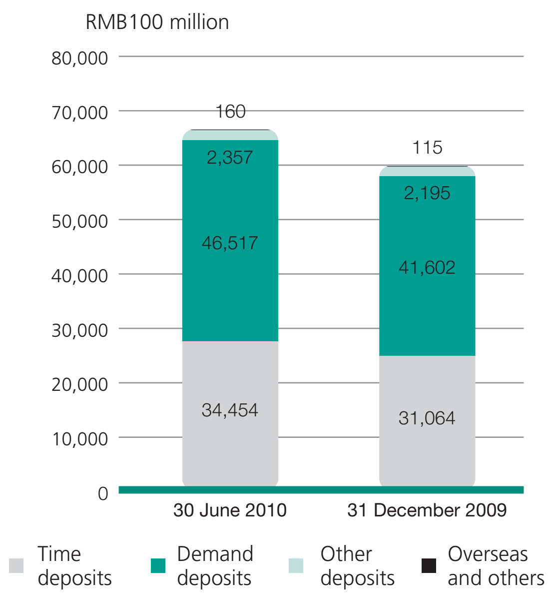
	30 June 2010		31 December 2009	
Item	**Amount**	**Percentage (%)**	**Amount**	**Percentage (%)**
Domestic deposits	8,332,838	99.8	7,486,128	99.8
Corporate deposits	3,293,861	39.5	2,901,247	38.7
Time	858,867	10.3	733,303	9.8
Demand	2,434,994	29.2	2,167,944	28.9
Retail deposits	4,803,265	57.5	4,365,387	58.2
Time	2,586,551	30.9	2,373,111	31.6
Demand	2,216,714	26.6	1,992,276	26.6
Other deposits[1]	235,712	2.8	219,494	2.9
Overseas and others	15,982	0.2	11,490	0.2
Total	**8,348,820**	**100.0**	**7,497,618**	**100.0**

Note: 1. Includes margin deposits, remittance payables and outward remittance.

Deposit Structure — By Business Line



Deposit Structure — By Time/Demand Deposits



Distribution of Deposits from Customers by Geographic Region

In millions of RMB, except for percentages

Item	30 June 2010		31 December 2009	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	32,887	0.4	44,568	0.6
Yangtze River Delta	1,998,458	23.9	1,748,898	23.3
Pearl River Delta	1,171,136	14.0	1,078,898	14.4
Bohai Rim	1,467,471	17.6	1,348,333	18.0
Central China	1,375,629	16.5	1,214,938	16.2
Northeastern China	451,697	5.4	407,411	5.4
Western China	1,835,560	22.0	1,643,082	21.9
Overseas and others	15,982	0.2	11,490	0.2
Total	**8,348,820**	**100.0**	**7,497,618**	**100.0**

Distribution of Deposits from Customers by Remaining Maturity

In millions of RMB, except for percentages

Item	30 June 2010		31 December 2009	
	Amount	Percentage (%)	Amount	Percentage (%)
On demand	5,045,294	60.4	4,492,349	59.9
Less than 3 months	903,983	10.8	921,804	12.3
3–12 months	1,916,665	23.0	1,602,159	21.4
1–5 years	481,076	5.8	479,593	6.4
More than 5 years	1,802	—	1,713	—
Total	**8,348,820**	**100.0**	**7,497,618**	**100.0**

Owner's Equity

As at 30 June 2010, the owner's equity increased by RMB11,492 million to RMB354,417 million over the end of 2009. The retained earnings decreased by RMB58,396 million over the end of 2009, mainly because pursuant to the profit distribution plan for 2009 and accumulative retained earnings distribution plan before listing, we set aside surplus reserve and general and regulatory reserve, and deducted cash dividend distributed and to be distributed of RMB52,077 million. Such decrease was partially offset by net profit of RMB45,863 million for the first half year.

The table below sets out the composition of owner's equity at the dates indicated.

In millions of RMB, except for percentages

Item	30 June 2010		31 December 2009	
	Amount	Percentage (%)	Amount	Percentage (%)
Share capital	270,000	76.1	260,000	75.8
Capital reserve	5,512	1.6	—	—
Investment revaluation reserve	6,820	1.9	4,624	1.4
Surplus reserve	12,263	3.5	7,676	2.2
General and regulatory reserve	58,344	16.5	10,772	3.2
Retained earnings	1,421	0.4	59,817	17.4
Currency translation reserve	(97)	—	(70)	—
Equity attributable to equity holders of the Bank	354,263	100.0	342,819	100.0
Minority interests	154	—	106	—
Total equity	**354,417**	**100.0**	**342,925**	**100.0**

Off-Balance-Sheet Items

Our off-balance-sheet items mainly include the contingent events and commitments, such as credit commitments, capital expenditure commitments, operating lease commitments, bonds underwriting and redemption commitments and legal proceedings. Credit commitment was a major component of the off-balance-sheet items and comprised of loan commitments, letters of credit issued, letters of guarantee issued and acceptances.

Composition of Credit Commitments

In millions of RMB, except for percentages

Item	30 June 2010		31 December 2009	
	Amount	Percentage (%)	Amount	Percentage (%)
Loan commitment	998,480	66.3	744,524	61.0
Acceptances	284,762	18.9	271,871	22.2
Letters of guarantee issued	168,644	11.2	151,355	12.4
Letters of credit issued	54,614	3.6	53,933	4.4
Total	**1,506,500**	**100.0**	**1,221,683**	**100.0**

Other Financial Information

Changes in accounting policies

There were no changes in accounting policies during the reporting period.

Differences between the financial statements prepared under IFRSs and those prepared in accordance with CASs

There were no differences between the net profit and owner's equity in the consolidated financial statements prepared under IFRSs and those prepared in accordance with CASs by our Bank.

Business Review

Corporate Banking

In the first half of 2010, we continued to push forward the transformation of corporate banking with accelerated development of branches in key cities as a breakthrough point. Corporate deposits increased significantly and our market share further increased. Corporate loans experienced continued growth and the regional and customer structure was further refined. Our business and income structures continued to improve, investment banking and insurance agency business experienced a rapid growth, and RMB settlement, international settlement and asset custody maintained a stable growth. As of 30 June 2010, we had around 2.6 million corporate customers, including 67,891 with outstanding loans.

Corporate Deposit and Loan Business

As of 30 June 2010, the balance of our corporate loans reached RMB3,411,287 million, an increase of RMB442,596 million or 14.9% over the end of the previous year. Our new corporate loans were mainly extended to the economically well developed regions, such as the Yangtze River Delta, Pearl River Delta and Bohai Rim. New corporate loans to customers originated in these three regions in aggregate represented 58.9% of total increment of our corporate loans. Top three industries that received the most new corporate loans were manufacturing, real estate, leasing & commercial services respectively, new corporate loans extended to which represented 65.0% of total increment of our corporate loans. The loans to our valued customers increased as a percentage of our total loans and our customer structure continued to be improved. Our outstanding loans (including discounted bills) of quality customers that were rated AA or above in our internal rating amounted to RMB3,215,141 million, representing 90.4% of outstanding loans of our corporate customers. Outstanding loans of corporate customers in the real estate industry with a rating of AA or above accounted for 94.8% of total loans, an increase of 4.0 percentage points over the end of the previous year.

Our corporate deposits increased significantly and the market share further increased, primarily due to our provision of multi-level and all-around financial services to corporate customers including loans, settlement, cash management, consultancy and advisory services. As of 30 June 2010, the balance of corporate deposits totaled RMB3,293,861 million, an increase of RMB392,614 million or 13.5% over the end of the previous year.

Small Enterprise Business

We continued to enhance the professional management of small enterprise business and improve the functions of specialized small enterprise financial service institutions. As of 30 June 2010, we had established 855 specialized institutions providing services to small enterprises, thus further expanded our specialized small enterprise service network. We stepped up the R&D of small enterprise featured products, and improved the two key small enterprise products, i.e. "Easy Loans" and "Self-Service Revolving Credit Facilities". As a result, the procedures of small enterprise loan business have been further simplified. We are committed to building the small enterprise service cooperation platform in an effort to improve our services to small and medium enterprises. As of 30 June 2010, our outstanding small enterprise loans (including discounted bills) reached RMB402,713 million, an increase of RMB26,137 million over the end of the previous year.

Institutional Banking

We are focused on expanding our institutional customer base, speeding up financial innovations, and promoting cooperation with other banks, securities firms, futures companies and governments intensively and extensively. As of 30 June 2010, we had provided third-party depository services to 94 securities firms in respect of settled funds for securities trading, accounting for 87.9% of all domestic securities firms; the number of our contracted customers reached 10,363,500, and the daily average balance of funds deposited from securities firms stood at RMB121,222 million. 14 new futures companies were rolled out, increasing the number of rolled-out futures companies to 127 cumulatively, accounting for 78.4% of total futures companies in China. We engaged in Commodity Market Express business with 30 commodity markets and promoted bancassurance business. As of 30 June 2010, we had entered into cooperation agreements with 62 insurance companies, which covered most of the domestic insurance companies. In the first half of 2010, we collected new insurance premiums of RMB65,903 million, having a market share of 34.0% among the four biggest commercial banks in China; received fees and commissions from our bancassurance business of RMB2,667 million, both of which were the largest among the big four banks in China.

Settlement and Cash Management

Payment and Settlement

We provided customers with a full spectrum of convenient payment and settlement services via various electronic channels including bank-enterprise customer terminal, Internet banking, phone banking, ATM and POS. In the first half of 2010, we developed and launched the electronic commercial paper product, enriching the settlement and financing product line and also addressing the customer demands for integrated and convenient settlement and rapid financing. As of 30 June 2010, we had 3,161,400 RMB-denominated corporate settlement accounts with a settlement transaction volume of RMB150.84 trillion in the first half of 2010.

Cash Management

We continued to improve the cash management product line and provided customers with comprehensive and convenient cash management services. In the first half of 2010, in addition to improving services to high-end group customers, we strengthened cash management service marketing targeted at County Area customers and SME customers and effectively expanded the coverage and service area of our cash management business. As of 30 June 2010, our cash management customers numbered 58,200, covering 55% of top 100 Chinese enterprises and 35% of top 500 Chinese enterprises. The total transaction volume of our cash management services reached RMB23.42 trillion in the first half of 2010.

Trade Finance and International Settlement

In active response to the changes in import and export and the financing needs of foreign trade customers, we further enriched international trade finance, international settlement and guarantee products, and achieved a continued growth in trade finance and international settlement. In the first half of 2010, domestic branches granted international trade finance of USD21.14 billion, an increase of 92.3% compared to the same period of 2009. Commission income from international trade finance reached RMB420 million, an increase of 400.7% compared to the same period of 2009. We carried out international settlement transactions of USD216,806 million, an increase of 31.7% compared to the same period of 2009; and we recorded international settlement income of RMB565 million, an increase of 51.4% compared to the same period of 2009. We issued letters of guarantee of USD2,697 million, an increase of 270.1% compared to the same period of 2009.

As one of the pilot banks for cross-border trade settlement in RMB, we have rolled out the "RMB Cross-Border Express" series of products and launched cross-border trade settlement in RMB in 26 tier-1 branches in pilot areas. In the first half of 2010, our cross-border trade settlement volume in RMB amounted to RMB4,821 million.

Investment Banking

In the first half of 2010, we increased our efforts to expand investment and financing advisory services, corporate wealth management advisory services, lead underwriting services for debts, M&A loans and syndicated loans. As a result, investment banking business continued to experience a rapid growth. We made efforts to promote the culture of "energy conservation and emission reduction" and "low-carbon economy" and the development of Clean Development Mechanism (CDM) advisory services. We improved our SME financing service and strived to develop new financing methods such as collective bonds of technology SMEs.

In the first half of 2010, we underwrote debt instruments of RMB65,553 million issued by various non-financial enterprises as a lead manager, representing an increase of 35.0% compared to the same period of 2009. As of 30 June 2010, the balance of syndicated loans reached RMB205,246 million, an increase of 50.3% over the end of the previous year. We reaped investment banking income of RMB5,688 million, an increase of 58.1% compared to the same period of 2009. We were recognized by the Securities Times as the "Best Innovative Investment Bank", the "Best Investment Bank on Debt Underwriting" and the "Best Debt Underwriting Project" in its selection of excellent investment banks in 2010.

Custody Services

As of 30 June 2010, we had RMB1,400,354 million in assets under custody, of which RMB875,524 million was insurance assets. We are the second largest custodian bank and the largest insurance assets custodian in China in terms of assets under custody. In the first half of 2010, 4 new securities investment funds and 8 new designated fund accounts were under our custody. Assets management products of securities firms, trust schemes, banking wealth management products and private equity investment funds experienced a stable growth. The daily average of deposits from custody products reached RMB69,669 million.

Pension Business

In the first half of 2010, we conducted the enterprise annuity service on a comprehensive basis and won the bids for the annuity fund custody projects of a number of large enterprises. In addition, we actively developed various social security fund businesses including pension funds for farmers. As of 30 June 2010, our pension funds under custody reached RMB93,664 million, representing an increase of 27.1% over the end of the previous year.

Corporate Treasury Services

We placed 63 corporate treasury services products in the first half of 2010 with a total amount of RMB64.16 billion, including products such as "Ben Li Feng Corporate Trust Treasury Services Product" and "An Xin De Li Corporate Series Products" with a stable income and flexible maturity.

Retail Banking

In order to develop into a leading retail bank in China, we continued to accelerate the transformation of the retail banking. We continued to improve customer segmentation service and comprehensive marketing system, and promote coordinated marketing of retail banking products. We expedited the adjustment and renovation of branch outlets to enhance their service capability and quality. We integrated existing products, enhanced R&D, launched or improved such products and services as "Retail Automatic Transfer", "12 Animal Gold Bars" and "Liu Xue Bao (means "Easy Study Abroad")", and promoted R&D of new products such as IC Cards, DIY Constellation Cards, Daily Wealth Management and Smart Wealth Management. We increased our focus on team build-up, and cultivated an internal trainers' team consisting of 3,500 persons to continuously provide onsite training and enhance the marketing and service capability of our retail banking team.

As of 30 June 2010, we had more than 7,680 domestic Associate Financial Planners (AFP), more than 830 international Certified Financial Planners (CFP) and more than 540 Executive Financial Planners (EFP), maintaining a leading position in the sector. As of 30 June 2010, we had 338 million retail banking customers.

Retail Loans

In the first half of 2010, we strengthened credit support for retail loans, promoted cross-selling of our corporate and retail banking products and services, improved the integrated management of retail loans, streamlined the retail lending procedures, and centralized middle and back office operations to enhance the efficiency and quality of customer service. We accelerated the preparation for upgrading Credit Management System (CMS) Phase III to improve the information technology infrastructure to support our continued business growth and risk management. As of 31 June 2010, the balance of retail loans of domestic branches reached RMB1,020,416 million, an increase of RMB231,074 million or 29.3% over the end of the previous year.

In response to the government's macro-economic control policy on real estate market, we adjusted the policy guidelines applicable to our residential mortgage loan business, strengthened management of loans for purchasing the second residential homes or more and stringently controlled the down payment ratio and collateral coverage ratio while continuing to support the customers who purchased their first houses. A significant portion of newly extended residential mortgage loans was made to finance real property located in Western and Central China and other regions where housing prices were relatively stable. As of 30 June 2010, the balance of retail housing loans increased by RMB143,720 million or 28.9% over the end of the previous year.

Retail Deposits

In the first half of 2010, against the backdrop of moderately loose monetary policy and RMB exchange rate regime reform, we strengthened proactive liability management, adopted practicable marketing strategy, expedited R&D of new products and stepped up the interaction of retail deposits and wealth management products. As a result, retail deposits maintained a continued increase. The balance of domestic retail deposits reached RMB4,803,265 million as of 30 June 2010, an increase of RMB437,878 million or 10.0% over the end of the previous year.

Bank Cards

In the first half of 2010, our bank card business showed a good momentum with respect to management, marketing and risk control. As of 30 June 2010, the number of bank cards issued reached 374 million, including 353 million debit cards and 21.42 million credit cards (including quasi credit cards). Transaction volume of our bank cards reached RMB939,675 million and the total fees generated by our bank card consumption were RMB864 million in the first half of 2010. There were 67,000 new merchants, increasing the total number of merchants to 342,000.

We continued to promote our Kins card brand, maintained our traditional advantages in bank card products, actively promoted such innovative products as Soldiers Benefit Card, Kins C Card, Kins Taobao Card, DIY Constellation Card, Tennis Platinum Card and Taiwan Travel Card, and furthered the R&D and promotion of PBOC2.0 standard financial IC cards. In the meantime, we vigorously pushed forward the construction of Credit Card Call Centre and Chongqing Customer Service Centre in an effort to enhance the service quality of our credit cards and safeguard the interests of card holders.

Item	30 June 2010	31 December 2009	Growth Rate (%)
Number of debit cards issued (unit: 10,000)	35,308.66	34,746.81	1.6
Number of credit cards issued (unit: 10,000)	1,859.39	1,542.75	20.5
	Six months ended 30 June 2010	**Six months ended 30 June 2009**	**Growth Rate (%)**
Transaction volume for debit cards (RMB100 million)	8,424.59	5,259.64	60.2
Transaction volume for credit cards (RMB100 million)	924.72	434.36	112.9

Retail Wealth Management

In the first half of 2010, our retail wealth management products continued to have short-maturity and secure feature. We were focused on liquidity and safety and also gave attention to the yields of funds. Our products in "Golden Key — An Xin De Li" series were issued on a rolling basis each week. We launched open-ended product, namely "Golden Key — An Xin Kuai Xian" with a very short term of one or seven days. We completed the upgrading of the integrated sales system to simplify the purchase process of customers and achieve contracting and risk assessment on the electronic platform. As of 30 June 2010, we issued 117 retail wealth management products with a total sales volume of RMB253,026 million.

Distribution of Fund Products

We achieved rapid growth in distribution of fund products through improving the quality of our services, exploring new marketing efforts and raising wealth management awareness. We have entered into strategic cooperation agreements with many fund management companies. As a result of our marketing efforts, many funds distributed by us set a record among the same type of products during the same period in terms of the size of issuance. In the first half of 2010, we distributed fund products with a total transaction volume of RMB53,450 million and received fees and commissions of RMB708 million, an increase of 95.0% compared to the same period of 2009.

Agency Sales of PRC Government Bonds

In the first half of 2010, the PRC government bond market witnessed an adverse condition facing diverse investment channels and low interest rates. We achieved a stable growth in the PRC government bond business through streamlining our business procedures and increasing marketing efforts. In the first half of 2010, we acted as an agent for the issuance of certificated PRC government bonds of RMB10.8 billion and the cashing of certificated PRC government bonds of RMB8,280 million. We also served as an agent for the sales of electronic PRC government bonds of RMB8,400 million.

Treasury Operations

In respect of treasury operations, we seek for a balance among safety, liquidity and returns on investment portfolios considering financial market developments and macro-economic trends. Our treasury operations cover money market activities, investment and trading activities, treasury transactions on behalf of customers, gold trading and other business lines.

In the first half of 2010, domestic and overseas economic conditions presented significant challenges and our external operating environment faced uncertainties. We adopted a flexible approach in response to the changes in financial markets at home and abroad, adjusted investment and trading strategies at proper time, and achieved sound business growth while meeting liquidity demands and controlling risks within a tolerable range.

Money Market Activities

In the first half of 2010, the PBOC raised the statutory deposit reserve ratio for three times. RMB fund liquidity was relatively ample in the first quarter and became slightly tightened in the second quarter. We enhanced market study and monitoring, and improved fund efficiency while ensuring our liquidity and security. In the first half of 2010, our domestic RMB financing transaction volume amounted to RMB5,422.2 billion, including lending of RMB3,740.9 billion and borrowing of RMB1,681.3 billion.

Affected by RMB appreciation, domestic USD liquidity tightened and domestic USD inter-bank offered rates increased. We seized this favorable opportunity, increased domestic USD inter-bank placements and received good gains.

Investment and Trading Activities

Trading Book Business

In the first half of 2010, we conducted in-depth study of market developments and adjusted trading strategy dynamically. In the first half of 2010, inter-bank foreign exchange spot, forward and swap transactions amounted to USD276.8 billion, and RMB bond trading volume reached RMB1.34 trillion. We were named the "Most Outstanding Market Maker" by National Association of Financial Market Institutional Investors for two consecutive quarters.

Banking Book Business

In the first half of 2010, the yield curve of bond market was flat. In response to the interest rate fluctuation risk in the future, we actively reduced the proportion of available-for-sale financial assets; and increased the securities with a relatively higher yield, such as unsecured bonds, following the recovery trend of domestic economy. As of 30 June 2010, the balance of our non-restructuring related bond investments in RMB reached RMB1,767,601 million, an increase of 1.1% over the end of the previous year.

We continued to pursue a prudent foreign currency bond investment strategy. In respect of maturity structure, our investments focused on the fixed income products with a maturity of three years or below, and mitigated market risk by reducing the duration of investment portfolio; in terms of category structure, newly added investments focused on sovereign bonds.

Treasury Transactions on Behalf of Customers

In the first half of 2010, the transaction volume of our RMB exchange settlement and sales on behalf of customers reached USD76,144 million, and that of foreign exchange trading on behalf of customers (including "Wai Hui Bao") stood at USD3,660 million. We placed 11 "Hui Li Feng" wealth management products for three times, and realized a sales volume of RMB940 million cumulatively.

Precious Metal Business

Leveraging on our advantages in proprietary precious metal business and outlet channel, we actively expanded the domestic and foreign gold trading as well as purchase and sales of physical gold. In the first half of 2010, we traded precious metals of 837 tons for our own account and on behalf of customers. To satisfy the demands of different categories of customers for risk aversion and investments, we introduced precious metal forward business, actively researched and developed agency retail spot deferred trading system and gold passbook product. We built a bank-wide system covering precious metal products, financing and services targeting at retail, corporate and institutional customers.

Distribution Channels

Physical Outlets

As of 30 June 2010, we had 23,560 branch outlets. These branch outlets covered 100% of the provincial-level administrative region, 100% of the prefectural-level cities, and 99.5% of the county-level administrative regions. We were the only large commercial bank that had branch outlets covering all of the large and medium cities and most of the counties in China.

We increased our efforts to rationalize branch outlet structure and layout, and allocated more resources to key regions for local outlet construction to effectively improve customer service capability and operating efficiency of outlets. In the first half of 2010, we moved 454 outlets and brought 1,720 outlets to standardized operations. The outlets of separate functional areas increased by 409 over the end of the previous year to 6,226.

Electronic Banking

We have been devoted to continuously improving electronic service. Through building the electronic banking service system represented by Internet banking, telephone banking, mobile banking, self-service banking and customer service centre, we provided customers with a full spectrum of quality online financial services. As of 30 June 2010, we had over 100 million electronic banking customers. We made 6,483 million electronic transactions in the first half of 2010, accounting for 53.9% of total transactions, an increase of 4.1 percentage points compared to the previous year.

Internet Banking

As of 30 June 2010, our Internet banking customers numbered 31.66 million, an increase of 40.4% over the end of 2009, and total transaction value of Internet banking reached RMB29.84 trillion in the first half of 2010, an increase of 118.4% over the same period of last year. The new-generation portal website continuously exhibited its effects in terms of product marketing, information release and interaction with customers. In the first half of 2010, browsing volume of this new portal website reached 820 million, an increase of 15.8% compared to the same period of 2009, further enhancing its influence on customers.

95599 Customer Service Centre

We offered around-the-clock phone banking services through the customer service number "95599", which can be accessed throughout China. The service scope of Customer Service Centre (Tianjin) has been extended to 19 branches. County Area Customer Service Centre (Chengdu) and Customer Service Centre (Shanghai) were put into operation, indicating a formation of the system of three customer service centers. As of 30 June 2010, we had 26.19 million phone banking customers, an increase of 51.2% over the end of the previous year.

Mobile Banking

As of 30 June 2010, the number of our mobile banking customers reached 8.41 million, an increase of 179.4% over the end of the previous year; we had 42.55 million customers contracted for SMS, an increase of 52.7% over the end of the previous year. We sent a total number of 1.16 billion short messages to contracted customers, an increase of 126.6% compared to the same period of 2009.

Self-Service Banking

We placed self-service terminals at a steady speed and witnessed continuously increased transaction volumes. As of 30 June 2010, we had 61,821 self-service terminals, an increase of 13.0% over the end of 2009. Our total transaction volume of self-service banking amounted to RMB5.79 trillion, an increase of 66.4% compared to the same period of 2009.

Overseas Business

In the first half of 2010, we moved forward in implementing our international strategy. Our Sydney Representative Office was opened on 10 March. The applications for upgrading of three representative offices in New York, London and Tokyo to operating institutions were approved by CBRC. ABC International Holdings Limited integrated ABCI Securities Company Limited and ABCI Insurance Company Limited smoothly.

In the first half of 2010, our branches in Hong Kong and Singapore focused upon optimizing assets allocation and improving customer structure while consolidating the strengths of traditional businesses. Both branches also strengthened joint marketing and synergic business development between domestic and overseas branches, and actively launched new services such as RMB settlement for cross-border trade, which contributed to an upgrading of integrated service capabilities. ABC International Holdings Limited gradually set up the diversified operating platform, focused on coordinating development of various financial services at home and abroad, and served as a joint global coordinator and joint bookkeeper for the IPO and listing of our H shares.

As of 30 June 2010, total assets of our overseas branches and subsidiaries reached RMB59,508 million, and the net profit was RMB341 million in the first half of 2010.

Information Technology

Secure and Smooth Operation of Information System

In the first half of 2010, our core banking system operated in a secure and smooth manner, the average daily transaction volume of which exceeded 100 million for the first time, enabling us to become the second commercial bank with daily transaction volume topping 100 million. The electronic banking system was moved from Beijing to the Data Center in Shanghai. Its operating environment was improved in all material aspects and the operation management capabilities enhanced significantly.

Promoting the Construction of New-generation Core Banking System Construction

We accelerated the construction project of new-generation core banking system, defined the business scope, design concept, data model and the direction of subsequent demand setting and overall design of new-generation core banking system and completed the development of original core banking system; substantially completed the planning on business framework and application framework, made an overall plan on data management and prepared the roadmap on IT implementation in the coming three years; substantially completed the establishment of financial data model and streamlining of corporate data standardization and completed the preliminary stage of the planning and design on overall technology infrastructure of data platform.

Increased Efforts on R&D of Information Technology Products

To address the needs arising from our business operation and management, we organized the construction of a batch of important information systems, providing powerful technical support to product innovation and business decision-making. The new financial accounting and reporting system was rolled out successfully; information system projects about Trade Express Phase I and operational risk management were implemented on a nationwide basis; credit management system cluster, entrusted asset disposal system, private banking management system, Golden Key customer wealth expert system and County Area retail customer information management system were successfully rolled out; and the construction of centralized platform system and centralized international settlement system were also completed.

Improvement in IT Infrastructure

We continued to improve and integrate IT infrastructure including systems and network frameworks, and solidified the basic operating environment of information systems. The construction of integrated production and operation system, emergency management system and disaster recovery system generated significant progress. The integration of management systems, and standardization of equipment at outlets and computer rooms were promoted.

Continuing to Improve IT Management

We further improved the information technology working mechanism to promote sound development of our IT professional team. We strengthened intensive management over information technology and improved the professional management structure for software R&D and operation. On the basis of Capability Maturity Model Integration (CMMI) level 3, we continued to strengthen process management and quality control of software R&D, and implemented the standards and norms on the ISO 20000 IT service management system. We strengthened the coordination in information technology between the Head Office and branches, and improved the performance evaluation of information technology staff.

Human Resources Management

Cultivation and Development of Human Resources

We continuously improved human resources cultivation and development system, and promoted the all-around improvement of staff in comprehensive quality, professional skills and service capability. We strengthened the efforts on cultivation of talents by various means including conducting EMBA core course training classes with domestic and overseas leading business schools, participating in material projects and implementing a rotation system. We implemented the Cambridge training program, launched the Canadian EMBA training project and organized top talents to study abroad. We strengthened the training of branch staff with a focus on heads, risk management and internal control managers, independent credit approvers and persons in charge of operation of County Area outlets, and completed the bank-wide training project of outlet heads.

Comprehensive Human Resources Reform

We continued to deepen the reform of organizational system and County Area banking business division organization, constantly tracked and earnestly studied the establishment and operation of organizations, stressed on post-reform assessment on organizations, studied and made suggestions on further optimizing organizational framework. We actively promoted the reform of post system. The post system reform of the Head Office was completed first, where, the reform objective of "person selecting suitable post and post getting suitable person" was substantially accomplished, fully exhibiting the concepts of management by post, matching person and post, performance orientation and engaging the excellent. In the meantime, we carried out the post system of the branches on a bank-wide basis.

Remuneration and Benefit Management

We continued to promote the remuneration system construction and further refined the remuneration and benefit incentive and constraints mechanism. In line with our development strategy, we strived to improve the remuneration resource allocation strategy for the Urban and County Area operation and management. We have implemented distribution system reform, enhanced the standard management of income distribution and promoted the sustained and sound development of businesses. We established and improved the enterprise annuity, social insurance and supplementary medical insurance system, achieved the internal equality of remuneration distribution and external competitiveness of remuneration incentive, effectively attracted, encouraged and retained talented people and enhanced our core competitiveness.

County Area Banking Business

We provide customers in the County Areas with a broad range of financial products and services through 2,048 county-level sub-branches and 22 business departments of tier-2 branches. We refer to such banking business as the "County Area Banking Business". During the reporting period, we leveraged on our strengths in integrated Urban and County Area business, deepened internal reform, actively made financial service innovation and continuously increased the supply of financial services to County Areas. Our County Area Banking Business witnessed a rapid growth. As of 30 June 2010, the loan balance of County Area Banking Business was RMB1,407,079 million, an increase of RMB213,666 million or 17.9% over the end of the previous year; the NPL ratio stood at 2.75%, a decrease of 0.94 percentage points over the end of the previous year; the deposit balance of County Area Banking Business was RMB3,358,795 million, an increase of RMB324,149 million or 10.7% over the end of the previous year.

Reform of Internal Management Mechanisms

Organizational Framework

We have formed a County Area Banking Business Division dedicated to the professional operation and management of County Area Banking Business. During the reporting period, we further refined the management framework, set up the County Area Credit Management Division at the Head Office, built separate County Area credit management sub-divisions in tier-1 and tier-2 branches of eight pilot provinces that have implemented business line reform including Gansu, and devised the "County Area" credit system within our bank-wide credit policy and framework of credit review and approval, loan disbursement and post-disbursement management.

Credit Management

On the basis of pilot reform program, we revised policies and procedures on overall "County Area" credit business, authorization, credit line extension and guarantee. We improved the credit access policy applicable to key industries and regions in the County Areas, streamlined the "County Area" credit business process, and strengthened the team build-up of designated credit reviewers and approvers of County Area credit business.

Fund Management

We strengthened the economic capital management of county-level sub-branches, adopted RMB fund management in full amount, separately prepared fund operation plan of County Area Banking Business Division and established standardized internal fund transfer pricing mechanism of County Area Banking Business Division.

Performance Evaluation and Incentives

We further improved the comprehensive performance evaluation system of County Area Banking Business Division, set performance indicators of its specialized departments and centers, and refined performance indicators system of County Area Banking Business Division. We allocated special strategic expenses to facilitate the credit plan, human resources plan and total salary for our County Area Banking Business separately, and linked them more closely with performance.

County Area Corporate Banking Business

During the reporting period, we prepared six core development plans and organized their implementation concerning major target customers including leading enterprises (and their suppliers, customers and distributors) in agricultural industrialization, rural urbanization, County Area commodity circulation, rural public services and County Area SMEs, which were key fields of County Area corporate banking business. We continued to promote the management of County Area corporate customers by segmentation and category, increased efforts to foster core customer groups and promoted headquarter-based marketing. We prepared comprehensive financial service plans for leading customers in each industry to enhance the quality of our financial services, consolidate and deepen the cooperation between the Bank and enterprises.

We accelerated the R&D of new products meeting the demands of County Area corporate customers and launched new products such as "County Area Tourism Development and Construction Loan", "Small Water Power Loan" and "County Area Construction Industry Loan", further enriching our County Area corporate products mix.

As of 30 June 2010, our outstanding County Area corporate loans amounted to RMB980,768 million, representing 28.8% of total corporate loan balance, an increase of RMB149,675 million or 18.0% over the end of the previous year. Our outstanding County Area corporate deposits amounted to RMB1,039,877 million, representing 31.6% of total corporate deposit balance, an increase of RMB105,736 million or 11.3% over the end of the previous year.

County Area Retail Banking Business

During the reporting period, we designed and carried out special marketing plans to drive the development of County Area retail banking business. We accelerated the R&D of retail products tailored for various geographical regions, and rolled out distinctive County Area banking products such as residential mortgage loans for new countryside construction projects, loans to finance new countryside residential housing construction, retail vessel mortgage loans, loans to high-end County Area customers, loans to finance urbanization construction in reclamation areas and loans to rural households, with a view to addressing various credit demands in County Areas.

We further expanded new rural insurance agency business. We strengthened guidance tailored for County Areas on this business and urged branches to improve marketing efforts. As of 30 June 2010, we had selected to launch new rural insurance agency business in 117 pilot County Area sub-branches in the first group of 320 pilot counties of new rural insurance as designated by the government on a pilot basis; and we had selected to launch new rural insurance agency business in 89 County Area sub-branches in provincial governments.

We placed more electronic equipment such as money transfer phones and self-service terminals, launched "Petty Cash Withdrawal through Phone Banking" and extended its service scope, built electronic service platforms such as County Area customer service centre, County Area e-commerce payment and County Area customer message to enable us to serve County Area market via low-cost and high-efficiency electronic channels.

As of 30 June 2010, our outstanding County Area retail loans amounted to RMB399,301 million, an increase of RMB94,172 million or 30.9% over the end of the previous year. We issued 46.7 million Kins Huinong Cards cumulatively, an increase of 13.34 million over the end of the previous year.

Financial Position

Assets and Liabilities

In the first half of 2010, we achieved a steady growth in the County Area Banking Business. As of 30 June 2010, total assets of the County Area Banking Business reached RMB3,457,181 million, an increase of RMB222,078 million or 6.9% over the end of the previous year; total liabilities of the County Area

Banking Business reached RMB3,444,995 million, an increase of RMB227,589 million or 7.1% over the end of the previous year.

The following table sets forth the major items of assets and liabilities of the County Area Banking Business on the dates shown below:

In millions of RMB, except percentages

Item	30 June 2010 Amount	30 June 2010 % of total	31 December 2009 Amount	31 December 2009 % of total
Loans and advances to customers, total	1,407,079	—	1,193,413	—
Allowance for impairment losses	(52,847)	—	(43,327)	—
Loans and advances to customers, net	1,354,232	39.2	1,150,086	35.6
Inter-bank balances [1]	2,019,972	58.4	1,975,226	61.1
Other assets [2]	82,977	2.4	109,791	3.3
Total assets	**3,457,181**	**100.0**	**3,235,103**	**100.0**
Deposits from customers	3,358,795	97.5	3,034,646	94.3
Other liabilities [3]	86,200	2.5	182,760	5.7
Total liabilities	**3,444,995**	**100.0**	**3,217,406**	**100.0**

Notes: 1. Represents funds provided by our County Area Banking Business to other business through internal funds transfers.
2. Mainly include cash, deposits and placements with banks and financial institutions, financial assets held under resale agreements, investments classified as receivables and fixed assets.
3. Mainly include deposits and placements from banks and other financial institutions, financial assets held under repurchase agreements, borrowing from central bank, accrued staff cost, tax liabilities and other liabilities.

Profit

In the first half of 2010, profit before tax from our County Area Banking Business increased by 81.9% to RMB14,519 million as compared to RMB7,980 million in the same period of 2009, primarily due to the continued growth of the County Area Banking Business, improvement in interest-earning assets structure as well as rapid increases in net fee and commission income. The following table sets forth, for the periods indicated, the condensed results of operations of our County Area Banking Business:

In millions of RMB, except percentages

	Six months ended 30 June 2010	Six months ended 30 June 2009	Change	Growth Rate (%)
External interest income	35,906	26,671	9,235	34.6
Less: External interest expense	20,210	21,891	-1,681	-7.7
Interest income from intra-bank balances[1]	25,068	21,740	3,328	15.3
Net interest income	**40,764**	**26,520**	**14,244**	**53.7**
Net fee and commission income	8,770	6,210	2,560	41.2
Other net income[2]	638	371	267	72.0
Operating income	**50,172**	**33,101**	**17,071**	**51.6**
Less: Operating expenses	25,969	18,697	7,272	38.9
Provisions for impairment losses	9,684	6,424	3,260	50.7
Profit before tax	**14,519**	**7,980**	**6,539**	**81.9**

Notes: 1. Represents interest income earned on funds provided to our other business at internal funds transfer pricing, which is determined based on market rates.
2. Includes net trading gain, net (loss)/gain on financial instruments designated as at fair value through profit or loss, net gain on investment securities and other net operating income.

Key Financial Indicators

The following table sets forth, at the dates or for the periods indicated, key financial indicators of our County Area Banking Business.

%

Item	Six months ended 30 June 2010	Six months ended 30 June 2009
Return on average total assets[1]	0.69	0.42
Average yield of loans	5.47	5.54
Average cost of deposits	1.21	1.56
Net fee and commission income to operating income	17.48	18.76
Cost-to-income ratio[2]	47.03	51.06
Item	**30 June 2010**	**31 December 2009**
Loan-to-deposit[3]	41.89	39.33
Non-performing loan ratio[4]	2.75	3.69
Allowance to non-performing loans[5]	136.76	98.26
Allowance to total loans[6]	3.76	3.63

Notes: 1. Represents the net profit for the period as a percentage of the average balance of total assets at the beginning and end of the period. The net profit for the period represents a product of profit before tax multiplied by the difference between 1 and the effective income tax rate of our Bank. The average balance of total assets represents the average of the balance at the beginning of the period and the balance at the end of the period.

2. Calculated by dividing operating expenses (excluding business tax and surcharges) by the sum of net interest income, net fee and commission income and other non-interest income.

3. Calculated by dividing total loans by deposit balance.

4. Calculated by dividing non-performing loans to customers by total loans to customers. According to the five category loan classification of PBOC and CBRC, loans classified in the substandard, doubtful and loss categories are regarded as non-performing loans.

5. Calculated by dividing the allowance for impairment losses on total loans by total non-performing loans to customers.

6. Calculated by dividing the allowance for impairment losses on total loans by total loans to customers.

Risk Management

Comprehensive Risk Management System

In the first half of 2010, we continued to implement the comprehensive risk management system agenda and made a significant progress in the construction of comprehensive risk management system. Specifically, we improved the risk management policies and procedures, and formulated a set of risk management policies and operational procedures. We improved the organizational structure of risk management by assigning risk officers to tier-two branches and assigning risk compliance managers to County Area sub-branches and urban branches. We also continuously improved and implemented the 12-category loan classification, internal rating and other risk management methodologies and tools, upgraded the risk management tools and systems and expanded their application, and enhanced the employment of quantitative techniques and electronic means in risk management.

We have been preparing for the implementation of the New Basel Capital Accord with increased efforts to build up relevant supporting systems. We carried out new tests on the non-retail Internal Rating Based (IRB) system, completed development of the credit risk data mart and the Risk-Weighted Asset (RWA) calculation engine (Phase I), optimized the retail scorecard and made further progress in the retail IRB system. We also further advanced the project of market risk Internal Model Approach (IMA). We improved the operational risk management policies and procedures, conducted risk identification and assessment, collected historical loss data, improved key risk indicators for operational risk, and strengthened quantitative measurement of operational risk.

Credit Risk

Credit Risk Management

In the first half of 2010, we enhanced credit risk management in compliance with macro-economic control policies and new lending rules of CBRC in response to changes in macro-economic and financial market conditions. We stepped up our efforts to establish credit risk management policies and procedures, implemented reforms on credit management mechanisms and systems, enhanced management of credit business covering the entire stages of credit extension, including pre-loan review, credit rating, credit review and approval, disbursement review and post-disbursement monitoring, and continuously implemented the refined and differentiated management of credit business. We also adjusted the composition of our loan mix and strengthened credit portfolio management, enhanced the effectiveness of collateral risk mitigation and coverage of provisions for loan losses, improved the procedures for handling significant credit risk events, expedited recovery of Non-Performing Loans (NPLs), and continuously improved our capability of risk tolerance and mitigation.

- We stepped up our efforts to develop credit policies and procedures. Specifically, we formulated the credit policy guidelines for 2010, revised the credit policy for real estate and iron and steel industries, and set out new credit policy on coal chemicals and coke industries. We also developed auxiliary policies and measures for the credit business of key urban branches to make the credit policy more region-specific. In addition, we amended the administrative measures for working capital loans, and formulated over 30 credit management policies and procedures, including management of syndicated loans and disbursement of corporate loans, to regulate business development and effectively strengthen risk control.

- We improved credit authorization management, and advanced reform on the credit approval mechanism. We revised the administrative procedures for credit business authorization, which adjusted the scope of authorization as well as the manner in which authorization was given, and applied differentiated authorizations to tier-one branches based on comprehensive assessment on credit management, with differentiated authorization for key customers in targeted industries, key projects, customers directly managed by the Head Office and key urban branches. We also formulated the performance evaluation measures for credit review and approval officers to regulate and strengthen management of credit review and approval officers.

- We refined credit structure, reinforced risk control for key industries and areas, and enhanced portfolio management capability. Specifically, we set limits on exposure to certain industries with large exposures and high risks and controlled lending to industries with energy consuming, high pollution, and over-capacity and resource-based industries. We also implemented and expanded customer list-based management by establishing standards for classification of customers in coal chemicals, coke and other industries and the list of customers classified, and by reducing loans to customers with potential risk. We issued guidelines on managing loans to the governmental financing vehicles to strengthen risk control of loans extended to them and mitigate risks on a timely basis. In addition, we stepped up our efforts to study the real estate market policies and monitor credit risks, amended administrative measures for commercial property development loans and non-residential property loans, conducted customer list-based management, and carried out stress test on real estate loans to effectively prevent and control risks.

- We enhanced our management of retail loans and credit card risks. Specifically, we amended administrative measures for retail credit business, developed the centralized retail lending tracking system and the retail lending process tracking and statistical system, refined the retail lending process, and conducted risk monitoring continuously. In accordance with the real estate regulation requirements, we made timely adjustments to the policy on residential mortgage loans, standardized the criteria on extending loans to finance second home, set stricter conditions on disbursement of residential mortgage loans, strengthened management of collateral and supporting documents, and adopted differentiated pricing. We advanced the credit card IRB project and applied its outcomes in an orderly manner, continuously stepped up efforts to build the IT system for credit card risk management, and carried out outsourced collection of credit card debts and write-off of bad debts.

- We strengthened risk control for our County Area Banking Business. We reinforced supervision over risk management at County Area sub-branches, improved suspension and resumption management of County Area credit products, effectively mitigated product risks and regional risks of County Area banking business, increased timeliness and pertinence of adjustments to County Area business authorization, and urged our branches to improve risk control. We enhanced early warning and control of natural disaster risks, and carried out risk detection against loans to County Area government financing vehicles, County Area real estate loans and small loans to rural households.

- We enhanced management of loan classification and restructured loans. We improved the loan classification system, enhanced risk detection and dynamic monitoring of existing loans, collected information on loan quality on a timely basis, and made timely reclassification of loans at risk. We formulated the administrative measures for restructuring corporate non-performing loans, which set out requirements on payment rescheduling, interest rate adjustment, changes in collateral, review and approval, in order to effectively manage risks relating to restructured loans.

- We upgraded and rolled out the credit management system to promote online processing of credit business. A number of branches carried out online processing covering all products, processes and units, and achieved machine-based discipline and whole-process monitoring, to effectively enhance IT productivity and operating efficiency of credit business.

Credit Risk Analysis

Maximum Exposure to Credit Risk

In millions of RMB

Item	30 June 2010	31 December 2009
Balances with central banks	1,772,749	1,468,910
Deposits with banks and other financial institutions	79,539	61,693
Placements with banks and other financial institutions	57,790	49,435
Financial assets at fair value through profit or loss	97,187	112,176
Available-for-sale financial assets	606,225	729,895
Held-to-maturity investments	1,082,844	883,915
Investments classified as receivables	811,149	890,199
Derivative financial assets	5,706	4,678
Financial assets held under resale agreements	431,307	421,093
Loans and advances to customers, net	4,478,230	4,011,495
Other assets	52,475	35,621
Sub-total	9,475,201	8,669,110
Credit commitments	1,506,500	1,221,683
Total	**10,981,701**	**9,890,793**

Distribution of Loans by Collateral

In millions of RMB, except percentages

	30 June, 2010		31 December 2009	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Loans secured by mortgages	1,888,252	40.9	1,562,141	37.7
Pledged loans	522,386	11.3	677,776	16.4
Guaranteed loans	1,300,342	28.1	1,101,661	26.6
Unsecured loans	913,003	19.7	796,609	19.3
Total	**4,623,983**	**100.0**	**4,138,187**	**100.0**

As at 30 June 2010, loans secured by mortgages, pledged loans and guaranteed loans totaled RMB3,710,980 million, representing an increase of RMB369,402 million over the end of 2009 and accounting for 80.3% of gross loans. Pledged loans declined by RMB155,390 million over the end of 2009, mainly due to our reduction of discounted bill portfolio.

Distribution of Overdue Loans by Period Overdue

In millions of RMB, except percentages

Item	30 June 2010 Amount	30 June 2010 Percentage of total loans (%)	31 December 2009 Amount	31 December 2009 Percentage of total loans (%)
Overdue for 90 days or less	25,695	0.6	20,417	0.5
Overdue for 91–360 days	9,342	0.2	16,299	0.4
Overdue for 361 days–3 years	42,823	0.9	40,233	1.0
Overdue for more than 3 years	4,421	0.1	1,201	—
Total	**82,281**	**1.8**	**78,150**	**1.9**

As at 30 June 2010, the balance of overdue loans amounted to RMB82,281 million, representing an increase of RMB4,131 million over the end of 2009; the percentage of overdue loans was 1.8%, down 0.1 percentage point over the end of 2009.

Loan Concentration

In millions of RMB, except percentages

Top 10 single borrowers	Industry	Amount	Percentage of total loans (%)
Borrower A	Production and supply of power, gas and water	17,265	0.37
Borrower B	Real estate	10,290	0.22
Borrower C	Transportation, logistics and postal services	10,045	0.22
Borrower D	Real estate	10,000	0.22
Borrower E	Manufacturing	9,939	0.21
Borrower F	Leasing and commercial services	9,921	0.21
Borrower G	Construction	9,800	0.21
Borrower H	Water, environment and public utilities management	8,971	0.20
Borrower I	Manufacturing	8,810	0.19
Borrower J	Production and supply of power, gas and water	8,686	0.19
Total		**103,727**	**2.24**

As at 30 June 2010, the loans granted to the largest single borrower accounted for 4.02% of our regulatory capital, in compliance with regulatory requirements.

Distribution of Loans by Five-category Classification

In millions of RMB, except percentages

Item	30 June 2010 Amount	30 June 2010 Percentage (%)	31 December 2009 Amount	31 December 2009 Percentage (%)
Normal	4,204,677	90.93	3,693,136	89.24
Special mention	312,220	6.75	324,810	7.85
Non-performing loans (NPLs)	107,086	2.32	120,241	2.91
Sub-standard	41,257	0.89	52,575	1.27
Doubtful	59,481	1.29	62,895	1.52
Loss	6,348	0.14	4,771	0.12
Total	**4,623,983**	**100.00**	**4,138,187**	**100.00**

We recorded decreases in both balance of non-performing loans and NPL ratio, reflecting continuous improvement in loan quality. As at 30 June 2010, the balance of non-performing loans stood at RMB107,086 million, representing a decrease of RMB13,155 million from the end of 2009, and non-performing loan ratio dropped by 0.59 percentage point to 2.32%, mainly because (1) we employed stricter criteria on customer admission, which led to high quality of loans to new borrowers; (2) we implemented and expanded customer list-based management, and reduced loans exposed to potential risks; and (3) we stepped up efforts to recover and dispose of non-performing loans, which created good results.

Distribution of Non-Performing Loans by Product Type

In millions of RMB, except percentages

Item	30 June 2010 Amount	30 June 2010 Percentage (%)	30 June 2010 NPL ratio (%)	December 31 2009 Amount	December 31 2009 Percentage (%)	December 31 2009 NPL ratio (%)
Corporate loans	95,943	89.6	2.81	108,785	90.5	3.66
Of which: Short-term corporate loans	42,688	39.9	3.11	46,329	38.6	3.74
Medium- and long-term corporate loans	53,255	49.7	2.61	62,456	51.9	3.61
Discounted bills	28	—	0.02	66	—	0.02
Personal loans	10,816	10.1	1.06	11,072	9.2	1.40
Residential mortgage loans	5,038	4.7	0.79	5,389	4.5	1.08
Credit card balances	378	0.4	1.65	282	0.2	2.00
Personal consumption loans	407	0.4	0.35	456	0.4	0.53
Loans to private businesses	2,768	2.6	2.33	3,426	2.8	3.23
Loans to rural households	1,002	0.9	0.88	942	0.8	1.18
Others	1,223	1.1	21.17	577	0.5	9.40
Overseas and others	299	0.3	0.65	318	0.3	1.14
Total	**107,086**	**100.0**	**2.32**	**120,241**	**100.0**	**2.91**

The balance of corporate non-performing loans was RMB95,943 million, representing a decrease of RMB12,842 million over the end of 2009, and non-performing loan ratio dropped by 0.85 percentage point to 2.81%. The balance of personal non-performing loans declined by RMB256 million to RMB10,816 million over the end of 2009, and non-performing loan ratio went down by 0.34 percentage point to 1.06%.

Distribution of Non-Performing Loans by Geographic Region

In millions of RMB, except percentages

Item	30 June 2010 Amount	30 June 2010 Percentage (%)	30 June 2010 NPL ratio (%)	December 31 2009 Amount	December 31 2009 Percentage (%)	December 31 2009 NPL ratio (%)
Head office	2,023	1.9	2.52	2,127	1.8	1.74
Yangtze River Delta	18,238	17.0	1.41	22,194	18.5	1.93
Pearl River Delta	12,153	11.3	1.79	14,888	12.4	2.43
Bohai Rim	17,352	16.2	2.18	19,642	16.3	2.78
Central China	15,349	14.3	2.76	16,086	13.3	3.30
Northeastern China	5,556	5.2	3.56	6,146	5.1	4.68
Western China	36,116	33.8	3.55	38,840	32.3	4.31
Overseas and others	299	0.3	0.65	318	0.3	1.14
Total	**107,086**	**100.0**	**2.32**	**120,241**	**100.0**	**2.91**

We continued to make the credit policy more region-specific, strengthened risk control of regions with higher NPL ratios and maintained steady growth of regional credit business. During the reporting period, non-performing loan ratio dropped by 1.12, 0.76 and 0.64 percentage points from the end of 2009 in Northeastern China, Western China and Pearl River Delta, respectively.

Distribution of Corporate Non-Performing Loans by Industry

In millions of RMB, except percentages

Item	30 June 2010 Amount	30 June 2010 Percentage (%)	30 June 2010 NPL ratio (%)	December 31 2009 Amount	December 31 2009 Percentage (%)	December 31 2009 NPL ratio (%)
Manufacturing	30,488	31.8	3.01	34,445	31.7	3.88
Production and supply of power, gas and water	13,594	14.2	3.67	16,062	14.8	3.90
Real estate	10,184	10.6	1.90	14,816	13.6	3.47
Transportation, logistics and postal services	10,160	10.6	2.96	9,243	8.5	3.05
Wholesale and retail	9,535	9.9	3.50	10,412	9.6	4.58
Water, environment and public utilities management	3,773	3.9	1.83	3,715	3.4	2.39
Construction	3,343	3.5	2.46	2,761	2.5	2.77
Mining	692	0.7	0.67	1,179	1.1	1.26
Leasing and commercial services	2,482	2.6	1.25	3,152	2.9	2.18
Information transmission, computer service and software	312	0.3	1.41	551	0.5	1.95
Others	11,380	11.9	5.35	12,449	11.4	6.52
Total	**95,943**	**100.0**	**2.81**	**108,785**	**100.0**	**3.66**

In the first half of 2010, outstanding non-performing loans decreased most in the three industries of real estate, manufacturing and production and supply of power, gas and water. Specifically, outstanding non-performing loans to the real estate industry stood at RMB10,184 million, representing a decrease of RMB4,632 million from the end of 2009, and the non-performing loan ratio dropped by 1.57 percentage points; outstanding non-performing loans to the manufacturing industry amounted to RMB30,488 million, representing a decrease of RMB3,957 million from the end of 2009, and the non-performing loan ratio dropped by 0.87 percentage point; outstanding non-performing loans to the industry of production and supply of power, gas and water were RMB13,594 million, representing a decrease of RMB2,468 million from the end of 2009, and the non-performing loan ratio went down by 0.23 percentage point.

Movements in Allowance for Impairment Loss on Loans

In millions of RMB

Item	Individually assessed	Collectively assessed	Total
As at 1 January 2010	55,596	71,096	126,692
Net additions	280	19,448	19,728
Write off	(7)	(1)	(8)
Transfer-in/out			
— Recovery of loans and advances written off in previous years	4	3	7
— Unwinding of discount on allowance	(636)	(78)	(714)
— Exchange difference	(1)	(18)	(19)
— Others	67	—	67
As at 30 June 2010	**55,303**	**90,450**	**145,753**

As at 30 June 2010, allowance for impairment losses on loans stood at RMB145,753 million, representing an increase of RMB19,061 million from the end of 2009. Specifically, the balance of allowance for impairment losses on a collectively assessed basis stood at RMB90,450 million, up RMB19,354 million from the end of 2009; the balance of allowance for impairment losses on an individually assessed basis was RMB55,303 million, down RMB293 million from the end of 2009. The ratio of allowance to non-performing loans went up by 30.74 percentage points from the end of 2009 to 136.11%, representing an enhancement of risk mitigation.

Market risk

Market risk refers to the risk of losses in the on- and off-balance-sheet businesses of banks as a result of adverse change in market prices. Market risk is divided into interest rate risk, exchange rate risk, stock price risk and commodity price risk. Our market risks mainly include interest rate risk and exchange rate risk.

In the first half of 2010, we continued to improve the system of market risk management policies and procedures, clarified bank-wide market risk level and appetite, enhanced risk management of treasury services on behalf of our customers, refined the system of market risk limits, and rolled out the upgraded treasury operation system. As a result, our market risk management continued to improve.

Market Risk Management for Trading Book

We managed the market risk of trading book by adopting methodologies such as exposure limit management, sensitivity analysis, duration, stress testing and value at risk (VaR). During the reporting period, we formulated policies on treasury investments and market risk management for 2010 and administrative measures for asset pool wealth management products and corporate derivatives trading to strengthen market risk management for trading book and specify risk management responsibilities and processes for treasury services on behalf of our customers. In addition, we improved functions of the RMB and foreign currency treasury operation system, rolled out the treasury operation system in overseas branches, and achieved centralized measurement and monitoring of market risk in the bank-wide treasury investments.

Market Risk Management for Banking Book

We managed the market risk of banking book by adopting methodologies such as exposure limit management, stress testing, scenario analysis and gap analysis.

Interest Rate Risk Management

Interest rate risk is a risk that may cause loss to our income or economic value arising from adverse movements of statutory or market interest rate. The banking book interest rate risks of our Bank are mainly from mismatched maturities or re-pricing periods of interest rate sensitive assets and liabilities in the banking book.

In the first half of 2010, for the purpose of increasing net interest margin, we closely watched movements in monetary policy and financial markets, made timely adjustments to internal and external pricing strategies.

We regularly measured the interest rate sensitivity gap and adjusted the re-pricing maturity structure of interest-earning assets and interest-bearing liabilities by monitoring the impact of interest rate changes on net interest income in different interest rate environments, thereby ensuring the interest rate risk exposure was controlled within an acceptable level.

Exchange Rate Risk Management

Exchange rate risk is the risk arising from currency mismatch between assets and liabilities. Exchange rate risk includes the trading exchange rate risks that could be hedged, and the exchange rate risk caused by structured asset and liability (the "structured exchange rate risk"), which could be difficult to mitigate in operations.

In the first half of 2010, we controlled exchange rate risk within a reasonable range by regularly monitoring exchange rate risk exposure, controlling foreign exchange sale and purchase exposures, organizing foreign currency-denominated deposit taking and reasonably developing foreign currency lending.

Market Risk Exposure Limit Management

In the first half of 2010, we further improved the market risk exposure limit system, and established the double-line monitoring and reporting mechanism that involves both the risk management function and the departments (institutions) taking market risks. We also developed the list of exposure limits for treasury investments and market risks for 2010, added exchange rate risk limits, annual stop-loss limits and wealth management product limits. As a result, business sensitivity of market risk limits and effectiveness of risk control were improved.

Interest Rate Risk Analysis

As at 30 June 2010, the accumulative negative gap sensitive to interest rate due within one year totaled RMB886,043 million, representing a decrease of RMB119,751 million from the end of 2009.

Interest Rate Risk Gap

In millions of RMB

	Within 1 month	1–3 months	3–12 months	1 year and below, sub-total	1–5 years	Over 5 years	Non-interest earning
30 June 2010	(2,384,574)	848,566	649,965	(886,043)	150,079	1,013,447	(7,951)
31 December 2009	(2,160,613)	842,107	312,712	(1,005,794)	266,780	1,018,594	(56,320)

Note: Please refer to "Note 49 to Financial Statements: Financial Risk Management" for details.

Interest Rate Sensitivity Analysis

In millions of RMB

	30 June 2010		December 31 2009	
Movements in basis points	**Movements in net interest income**	**Movements in other comprehensive income**	**Movements in net interest income**	**Movements in other comprehensive income**
Increase by 100 basis points	(12,803)	(14,677)	(12,516)	(14,826)
Decrease by 100 basis points	12,803	15,795	12,516	15,851

The above interest rate sensitivity analysis shows the movements in net interest income and other comprehensive income under different interest rates. Such analysis is based on the assumption that there is a parallel shift in the yield curve and in the interest rates, and takes no consideration of the action that the Management may take to reduce interest rate risk.

Base on our assets and liabilities as at 30 June 2010, net interest income for the year immediately following 30 June 2010 will decrease (or increase) by RMB12,803 million if interest rates immediately increase (or decrease) by 100 basis points. Other comprehensive income will decrease by RMB14,677 million if interest rates immediately increase by 100 basis points, or increase by RMB15,795 million if interest rates immediately drop by 100 basis points.

Exchange Rate Risk Analysis

Our exchange rate risk is mainly the exposure risk arising from the exchange rate of USD against RMB. In the first half of 2010, the exchange rate of RMB against USD went up by 373 basis points or 0.55% accumulatively. As at 30 June 2010, our net foreign change exposure amounted to USD2,230 million, down USD2,187 million from the end of 2009.

Foreign Exchange Exposure

In millions of RMB (USD)

	30 June 2010		December 31 2009	
	RMB	USD equivalent	RMB	USD equivalent
Net foreign exchange exposure of domestic financial assets/liabilities	2,696	397	26,706	3,911
Net foreign exchange exposure of overseas financial assets/liabilities	12,445	1,833	3,456	506
Net foreign exchange exposure of domestic and overseas financial assets/liabilities	15,141	2,230	30,162	4,417

Exchange Rate Sensitivity Analysis

In millions of RMB

Currency	Increase/decrease in exchange ratio of foreign currency against RMB	Impact on profit before tax 30 June 2010	Impact on profit before tax December 31 2009
USD	+1%	68	269
	-1%	(68)	(269)
HKD	+1%	(24)	3
	-1%	24	(3)

Foreign currency assets and liabilities held by our Bank were mainly denominated in USD and HKD. Based on the exchange rate exposure as at the end of the reporting period, the profit before tax will increase (or decrease) by RMB68 million for each 1% appreciation (or depreciation) of USD against RMB.

Liquidity Risk

Liquidity risk refers to the risk of being unable to liquidate a position in a timely manner to acquire sufficient funds or failing to acquire sufficient funds at a reasonable cost to fulfill payment obligations. Our liquidity risk lies in concentrated cash withdrawals, massive deferred payment by borrowers, serious mismatches of assets and liabilities maturities and the difficulties in liquidating large-value assets.

Liquidity Risk Management

In the first half of 2010, PBOC continued to implement the moderately loose monetary policy, with higher level of flexibility and pertinence. The statutory deposit reserve ratio was raised for three times by 1.5 percentage points accumulatively. As a result, we experienced an easy-tight-easy change in liquidity, witnessing high volatility of fund position.

In response to liquidity risk stemming from the monetary policy, we mainly took the following measures: (1) strengthening management of large-sum funds forecast, refining management of liquidity and conducting daily forecast, weekly meeting, monthly analysis and quarterly disclosure concerning the reserve plan implementation; (2) implementing liquidity risk limit management, enhancing management of liquidity indicators and reserves of the Head Office/branches, flexibly adjusting multi-level liquidity reserves and maintaining appropriate fund position; and (3) regularly conducting liquidity gap analysis, conducting liquidity stress testing at appropriate time, establishing the system of internal control indicators for liquidity risk and making timely adjustments to liquidity management strategy.

Liquidity Risk Analysis

We assessed liquidity risk through liquidity gap analysis. The negative gap of liquidity repayable on demand widened and the positive gap of liquidity over one year also increased due to rapid growth of on demand liabilities and medium- and long-term assets.

Liquidity Gap Analysis

The table below sets out liquidity gaps of financial assets and liabilities as at the dates indicated.

In millions of RMB

	Overdue/ Open	On demand	Within 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
30 June 2010	1,529,955	(5,124,844)	132,785	95,987	(48,118)	1,426,886	2,256,881	269,532
31 December 2009	1,229,392	(4,610,962)	11,497	187,297	90,335	1,212,325	2,103,376	223,260

Note: Please refer to "Note 49 to Financial Statements: Financial Risk Management" for details.

Operational Risk Management and Anti-money Laundering

Operational Risk Management

Operational risk refers to the risk or loss resulting from inadequate or failed internal control procedures, from human or system related factors, or from external events, including legal risk but not including strategy risk or reputation risk. The operational risk that we face primarily includes, among others, internal fraud, external fraud, damages to property, disruptions to operations or information technology system and problems associated with transaction execution and closing as well as business processes.

In the first half of 2010, we further stepped up efforts to build the operational risk management systems, policies and processes. We identified and streamlined potential risks across the bank, conducted operational risk assessment on bank cards, electronic channels and IT risks, and moved towards optimal processes, improved policies and sound risk control system. We prepared guidelines for monitoring and inspection of key risk areas at outlets, and carried out ongoing monitoring over operational risk of outlets. We also developed and applied operational risk management information system featuring risk identification, monitoring, measurement and reporting, and extended the system to sub-branches, forming a unified operational risk monitoring platform. In addition, we developed uniform standards for operational risk classification, created the bank-wide operational risk data warehouse, and strengthened collection of operational risk loss data and quantitative measurement of regulatory capital, laying a foundation for implementation of the Advanced Measurement Approach (AMA).

Anti-Money Laundering

During the reporting period, we further improved the system of anti-money laundering (AML) policies and procedures by formulating rules regarding AML internal duties and amending the policy on reporting of large-sum transactions and suspicious transactions. We made continuous improvement in the AML information management system and further enhanced the quality of AML data reported. We steadily proceeded with customer risk classification, performed the duties concerning blacklist monitoring, customer identification and AML information screening and reporting to prevent reputational and financial losses. We also actively assisted regulators and judicial authorities in AML inspection and investigation.

Leveraging the AML system, we continuously improved the environment for reporting large-sum transactions and suspicious transactions, and streamlined the process for review of suspicious transactions reporting. By integrating analysis and review of suspicious transactions with customer due diligence, we enhanced our capability of risk identification and control, and increased the effectiveness of suspicious transactions reporting.

Internal Control

In the first half of 2010, we continuously improved the systems of internal control and compliance organization, policies and supervision. Specifically, we further improved the system of internal control and compliance organization through transforming to "three-tiered institutions and tier-one assignment" and combining the roles of risk manager and compliance manager at tier-one sub-branches. We continuously improved the system of internal control and compliance policies, formulated basic rules on internal control, revised administrative measures for president authorization, developed a series of regulations on internal control, authorization management, connected transactions and AML, and advanced the preparation of compliance manual. We continued to carry out screening of incidences of non-compliance to avoid internal control breaches, strengthened overall planning of inspections, improved inspection methods, and reinforced supervision and inspection of key procedures and high-risk areas. We also conducted off-site monitoring, made internal control monitoring in a targeted manner and more cost effective, strengthened implementation of Deloitte recommendations, corrected problems identified in the 2009 annual audit by the National Audit Office, and continuously improved internal control.

Internal Audit

In the first half of 2010, we continued to strengthen and improve the internal audit system, facilitated internal audit transformation, and researched and implemented risk-oriented audits. We proceeded with building the system of audit policies and procedures under the internal audit charter, and substantially completed the draft of related measures and procedures. We also strengthened management of audit offices and gradually improved the infrastructure, organization and team building of audit offices.

During the reporting period, we carried out key audit projects. We continued to conduct large-scale centralized audits, further regulated executive performance audits, conducted special audits on several construction projects of the Head Office, and carried out follow-up audits on the centralized audits and the audit projects conducted by audit offices.

Capital Management

We take capital as the object and tool to conduct such capital management as measurement, planning, allocation, monitoring, evaluation and application, and coordinate the overall operation of book capital, regulatory capital and economic capital. During the reporting period, we promulgated administrative measures for capital adequacy ratio and economic capital to improve the policy framework of capital management; predicted, planned and managed capital adequacy ratio using scenario simulation, stress testing and other methods, having regard to the development plan, business expansion and risk movements to ensure business development and risk profile match capital; enhanced matching between economic capital allocation and risks, controlled expansion of risk scale to maximize returns to shareholders continuously and steadily.

Taking into account regulatory requirements, strategic development planning and risk appetite and by reference to the capital adequacy level of internationally renowned banks, we formulated the capital plan for 2010–2012 that defines the basic principles of capital management, targets for capital adequacy ratio management, capital replenishment mechanism and capital management measures in the next three years. The capital plan for 2010–2012 was reviewed and approved at the 12th Meeting of the First Board of Directors and at the Third Extraordinary General Meeting for the Year 2010. We will establish and improve the internal capital adequacy assessment procedures in compliance with regulatory requirements to regularly review and assess capital adequacy targets.

Capital Adequacy Ratio

We calculate and disclose capital adequacy ratio in accordance with the Administrative Measures on the Capital Adequacy Ratio of Commercial Banks promulgated by CBRC and other related regulatory requirements. As at 30 June 2010, our capital adequacy ratio and core capital adequacy ratio were 8.31% and 6.72%, down 1.76 and 1.02 percentage points from the end of the previous year, respectively, mainly because (1) in accordance with the profit distribution plan for 2009 and the plan for distribution of accumulated unappropriated profit before the IPO, RMB52,077 million of distributed or proposed cash dividends were deducted from core capital as at 30 June 2010; (2) as required by CBRC, we adjusted the calculating method of general allowance for impairment loans, which resulted in a decrease of RMB20,507 million in the balance of general allowance for impairment loans compared to the end of 2009; and (3) risk-weighted assets increased by 18.2% from the end of 2009.

Capital Adequacy Ratio

In millions of RMB

Item	30 June 2010	31 December 2009
Core capital:		
Share capital	270,000	260,000
Capital reserves	5,512	—
Surplus reserve and general and regulatory reserves	70,607	18,448
Unappropriated profit	1,421	59,817
Minority interest	154	106
Total core capital	347,694	338,371
Supplementary capital:		
General allowance for impairment loans	45,550	66,057
Reserve of fair value changes of available-for-sale financial assets	3,410	2,312
Long-term subordinated bonds	50,000	50,000
Total supplementary capital	98,960	118,369
Total capital base before deductions	446,654	456,740
Deductions:		
Equity investments which are not consolidated	197	197
Other deductible item[1]	16,490	16,194
Net capital base	429,967	440,349
Risk-weighted assets and market risk capital adjustment	5,172,079	4,373,006
Core capital adequacy ratio[2]	**6.72%**	**7.74%**
Capital adequacy ratio[3]	**8.31%**	**10.07%**

Notes:

1. *Consists of long-term subordinated bonds we held issued by other banks, which were deducted in accordance with the CBRC guideline with respect to supplementary capital of commercial banks.*
2. *Core capital adequacy ratio calculated on 31 December 2009 without deducting cash dividend of 2009 totaling RMB20 billion (before tax) planned to be distributed to all the shareholders on our register of members on 31 December 2009. If the above-mentioned distributed cash dividend of 2009 was deducted from core capital, the core capital adequacy ratio on 31 December 2009 would be 7.28%. When the core capital adequacy ratio was calculated on 30 June 2010, RMB32,077 million of "Special Dividend" to be distributed to all shareholders on our register of members on 30 June 2010 had been deducted.*
3. *Capital adequacy ratio calculated on 31 December 2009 without deducting cash dividend of 2009 totaling RMB20 billion (before tax) planned to be distributed to all the shareholders on our register of members on 31 December 2009. If the above-mentioned distributed cash dividend of 2009 was deducted from capital, the capital adequacy ratio on 31 December 2009 would be 9.61%. When the adequacy ratio was calculated on 30 June 2010, RMB32,077 million of "Special Dividend" to be distributed to all shareholders on our register of members on 30 June 2010 had been deducted.*

Financing Management

The objective of our capital financing management is to make reasonable use of various capital instruments to optimize the aggregate amount and structure of capital and to reduce the cost of capital financing.

On 15 and 16 July 2010, our A and H shares were offered on Shanghai Stock Exchange and HKSE successively with a total of 54.79 billion shares, representing 16.87% of total issued share capital after offerings. Specifically, 25.57 billion A shares and 29.22 billion H shares were offered, representing 7.87% and 9.00% of total issued share capital after offering, respectively. The over-allotment options for both A share offering and H share offering have been fully exercised. A shares were offered at RMB2.68 each, and H shares at HKD3.20 each.

USD22.1 billion was raised in the A share and H share IPOs in aggregate, the largest ever in the world. RMB68.5 billion was raised from A share offering, the largest of its kind so far. All the net proceeds (after deduction of fees and expenses) will be used to strengthen our capital base.

Economic Capital Allocation and Management

We have used economic capital management instruments since 2005. Maximizing risk-adjusted returns is the main principle of allocating and managing economic capital. During the reporting period, we improved the economic capital allocation model, achieved reasonable allocation and dynamic adjustment of capital between risk areas, regions and products through combining commercial and strategic allocations, controlled the expansion of assets at risk and refined allocation of resources; we researched, developed and rolled out the capital management system, built a uniform platform for allocation, monitoring and assessment of economic capital, and increased reasonable and refined management of economic capital; we continuously promoted the use of economic capital in allocation of credit resources, business planning, cost allocation, performance assessment and product pricing using economic capital occupation, return on economic capital and economic value added, and strengthened capital constraints and return management.

Outlook

In the first half of 2010, the global economy continued recovering, but the overall situation remained challenging. The recovery of major economies was not on a firm footing, and the unemployment rates were high. Despite its sustained rapid growth, Chinese economy faced the dilemma of macro-economic controls, coupled with lingering inflation expectations and heavy pressure of economic restructuring. In the second half of 2010, we will closely monitor the developments in economic and financial environment and market competition and take the following strategies and measures, aimed at building an excellent listed bank. First, we will maintain the dynamics of rapid business growth. Specifically, we will make full use of our broad network of outlets and cement our competitiveness in deposit-taking business through outlet transformation, product innovations, coordinated marketing retail and corporate customers and cross selling; we will increase marketing efforts targeted at quality customers with high overall rate of return, actively participate in key projects for regional economy and industry restructuring, and further refined the mix of our loan portfolio; we will consolidate the competitive advantages in traditional businesses, accelerate development of emerging businesses and continue to maintain rapid growth of fee-based business; we will refine our business relating to financial markets and continuously increase the returns on investments; and we will effectively improve our pricing capability. Second, we will continue to enhance the County Area Banking Division Reform, continuously improve the system of County Area credit policies, further expand the portfolios of products and services, and consolidate our leading position in the County Area banking market. Third, we will continue to increase our efforts of business development in urban areas and promote transformation of corporate and retail banking, with priority given to key urban branches. Fourth, we will make continuous improvement in the systems of risk management organization, policies, processes and methodologies to enhance comprehensive risk management capability. We will prevent potential risks posed by rapid expansion of lending; strengthen management of loans to the local government financing vehicles, the real estate industry, industries with energy consuming, high pollution or overcapacity; control foreign exchange exposures and reasonably mitigate exchange rate risk.

Particulars of Shareholding of Substantial Shareholders

As at 30 June 2010, we have a total of three shareholders.

Shareholding Structure

Name of shareholders	Nature of shares	Number of shares (shares)	Percentage (%)
MOF	State-owned shares	130,000,000,000	48.15
Huijin	State-owned shares	130,000,000,000	48.15
NCSSF	State-owned shares	10,000,000,000	3.70
Total		**270,000,000,000**	**100.0**

MOF

MOF, established in October 1949, is a ministry under the State Council, and is empowered to perform its duties in respect of state finance and tax. As at 30 June 2010, MOF held 130 billion shares of our Bank, accounting for 48.15% of the shares issued by our Bank. The shares of our Bank held by MOF are not pledged and are without disputes.

Huijin

Huijin is a wholly state-owned company with limited liability, which was incorporated in accordance with the Company Law on 16 December 2003 in Beijing with a registered capital of RMB552.117 billion and Mr. LOU Jiwei as its legal representative. The company, as authorized by the State Council, makes equity investments in major state-owned financial enterprises.

As at 30 June 2010, Huijin held 130 billion shares of our Bank, accounting for 48.15% of the shares issued by our Bank. The shares of our Bank held by Huijin were not pledged and are without disputes.

In addition to our Bank, Huijin also makes equity investment in financial institutions including China Construction Bank Corporation, Bank of China Limited, Industrial and Commercial Bank of China Limited and China Development Bank Corporation.

NCSSF

Social Security Fund is designated by the Central Government as complementary and regulative fund for social security, consisting of capital and equity assets allocated by the state-owned share reduction, the Central Government budget appropriation, funds raised in the way approved by the State Council and investment income thereof. NCSSF is in charge of the management and operation of Social Security Fund, which is directly under the State Council and supervised by the State Council or departments authorized by the State Council.

As at 30 June 2010, NCSSF held 10 billion shares of our Bank, accounting for 3.70% of the shares issued by our Bank.

Changes of Shareholders and Shareholdings after the IPO

On 15 and 16 July 2010, we successfully made the initial public offering of A shares and H shares. The over-allotment options for the A share offering and the H share offering were exercised in full. We have issued 25,570,588,000 A shares and 29,223,529,000 H shares in total. The table below shows the changes of shareholders and shareholdings after the IPO.

Name of shareholders	Type of shares	Before the IPO Number of shares (share)	Before the IPO Percentage (%)	After the IPO (exercised in full the over-allotment options) Number of shares (share)	After the IPO (exercised in full the over-allotment options) Percentage (%)
MOF	A share	130,000,000,000	48.15	127,361,764,737	39.21
Huijin	A share	130,000,000,000	48.15	130,000,000,000	40.03
	A share	10,000,000,000	3.70	11,122,941,167	3.42
NCSSF	H share	—	—	1,515,294,096	0.47
	Sub-total	10,000,000,000	3.70	12,638,235,263	3.89
Other holders of A shares	A share	—	—	25,570,588,000	7.87
Other holders of H shares	H share	—	—	29,223,529,000	9.00
Total		**270,000,000,000**	**100.00**	**324,794,117,000**	**100.00**

Interests and Short Positions in Shares and Underlying Shares Held by Substantial Shareholders and Other Persons

As at 30 June 2010, we were not a listed company. As it is known to the directors, after our global offering and exercise of over-allotment options were completed, as at 20 August 2010 the following persons (except the directors and major executive officers of our Bank) had or were deemed to have interests or short positions in shares or underlying shares of our Bank which have to be notified pursuant to Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance of Hong Kong:

Name	Capacity	Interests and short positions	Nature	Percentage of issued class shares (%)	Percentage of total issued shares (%)
MOF	Beneficial owner	127,361,764,737 (A share)	Long position	43.31	39.21
Huijin	Beneficial owner	130,000,000,000 (A share)	Long position	44.21	40.03
Qatar Investment Authority	Interests of controlled entity[1]	6,816,775,000 (H share)	Long position	22.32	2.32
Qatar Holding LLC	Beneficial owner	6,816,775,000 (H share)	Long position	22.32	2.32
Capital Research and Management Company	Investment manager	3,931,780,000 (H share)	Long position	12.79	1.34

Note: 1. Qatar Investment Authority is deemed to have interests related to 6,816,775,000 H shares of our Bank held by Qatar Holding LLC, a 100% subsidiary of Qatar Investment Authority.

Basic Information on Directors, Supervisors and Senior Management

As at the end of the reporting period, the composition of our Board of Directors, Board of Supervisors and Senior Management was as follows:

The Board of Directors of our Bank comprises thirteen members, including four executive directors, namely Mr. XIANG Junbo, Mr. ZHANG Yun, Mr. YANG Kun and Mr. PAN Gongsheng; six non-executive directors, namely Mr. LIN Damao, Mr. ZHANG Guoming, Ms. XIN Baorong, Mr. SHEN Bingxi, Mr. YUAN Linjiang and Mr. CHENG Fengchao; and three independent non-executive directors, namely Mr. John Dexter LANGLOIS, Mr. Anthony WU Ting-yuk and Mr. QIU Dong.

The Board of Supervisors of our Bank consists of five members, including two shareholder supervisors, namely Mr. CHE Yingxin and Mr. PAN Xiaojiang; and three employee supervisors, Mr. WANG Yurui, Mr. WANG Xingchun and Mr. JIA Xiangsen.

The Senior Management of our Bank consists of seven members, Mr. ZHANG Yun, Mr. YANG Kun, Mr. ZHU Hongbo, Mr. GUO Haoda, Mr. PAN Gongsheng, Mr. CAI Huaxiang and Mr. LI Zhenjiang.

During the reporting period, we did not implement share incentives, and none of the incumbent directors, supervisors and members of the Senior Management held shares, share options or were granted restricted shares of our Bank, which remained unchanged during the reporting period.

Appointment and Removal

On 11 January 2010, Mr. ZHU Hongbo and Mr. CAI Huaxiang were appointed as Vice President of our Bank at the ninth meeting of the first Board of Directors. The appointment of Mr. ZHU and Mr. CAI was approved by CBRC on 9 February 2010.

Changes of Directors and Supervisors

At the Second Extraordinary General Meeting for the Year 2010 held on 21 April 2010, Mr. PAN Gongsheng was appointed as Executive Director of our Bank. The appointment of Mr. PAN was approved by CBRC on 28 April 2010.

On 19 August 2010, Mr. John Dexter LANGLOIS, Independent Non-executive Director of our Bank, passed away due to illness.

Basic Information on Employees and Institutions

We had 438,538 employees (and additional contracted labor of 38,257) as of 30 June 2010, representing a decrease of 2,606 persons from the end of 2009. Among our employees, 86 are from major domestic controlled entities and 273 are local employees in our overseas institutions.

As at 30 June 2010, we had 23,560 domestic institutions, including the Head Office, 32 tier-one branches, five branches directly managed by the Head Office, 309 tier-two branches, 3,517 tier-one sub-branches, 19,639 grass-roots business establishments, 57 training institutions and other establishments. We had two overseas branches and six overseas representative offices, namely Hong Kong and Singapore branches and New York, London, Tokyo, Frankfurt, Seoul and Sydney reprehensive offices. We had seven controlled companies, among which, five are domestic companies, namely, ABC-CA Fund Management Co., Ltd., ABC Hubei Hanchuan Rural Bank Limited Liability Company, ABC Hexigten Rural Bank Limited Liability Company, ABC Ansai Rural Bank Limited Liability Company and ABC Jixi Rural Bank Limited Liability Company; two are overseas companies, namely ABC International Holdings Limited and China Agricultural Finance Co., Ltd. registered in Hong Kong.

Corporate Governance

During the reporting period, we continued to strengthen our corporate governance, actively improved various internal rules on internal control and internal audit, and constantly enhanced corporate governance capability in strict compliance with laws and regulations and normative documents of regulatory authorities including the Company Law and the Commercial Banking Law of the People's Republic of China and in consideration of our actual conditions.

Revision of corporate governance documents. During the reporting period, with reference to applicable laws and regulations and normative documents and in consideration of our corporate governance practice, we revised the Articles of Association of Agricultural Bank of China Limited, which was approved by CBRC on 26 April 2010 (Y.J.F. [2010] No. 175) and became effective after listing. During the reporting period, we commenced the revision of the Procedural Rules of the General Meeting of Shareholders of Agricultural Bank of China Limited, the Procedural Rules of the Board of Directors of Agricultural Bank of China Limited and the Procedural Rules of the Board of Supervisors of Agricultural Bank of China Limited. At present, the Procedural Rules of Shareholders' General Meeting of Agricultural Bank of China Limited and the Procedural Rules of the Board of Directors of Agricultural Bank of China Limited have already been adopted by the 14th Meeting of the First Board of Directors on 27 August 2010.

Election of new executive director and adjustment of composition of special committees of the Board of Directors. During the reporting period, our General Meeting of Shareholders elected Mr. PAN Gongsheng to be an executive director in accordance with the requirements of relevant laws and regulations and our actual need. Accordingly, the Board of Directors adjusted the composition of the Strategy Planning Committee, the County Area Banking Business Development Committee and the Risk Management Committee, respectively.

Code on Corporate Governance Practices. We have adopted our own convention on corporate governance, and it fully complies with the principles and code provisions stipulated in the Code on Corporate Governance Practices (the "Code") (Appendix 14 to the Hong Kong Listing Rules). Since we were listed after 30 June 2010, the Code was not applicable to us during the reporting period. During the six months ended 30 June 2010, we complied with the most provisions of the Code.

Profit and Dividend Distribution

At the Second Extraordinary General Meeting for the Year 2010 held on 21 April 2010, we adopted a plan to distribute our net profit for the year ended 31 December 2009. Pursuant to this plan, we made appropriations of RMB6,489 million to the statutory surplus reserve, representing 10% of our audited unconsolidated net profit in accordance with CASs, and RMB38,386 million to the general reserve in accordance with the applicable regulatory requirements, and a cash dividend to the MOF and Huijin in the amount of RMB10 billion each. The cash dividend of RMB10 billion to the MOF and Huijin each was paid in full amount on 31 May 2010.

Upon the approval of the Second Extraordinary General Meeting for the Year 2010 held on 21 April 2010, we proposed to distribute a cash dividend (the "Special Dividend") to shareholders on our register of members as of 30 June 2010 in an amount equal to the sum of our audited net profit for the six months ended 30 June 2010, after the required appropriations for a statutory surplus reserve and a general reserve, that amounts to 10% and 20%, respectively, of our unconsolidated net profit for the six months ended 30 June 2010 as determined under CASs, and any unappropriated profit from previous years in the beginning of the period. The above mentioned amount of our audited net profit represents the lowest amount among the consolidated net profit attributable to our equity holders and our unconsolidated net profit, for the six months ended 30 June 2010, in accordance with CASs and IFRSs, respectively, as determined following an audit of our net profit for the six months ended 30 June 2010. If there are any changes in our shareholding structure during the six months ended 30 June 2010, the dividend allocated to each shareholder will be calculated according to applicable rules and based on the actual number of days such shareholder has held our shares. The actual number of days each new shareholder has held our shares shall start from the date of completion of the relevant share purchase transaction. The General Meeting of Shareholders has authorized the Board of Directors to organize the implementation of the profit distribution plan.

According to the result of the Special Audit, we made appropriations of RMB4,587 million to the statutory surplus reserve and RMB9,175 million to the general reserve (including RMB11 million of regulatory reserve made by overseas branches). Afterwards, we proposed to distribute a cash dividend (the "Special Dividend") of RMB32,077 million to shareholders on our register of members as of 30 June 2010. As per the number of shares held by each shareholder and the number of shareholding days, the MOF, Huijin and NCSSF will receive a cash dividend of about RMB15,804 million, RMB15,804 million and RMB470 million, respectively. The above Special Dividend plan has been approved at the 14th Meeting of the First Board of Directors held on 27 August 2010, and the announcement on the detailed information about the "Special Dividend" will be made as well.

Material Legal Proceedings and Arbitration

During the reporting period, there were no material legal proceedings or arbitration with substantial impact on the business operation of our Bank.

As at 30 June 2010, unresolved legal proceedings in which we were a defendant or a third person involved the amount up to about RMB4,399 million. The Management believes that we have set aside estimated liabilities in the full amount for the possible losses out of the said legal proceedings and that they will not have any material adverse effect on our financial position or operational results.

Material Asset Acquisition, Sale and Merger

During the reporting period, there was no material asset acquisition, sale or merger in us.

Related Party Transactions

During the reporting period, we did not enter into any material related party transactions.

Material Contracts and Performance of Obligations thereof

Material Trust, Contract and Lease

During the reporting period, we did not enter into any material trust business, contract or lease arrangement of other corporations' assets and no other corporation entered into any material trust business, contract or lease arrangement in respect to our assets.

Material Guarantees

The provision of guarantees is among our recurring off-balance-sheet business. During the reporting period, we did not have any material guarantees that need to be disclosed, except for the financial guarantee services within the business scope as approved by the PBOC and CBRC.

Material Events Concerning Entrusting Others for Cash Management Entrusted Loans

During the reporting period, no such matters concerning entrusting others for cash management or entrusted loans occurred to our Bank.

Occupation of Fund by Substantial Shareholder

None of our substantial shareholders occupied any of our funds.

Commitments Made by Our Bank or Our Shareholders Holding 5% Shares or Above

The MOF and Huijin undertake that they shall not transfer or entrust the other party on their behalves to manage our shares issued before the IPO of our A shares and directly or indirectly held by them within 36 months since our A shares got listed and we shall not repurchase such shares. When our A shares held by the MOF and Huijin are converted to H shares upon approval of CSRC or securities approval authority designated by the State Council, this part of H shares will not be subject to the restriction of the abovementioned 36-month lock-up period. Huijin undertakes that when domestic and overseas laws and regulatory rules provide for the lock-up period upon our shares held by it as a prompter, such laws and regulatory rules shall prevail.

Penalties Imposed by Regulatory and Judicial Authorities on Us and Our Directors, Supervisors and Senior Management Members

During the reporting period, neither we nor any of our directors, supervisors and senior management members was subject to any investigation by competent authorities, compulsory enforcement of juridical or discipline departments, transfer to juridical departments or pursuit of criminal responsibilities, investigation, administrative penalty or censure by CSRC or public reprimand by the stock exchanges.

Purchase and Sale of Shares

During the reporting period, we and any of our subsidiaries did not purchase, sell or redeem any of our shares.

Directors' and Supervisors' Rights to Acquire Shares or Debentures

As at 30 June 2010, we did not grant any rights to acquire shares or debentures to any of our directors or supervisors, nor were any such rights exercised by any of the directors or supervisors. Neither we nor our subsidiaries entered into any agreement or arrangement enabling the directors or supervisors to acquire benefits by means of the acquisition of shares or debentures of us or any other body corporate.

Interests in Shares, Underlying Shares and Debentures Held by Directors and Supervisors

As at 30 June 2010, our shares had not been offered in The Stock Exchange of Hong Kong Limited yet. Therefore, Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance of Hong Kong, Section 352 of the Securities and Futures Ordinance of Hong Kong and the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules were not applicable to us or our directors and supervisors.

As of the date of this Report, none of our directors or supervisors had any interests or short positions in our shares, underlying shares or debentures or any of our associated corporations (as defined in Part XV of the Securities and Futures Ordinance of Hong Kong) which have to be recorded in the register under Section 352 of the Securities and Futures Ordinance of Hong Kong, or any interests or short positions which have to be notified to us and SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules.

Securities Transactions of Directors and Supervisors

As at 30 June 2010, our shares had not been offered in The Stock Exchange of Hong Kong Limited yet. Therefore, the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules was not applicable to us or our directors and supervisors.

Audit of the Interim Report

Our 2010 Interim Financial Statements prepared in accordance with CASs and IFRSs were audited by Deloitte Touche Tohmatsu CPA Ltd. and Deloitte Touche Tohmatsu in accordance with the PRC and Hong Kong Standards on Auditing respectively, with standard unqualified auditor's reports being issued.

Our 2010 Interim Report has been reviewed and approved by our Board of Directors and Audit Committee of the Board of Directors.

Securities Investment

Shares Held by Our Bank in Listed Companies[1]

Stock code	Stock name for short	Initial investment cost (RMB)	Shareholding percentage (%)	Book value at the end of reporting period (RMB)	Gain/loss during the reporting period[2] (RMB)	Change in owner's equity during the reporting period (RMB)	Accounting item	Source of shares
600127	GAEA GEM	171,108,876	20.62	140,563,934	—	—	Share of profits of associates	Take-over of debt equity
000430	*ST ZTDC	11,233,299	5.09	83,549,016	—	4,367,844	Available-for-sale financial assets	Investment of proprietary fund

Notes: 1. The shares of domestically listed companies specified above is recognized as share of profits of associates and available-for-sale financial assets.
2. Mainly including investment gains and impairment losses.

Shares Held by Our Bank in Unlisted Financial Enterprises

Investee Company	Initial investment cost (RMB)	Shares held (10,000)	Shareholding percentage (%)	Book value at the end of the reporting period (RMB)	Gain/loss during the reporting period (RMB)	Change in owner's equity during the reporting period (RMB)	Accounting item	Source of share
China UnionPay Co., Ltd.	146,250,000	11,250	3.84	146,250,000	—	—	Available-for-sale financial assets	Investment of proprietary fund
Evergrowing Bank	11,750,000	2,691	0.40	11,750,000	—	—	Available-for-sale financial assets	Investment of proprietary fund
Guangdong Development Bank	39,827,451	1,726	0.14	39,827,451	—	—	Available-for-sale financial assets	Investment of proprietary fund

Definitions

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

1.	We/Our Bank/the Group/ABC/ Agricultural Bank of China	Agricultural Bank of China Limited or its predecessor (except otherwise provided) and all the subsidiaries of Agricultural Bank of China Limited
2.	Articles of Association of Our Bank	The Articles of Association of Agricultural Bank of China Limited as approved by CBRC on 26 April 2010
3.	State Council	The State Council of the People's Republic of China
4.	PBOC	The People's Bank of China
5.	MOF	The Ministry of Finance of the People's Republic of China
6.	CBRC	China Banking Regulatory Commission
7.	CSRC	China Securities Regulatory Commission
8.	Huijin	Central Huijin Investment Ltd.
9.	NCSSF	National Council for Social Security Fund
10.	Company Law	The Company Law of the People's Republic of China
11.	CASs	The Accounting Standards for Enterprises promulgated on 15 February 2006 by the Ministry of Finance of the People's Republic of China and other related rules and regulations
12.	The New Basel Capital Accord	The Revised Basel Capital Framework promulgated by Basel Committee on Banking Supervision on 26 June 2004
13.	Sannong	Agriculture, rural areas and farmers
14.	County Area	Areas designated as counties or county-level cities under China's administrative division system
15.	County Area Banking Business	We provide customers in the County Areas with a broad range of finance products and services through our 2,048 county-level sub-branches and 22 business departments of tier-2 branches. We refer to such banking business as the "County Area Banking Business" or "Sannong Banking Business"
16.	RMB	Renminbi yuan
17.	IMF	International Monetary Fund
18.	LIBOR	London Inter-Bank Offer Rate for short-term capital (overnight to one year)
19.	SHIBOR	Shanghai Interbank Offered Rate issued by National Interbank Funding Center since 4 January 2007
20.	Basis Point	A unit measure related to the change in an interest rate or exchange rate, which is equal to 100th of 1%, or 0.01%
21.	Subordinated Debenture	Debt issued by commercial bank which ranks after other equity capital and other debts. Subordinated Debenture fulfilling the conditions can be brought into Supplementary Capital
22.	Duration	An approach employed to measure the average term of cash flows of debt securities, mainly reflecting the sensitivity of the economic value of debt securities to interest rate movements
23.	Economic capital	Allocated to assets or businesses for the purpose of buffering risks based on internal assessment of the management of commercial banks
24.	Hong Kong Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
25.	SEHK	The Stock Exchange of Hong Kong Limited

Auditor’s Report and Financial Statements

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德勤

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To the Members of Agricultural Bank of China Limited

(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Agricultural Bank of China Limited (the "Bank") and its subsidiaries (collectively referred to as the "Group") set out on pages 72 to 193, which comprise the consolidated and Bank's statements of financial position as at 30 June 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 30 June 2010 and of the Group's profit and cash flows for the six months then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

27 August 2010

Consolidated Income Statement

For the six months ended 30 June 2010
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	Six months ended 30.6.2010	Six months ended 30.6.2009
Interest income	5	168,280	142,243
Interest expense	5	(56,572)	(58,347)
Net interest income	5	111,708	83,896
Fee and commission income	6	23,176	17,528
Fee and commission expense	6	(717)	(511)
Net fee and commission income	6	22,459	17,017
Net trading gain	7	463	532
Net (loss) gain on financial instruments designated as at fair value through profit or loss	8	(170)	973
Net gain on investment securities		143	335
Other operating income	9	1,515	1,683
Operating income		136,118	104,436
Operating expenses	10	(58,468)	(44,146)
Impairment losses on assets	11	(19,623)	(17,545)
Profit before tax		58,027	42,745
Income tax expense	12	(12,164)	(10,025)
Profit for the period		45,863	32,720
Attributable to:			
Equity holders of the Bank		45,840	32,714
Non-controlling interests		23	6
		45,863	32,720
Earnings per share	14		
(Expressed in RMB per share)			
— Basic		0.17	0.13

Consolidated Statement Of Comprehensive Income

For the six months ended 30 June 2010
(Amounts in millions of Renminbi, unless otherwise stated)

	Six months ended	
	2010	**2009**
Profit for the period	45,863	32,720
Other comprehensive income (expense):		
Fair value gain (loss) on available-for-sale financial assets		
— fair value gain (loss) arising during the period	3,090	(8,860)
— amount reclassified to the profit or loss upon disposal/ impairment of available-for-sale financial assets	(171)	(1,368)
Exchange difference arising on translating foreign operations	(27)	46
Income tax relating to available-for-sale financial assets	(723)	2,580
Other comprehensive income (expense) for the period (net of tax)	2,169	(7,602)
Total comprehensive income for the period	48,032	25,118
Total comprehensive income attributable to:		
Equity holders of the Bank	48,009	25,112
Non-controlling interests	23	6
	48,032	**25,118**

Consolidated Statement of Financial Position

At 30 June 2010
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	30.6.2010	31.12.2009
Assets			
Cash and balances with central banks	15	1,826,475	1,517,806
Deposits with banks and other financial institutions	16	79,539	61,693
Placements with banks and other financial institutions	17	57,790	49,435
Financial assets held for trading	18	24,094	15,346
Financial assets designated as at fair value through profit or loss	19	73,093	96,830
Financial assets held under resale agreements	20	431,307	421,093
Derivative financial assets	21	5,706	4,678
Loans and advances to customers	22	4,478,230	4,011,495
Available-for-sale financial assets	23	606,677	730,382
Held-to-maturity investments	24	1,082,844	883,915
Debt securities classified as receivables	25	811,149	890,199
Interest in an associate	27	141	141
Property and equipment	28	109,726	111,973
Deferred tax assets	38	24,773	19,659
Other assets	29	84,423	67,943
Total assets		**9,695,967**	**8,882,588**
Liabilities			
Borrowings from central bank		30	58
Deposits from banks and other financial institutions	30	517,325	573,949
Placements from banks and other financial institutions	31	28,547	26,312
Financial liabilities held for trading	32	344	56
Financial liabilities designated as at fair value through profit or loss	33	65,697	113,843
Financial assets sold under repurchase agreements	34	120,670	100,812
Derivative financial liabilities	21	8,490	7,690
Due to customers	35	8,348,820	7,497,618
Accrued staff costs	36	34,423	29,938
Tax liabilities		6,346	5,163
Debt securities issued	37	57,179	55,179
Dividend payable	13	32,077	—
Other liabilities	39	121,602	129,045
Total liabilities		**9,341,550**	**8,539,663**

(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	30.6.2010	31.12.2009
Equity			
Share capital	40	270,000	260,000
Capital reserve		5,512	—
Investment revaluation reserve	41	6,820	4,624
Surplus reserve	42	12,263	7,676
General and regulatory reserve	43	58,344	10,772
Retained earnings		1,421	59,817
Currency translation reserve		(97)	(70)
Equity attributable to equity holders of the Bank		354,263	342,819
Non-controlling interests		154	106
Total equity		**354,417**	**342,925**
Total equity and liabilities		**9,695,967**	**8,882,588**

The consolidated financial statements on pages 72 to 193 was approved and authorised for issue by the Board of Directors on 27 August 2010 and are signed on its behalf by:

Director

Director

Statement of Financial Position

At 30 June 2010
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	30.6.2010	31.12.2009
Assets			
Cash and balances with central banks	15	1,826,370	1,517,762
Deposits with banks and other financial institutions	16	79,176	61,285
Placements with banks and other financial institutions	17	57,790	49,435
Financial assets held for trading	18	24,094	15,346
Financial assets designated as at fair value through profit or loss	19	73,093	96,830
Financial assets held under resale agreements	20	431,287	421,093
Derivative financial assets	21	5,706	4,678
Loans and advances to customers	22	4,477,986	4,011,386
Available-for-sale financial assets	23	606,602	730,382
Held-to-maturity investments	24	1,082,764	883,915
Debt securities classified as receivables	25	811,149	890,199
Investments in subsidiaries	26	1,574	1,136
Investments in an associate	27	141	141
Property and equipment	28	109,543	111,776
Deferred tax assets	38	24,768	19,654
Other assets	29	82,901	66,137
Total assets		**9,694,944**	**8,881,155**
Liabilities			
Borrowings from central bank		30	58
Deposits from banks and other financial institutions	30	518,588	574,794
Placements from banks and other financial institutions	31	28,547	26,312
Financial liabilities held for trading	32	344	56
Financial liabilities designated as at fair value through profit or loss	33	65,697	113,843
Financial assets sold under repurchase agreements	34	120,670	100,812
Derivative financial liabilities	21	8,490	7,690
Due to customers	35	8,348,531	7,497,442
Accrued staff costs	36	34,414	29,911
Tax liabilities		6,345	5,162
Debt securities issued	37	57,179	55,179
Dividend payable	13	32,077	—
Other liabilities	39	121,287	128,647
Total liabilities		**9,342,199**	**8,539,906**

Statement of Financial Position

At 30 June 2010
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	30.6.2010	31.12.2009
Equity			
Share capital	40	270,000	260,000
Capital reserve		5,512	—
Investment revaluation reserve	41	6,830	4,624
Surplus reserve	42	12,263	7,676
General and regulatory reserve	43	58,316	10,755
Retained earnings	44	34	58,385
Currency translation reserve		(210)	(191)
Total equity		**352,745**	**341,249**
Total equity and liabilities		**9,694,944**	**8,881,155**

The consolidated financial statements on pages 72 to 193 was approved and authorised for issue by the Board of Directors on 27 August 2010 and are signed on its behalf by:

Director

Director

Consolidated Statement of Changes In Equity

For the six months ended 30 June 2010
(Amounts in millions of Renminbi, unless otherwise stated)

		Total equity attributable to equity holders of the Bank									
	Notes	Share capital	Capital reserve	Surplus reserve	General and regulatory reserve	Retained earnings	Investment revaluation reserve	Currency translation reserve	Subtotal	Non-controlling interests	Total
As at 1 January 2010		260,000	—	7,676	10,772	59,817	4,624	(70)	342,819	106	342,925
Profit for the period		—	—	—	—	45,840	—	—	45,840	23	45,863
Other comprehensive income		—	—	—	—	—	2,196	(27)	2,169	—	2,169
Total comprehensive income for the period		—	—	—	—	45,840	2,196	(27)	48,009	23	48,032
Capital contribution	40	10,000	5,512	—	—	—	—	—	15,512	25	15,537
Appropriation to surplus reserve	42	—	—	4,587	—	(4,587)	—	—	—	—	—
Appropriation to general and regulatory reserve	43	—	—	—	47,572	(47,572)	—	—	—	—	—
Dividends recognised as distribution	13	—	—	—	—	(52,077)	—	—	(52,077)	—	(52,077)
As at 30 June 2010		**270,000**	**5,512**	**12,263**	**58,344**	**1,421**	**6,820**	**(97)**	**354,263**	**154**	**354,417**
As at 1 January 2009		260,000	—	1,187	64	12,022	17,292	(120)	290,445	96	290,541
Profit for the period		—	—	—	—	32,714	—	—	32,714	6	32,720
Other comprehensive income		—	—	—	—	—	(7,648)	46	(7,602)	—	(7,602)
Total comprehensive income for the period		—	—	—	—	32,714	(7,648)	46	25,112	6	25,118
Appropriation to general and regulatory reserve	43	—	—	—	10,683	(10,683)	—	—	—	—	—
As at 30 June 2009		260,000	—	1,187	10,747	34,053	9,644	(74)	315,557	102	315,659
Profit for the period		—	—	—	—	32,278	—	—	32,278	4	32,282
Other comprehensive income		—	—	—	—	—	(5,020)	4	(5,016)	—	(5,016)
Total comprehensive income for the period		—	—	—	—	32,278	(5,020)	4	27,262	4	27,266
Appropriation to surplus reserve	42	—	—	6,489	—	(6,489)	—	—	—	—	—
Appropriation to general and regulatory reserve	43	—	—	—	25	(25)	—	—	—	—	—
As at 31 December 2009		**260,000**	**—**	**7,676**	**10,772**	**59,817**	**4,624**	**(70)**	**342,819**	**106**	**342,925**

Consolidated Statement of Cash Flows

For the six months ended 30 June 2010
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	Six months ended 2010	2009
OPERATING ACTIVITIES			
Profit before tax		58,027	42,745
Adjustments for:			
Amortisation of intangible assets and other assets		755	791
Depreciation of property and equipment		4,840	4,598
Impairment losses on assets		19,623	17,545
Interest income arising from investment securities		(38,015)	(36,798)
Interest income arising from impaired financial assets		(729)	(1,015)
Interest expense on subordinated bonds issued		906	254
Net gain on investment securities		(143)	(335)
Net gain on disposal of property and equipment and other assets		(153)	(103)
Net foreign exchange loss (gain)		2,462	(59)
Operating cash flows before movements in working capital		47,573	27,623
Net increase in balances with central banks, deposits with banks and other financial institutions		(256,594)	(125,645)
Net increase in placements with banks and other financial institutions		(27,319)	(15,536)
Net increase in loans and advances to customers		(485,749)	(852,294)
Net decrease in borrowings from central bank		(28)	(207)
Net increase in due to customers and deposits from banks and other financial institutions		796,598	1,364,665
Decrease (increase) in other operating assets		140,174	(273,815)
(Decrease) increase in other operating liabilities		(25,001)	87,921
Cash generated from operations		189,654	212,712
Income tax paid		(16,817)	(15,321)
NET CASH FROM OPERATING ACTIVITIES		172,837	197,391
INVESTING ACTIVITIES			
Cash received from disposal/redemption of investment securities		758,469	560,735
Cash received from returns on investment securities		35,317	30,570
Cash received from other investing activities		573	366
Cash paid for purchase of investment securities		(757,107)	(692,807)
Cash paid for purchase of property and equipment and other assets		(4,219)	(2,667)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		33,033	(103,803)
FINANCING ACTIVITIES			
Cash received from debt securities issued		—	49,950
Shareholder's contribution		15,512	—
Contribution from non-controlling shareholders of subsidiaries		25	—
Cash payments for interest on debt securities issued		(1,803)	—
Dividends paid	13	(20,000)	—
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(6,266)	49,950
NET INCREASE IN CASH AND CASH EQUIVALENTS		199,604	143,538
CASH AND CASH EQUIVALENTS AT 1 JANUARY		329,300	488,564
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(2,066)	111
CASH AND CASH EQUIVALENTS AT 30 JUNE	**45**	**526,838**	**632,213**

1. GENERAL INFORMATION

Agricultural Bank of China Limited (the "Bank") was transformed from the former Agricultural Bank of China (the "Former Entity") which was a state-owned commercial bank founded on 23 February 1979. The Bank's establishment was authorised by the People's Bank of China (the "PBOC"). Pursuant to the Joint Stock Restructuring Plan of the Agricultural Bank of China (the "Restructuring Plan") as subsequently endorsed by the State Council (the "State Council") of the People's Republic of China (the "PRC") on 21 October 2008, the Former Entity underwent its financial restructuring in accordance with the Restructuring Plan. On 15 January 2009, the Former Entity was incorporated as Agricultural Bank of China Limited. On this basis, the consolidated financial statements of the Bank and its subsidiaries (together referred to as the "Group") for the six months then ended 30 June 2010 (the "reporting period") are prepared as a continuation of the Former Entity.

The Bank has financial services certificate No. B0002H111000001 issued by the China Banking Regulatory Commission (the "CBRC"), and business license No. 100000000005472 issued by the State Administration of Industry and Commerce of the PRC.

The principal activities of the Group comprise the provision of banking services, which includes RMB and foreign currency deposits, loans, payment and settlement services, and other services as approved by the CBRC, and the provision of related services by its overseas establishments as approved by the respective local regulators.

The head office and domestic branches of the Bank and subsidiaries operating in the PRC are referred to as "Domestic Institutions". Hong Kong and Singapore branches of the Bank and the subsidiaries registered outside the PRC are referred to as "Overseas Institutions".

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current interim period, the Group has applied, a number of new and revised standards, amendments and interpretations ("new or revised IFRSs") issued by International Accounting Standards Board ("IASB"). Except as described below, the application of the new or revised IFRSs has had no material effect on the Group's consolidated financial statements.

Amendment to IFRS 1 First-time Adoption of IFRSs

The Group has early adopted the amendment to IFRS 1 issued by the IASB in May 2010 in advance of its effective date, 1 January 2011. The amendment to IFRS 1 allows an entity to establish a deemed cost in accordance with previous GAAP for some or all of its assets and liabilities by measuring them at their fair values at one particular date because of an event. If the measurement date is after the date of transition to IFRSs but during the period covered by the first IFRS financial statements, the event-driven fair value measurements may be used as a deemed cost when the event occurs.

IAS 24 (Revised) Related Party Disclosures

The Group has early adopted IAS 24 (Revised) in advance of its effective date 1 January 2011. The revised standard provides partial disclosure exemption for transactions between the Group and government/government-related entities and revised the definition of related parties. The early adoption does not have any effect on the Group's operating results, financial positions or comprehensive income.

(Amounts in millions of Renminbi, unless otherwise stated)

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

IFRS 3 (Revised) Business Combinations

The Group applies IFRS 3 (Revised) *Business Combinations* prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in IAS 27 (Revised) *Consolidated and Separate Financial Statements* in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010. The application of IFRS 3 (Revised), IAS 27 (Revised) and the consequential amendments to other IFRSs had no effect on the consolidated financial statements of the Group for the current or prior reporting periods.

Improvements to IFRSs issued in 2009

As part of *Improvements to IFRSs* issued in 2009, IAS 17 *Leases* has been amended in relation to the classification of leasehold land. Before the amendment to IAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the condensed consolidated statement of financial position. The amendment to IAS 17 has removed such a requirement. The amendment requires that the classification of leasehold land should be based on the general principles set out in IAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. The application of IAS 17 *Leases* had no effect on the consolidated financial statements of the Group for the current or prior reporting periods.

The application of the other new and revised IFRSs has had no effect on the consolidated financial statements of the Group for the current or prior reporting periods.

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective:

IFRSs (Amendments)	Improvements to IFRSs 2010 (Except for Amendment to IFRS 1)[1]
IAS 32 (Amendment)	Classification of Rights Issues[2]
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures For First-time Adopters
IFRS 9	Financial Instruments[5]
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement[4]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 *Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate*
2 *Effective for annual periods beginning on or after 1 February 2010*
3 *Effective for annual periods beginning on or after 1 July 2010*
4 *Effective for annual periods beginning on or after 1 January 2011*
5 *Effective for annual periods beginning on or after 1 January 2013*

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

Improvements to IFRSs issued in 2009 (continued)

IFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. In the opinion of directors, the application of IFRS 9 will have a material effect on the classification and measurement of the Group's financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the consolidated financial statements include the disclosure requirements of the Hong Kong Companies Ordinance. These policies have been consistently applied throughout the reporting period.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and the subsidiaries controlled by the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the reporting period are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests of consolidated subsidiaries are presented separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

In the Bank's statement of financial position, its investment in subsidiaries is stated at cost, less impairment losses, if any.

Investment in an associate

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

In the Bank's statements of financial position, its investment in an associate is stated at cost, less impairment losses, if any.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of sales related taxes. Specific recognition criteria for different nature of revenue are disclosed below.

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in profit or loss using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or expense over the period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are over a period of time, fee and commission income are accrued over that period when the services are rendered. For other services, fee and commission income are recognised when the transactions are completed.

Foreign currency transactions

The functional currency of the Bank and the Domestic Institutions is Renminbi ("RMB"). The presentation currency of the Group and the Bank is RMB.

In preparing the financial statements of individual entities, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for (i) exchange differences arising on a monetary item that forms part of the Bank's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation; (ii) exchange differences arising from the changes of the fair value of monetary assets classified as available-for-sale financial assets (other than the changes relating to the amortised cost of the monetary assets) which are recognised in other comprehensive income and accumulated in equity.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency transactions (continued)

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations (i.e. Overseas Institutions) are translated into the presentation currency of the Group at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in the currency translation reserve in equity.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the reporting period. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax (continued)

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income, in which case the deferred tax is also recognised in other comprehensive income respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Employee benefits

In the reporting period in which an employee has rendered services, the Group recognises the employee benefits payable for those services as a liability.

Social welfare

Social welfare expenditure refers to payments for employees' social welfare system established by the Government, including social insurance, housing funds and other social welfare contributions. The Group contributes on a monthly basis to these funds based on certain percentage of the salaries of the employees and the contributions are recognised in profit or loss for the period in which they are incurred. The Group's liabilities in respect of these funds are limited to the contribution payable in the reporting period.

Annuity scheme

The employees of Domestic Institutions participate in annuity scheme set up by the Group (the "Annuity Scheme"). The Group made annuity contributions with reference to employees' salaries, and the contributions are expensed in profit or loss when incurred. The Group has no further obligation if the Annuity Scheme does not have sufficient assets for payment of supplementary retirement benefits to employees.

Retirement benefits

Obligations of retirement benefits are calculated by an independent actuary using the projected unit credit actuarial cost method at the end of the reporting period. Actuarial gains and losses arising from changes in actuarial assumptions are recognised in profit or loss for the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity investments, available-for-sale financial assets and loans and receivables. Investment securities comprise held-to-maturity investments, available-for-sale financial assets and debt securities classified as receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market-place.

Financial assets at fair value through profit or loss

Financial assets at FVTPL have two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss (continued)

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with changes in fair value arising from re-measurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividends or interest earned on financial assets.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are not either designated or classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in the investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Loans and receivables

Loans and receivables are non-derivatives financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, the objective evidence of impairment could include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - — adverse changes in the payment status of borrowers in the portfolio; and
  - — national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets carried at amortised cost

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the assets are impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. For financial assets with variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of present value of the estimated future cash flows of a collaterised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

The carrying amount of a financial asset is reduced through the use of an allowance account. Changes in carrying amount of the allowance account are recognised in the profit or loss. When a financial asset is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment of available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in other comprehensive income and accumulated in the investment revaluation reserve and there is objective evidence that asset is impaired, the cumulative loss that had been recognised directly in the investment revaluation reserve is removed and recognised in profit or loss.

Impairment loss on available-for-sale equity investments at fair value is not reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in the investment revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Impairment loss on available-for-sale equity investment at cost is not reversed.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities at FVTPL has two subcategories, including financial liabilities held for trading and those designated as at FVTPL on initial recognition.

The criteria for a financial liability to be classified as held for trading and designated as at FVTPL are the same as those for a financial asset to be classified as held for trading and designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with changes in fair value arising from re-measurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Bank are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured at their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their characteristics and risks are not closely related to those of the host contracts and the host contracts are not measured with changes in fair value recognised in profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statements of financial position when both of the following conditions are satisfied: (1) the Group has a legal right to set off the recognised amounts and the legal right is currently enforceable; and (2) the Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

Repurchase agreements and agreements to resale

Financial assets sold subject to repurchase agreements continue to be recognised, and are recorded as "available-for-sale financial assets", "debt securities classified as receivables" or "loans and advances to customers" as appropriate. The corresponding liability is included in "financial assets sold under repurchase agreements". Financial assets held under agreements to resell are recorded as "financial assets held under resale agreements" as appropriate.

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

Precious metals

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at lower of cost and net realisable value. Precious metals that are related to the Group's trading activities are initially recognised at fair value, with changes in fair value arising from re-measurement recognised directly in profit or loss in the period in which they arise.

Property and equipment

Property and equipment including buildings held for use in the supply of services, or for administrative (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property and equipment (other than construction in progress) over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

The useful lives, estimated residual value rates and annual depreciation rates of each class of property and equipment are as follows:

Classes	Useful lives	Estimated residual value rates	Annual depreciation rates
Buildings	15–35 years	3%	2.77%–6.47%
Electronic equipment, furniture and fixtures	3–11 years	3%	8.82%–32.33%
Motor vehicles	5 years	3%	19.40%

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Construction in progress includes property and equipment in the course of construction for production or its own use purposes. Cost of construction in progress is determined as the expenditure incurred for the construction, comprising all expenditures incurred for construction projects and other related expenses. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Land use right

Land use right is classified in other assets and amortised over a straight-line basis over the lease term.

Foreclosed assets

Foreclosed assets are initially recognised at fair value and subsequently measured at lower of its carrying amount and fair value less costs to sell at the end of the reporting period. When the fair value less costs to sell is lower than the foreclosed asset's carrying amount, an impairment loss is recognised in profit or loss.

Any gain or loss arising on the disposal of the foreclosed asset is included in profit or loss in the period in which the item is disposed.

A foreclosed asset used by the Group is transferred to property and equipment at net carrying amount.

Cash and cash equivalents

Cash and cash equivalents refer to short term highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land (i.e. land use rights) are accounted for as operating leases and amortised over the lease term on a straight-line basis.

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment loss. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Impairment of tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible and intangible assets (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Provision

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

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Fiduciary activities

The Group acts as a custodian, trustee or in other fiduciary capacities to manage assets for customers in accordance with custody agreements between the Group and securities investment funds, social security funds, insurance companies, qualified foreign institutional investors, annuity schemes and other institutions. The Group receives fees in return for its services provided under the custody agreements and does not take up any risks and rewards related to assets under custody. Therefore, assets under custody are not recognised in the Group's consolidated statement of financial position.

The Group conducts entrusted lending arrangements for its customers. Under the terms of entrusted loan arrangements, the Group grants loans to borrowers, as an intermediary, according to the instruction of its customers who are the lenders providing the entrusted loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the risks and rewards of the entrusted loans and the funding for the corresponding entrusted funds, they are not recognised as assets and liabilities of the Group.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and key estimation uncertainty that the management have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements and/or in the next twelve months.

Impairment losses on loans and advances to customers

The Group reviews its loan portfolio to assess impairment on a periodic basis. In determining whether an impairment loss should be recognised in profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is an objective evidence of impairment which will have a measurable decrease in the estimated future cash flows from a portfolio of loans and advances. When the decrease may not have been identified individually or the individual loan is not significant, management uses estimates based on historical loss experience on a collective basis with similar credit risk characteristics to assess the impairment loss while estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Fair value of derivatives and other financial instruments

The Group uses valuation technique for financial instruments which are not quoted in an active market. Valuation techniques include the use of discounted cash flows analysis, option pricing models or other valuation methods as appropriate. To the extent practical, models use only observable data, however areas such as credit risk of the Bank and the counterparty, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

Held-to-maturity investments

The Group classifies non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the positive intention and ability to hold to maturity as held-to-maturity investments. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to hold these investments to maturity other than for specific circumstances (such as selling an insignificant amount close to maturity), it will be required to reclassify the entire portfolio of held-to-maturity investments as available-for-sale financial assets.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Impairment of held-to-maturity investments

The determination of whether a held-to-maturity financial asset is impaired requires significant judgement. Objective evidence that a financial asset or group of assets is impaired includes a breach of contract, such as a default or delinquency in interest or principal payments or the disappearance of an active market for that financial asset because of significant financial difficulty of the issuer, etc. In making such judgement, the impact of objective evidence for impairment on expected future cash flows of the investment is taken into account.

Impairment of available-for-sale financial assets

The determination of whether an available-for-sale financial asset is impaired requires significant judgement. In making this judgement, the Group evaluates the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, credit ratings, delinquency rates and counterparty risk.

Taxes

There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

Employee early retirement benefits obligations

The Group recognises liabilities in connection with early retirement benefits of employees in Domestic Institutions using the projected unit credit actuarial cost method based on various assumptions, including the discount rate, average medical expense increase rate, cost of living adjustment for early retirements and other factors. Actual results may differ from the result of the projected amount. Any difference between the actual result or changes in assumptions may affect the amount of expense recognised in the consolidated statement of financial position and the corresponding liability.

(Amounts in millions of Renminbi, unless otherwise stated)

5. NET INTEREST INCOME

	Six months ended	
	30.6.2010	**30.6.2009**
Interest income		
Loans and advances to customers	113,335	93,552
Including: Corporate loans and advances	86,829	75,433
Personal loans and advances	23,346	13,526
Discounted bills	3,160	4,593
Debt securities classified as receivables	13,597	14,038
Held-to-maturity investments	15,619	11,650
Available-for-sale financial assets	8,814	11,149
Balances with central banks	12,193	8,959
Financial assets held under resale agreements and placements/deposits with banks and other financial institutions	4,433	2,600
Financial assets held for trading	232	231
Financial assets designated as at fair value through profit or loss	57	64
Subtotal	168,280	142,243
Interest expense		
Due to customers	(50,335)	(53,562)
Deposits/placements from banks and other financial institutions and financial assets sold under repurchase agreements	(5,304)	(4,492)
Debt securities issued	(933)	(293)
Subtotal	(56,572)	(58,347)
Net interest income	111,708	83,896
Included in interest income is interest income accrued on impaired financial assets	729	1,015

6. NET FEE AND COMMISSION INCOME

	Six months ended	
	30.6.2010	**30.6.2009**
Fee and commission income		
Settlement and clearing fees	7,075	5,681
Agency commissions	5,593	6,244
Bank card fees	2,881	2,146
Consultancy and advisory fees	5,424	2,232
Credit commitment fees	689	238
Electronic banking services fees	1,063	533
Custodian and other fiduciary service fees	401	266
Others	50	188
Subtotal	23,176	17,528
Fee and commission expense		
Bank card fees	(207)	(192)
Settlement and clearing fees	(274)	(200)
Other service fees	(236)	(119)
Subtotal	(717)	(511)
Total	**22,459**	**17,017**

(Amounts in millions of Renminbi, unless otherwise stated)

7. NET TRADING GAIN

	Six months ended	
	30.6.2010	**30.6.2009**
Net gain (loss) on exchange rate derivatives	334	(231)
Net (loss) gain on interest rate derivatives	(43)	1,010
Net gain (loss) on held-for-trading debt securities	73	(260)
Others	99	13
Total	**463**	**532**

8. NET (LOSS) GAIN ON FINANCIAL INSTRUMENTS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Six months ended	
	30.6.2010	**30.6.2009**
Net gain (loss) on debt securities	70	(47)
Net (loss) gain on financial guarantee contracts	(216)	1,019
Others	(24)	1
Total	**(170)**	**973**

9. OTHER OPERATING INCOME

	Six months ended	
	30.6.2010	**30.6.2009**
Net gain on disposal of property and equipment	170	135
Rental income	119	111
Net foreign exchange gain	783	899
Others	443	538
Total	**1,515**	**1,683**

10. OPERATING EXPENSES

		Six months ended	
	Note	**30.6.2010**	**30.6.2009**
Staff costs	(1)	32,599	22,592
General operating and administrative expenses		12,888	10,360
Business tax and surcharges		7,489	6,069
Depreciation and amortisation		5,595	5,389
Others		(103)	(264)
Total		**58,468**	**44,146**

(Amounts in millions of Renminbi, unless otherwise stated)

10. OPERATING EXPENSES (continued)

(1) *Staff costs*

	Six months ended	
	30.6.2010	**30.6.2009**
Salaries, bonuses and allowances	22,582	14,431
Social insurance	4,890	3,417
Housing funds	2,002	1,638
Labour union fee and staff education expenses	972	655
Early retirement benefits	178	1,184
Others	1,975	1,267
Total	**32,599**	**22,592**

11. IMPAIRMENT LOSSES ON ASSETS

	Six months ended	
	30.6.2010	**30.6.2009**
Loans and advances to customers	19,728	18,795
Available-for-sale financial assets	5	(1,276)
Held-to-maturity investments	(15)	56
Property and equipment	4	5
Placements with banks and other financial institutions	(16)	(4)
Other assets	(83)	(31)
Total	**19,623**	**17,545**

12. INCOME TAX EXPENSE

	Six months ended	
	30.6.2010	**30.6.2009**
Income tax expense comprises:		
Current income tax		
— PRC Enterprise Income Tax	17,954	13,739
— Hong Kong Profits Tax	47	37
Subtotal	18,001	13,776
Deferred tax (note 38)		
— Current period	(5,837)	(3,751)
Subtotal	(5,837)	(3,751)
Total	**12,164**	**10,025**

PRC Corporate Income Tax is calculated at 25% of the estimated assessable profit for the current and prior periods. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

(Amounts in millions of Renminbi, unless otherwise stated)

12. INCOME TAX EXPENSE (continued)

The tax charges for the six months ended 30 June 2010 and 30 June 2009 can be reconciled to the profit per the consolidated income statement as follows:

	Six months ended	
	30.6.2010	**30.6.2009**
Profit before tax	58,027	42,745
Tax calculated at applicable statutory tax rate of 25%	14,507	10,686
Tax effect of expenses not deductible for tax purpose	68	1,283
Tax effect of income not taxable for the tax purpose	(2,386)	(1,925)
Effect of different tax rates on Overseas Institutions	(25)	(19)
Income tax expense	**12,164**	**10,025**

13. DIVIDENDS

		Six months ended	
	Notes	**30.6.2010**	**30.6.2009**
Dividends recognised as distribution during the period			
2010 Interim special cash dividend — RMB0.119 per share			
(2009: 2009 interim cash dividend RMBnil per share)	(1)	32,077	—
2009 Final cash dividend — RMB0.077 per share			
(2008: 2007 final cash dividend RMBnil per share)	(2)	20,000	—
		52,077	—

Notes:

(1) *On 21 April 2010, the extraordinary shareholders' general meeting approved a cash dividend (the "Special Dividend") to shareholders on the Bank's register of members as of 30 June 2010 in an amount equal to the sum of (i) the Bank's audited net profit for the six months ended 30 June 2010, after the required appropriations for a statutory surplus reserve and a general reserve that amounts to 10% and 20%, respectively, of the net profit of the Bank for the six months ended 30 June 2010 as determined under PRC GAAP, and (ii) undistributed profits from previous years. The amount of audited net profit referred to in (i) above represents the lowest amount among the consolidated net profit attributable to our equity holders and unconsolidated net profit of our Bank, for the six months ended June 30, 2010, in accordance with PRC GAAP and IFRS, respectively, as determined following an audit (the "Special Audit") of the Bank's net profit for the six months ended June 30, 2010.*

The above appropriations were authorized by the Board of Directors and approved in the extraordinary shareholders' general meeting held on 21 April 2010.

The 14th session of the first meeting of the Board of Directors was held on 27 August 2010, in which the profit appropriations of the Bank were approved and set out as follows:

(i) *An appropriation of RMB4,587 million, 10% of the net profit of the Bank for the six months ended 30 June 2010 determined under PRC GAAP to the statutory surplus reserve;*

(ii) *An appropriation of RMB9,164 million, 20% of the unconsolidated net profit of the Bank for the six months ended 30 June 2010 determined under PRC GAAP to the general reserve; and*

(iii) *After the above appropriations, a Special Dividend of RMB32,077 million was made to shareholders on the Bank's register of members as of 30 June 2010.*

(Amounts in millions of Renminbi, unless otherwise stated)

13. DIVIDENDS (continued)

Notes: (continued)

The above appropriations had been included in the Group's and the Bank's financial statements as at 30 June 2010.

(2) Pursuant to the resolutions of the extraordinary shareholders' general meeting on 21 April 2010, the profit appropriations for 2009 were set out as follows:

(i) An appropriation of RMB6,489 million to the statutory surplus reserve based on the net profit for the year 2009 of the Bank in an amount of RMB64,892 million (as disclosed in Note 44, and which a transfer has been made as at 31 December 2009);

(ii) An appropriation of RMB38,386 million to the general reserve; and

(iii) A cash dividend of RMB20 billion to the Ministry of Finance of the PRC (the "MOF") and Central Huijin Investment Ltd. (the "Huijin").

14. EARNINGS PER SHARE

The calculation of basic earnings per share is as follows:

	Six months ended	
	30.6.2010	**30.6.2009**
Earnings:		
Profit for the period attributable to equity holders of the Bank	45,840	32,714
Numbers of shares:		
Weighted average number of shares in issue (million)	263,333	260,000
Basic earnings per share (RMB yuan)	0.17	0.13

There was no potential ordinary share outstanding during the reporting periods. Accordingly, no diluted earnings per share was presented.

15. CASH AND BALANCES WITH CENTRAL BANKS

		The Group	
	Notes	**As at 30.6.2010**	**As at 31.12.2009**
Cash		53,726	48,896
Mandatory reserve deposits with central banks	(1)	1,354,901	1,137,696
Surplus reserve deposits with central bank	(2)	164,955	103,893
Other deposits with central banks	(3)	252,893	227,321
Total		**1,826,475**	**1,517,806**

(Amounts in millions of Renminbi, unless otherwise stated)

15. CASH AND BALANCES WITH CENTRAL BANKS (continued)

	Notes	The Bank As at 30.6.2010	The Bank As at 31.12.2009
Cash		53,638	48,895
Mandatory reserve deposits with central banks	(1)	1,354,884	1,137,653
Surplus reserve deposits with central bank	(2)	164,955	103,893
Other deposits with central banks	(3)	252,893	227,321
Total		**1,826,370**	**1,517,762**

(1) *The Group places mandatory reserve deposits mainly with the People's Bank of China ("PBOC"). These include RMB reserve deposits and foreign currency reserve deposits. These mandatory reserve deposits are not available for the Group's daily operations. As at 30 June 2010, mandatory reserve deposits with the PBOC were calculated at 17% (31 December 2009: 15.5%) of eligible RMB deposit, and 5% (31 December 2009: 5%) of foreign currency deposits from customers respectively. Mandatory reserve deposits placed with the central bank of other country are determined by the local regulator and non-interest bearing. The foreign currency reserve deposits placed with the PBOC are non-interest bearing.*

(2) *The surplus reserve deposits are maintained with the PBOC mainly for the purpose of clearing.*

(3) *This mainly represents fixed deposit and fiscal deposits placed with the PBOC. The fiscal deposits placed with the PBOC are non-interest bearing.*

(4) *Except as specifically disclosed, all other deposits with the PBOC are interest bearing at prevailing PBOC rates.*

16. DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group As at 30.6.2010	The Group As at 31.12.2009
Deposits with:		
Domestic banks	35,582	22,476
Other domestic financial institutions	1,118	357
Overseas banks	42,839	38,860
Total	**79,539**	**61,693**

	The Bank As at 30.6.2010	The Bank As at 31.12.2009
Deposits with:		
Domestic banks	35,474	22,307
Other domestic financial institutions	1,118	357
Overseas banks	42,584	38,621
Total	**79,176**	**61,285**

As at 30 June 2010, the Group pledged deposits with overseas banks amounting to RMB2,207 million (31 December 2009: Nil) for the purpose of carrying out financial derivative operations. As at 31 December 2009, the Group pledged deposits with China Foreign Exchange Trade System (CFETS) amounting to RMB81 million as guarantee deposits.

(Amounts in millions of Renminbi, unless otherwise stated)

17. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group and the Bank	
	As at 30.6.2010	**As at 31.12.2009**
Placements with:		
Domestic banks	15,438	11,991
Other domestic financial institutions	19,720	7,940
Overseas banks	22,632	29,520
	57,790	49,451
Allowance for impairment losses	—	(16)
Total	**57,790**	**49,435**

18. FINANCIAL ASSETS HELD FOR TRADING

		The Group and the Bank	
	Note	**As at 30.6.2010**	**As at 31.12.2009**
Trading debt securities issued by:			
Governments		16,466	8,858
Public sector and quasi-governments		4,001	3,596
Financial institutions		136	311
Corporations		3,491	2,581
Total		24,094	15,346
Analysed as:			
Listed outside Hong Kong	(1)	24,094	15,346
Total		**24,094**	**15,346**

(1) Debt securities traded on the China Domestic Interbank Bond Market are included in "Listed outside Hong Kong".

19. FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

		The Group and the Bank	
	Note	**As at 30.6.2010**	**As at 31.12.2009**
Designated debt securities issued by:			
Governments		2,642	9,531
Public sector and quasi-governments		3,609	21,024
Financial institutions		4,844	5,934
Corporations		4,694	6,216
Financial guarantee contracts		24	21
Credit notes issued by trust companies		57,148	53,784
Others		132	320
Total		73,093	96,830
Analysed as:			
Listed in Hong Kong		—	85
Listed outside Hong Kong	(1)	10,601	38,960
Unlisted		62,492	57,785
Total		**73,093**	**96,830**

(1) Debt securities traded on the China Domestic Interbank Bond Market are included in "Listed outside Hong Kong".

(Amounts in millions of Renminbi, unless otherwise stated)

20. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	The Group	
	As at 30.6.2010	As at 31.12.2009
Analysed by collateral type:		
Bonds	197,015	298,321
Bills	228,268	117,113
Loans and advances to customers	6,024	5,659
Total	**431,307**	**421,093**

	The Bank	
	As at 30.6.2010	As at 31.12.2009
Analysed by collateral type:		
Bonds	196,995	298,321
Bills	228,268	117,113
Loans and advances to customers	6,024	5,659
Total	**431,287**	**421,093**

21. DERIVATIVE FINANCIAL ASSETS (LIABILITIES)

The Group enters into foreign currency exchange rate, interest rate and precious metals related derivative financial instruments for purposes of trading, asset and liability management and customer driven business.

The contractual/notional amounts and fair values of derivative instruments held by the Group are set out in the following tables. The contractual/notional amounts of financial instruments provide a basis for comparison with fair value of instruments recognised on the statements 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 commodity prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The Group and the Bank

	As at 30 June 2010		
	Contractual/ notional amount	Fair value	
		Assets	Liabilities
Exchange rate derivatives			
Currency forwards	224,816	2,541	(2,650)
Currency swaps	130,167	595	(841)
Cross-currency interest rate swaps	10,274	1,581	(2,875)
Currency options	9,519	17	(2)
Subtotal		4,734	(6,368)
Interest rate derivatives			
Interest rate swaps	126,631	969	(1,967)
Other interest rate derivatives	843	3	(16)
Subtotal		972	(1,983)
Other derivatives	1,293	—	(139)
Total derivatives financial assets (liabilities)		**5,706**	**(8,490)**

(Amounts in millions of Renminbi, unless otherwise stated)

21. DERIVATIVE FINANCIAL ASSETS (LIABILITIES) (continued)

The Group and the Bank (continued)

	As at 31 December 2009		
	Contractual/ notional amount	Fair value Assets	Fair value Liabilities
Exchange rate derivatives			
Currency forwards	110,467	1,546	(2,271)
Currency swaps	100,550	411	(374)
Cross-currency interest rate swaps	12,503	1,729	(3,140)
Currency options	81	2	(1)
Subtotal		3,688	(5,786)
Interest rate derivatives			
Interest rate swaps	113,644	932	(1,864)
Other interest rate derivatives	751	—	(15)
Subtotal		932	(1,879)
Other derivatives	1,008	58	(25)
Total derivatives financial assets (liabilities)		**4,678**	**(7,690)**

22. LOANS AND ADVANCES TO CUSTOMERS

(1) Analysis of loans and advances to customers

	The Group	
	As at 30.6.2010	As at 31.12.2009
Corporate loans and advances		
Loans and advances	3,455,870	2,994,794
Discounted bills	147,525	353,937
Subtotal	3,603,395	3,348,731
Personal loans and advances		
Residential mortgages	641,668	497,950
Credit cards	22,902	14,118
Others	356,018	277,388
Subtotal	1,020,588	789,456
Gross loans and advances	4,623,983	4,138,187
Individually assessed	(55,303)	(55,596)
Collectively assessed	(90,450)	(71,096)
Allowance for impairment losses	(145,753)	(126,692)
Loans and advances to customers	4,478,230	4,011,495

(Amounts in millions of Renminbi, unless otherwise stated)

22. LOANS AND ADVANCES TO CUSTOMERS (continued)

(1) Analysis of loans and advances to customers (continued)

	The Bank	
	As at 30.6.2010	As at 31.12.2009
Corporate loans and advances		
Loans and advances	3,455,797	2,994,794
Discounted bills	147,525	353,937
Subtotal	3,603,322	3,348,731
Personal loans and advances		
Residential mortgages	641,668	497,950
Credit cards	22,902	14,118
Others	355,846	277,278
Subtotal	1,020,416	789,346
Gross loans and advances	4,623,738	4,138,077
Individually assessed	(55,303)	(55,596)
Collectively assessed	(90,449)	(71,095)
Allowance for impairment losses	(145,752)	(126,691)
Loans and advances to customers	4,477,986	4,011,386

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

The Group

	Loans and advances for which allowance is collectively assessed (A)	Identified impaired loans and advances (B)			Total	Identified impaired gross loans and advances as a % of gross total loans and advances
		For which allowance is collectively assessed	For which allowance is individually assessed	Sub-total		
At 30 June 2010						
Gross loans and advances	4,516,897	10,816	96,270	107,086	4,623,983	2.32
Allowance for impairment losses	(84,620)	(5,830)	(55,303)	(61,133)	(145,753)	
Loans and advances to customers	**4,432,277**	**4,986**	**40,967**	**45,953**	**4,478,230**	
At 31 December 2009						
Gross loans and advances	4,017,946	11,072	109,169	120,241	4,138,187	2.91
Allowance for impairment losses	(66,057)	(5,039)	(55,596)	(60,635)	(126,692)	
Loans and advances to customers	**3,951,889**	**6,033**	**53,573**	**59,606**	**4,011,495**	

(Amounts in millions of Renminbi, unless otherwise stated)

22. LOANS AND ADVANCES TO CUSTOMERS (continued)

(2) Analysis of loans and advances to customers by collective and individual assessments (continued)

The Bank

	Loans and advances for which allowance is collectively assessed (A)	Identified impaired loans and advances (B) For which allowance is collectively assessed	For which allowance is individually assessed	Sub-total	Total	Identified impaired gross loans and advances as a % of gross total loans and advances
At 30 June 2010						
Gross loans and advances	4,516,652	10,816	96,270	107,086	4,623,738	2.32
Allowance for impairment losses	(84,619)	(5,830)	(55,303)	(61,133)	(145,752)	
Loans and advances to customers	**4,432,033**	**4,986**	**40,967**	**45,953**	**4,477,986**	
At 31 December 2009						
Gross loans and advances	4,017,836	11,072	109,169	120,241	4,138,077	2.91
Allowance for impairment losses	(66,056)	(5,039)	(55,596)	(60,635)	(126,691)	
Loans and advances to customers	**3,951,780**	**6,033**	**53,573**	**59,606**	**4,011,386**	

A. *Loans and advances for which allowance is collectively assessed consist of loans and advances which have not been specifically identified as impaired.*

B. *Identified gross impaired loans and advances include loans for which objective evidence of impairment exists and which have been identified as bearing an impairment loss and assessed either individually or collectively.*

(3) Movements of allowance for impairment losses on loans and advances to customers

The Group

	2010 Individually assessed allowance	Collectively assessed allowance	Total
As at 1 January	55,596	71,096	126,692
Net additions	280	19,448	19,728
Written off	(7)	(1)	(8)
Recovery of loans and advances written off in previous periods	4	3	7
Unwinding of discount on allowance	(636)	(78)	(714)
Other transfer in	67	—	67
Exchange difference	(1)	(18)	(19)
As at 30 June	**55,303**	**90,450**	**145,753**

(Amounts in millions of Renminbi, unless otherwise stated)

22. LOANS AND ADVANCES TO CUSTOMERS (continued)

(3) Movements of allowance for impairment losses on loans and advances to customers (continued)

The Group (continued)

	2009		
	Individually assessed allowance	**Collectively assessed allowance**	**Total**
As at 1 January	43,141	42,034	85,175
Net additions	15,025	29,264	44,289
Written off	(1,036)	(34)	(1,070)
Recovery of loans and advances written off in previous periods	20	6	26
Unwinding of discount on allowance	(1,551)	(173)	(1,724)
Exchange difference	(3)	(1)	(4)
As at 31 December	**55,596**	**71,096**	**126,692**

The Bank

	2010		
	Individually assessed allowance	**Collectively assessed allowance**	**Total**
As at 1 January	55,596	71,095	126,691
Net additions	280	19,448	19,728
Written off	(7)	(1)	(8)
Recovery of loans and advances written off in previous periods	4	3	7
Unwinding of discount on allowance	(636)	(78)	(714)
Other transfer in	67	—	67
Exchange difference	(1)	(18)	(19)
As at 30 June	**55,303**	**90,449**	**145,752**

	2009		
	Individually assessed allowance	**Collectively assessed allowance**	**Total**
As at 1 January	43,141	42,034	85,175
Net additions	15,025	29,263	44,288
Written off	(1,036)	(34)	(1,070)
Recovery of loans and advances written off in previous years	20	6	26
Unwinding of discount on allowance	(1,551)	(173)	(1,724)
Exchange difference	(3)	(1)	(4)
As at 31 December	**55,596**	**71,095**	**126,691**

(Amounts in millions of Renminbi, unless otherwise stated)

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Note	The Group As at 30.6.2010	The Group As at 31.12.2009
Debt securities issued by:			
Governments		335,212	476,700
Public sector and quasi-governments		156,465	159,215
Financial institutions		23,452	23,267
Corporations		91,096	70,713
Subtotal		606,225	729,895
Equity instruments		452	487
Total		606,677	730,382
Analysed as:			
Listed in Hong Kong		2,660	1,886
Listed outside Hong Kong	(1)	602,760	726,600
Unlisted		1,257	1,896
Total		**606,677**	**730,382**

	Note	The Bank As at 30.6.2010	The Bank As at 31.12.2009
Debt securities issued by:			
Governments		335,212	476,700
Public sector and quasi-governments		156,465	159,215
Financial institutions		23,452	23,267
Corporations		91,083	70,713
Subtotal		606,212	729,895
Equity instruments		390	487
Total		606,602	730,382
Analysed as:			
Listed in Hong Kong		2,660	1,886
Listed outside Hong Kong	(1)	602,685	726,600
Unlisted		1,257	1,896
Total		**606,602**	**730,382**

(1) Debt securities traded on the China Domestic Interbank Bond Market are included in "Listed outside Hong Kong".

(Amounts in millions of Renminbi, unless otherwise stated)

24. HELD-TO-MATURITY INVESTMENTS

	Note	The Group	
		As at 30.6.2010	**As at 31.12.2009**
Debt securities issued by:			
Governments		671,193	536,566
Public sector and quasi-governments		318,052	264,842
Financial institutions		41,826	42,342
Corporations		51,865	40,288
		1,082,936	884,038
Allowance for impairment losses		(92)	(123)
Total		1,082,844	883,915
Analysed as:			
Listed in Hong Kong		139	141
Listed outside Hong Kong	(1)	1,082,074	883,070
Unlisted		631	704
Total		**1,082,844**	**883,915**

	Note	The Bank	
		As at 30.6.2010	**As at 31.12.2009**
Debt securities issued by:			
Governments		671,193	536,566
Public sector and quasi-governments		318,036	264,842
Financial institutions		41,826	42,342
Corporations		51,801	40,288
		1,082,856	884,038
Allowance for impairment losses		(92)	(123)
Total		1,082,764	883,915
Analysed as:			
Listed in Hong Kong		139	141
Listed outside Hong Kong	(1)	1,081,994	883,070
Unlisted		631	704
Total		**1,082,764**	**883,915**

(1) Debt securities traded on the China Domestic Interbank Bond Market are included in "Listed outside Hong Kong".

(Amounts in millions of Renminbi, unless otherwise stated)

25. DEBT SECURITIES CLASSIFIED AS RECEIVABLES

		The Group and The Bank	
	Notes	As at 30.6.2010	As at 31.12.2009
Receivable from the MOF	(1)	601,181	635,539
Special government bond	(2)	93,300	93,300
Certificate treasury bonds and savings treasury bonds		30,868	32,193
PBOC's designated bills	(3)	73,923	119,744
PBOC's special bills		112	112
Financial institution bonds		11,759	9,306
Corporate bonds		93	92
		811,236	890,286
Allowance for impairment losses		(87)	(87)
Total		**811,149**	**890,199**

(1) *Pursuant to the MOF Notice on Relevant Issues Concerning the Disposal of Non-performing assets of Agricultural Bank of China (Caijin [2008] No. 138), the receivable resulting from the disposal of non-performing assets to the MOF is to be settled by the MOF in 15 years staring from 1 January 2008 at an interest of 3.3% per annum.*

(2) *Special government bond refers to the non-transferable bond with a maturity year of 2028 and a fixed annual interest rate of 2.25%, which was issued by the MOF in 1998 in the aggregate principal amount of RMB93.3 billion to the former Agricultural Bank of China with a purpose to improve its capital adequacy.*

(3) *The Bank acquired the following bills from the PBOC:*

Issue date	Tenor	Interest rate per annum (%)	Face value	As at 30.6.2010 carrying value	As at 31.12.2009 carrying value
9 March 2007	3 years	3.07	21,000	—	20,999
11 May 2007	3 years	3.22	25,000	—	24,998
13 July 2007	3 years	3.60	19,000	19,000	18,997
17 August 2007	3 years	3.69	12,000	11,999	11,998
7 September 2007	3 years	3.71	23,000	22,998	22,997
15 September 2009	1 year	zero coupon bond	20,000	19,926	19,755
			120,000	**73,923**	**119,744**

The above bills cannot be transferred or pledged as collateral for borrowings without the approval of the PBOC.

26. INVESTMENTS IN SUBSIDIARIES

	The Bank	
	As at 30.6.2010	As at 31.12.2009
Investment cost	2,233	1,795
Allowance for impairment losses	(659)	(659)
Investments in subsidiaries	**1,574**	**1,136**

(Amounts in millions of Renminbi, unless otherwise stated)

26. INVESTMENTS IN SUBSIDIARIES (continued)

Details of the Bank's principal subsidiaries are set out below.

Name of entity	Notes	Date of incorporation/ establishment	Place of incorporation/ establishment	Authorised capital/ paid-in capital	Proportion of equity interest (%)	Proportion of voting power on the board of directors (%)	Principal activities
ABC International Holdings Limited	(1)	11 November 2009	Hong Kong	HKD1,268,505,289	100.00	100.00	Investment holding
China Agricultural Finance Co., Ltd		1 November 1988	Hong Kong	HKD588,789,999	100.00	100.00	Investment holding
ABC-CA Fund Management Co., Ltd.		18 March 2008	Shanghai	RMB200,000,001	51.67	51.67	Fund Management
ABC Hexigten Rural Bank Limited Liability Company		12 August 2008	Inner Mongolia	RMB19,600,000	51.02	51.02	Banking
ABC Hubei Hanchuan Rural Bank Limited Liability Company	(2)	12 August 2008	Hubei	RMB20,000,000	50.00	66.67	Banking
AnSai NongYin Rural Bank Co.,Ltd	(3)	30 March 2010	Shaanxi	RMB20,000,000	51.00	51.00	Banking
JiXi NongYin Village Bank Co.,Ltd	(4)	25 May 2010	Anhui	RMB29,400,000	51.00	51.00	Banking

(1) The Bank increased its equity investment in ABC International Holdings Limited by RMB412 million in the current period.

(2) The Bank has appointed two of the three directors on the board of directors of ABC Hubei Hanchuan Rural Bank Limited Liability Company and is therefore able to control the financial and operating activities of ABC Hubei Hanchuan Rural Bank Limited Liability Company (set up in 2008). The financial statements for the year ended 31 December 2009 were audited by Hubei Tongxing CPA Limited Company.

(3) The Bank and several investors established AnSai NongYin Rural Bank Co. Ltd., a rural bank in the PRC, in the current period. The Bank contributed RMB10.2 million for 51% equity interest.

(4) The Bank and several investors established Jixi NongYin Rural Bank Co. Ltd., a rural bank in the PRC, in the current period. The Bank contributed RMB15 million for 51% equity interest.

27. INTEREST IN AN ASSOCIATE

	The Group and The Bank	
	As at 30.6.2010	As at 31.12.2009
Investment cost	157	157
Allowance for impairment losses	(16)	(16)
Interest in an associate	**141**	**141**

Hunan Jinjian Cereals Industry Ltd., Co. (the "Jinjian") was registered in Hunan Province of the PRC. The registered capital of the entity is RMB544 million, and the principal activities of the entity comprise manufacturing, processing and selling of food, cooking oil and agricultural products. The Group held 20.62% of equity interest in Jinjian as at 30 June 2010 and 31 December 2009, respectively.

(Amounts in millions of Renminbi, unless otherwise stated)

28. PROPERTY AND EQUIPMENT

The Group

	Buildings	Electronic equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
Cost					
As at 1 January 2010	89,305	22,747	3,457	14,971	130,480
Additions	241	299	27	2,405	2,972
Transfers	1,229	312	12	(1,553)	—
Disposals	(326)	(332)	(24)	(86)	(768)
As at 30 June 2010	90,449	23,026	3,472	15,737	132,684
Accumulated depreciation					
As at 1 January 2010	(8,638)	(7,664)	(1,902)	—	(18,204)
Provided for the period	(2,354)	(2,206)	(280)	—	(4,840)
Eliminated on disposals	66	293	22	—	381
As at 30 June 2010	(10,926)	(9,577)	(2,160)	—	(22,663)
Allowance for impairment losses					
As at 1 January 2010	(286)	(13)	(3)	(1)	(303)
Recognised in profit or loss	(4)	—	—	—	(4)
Eliminated on disposals	12	—	—	—	12
As at 30 June 2010	(278)	(13)	(3)	(1)	(295)
Carrying amount					
As at 30 June 2010	**79,245**	**13,436**	**1,309**	**15,736**	**109,726**
As at 31 December 2009	80,381	15,070	1,552	14,970	111,973

	Buildings	Electronic equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
Cost					
As at 1 January 2009	85,174	17,330	3,344	7,948	113,796
Additions	1,289	5,315	295	12,018	18,917
Transfers	4,457	301	2	(4,760)	—
Disposals	(1,615)	(199)	(184)	(235)	(2,233)
As at 31 December 2009	89,305	22,747	3,457	14,971	130,480
Accumulated depreciation					
As at 1 January 2009	(4,194)	(3,948)	(1,369)	—	(9,511)
Provided for the year	(4,599)	(3,878)	(674)	—	(9,151)
Eliminated on disposals	155	162	141	—	458
As at 31 December 2009	(8,638)	(7,664)	(1,902)	—	(18,204)
Allowance for impairment losses					
As at 1 January 2009	(318)	(13)	(3)	(68)	(402)
Recognised in profit or loss	(221)	—	—	(1)	(222)
Eliminated on disposals	253	—	—	68	321
As at 31 December 2009	(286)	(13)	(3)	(1)	(303)
Carrying amount					
As at 31 December 2009	**80,381**	**15,070**	**1,552**	**14,970**	**111,973**
As at 1 January 2009	80,662	13,369	1,972	7,880	103,883

(Amounts in millions of Renminbi, unless otherwise stated)

28. PROPERTY AND EQUIPMENT (continued)

The Bank

	Buildings	Electronic equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
Cost					
As at 1 January 2010	89,159	22,587	3,445	14,970	130,161
Additions	241	292	27	2,404	2,964
Transfers	1,228	312	12	(1,552)	—
Disposals	(326)	(308)	(24)	(86)	(744)
As at 30 June 2010	90,302	22,883	3,460	15,736	132,381
Accumulated depreciation					
As at 1 January 2010	(8,588)	(7,599)	(1,895)	—	(18,082)
Provided for the period	(2,349)	(2,201)	(279)	—	(4,829)
Eliminated on disposals	66	280	22	—	368
As at 30 June 2010	(10,871)	(9,520)	(2,152)	—	(22,543)
Allowance for impairment losses					
As at 1 January 2010	(286)	(13)	(3)	(1)	(303)
Recognised in profit or loss	(4)	—	—	—	(4)
Eliminated on disposals	12	—	—	—	12
As at 30 June 2010	(278)	(13)	(3)	(1)	(295)
Carrying amount					
As at 30 June 2010	**79,153**	**13,350**	**1,305**	**15,735**	**109,543**
As at 31 December 2009	80,285	14,975	1,547	14,969	111,776

	Buildings	Electronic equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
Cost					
As at 1 January 2009	85,042	17,293	3,333	7,948	113,616
Additions	1,275	5,191	294	12,017	18,777
Transfers	4,457	301	2	(4,760)	—
Disposals	(1,615)	(198)	(184)	(235)	(2,232)
As at 31 December 2009	89,159	22,587	3,445	14,970	130,161
Accumulated depreciation					
As at 1 January 2009	(4,189)	(3,946)	(1,364)	—	(9,499)
Provided for the year	(4,554)	(3,815)	(672)	—	(9,041)
Eliminated on disposals	155	162	141	—	458
As at 31 December 2009	(8,588)	(7,599)	(1,895)	—	(18,082)
Allowance for impairment losses					
As at 1 January 2009	(318)	(13)	(3)	(68)	(402)
Recognised in profit or loss	(221)	—	—	(1)	(222)
Eliminated on disposals	253	—	—	68	321
As at 31 December 2009	(286)	(13)	(3)	(1)	(303)
Carrying amount					
As at 31 December 2009	**80,285**	**14,975**	**1,547**	**14,969**	**111,776**
As at 1 January 2009	80,535	13,334	1,966	7,880	103,715

(Amounts in millions of Renminbi, unless otherwise stated)

28. PROPERTY AND EQUIPMENT (continued)

The carrying amounts of buildings are located on land with the following remaining lease terms:

	The Group	
	As at 30.6.2010	**As at 31.12.2009**
Held in the PRC		
on long-term lease (over 50 years)	4,239	4,275
on medium-term lease (10–50 years)	70,364	70,932
on short-term lease (less than 10 years)	4,642	5,174
Total	**79,245**	**80,381**

	The Bank	
	As at 30.6.2010	**As at 31.12.2009**
Held in the PRC		
on long-term lease (over 50 years)	4,239	4,275
on medium-term lease (10–50 years)	70,272	70,836
on short-term lease (less than 10 years)	4,642	5,174
Total	**79,153**	**80,285**

According to the relevant laws and regulations, subsequent to the transformation into a joint stock company, the legal title of certain properties previously held under the name of Agricultural Bank of China is to be transferred to the Bank. As at the date of issuance of this set of consolidated financial statements, the re-registration process has not been completed. Management anticipates that the registration process does not affect the rights of the Bank as the legal successor to those assets of Agricultural Bank of China.

29. OTHER ASSETS

		The Group	
	Notes	**As at 30.6.2010**	**As at 31.12.2009**
Accounts receivable	(1)	13,344	3,494
Interest receivable	(2)	39,131	32,127
Foreclosed assets	(3)	10	—
Amounts due from customers arising from derivative transactions	(4)	—	—
Intangible assets	(5)	1,478	1,580
Land use rights	(6)	24,689	25,062
Assets pending for disposal	(7)	11	11
Others		5,760	5,669
Total		**84,423**	**67,943**

(Amounts in millions of Renminbi, unless otherwise stated)

29. OTHER ASSETS (continued)

	Notes	The Bank As at 30.6.2010	The Bank As at 31.12.2009
Accounts receivable	(1)	13,132	3,425
Interest receivable	(2)	39,127	32,126
Foreclosed assets	(3)	10	—
Amounts due from customers arising from derivative transactions	(4)	—	—
Intangible assets	(5)	1,472	1,574
Land use rights	(6)	24,575	24,947
Assets pending for disposal	(7)	11	11
Others		4,574	4,054
Total		**82,901**	**66,137**

(1) The analysis of the aging of accounts receivable is as follows:

The Group

	As at 30 June 2010			
	Gross amount	Percentage (%)	Impairment	Carrying amount
Within 1 year	12,452	86	(136)	12,316
From 1 year to 2 years	1,219	9	(730)	489
From 2 years to 3 years	265	2	(80)	185
Over 3 years	471	3	(117)	354
Total	**14,407**	**100**	**(1,063)**	**13,344**

	As at 31 December 2009			
	Gross amount	Percentage (%)	Impairment	Carrying amount
Within 1 year	2,781	61	(156)	2,625
From 1 year to 2 years	1,270	28	(759)	511
From 2 years to 3 years	117	3	(13)	104
Over 3 years	364	8	(110)	254
Total	**4,532**	**100**	**(1,038)**	**3,494**

The Bank

	As at 30 June 2010			
	Gross amount	Percentage (%)	Impairment	Carrying amount
Within 1 year	12,203	80	(136)	12,067
From 1 year to 2 years	1,219	8	(730)	489
From 2 years to 3 years	265	2	(80)	185
Over 3 years	1,624	10	(1,233)	391
Total	**15,311**	**100**	**(2,179)**	**13,132**

(Amounts in millions of Renminbi, unless otherwise stated)

29. OTHER ASSETS (continued)

(1) The analysis of the aging of accounts receivable is as follows: (continued)

The Bank (continued)

	As at 31 December 2009			
	Gross amount	Percentage (%)	Impairment	Carrying amount
Within 1 year	2,734	45	(156)	2,578
From 1 year to 2 years	1,248	21	(759)	489
From 2 years to 3 years	117	2	(13)	104
Over 3 years	1,915	32	(1,661)	254
Total	**6,014**	**100**	**(2,589)**	**3,425**

(2) Interest receivable

Analysed by type

	The Group	
	As at 30.6.2010	As at 31.12.2009
Held-to-maturity investments	12,155	11,223
Loans and advances to customers	11,511	8,972
Available-for-sale financial assets	7,404	6,856
Debt securities classified as receivables	4,046	2,829
Financial assets held for trading	129	165
Financial assets designated as at fair value through profit or loss	18	21
Others	3,868	2,061
Total	**39,131**	**32,127**

	The Bank	
	As at 30.6.2010	As at 31.12.2009
Held-to-maturity investments	12,155	11,223
Loans and advances to customers	11,511	8,972
Available-for-sale financial assets	7,404	6,856
Debt securities classified as receivables	4,046	2,829
Financial assets held for trading	129	165
Financial assets designated as at fair value through profit or loss	18	21
Others	3,864	2,060
Total	**39,127**	**32,126**

As at 30 June 2010 and 31 December 2009, all interest receivable is due within one year.

(Amounts in millions of Renminbi, unless otherwise stated)

29. OTHER ASSETS (continued)

(3) Foreclosed assets

Analysed by type

	The Group and The Bank	
	As at 30.6.2010	As at 31.12.2009
Buildings	11	1
Others	3	4
Subtotal	14	5
Allowance for impairment losses	(4)	(5)
Total	**10**	—

(4) Amounts due from customers arising from derivative transactions

	The Group and The Bank	
	As at 30.6.2010	As at 31.12.2009
Advance to customers arising from derivatives transactions	890	982
Allowance for impairment losses	(890)	(982)
Total	—	—

(5) Intangible assets

The Group

	Computer software	Others	Total
Cost			
As at 1 January 2010	2,348	71	2,419
Additions	81	—	81
Disposals	(34)	—	(34)
As at 30 June 2010	2,395	71	2,466
Accumulated amortisation			
As at 1 January 2010	(786)	(24)	(810)
Charge for the year	(177)	(6)	(183)
Disposals	8	—	8
As at 30 June 2010	(955)	(30)	(985)
Allowance for impairment losses			
As at 1 January 2010	(29)	—	(29)
Additions	—	—	—
Written off	26	—	26
As at 30 June 2010	(3)	—	(3)
Carrying amount			
As at 30 June 2010	**1,437**	**41**	**1,478**
As at 1 January 2010	1,533	47	1,580
Amortisation period (years)	1–10	1–10	

(Amounts in millions of Renminbi, unless otherwise stated)

29. OTHER ASSETS (continued)

(5) Intangible assets (continued)

The Group (continued)

	Computer software	Others	Total
Cost			
As at 1 January 2009	1,874	69	1,943
Additions	489	2	491
Disposals	(15)	—	(15)
As at 31 December 2009	2,348	71	2,419
Accumulated amortisation			
As at 1 January 2009	(417)	(12)	(429)
Charge for the year	(382)	(12)	(394)
Disposals	13	—	13
As at 31 December 2009	(786)	(24)	(810)
Allowance for impairment losses			
As at 1 January 2009	(28)	—	(28)
Additions	(1)	—	(1)
Written off	—	—	—
As at 31 December 2009	(29)	—	(29)
Carrying amount			
As at 31 December 2009	**1,533**	**47**	**1,580**
As at 1 January 2009	1,429	57	1,486
Amortisation period (years)	1–10	1–10	

The Bank

	Computer software	Others	Total
Cost			
As at 1 January 2010	2,348	62	2,410
Additions	80	—	80
Disposals	(34)	—	(34)
As at 30 June 2010	2,394	62	2,456
Accumulated amortisation			
As at 1 January 2010	(786)	(21)	(807)
Charge for the year	(177)	(5)	(182)
Disposals	8	—	8
As at 30 June 2010	(955)	(26)	(981)
Allowance for impairment losses			
As at 1 January 2010	(29)	—	(29)
Additions	—	—	—
Written off	26	—	26
As at 30 June 2010	(3)	—	(3)
Carrying amount			
As at 30 June 2010	**1,436**	**36**	**1,472**
As at 1 January 2010	1,533	41	1,574
Amortisation period (years)	1–10	1–10	

(Amounts in millions of Renminbi, unless otherwise stated)

29. OTHER ASSETS (continued)

(5) Intangible assets (continued)

The Bank (continued)

	Computer software	Others	Total
Cost			
As at 1 January 2009	1,874	61	1,935
Additions	489	1	490
Disposals	(15)	—	(15)
As at 31 December 2009	2,348	62	2,410
Accumulated amortisation			
As at 1 January 2009	(417)	(11)	(428)
Charge for the year	(382)	(10)	(392)
Disposals	13	—	13
As at 31 December 2009	(786)	(21)	(807)
Allowance for impairment losses			
As at 1 January 2009	(28)	—	(28)
Additions	(1)	—	(1)
Written off	—	—	—
As at 31 December 2009	(29)	—	(29)
Carrying amount			
As at 31 December 2009	**1,533**	**41**	**1,574**
As at 1 January 2009	1,429	50	1,479
Amortisation period (years)	1–10	1–10	

(6) Land use rights

The carrying amount of land use rights analysed based on the remaining terms of the leases as follows:

	The Group	
	As at 30.6.2010	**As at 31.12.2009**
Held in the PRC		
on long-term lease (over 50 years)	386	446
on medium-term lease (10–50 years)	24,236	24,513
on short-term lease (less than 10 years)	67	103
Total	**24,689**	**25,062**

	The Bank	
	As at 30.6.2010	**As at 31.12.2009**
Held in the PRC		
on long-term lease (over 50 years)	386	446
on medium-term lease (10–50 years)	24,122	24,398
on short-term lease (less than 10 years)	67	103
Total	**24,575**	**24,947**

(Amounts in millions of Renminbi, unless otherwise stated)

29. OTHER ASSETS (continued)

(6) Land use rights (continued)

According to the relevant laws and regulations, subsequent to the transformation into a joint stock company, the legal title of certain land use rights previously held under the name of Agricultural Bank of China is to be transferred to the Bank. As at the date of issuance of this set of consolidated financial statements, the re-registration process has not yet been completed. Management anticipates that the registration process does not affect the rights of Agricultural Bank of China Limited as the legal successor to those assets of Agricultural Bank of China.

(7) Assets pending for disposal

	The Group and The Bank	
	As at 30.6.2010	As at 31.12.2009
Gross amount	42	53
Allowance for impairment losses	(31)	(42)
Net book amount	**11**	**11**

30. DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group	
	As at 30.6.2010	As at 31.12.2009
Deposits from:		
Domestic banks	170,232	284,899
Other domestic financial institutions	344,738	285,518
Overseas banks	381	379
Other overseas financial institutions	1,974	3,153
Total	**517,325**	**573,949**

	The Bank	
	As at 30.6.2010	As at 31.12.2009
Deposits from:		
Domestic banks	170,212	284,879
Other domestic financial institutions	344,942	285,679
Overseas banks	381	379
Other overseas financial institutions	3,053	3,857
Total	**518,588**	**574,794**

(Amounts in millions of Renminbi, unless otherwise stated)

31. PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group and The Bank	
	As at 30.6.2010	**As at 31.12.2009**
Placements from:		
Domestic banks	1,355	11,241
Overseas banks	27,192	15,071
Total	**28,547**	**26,312**

32. FINANCIAL LIABILITIES HELD FOR TRADING

	The Group and The Bank	
	As at 30.6.2010	**As at 31.12.2009**
Short position in bond	344	—
Short position in gold	—	56
Total	**344**	**56**

33. FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

		The Group and The Bank	
	Notes	**As at 30.6.2010**	**As at 31.12.2009**
Financial guarantee agreements		993	770
Structured deposits		624	1,127
Principal guaranteed wealth management products	(1)	63,507	109,924
Others	(2)	573	2,022
Total	(3)	**65,697**	**113,843**

(1) *The Group designates the amounts received through the principal guaranteed wealth management products sold to their customers as financial liabilities at FVTPL. As at 30 June 2010, the fair value of the principal guaranteed wealth management products issued by the Group were lower than the contractual amount payable upon maturity to the holders of the wealth management products by RMB1,031 million (31 December 2009: RMB1,071 million).*

(2) *As at 30 June 2010 and 31 December 2009, the fair value of financial instruments designated as at fair value through profit or loss categorised as "others" approximates the contractual amounts payable upon maturity of these contracts.*

(3) *For the six months ended 30 June 2010 and 30 June 2009, there were no significant changes in the fair value of the Group's financial liabilities designated as at fair value through profit or loss that were attributable to the changes in credit risk.*

34. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	The Group and The Bank	
	As at 30.6.2010	**As at 31.12.2009**
Analysed by collateral type:		
Bonds	74,295	22,385
Bills	24,104	69,356
Loans and advances to customers	22,271	9,071
Total	**120,670**	**100,812**

(Amounts in millions of Renminbi, unless otherwise stated)

35. DUE TO CUSTOMERS

		The Group	
	Note	As at 30.6.2010	As at 31.12.2009
Demand deposits			
Corporate customers		2,436,008	2,168,775
Individual customers		2,216,865	1,992,301
Time deposits			
Corporate customers		872,971	743,589
Individual customers		2,586,608	2,373,160
Guaranteed and margin deposits	(1)	148,886	129,525
Others (including outward remittance and remittance outstanding)		87,482	90,268
Total		**8,348,820**	**7,497,618**

		The Bank	
	Note	As at 30.6.2010	As at 31.12.2009
Demand deposits			
Corporate customers		2,435,926	2,168,674
Individual customers		2,216,715	1,992,275
Time deposits			
Corporate customers		872,971	743,589
Individual customers		2,586,551	2,373,111
Guaranteed and margin deposits	(1)	148,886	129,525
Others (including outward remittance and remittance outstanding)		87,482	90,268
Total		**8,348,531**	**7,497,442**

(1) Analysed by business/products for which deposit is required:

	The Group and The Bank	
	As at 30.6.2010	As at 31.12.2009
Bank acceptances	68,822	74,002
Letters of guarantee	14,253	9,161
Letters of credit	13,873	9,185
Personal guarantee	6,316	4,413
Others	45,622	32,764
Total	**148,886**	**129,525**

(Amounts in millions of Renminbi, unless otherwise stated)

36. ACCRUED STAFF COSTS

The Group

	Note	2010			
		As at 1 January	Accrued	Paid	As at 30 June
Salaries, bonuses and allowances		10,669	22,582	(18,520)	14,731
Social insurance		574	4,890	(4,367)	1,097
Housing funds		260	2,002	(1,872)	390
Labour union fees and staff education expenses		1,256	972	(588)	1,640
Early retirement benefits	(1)	15,879	178	(1,205)	14,852
Others		1,300	1,975	(1,562)	1,713
Total		**29,938**	**32,599**	**(28,114)**	**34,423**

	2009			
	As at 1 January	Accrued	Paid	As at 31 December
Salaries, bonuses and allowances	8,489	35,734	(33,554)	10,669
Social insurance	512	9,592	(9,530)	574
Housing funds	280	3,710	(3,730)	260
Labour union fees and staff education expenses	1,108	1,601	(1,453)	1,256
Supplementary retirement benefits	38,637	—	(38,637)	—
Early retirement benefits	17,887	780	(2,788)	15,879
Others	1,231	4,348	(4,279)	1,300
Total	**68,144**	**55,765**	**(93,971)**	**29,938**

The Bank

	Note	2010			
		As at 1 January	Accrued	Paid	As at 30 June
Salaries, bonuses and allowances		10,642	22,547	(18,467)	14,722
Social insurance		574	4,890	(4,367)	1,097
Housing funds		260	2,002	(1,872)	390
Labour union fees and staff education expenses		1,256	972	(588)	1,640
Early retirement benefits	(1)	15,879	178	(1,205)	14,852
Others		1,300	1,975	(1,562)	1,713
Total		**29,911**	**32,564**	**(28,061)**	**34,414**

(Amounts in millions of Renminbi, unless otherwise stated)

36. ACCRUED STAFF COSTS (continued)

The Bank (continued)

	2009			
	As at 1 January	**Accrued**	**Paid**	**As at 31 December**
Salaries, bonuses and allowances	8,475	35,682	(33,515)	10,642
Social insurance	512	9,592	(9,530)	574
Housing funds	280	3,710	(3,730)	260
Labour union fees and staff education expenses	1,108	1,601	(1,453)	1,256
Supplementary retirement benefits	38,637	—	(38,637)	—
Early retirement benefits	17,887	780	(2,788)	15,879
Others	1,231	4,348	(4,279)	1,300
Total	**68,130**	**55,713**	**(93,932)**	**29,911**

The Group's obligation in respect of the supplementary retirement benefits and early retirement benefits at the end of each reporting period was calculated using the projected unit credit actuarial cost method by Towers Watson, an external independent actuary.

(1) Early retirement benefits

The amount recognised in profit or loss in respect of the early retirement benefits is as follows:

	Six months ended 30.6.2010
Interest cost	175
Actuarial loss recognised in the period	3
Total	**178**

The principal assumptions used for the purpose of the actuarial valuations were as follows:

	As at 30.6.2010	**As at 31.12.2009**
Discount rate	2.50%	2.50%
Annual average medical expenses inflation rate	8.00%	8.00%
Annual subsidies inflation rate	8.00%	8.00%
Normal retirement age		
— Male	60	60
— Female	55	55

(Amounts in millions of Renminbi, unless otherwise stated)

37. DEBT SECURITIES ISSUED

		The Group and The Bank	
	Notes	As at 30.6.2010	As at 31.12.2009
Subordinated bonds issued	(1)	49,958	49,955
Certificates of deposit issued	(2)	7,221	5,224
Total		**57,179**	**55,179**

As approved by the PBOC and the CBRC, the Bank issued callable subordinated bonds of RMB50,000 million in May 2009.

(1) The carrying value of the Group and the Bank's subordinated bonds issued are as follows:

	Notes	As at 30.6.2010	As at 31.12.2009
3.3% subordinated fixed rate bonds maturing in May 2019	(i)	20,000	20,000
4.0% subordinated fixed rate bonds maturing in May 2024	(ii)	25,000	25,000
Subordinated floating rate bonds maturing in May 2019	(iii)	5,000	5,000
Total nominal value		50,000	50,000
Less: Unamortised issuance cost		(42)	(45)
Carrying value		**49,958**	**49,955**

Notes:

(i) The subordinated fixed rate bonds issued in May 2009 have a maturity of 10 years, with a fixed coupon rate of 3.3%, payable annually. The Bank has an option to redeem all of the bonds at face value on 20 May 2014. If the Bank does not exercise this option, the coupon rate of the bonds will increase to 6.3% per annum from 20 May 2014 for the next five years.

(ii) The subordinated fixed rate bonds issued in May 2009 have a maturity of 15 years, with a fixed coupon rate of 4.0%, payable annually. The Bank has an option to redeem all of the bonds at face value on 20 May 2019. If the Bank does not exercise this option, the coupon rate of the bonds will increase to 7.0% per annum from 20 May 2019 for the next five years.

(iii) The subordinated floating rate bonds issued in May 2009 have a maturity of 10 years. The annual coupon rate on the bonds resets annually based on the PBOC one-year fixed deposit rate + 60 basis points and is payable annually. The Bank has an option to redeem all of the bonds at face value on 20 May 2014. If the Bank does not exercise this option, the interest rate of the bonds will be adjusted to the PBOC one-year rate + 360 basis points from 20 May 2014 for the next five years.

(2) Certificates of deposit issued by the branches of the Bank in Hong Kong and Singapore were measured at amortised cost.

(Amounts in millions of Renminbi, unless otherwise stated)

38. DEFERRED TAX ASSETS

For the purpose of presentation in the statement of financial position, certain deferred tax assets and liabilities have been offset.

The following are the major deferred tax assets and liabilities recognised and movements thereon during the current and prior periods:

The Group

	Allowance of impairment loss	Early retirement benefits	Accrued but not paid staff cost	Provision	Fair value changes of financial instruments	Others	Total
As at 1 January 2010	12,600	3,970	2,660	1,008	(580)	1	19,659
Credit (charge) to profit or loss	5,145	(257)	1,022	2	(74)	(1)	5,837
Charge to other comprehensive income	—	—	—	—	(723)	—	(723)
As at 30 June 2010	**17,745**	**3,713**	**3,682**	**1,010**	**(1,377)**	**—**	**24,773**

	Allowance of impairment loss	Early retirement benefits	Accrued but not paid staff cost	Provision	Fair value changes of financial instruments	Others	Total
As at 1 January 2009	13,087	4,472	720	1,040	(4,057)	1,845	17,107
(Charge) credit to profit or loss	(487)	(502)	1,940	(32)	(805)	(1,844)	(1,730)
Credit to other comprehensive income	—	—	—	—	4,282	—	4,282
As at 31 December 2009	**12,600**	**3,970**	**2,660**	**1,008**	**(580)**	**1**	**19,659**

(Amounts in millions of Renminbi, unless otherwise stated)

38. DEFERRED TAX ASSETS (continued)

The Bank

	Allowance of impairment loss	Early retirement benefits	Accrued but not paid staff cost	Provision	Fair value changes of financial instruments	Others	Total
As at 1 January 2010	12,600	3,970	2,656	1,008	(580)	—	19,654
Credit (charge) to profit or loss	5,145	(257)	1,022	2	(74)	(1)	5,837
Charge to other comprehensive income	—	—	—	—	(723)	—	(723)
As at 30 June 2010	**17,745**	**3,713**	**3,678**	**1,010**	**(1,377)**	**(1)**	**24,768**

	Allowance of impairment loss	Early retirement benefits	Accrued but not paid staff cost	Provision	Fair value changes of financial instruments	Others	Total
As at 1 January 2009	13,087	4,472	720	1,040	(4,057)	1,831	17,093
(Charge) credit to profit or loss	(487)	(502)	1,936	(32)	(805)	(1,831)	(1,721)
Credit to other comprehensive income	—	—	—	—	4,282	—	4,282
As at 31 December 2009	**12,600**	**3,970**	**2,656**	**1,008**	**(580)**	**—**	**19,654**

39. OTHER LIABILITIES

		The Group	
	Notes	**As at 30.6.2010**	**As at 31.12.2009**
Interest payable	(1)	70,624	66,762
Amount payable to the MOF	(2)	4,900	5,891
Items in process of clearing and settlement		20,570	13,361
Dormant accounts		3,647	3,056
Securities purchases payable		350	6,626
Provision	(3)	4,387	5,047
Business and other taxes payable		4,470	4,282
Others		12,654	24,020
Total		**121,602**	**129,045**

(Amounts in millions of Renminbi, unless otherwise stated)

39. OTHER LIABILITIES (continued)

	Notes	The Bank	
		As at 30.6.2010	As at 31.12.2009
Interest payable	(1)	70,624	66,762
Amount payable to the MOF	(2)	4,900	5,891
Items in process of clearing and settlement		20,570	13,345
Dormant accounts		3,647	3,056
Securities purchase payables		350	6,626
Provision	(3)	4,797	5,047
Business and other tax payable		4,458	4,280
Others		11,941	23,640
Total		**121,287**	**128,647**

(1) Interest payable

	The Group and The Bank	
	As at 30.6.2010	As at 31.12.2009
Due to customers	66,385	62,662
Deposits from banks and other financial institutions	3,864	2,837
Placements from banks and other financial institutions	77	45
Debt securities issued	215	1,105
Financial assets sold under repurchase agreements	83	113
Total	**70,624**	**66,762**

(2) Amount payable to the MOF

Pursuant to the MOF's Notice on Relevant Issues Concerning the Disposal of Non-performing assets of Agricultural Bank of China (Caijin [2008] No. 138), the MOF assigned the Bank to manage and dispose of the non-performing assets. The amount payable to the MOF represents proceeds collected from the transferred non-performing assets by the Group on behalf of the MOF.

(3) Provision

The Group

	As at 30.6.2010			As at 31.12.2009		
	Allowances for litigation	Others	Total	Allowances for litigation	Others	Total
At 1 January	2,974	2,073	5,047	2,829	2,955	5,784
Additions	322	400	722	1,182	163	1,345
Reversals	(590)	(515)	(1,105)	(634)	(985)	(1,619)
Utilised	(187)	(90)	(277)	(403)	(60)	(463)
Total	**2,519**	**1,868**	**4,387**	**2,974**	**2,073**	**5,047**

(Amounts in millions of Renminbi, unless otherwise stated)

39. OTHER LIABILITIES (continued)

(3) Provision (continued)

The Bank

	As at 30.6.2010			As at 31.12.2009		
	Allowances for litigation	Others	Total	Allowances for litigation	Others	Total
At 1 January	2,974	2,073	5,047	2,829	2,955	5,784
Additions	322	810	1,132	1,182	163	1,345
Reversals	(590)	(515)	(1,105)	(634)	(985)	(1,619)
Utilised	(187)	(90)	(277)	(403)	(60)	(463)
Total	**2,519**	**2,278**	**4,797**	**2,974**	**2,073**	**5,047**

40. SHARE CAPITAL

		The Group and The Bank	
	Notes	As at 30.6.2010	As at 31.12.2009
As at 1 January		260,000	260,000
Capital contribution by NCSSF	(1)	10,000	—
As at 30 June/31 December	(2)	**270,000**	**260,000**

(1) According to "Agricultural Bank of China Limited's Share Subscription Agreement" signed on 21 April 2010 by the MOF, the Huijin, the Bank, and the National Council for Social Security Fund (the "NCSSF"), the NCSSF subscribed for 10 billion share capital of the Bank, par value of RMB1 per share. After the subscription, the NCSSF held 3.70% of total share capital of the Bank.

(2) Deloitte Touche Tohmatsu CPA Ltd., verified this capital contribution and issued a verification report De Shi Bao (Yan) Zi (10) No. 0022 on 22 April 2010. As at 30 June 2010, the share capital of the Bank was 270,000,000,000 shares at par value of RMB1 per share (31 December 2009: 260,000,000,000 shares at par value of RMB1 per share).

41. INVESTMENT REVALUATION RESERVE

The Group

	2010		
	Gross amount	Tax effect	Net effect
As at 1 January	6,182	(1,558)	4,624
Gain (loss) on fair value changes of available-for-sale financial assets	3,090	(766)	2,324
Reclassification adjustment to profit or loss upon disposal/impairment of available-for-sale financial assets	(171)	43	(128)
As at 30 June	**9,101**	**(2,281)**	**6,820**

	2009		
	Gross amount	Tax effect	Net effect
As at 1 January	23,132	(5,840)	17,292
(Loss) gain on fair value changes of available-for-sale financial assets	(13,146)	3,331	(9,815)
Reclassification adjustment to profit or loss upon disposal/impairment of available-for-sale financial assets	(3,804)	951	(2,853)
As at 31 December	**6,182**	**(1,558)**	**4,624**

(Amounts in millions of Renminbi, unless otherwise stated)

41. INVESTMENT REVALUATION RESERVE (continued)

The Bank

	2010		
	Gross amount	**Tax effect**	**Net effect**
As at 1 January	6,182	(1,558)	4,624
Gain (loss) on fair value changes of available-for-sale financial assets	3,100	(766)	2,334
Reclassification adjustment to profit or loss upon disposal/impairment of available-for-sale financial assets	(171)	43	(128)
As at 30 June	**9,111**	**(2,281)**	**6,830**

	2009		
	Gross amount	**Tax effect**	**Net effect**
As at 1 January	23,132	(5,840)	17,292
(Loss) gain on fair value changes of available-for-sale financial assets	(13,146)	3,331	(9,815)
Reclassification adjustment to profit or loss upon disposal/impairment of available-for-sale financial assets	(3,804)	951	(2,853)
As at 31 December	**6,182**	**(1,558)**	**4,624**

42. SURPLUS RESERVE

Under relevant PRC Laws, the Bank is required to transfer 10% of its net profit to a non-distributable statutory surplus reserve. During the six months ended 30 June 2010, RMB4,587 million (2009: RMB6,489 million) was transferred to surplus reserve of the Bank. Appropriation to the statutory surplus reserve may cease when the balance of such reserve has reached 50% of the share capital.

43. GENERAL AND REGULATORY RESERVE

Pursuant to the Measures on General Provision for Bad and Doubtful Debts for Financial Institutions (Caijin [2005] No. 49) and Application Guidance of Financing Measures for Financial Institutions (Caijin [2007] No. 23) issued by the MOF in addition to the specific and collective allowances for impairment losses, the Bank is required to establish and maintain a general reserve within equity to address potential unidentified impairment losses. The general reserve should not be less than 1% of the aggregate amount of risk assets as defined by the above measures.

Pursuant to the relevant regulatory requirements in the PRC, ABC-CA Fund Management Co., Ltd., a subsidiary of the Bank, that mainly engages in fund raising, distribution and assets management, is required to appropriate certain amounts of its net profit as general reserve.

For the six months ended 30 June 2010 and the year ended 31 December 2009, the Group transferred RMB47,572 million and RMB10,683 million respectively to general and regulatory reserve pursuant to regulatory requirements in the PRC and overseas jurisdiction.

(Amounts in millions of Renminbi, unless otherwise stated)

44. RETAINED EARNINGS

The movements of retained earnings of the Bank during the period are set out below:

		The Bank	
	Notes	2010	2009
As at 1 January		58,385	10,677
Profit for the period/(year)		45,874	64,892
Appropriation to surplus reserve		(4,587)	(6,489)
Appropriation to general and regulatory reserve	43	(47,561)	(10,695)
Dividends recognised as distribution	13	(52,077)	—
As at 30 June/31 December		**34**	**58,385**

45. CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include the following balances with an original maturity of less than three months:

	As at 30.6.2010	As at 30.6.2009
Cash	53,726	44,221
Balances with central banks	164,955	94,960
Deposits with banks and other financial institutions with an original maturity of less than 3 months	48,833	31,723
Financial assets held under resale agreements with an original maturity of less than 3 months	244,393	430,013
Placements with banks and other financial institutions with an original maturity of less than 3 months	14,931	31,296
Total	**526,838**	**632,213**

46. SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board and relevant management committees (chief operating decision maker) for the purposes of allocating resources to segments and assessing their performance. The Group's chief operating decision maker reviews three different sets of financial information for allocating resources and performance assessment. They are financial information based on (i) geographical location, (ii) business activities and (iii) argo-related (County Area and Urban Area) banking business.

The measurement of segment assets and liabilities, segment income and results is based on the Group's accounting policies in accordance with accounting rules and regulations applicable to PRC enterprises. There is no significant difference between the segments accounting policies and the policies applied to preparing the consolidated financial statements.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer pricing are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "inter-segment interest income/expense". Interest income and expense earned from third parties are referred to as "external interest income/expense".

(Amounts in millions of Renminbi, unless otherwise stated)

46. SEGMENT INFORMATION (continued)

Segment revenues, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Geographical segment

The details of the geographical segments are as follows:

- Head office
- Yangtze River Delta: including Shanghai, Jiangsu, Zhejiang, Ningbo
- Pearl River Delta: including Guangdong, Shenzhen, Fujian, Xiamen
- Bohai Rim: including Beijing, Tianjin, Hebei, Shandong, Qingdao
- Central China: including Shanxi, Hubei, Henan, Hunan, Jiangxi, Hainan, Anhui
- Western China: including Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang, Xinjiang Bingtuan, Tibet, Inner Mongolia, Guangxi
- Northeastern China: including Liaoning, Heilongjiang, Jilin, Dalian, and
- Overseas and others: including overseas branches and subsidiaries.

	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and others	Segment total	Eliminations	Consolidated total
For the six months ended 30 June 2010											
External interest income	53,909	31,143	16,847	19,652	14,286	27,128	4,777	538	168,280	—	168,280
External interest expense	(2,405)	(13,150)	(8,100)	(10,484)	(8,582)	(9,936)	(3,733)	(182)	(56,572)	—	(56,572)
Inter-segment interest (expense) income	(39,141)	7,113	6,933	8,129	7,338	7,553	2,082	(7)	—	—	—
Net interest income	12,363	25,106	15,680	17,297	13,042	24,745	3,126	349	111,708	—	111,708
Fee and commission income	1,695	6,106	3,374	3,180	3,564	4,277	931	49	23,176	—	23,176
Fee and commission expense	(64)	(154)	(109)	(113)	(89)	(123)	(45)	(20)	(717)	—	(717)
Net fee and commission income	1,631	5,952	3,265	3,067	3,475	4,154	886	29	22,459	—	22,459
Net trading gain (loss)	11	608	(28)	(59)	23	(87)	(16)	11	463	—	463
Net (loss) gain on financial instruments designated as at fair value through profit or loss	(175)	(1)	—	—	—	—	—	6	(170)	—	(170)
Net gain on investment securities	14	—	—	—	—	121	—	8	143	—	143
Other operating income (expense), net	(170)	650	272	227	134	177	54	171	1,515	—	1,515
Operating income	13,674	32,315	19,189	20,532	16,674	29,110	4,050	574	136,118	—	136,118
Operating expenses	(3,141)	(11,517)	(7,600)	(8,766)	(9,569)	(13,442)	(4,219)	(214)	(58,468)	—	(58,468)
Impairment losses on assets	190	(3,728)	(1,441)	(4,504)	(3,346)	(6,525)	(248)	(21)	(19,623)	—	(19,623)
Profit before tax	10,723	17,070	10,148	7,262	3,759	9,143	(417)	339	58,027	—	58,027
Income tax expense											(12,164)
Profit for the period											45,863
Depreciation and amortisation included in operating expenses	(514)	(1,110)	(677)	(751)	(950)	(1,182)	(392)	(19)	(5,595)	—	(5,595)
Capital expenditure	288	717	164	801	250	714	294	11	3,239	—	3,239
As at 30 June 2010											
Segment assets	3,351,807	2,215,050	1,360,325	1,667,962	1,470,728	1,961,443	520,034	71,658	12,619,007	(2,947,813)	9,671,194
Including: Interest in an associate	—	—	—	—	141	—	—	—	141	—	141
Unallocated assets											24,773
Total assets											9,695,967
Segment liabilities	(3,064,490)	(2,200,686)	(1,350,997)	(1,659,060)	(1,463,671)	(1,952,420)	(523,119)	(68,574)	(12,283,017)	2,947,813	(9,335,204)
Unallocated liabilities											(6,346)
Total liabilities											(9,341,550)
Credit commitments	52,576	416,205	269,765	259,757	175,718	251,511	44,294	36,674	1,506,500	—	1,506,500

(Amounts in millions of Renminbi, unless otherwise stated)

46. SEGMENT INFORMATION (continued)

Geographical segment (continued)

	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and others	Segment total	Eliminations	Consolidated total
For the six months ended 30 June 2009											
External interest income	49,865	26,627	13,480	16,013	11,136	21,605	3,106	411	142,243	—	142,243
External interest expense	(403)	(14,224)	(8,841)	(10,497)	(9,765)	(10,751)	(3,737)	(129)	(58,347)	—	(58,347)
Inter-segment interest (expense) income	(37,557)	5,007	5,977	6,778	8,677	7,673	3,445	—	—	—	—
Net interest income	11,905	17,410	10,616	12,294	10,048	18,527	2,814	282	83,896	—	83,896
Fee and commission income	3,862	3,029	2,461	2,189	2,395	2,958	611	23	17,528	—	17,528
Fee and commission expense	(54)	(156)	(91)	(55)	(46)	(87)	(22)	—	(511)	—	(511)
Net fee and commission income	3,808	2,873	2,370	2,134	2,349	2,871	589	23	17,017	—	17,017
Net trading gain (loss)	1,905	(983)	(53)	24	(48)	(290)	(51)	28	532	—	532
Net gain on financial instruments designated as at fair value through profit or loss	929	—	—	—	—	—	—	44	973	—	973
Net gain on investment securities	131	—	202	—	—	—	—	2	335	—	335
Other operating income	291	378	246	209	225	97	97	140	1,683	—	1,683
Operating income	18,969	19,678	13,381	14,661	12,574	21,205	3,449	519	104,436	—	104,436
Operating expenses	(3,169)	(8,622)	(5,971)	(6,332)	(6,972)	(9,951)	(2,922)	(207)	(44,146)	—	(44,146)
Impairment losses on assets	1,019	(3,146)	(4,382)	(1,753)	(3,363)	(4,197)	(1,709)	(14)	(17,545)	—	(17,545)
Profit before tax	16,819	7,910	3,028	6,576	2,239	7,057	(1,182)	298	42,745	—	42,745
Income tax expense											(10,025)
Profit for the period											32,720
Depreciation and amortisation included in operating expenses	(472)	(1,064)	(640)	(763)	(903)	(1,079)	(359)	(109)	(5,389)	—	(5,389)
Capital expenditure	497	364	96	1,096	118	327	77	161	2,736	—	2,736
As at 31 December 2009											
Segment assets	3,519,719	2,005,530	1,320,291	1,639,041	1,334,025	1,829,768	484,841	54,413	12,187,628	(3,324,699)	8,862,929
Including: Interest in an associate	—	—	—	—	141	—	—	—	141	—	141
Unallocated assets											19,659
Total assets											8,882,588
Segment liabilities	(3,276,178)	(1,983,925)	(1,305,493)	(1,621,290)	(1,321,346)	(1,809,390)	(489,893)	(51,684)	(11,859,199)	3,324,699	(8,534,500)
Unallocated liabilities											(5,163)
Total liabilities											(8,539,663)
Credit commitments	52,834	321,714	204,089	259,806	140,753	180,647	35,329	26,511	1,221,683	—	1,221,683

46. SEGMENT INFORMATION (continued)

Business operating segment

The Group provides a diversified range of banking and related financial services. The products and services offered to customers are organised into four business segments:

Corporate banking

The corporate banking segment provides financial products and services to corporations, government agencies and financial institutions. The range of products and services includes corporate loans, trade financing, deposit products and other types of corporate intermediary services.

Personal banking

The personal banking segment provides financial products and services to individual customers. The range of products and services includes personal loans, deposit products, card business, personal wealth management services and other types of personal intermediary services.

Treasury operations

The Group's treasury operations conduct money market or repurchase transactions, debt instruments investments, and holding of derivative positions, for its own accounts or on behalf of customers.

Others

Others comprise equity investments and the remaining part of the Group that could not directly fall into any of the above segments, and certain assets, liabilities, income or expenses of the Head Office that could not be allocated on a reasonable basis.

(Amounts in millions of Renminbi, unless otherwise stated)

46. SEGMENT INFORMATION (continued)

Business operating segment (continued)

For the six months ended 30 June 2010

	Corporate banking	Personal banking	Treasury operations	Others	Segment and consolidated total
External interest income	90,040	23,412	54,451	377	168,280
External interest expense	(19,597)	(35,049)	(1,924)	(2)	(56,572)
Inter-segment interest (expense) income	(2,638)	45,642	(43,004)	—	—
Net interest income	67,805	34,005	9,523	375	111,708
Fee and commission income	9,144	14,020	—	12	23,176
Fee and commission expense	(319)	(379)	—	(19)	(717)
Net fee and commission income (expense)	8,825	13,641	—	(7)	22,459
Net trading gain	—	—	463	—	463
Net loss on financial instruments designated as at fair value through profit or loss	—	—	(170)	—	(170)
Net gain on investment securities	—	—	143	—	143
Other operating income	352	86	783	294	1,515
Operating income	76,982	47,732	10,742	662	136,118
Operating expenses	(22,672)	(30,244)	(5,383)	(169)	(58,468)
Impairment losses on assets	(12,354)	(6,893)	26	(402)	(19,623)
Profit before tax	41,956	10,595	5,385	91	58,027
Income tax expense					(12,164)
Profit for the period					45,863
Depreciation and amortisation included in operating expenses	(1,581)	(3,312)	(700)	(2)	(5,595)
Capital expenditure	888	1,930	421	—	3,239
As at 30 June 2010					
Segment assets	3,630,227	1,179,488	4,858,353	3,126	9,671,194
Including: Interest in an associate	—	—	—	141	141
Unallocated assets					24,773
Total assets					9,695,967
Segment liabilities	(3,834,099)	(5,030,338)	(470,648)	(119)	(9,335,204)
Unallocated liabilities					(6,346)
Total liabilities					(9,341,550)
Credit commitments	1,297,945	208,555	—	—	1,506,500

(Amounts in millions of Renminbi, unless otherwise stated)

46. SEGMENT INFORMATION (continued)

Business operating segment (continued)

For the six months ended 30 June 2009

	Corporate banking	Personal banking	Treasury operations	Others	Segment and consolidated total
External interest income	78,509	13,503	50,228	3	142,243
External interest expense	(16,439)	(39,356)	(2,552)	—	(58,347)
Inter-segment interest (expense) income	(13,175)	46,328	(33,153)	—	—
Net interest income	48,895	20,475	14,523	3	83,896
Fee and commission income	10,258	7,270	—	—	17,528
Fee and commission expense	(151)	(360)	—	—	(511)
Net fee and commission income	10,107	6,910	—	—	17,017
Net trading gain	—	—	532	—	532
Net gain on financial instruments designated as at fair value through profit or loss	—	—	973	—	973
Net gain on investment securities	—	—	292	43	335
Other operating income	213	210	928	332	1,683
Operating income	59,215	27,595	17,248	378	104,436
Operating expenses	(16,731)	(22,889)	(4,363)	(163)	(44,146)
Impairment losses on assets	(16,339)	(2,431)	1,225	—	(17,545)
Profit before tax	26,145	2,275	14,110	215	42,745
Income tax expense					(10,025)
Profit for the period					32,720
Depreciation and amortisation included in operating expenses	(1,444)	(3,256)	(689)	—	(5,389)
Capital expenditure	733	1,653	350	—	2,736
As at 31 December 2009					
Segment assets	3,318,792	921,938	4,621,486	713	8,862,929
Including: Interest in an associate	—	—	—	141	141
Unallocated assets					19,659
Total assets					8,882,588
Segment liabilities	(3,415,474)	(4,592,356)	(525,325)	(1,345)	(8,534,500)
Unallocated liabilities					(5,163)
Total liabilities					(8,539,663)
Credit commitments	1,047,513	174,170	—	—	1,221,683

46. SEGMENT INFORMATION (continued)

County Area and Urban Area segment

The Group's operating segments organised by County Area and Urban Area banking business are set out as follows:

County Area banking business

The Bank's County Area banking business aims to provide financial products and services to the rural area, agriculture industry and peasants through its outlets at the 2,048 county areas across the PRC and 22 tier-two branches. The products and services comprise mainly loans, deposits, bank cards, and agency services.

Urban Area banking business

Urban Area banking business comprises all other businesses not covered by County Area banking business, overseas operations, and subsidiaries.

(Amounts in millions of Renminbi, unless otherwise stated)

46. SEGMENT INFORMATION (continued)

County Area and Urban Area segment (continued)

For the six months ended 30 June 2010

	County Area banking business	Urban Area banking business	Segment total	Eliminations	Consolidated total
External interest income	35,906	132,374	168,280	—	168,280
External interest expense	(20,210)	(36,362)	(56,572)	—	(56,572)
Inter-segment interest income (expense)	25,068	(25,068)	—	—	—
Net interest income	40,764	70,944	111,708	—	111,708
Fee and commission income	8,966	14,210	23,176	—	23,176
Fee and commission expense	(196)	(521)	(717)	—	(717)
Net fee and commission income	8,770	13,689	22,459	—	22,459
Net trading (loss) gain	(526)	989	463	—	463
Net loss on financial instruments designated as at fair value through profit or loss	—	(170)	(170)	—	(170)
Net gain on investment securities	—	143	143	—	143
Other operating income	1,164	351	1,515	—	1,515
Operating income	50,172	85,946	136,118	—	136,118
Operating expenses	(25,969)	(32,499)	(58,468)	—	(58,468)
Impairment losses on assets	(9,684)	(9,939)	(19,623)	—	(19,623)
Profit before tax	14,519	43,508	58,027	—	58,027
Income tax expense					(12,164)
Profit for the period					45,863
Depreciation and amortisation included in operating expenses	(1,490)	(4,105)	(5,595)	—	(5,595)
Capital expenditure	862	2,377	3,239	—	3,239
As at 30 June 2010					
Segment assets	3,457,181	6,298,893	9,756,074	(84,880)	9,671,194
Including: Interest in an associate		141			141
Unallocated assets					24,773
Total assets					9,695,967
Segment liabilities	(3,444,995)	(5,975,089)	(9,420,084)	84,880	(9,335,204)
Unallocated liabilities					(6,346)
Total liabilities					(9,341,550)
Credit commitments	296,923	1,209,577	1,506,500	—	1,506,500

(Amounts in millions of Renminbi, unless otherwise stated)

46. SEGMENT INFORMATION (continued)

County Area and Urban Area segment (continued)

For the six months ended 30 June 2009

	County Area banking business	Urban Area banking business	Segment total	Eliminations	Consolidated total
External interest income	26,671	115,572	142,243	—	142,243
External interest expense	(21,891)	(36,456)	(58,347)	—	(58,347)
Inter-segment interest income (expense)	21,740	(21,740)	—	—	—
Net interest income	26,520	57,376	83,896	—	83,896
Fee and commission income	6,351	11,177	17,528	—	17,528
Fee and commission expense	(141)	(370)	(511)	—	(511)
Net fee and commission income	6,210	10,807	17,017	—	17,017
Net trading gain	—	532	532	—	532
Net gain on financial instruments designated as at fair value through profit or loss	—	973	973	—	973
Net gain on investment securities	27	308	335	—	335
Other operating income	344	1,339	1,683	—	1,683
Operating income	33,101	71,335	104,436	—	104,436
Operating expenses	(18,697)	(25,449)	(44,146)	—	(44,146)
Impairment losses on assets	(6,424)	(11,121)	(17,545)	—	(17,545)
Profit before tax	7,980	34,765	42,745	—	42,745
Income tax expense					(10,025)
Profit for the period					32,720
Depreciation and amortisation included in operating expenses	(1,424)	(3,965)	(5,389)	—	(5,389)
Capital expenditure	723	2,013	2,736	—	2,736
As at 31 December 2009					
Segment assets	3,235,103	5,712,643	8,947,746	(84,817)	8,862,929
Including: Interest in an associate		141			141
Unallocated assets					19,659
Total assets					8,882,588
Segment liabilities	(3,217,406)	(5,401,911)	(8,619,317)	84,817	(8,534,500)
Unallocated liabilities					(5,163)
Total liabilities					(8,539,663)
Credit commitments	262,452	959,231	1,221,683	—	1,221,683

(Amounts in millions of Renminbi, unless otherwise stated)

47. RELATED PARTY TRANSACTIONS

(1) The Bank and the MOF

As at 30 June 2010, the MOF directly owned 48.15% (31 December 2009: 50%) of the share capital of the Bank.

The MOF is one of the ministries under the State Council, primarily responsible for state fiscal revenue and expenditures, and taxation policies. Enterprises or legal entities under the control or supervision of the MOF are mainly financial institutions, government departments and agencies. The Group is of the opinion that none of the companies over which the MOF controls, jointly controls or exercises significant influence is considered as related party of the Group.

The Group has the following balances and has entered into the following transactions with the MOF in its ordinary course of business:

	As at 30.6.2010	As at 31.12.2009
Treasury bond and special government bonds		
As at 30 June/31 December	590,234	565,085
Receivable from the MOF		
As at 30 June/31 December	601,181	635,539
Financial liabilities designated as at fair value through profit or loss — structured deposits		
As at 30 June/31 December	—	546
Amount payable to the MOF		
As at 30 June/31 December	4,900	5,891
Deposits from the MOF		
As at 30 June/31 December	13,734	20,477
Other liability — redemption of certificate treasury bond		
As at 30 June/31 December	1,056	792

	Six months ended	
	30.6.2010	30.6.2009
Net interest income		
Interest income	18,999	18,518
Interest expense	(70)	(136)
	18,929	18,382
Fee and commission income	1,252	3,764

Government bonds underwriting and redemption commitment

Government bonds underwriting and redemption commitment are disclosed in Note 48 "Government bonds underwriting and redemption commitment".

(Amounts in millions of Renminbi, unless otherwise stated)

47. RELATED PARTY TRANSACTIONS (continued)

(2) The Bank and the Huijin

The Huijin is a wholly-owned subsidiary of China Investment Corporation Limited, which is incorporated in Beijing, PRC with a registered capital of RMB552,117 million. The Huijin is established to hold certain equity investments as authorised by the State Council and does not engage in other commercial activities. The Huijin exercises legal rights and obligations in the Bank on behalf of the PRC Government.

As at 30 June 2010, the Huijin directly owned 48.15% (31 December 2009: 50%) of share capital of the Bank. The transactions carried out with the Huijin are conducted in the normal course of business, with prices based on normal transaction prices, and under normal commercial terms.

The Group has ordinary business transactions with the Huijin. The details are as follows:

	As at 30.6.2010	As at 31.12.2009
Financial liabilities at FVTPL	4,000	4,014

(3) The Bank and its subsidiaries

The Group has enters into various transactions with banks and financial institutions which are its controlled entities. Transactions are made at arm's length and in its ordinary course of business.

In the opinion of the directors, no material impact to profit or loss arose from the transactions between the Bank and its subsidiaries.

(4) The Bank and its associate

The Group has enters into various transactions with its associate. Transactions are made at arm's length and in its ordinary course of business.

In the opinion of the directors, no material impact to profit or loss arose from the transactions between the Bank and its associate.

(5) The Bank and government controlled or related entities

The Group enters into various banking transactions with government controlled or government related entities on commercial terms under normal course of business. These transactions mainly include provision of credit and guarantee, deposit placing and taking, foreign exchange related services and underwriting and provision of agency services on purchase and redemption of treasury bonds issued by the government.

(Amounts in millions of Renminbi, unless otherwise stated)

47. RELATED PARTY TRANSACTIONS (continued)

(6) Key management personnel

Key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group.

The remuneration of directors and other members of key management during the reporting period was as follows:

	Six months ended	
	30.6.2010	**30.6.2009**
Salaries, bonuses and staff welfare	475	386

(7) The Bank with the Annuity Plan

	As at 30.6.2010	As at 31.12.2009
Due to customers	7,198	6,339

	Six months ended	
	30.6.2010	**30.6.2009**
Interest expense	(44)	N/A

48. Contingent liabilities and commitments

Legal proceedings

The Group is involved as defendants in certain lawsuits arising from its normal business operations. As at 30 June 2010, provisions of RMB2,519 million (31 December 2009: RMB2,974 million) were made based on court judgments or the advice of counsel. Management of the Group believes, based on legal advice, that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group. Provision for litigation losses as advised by in-house or external legal professionals is disclosed in Note 39(3) "Provision".

Capital commitments

The Group and The Bank

	As at 30.6.2010	As at 31.12.2009
Contracted but not provided for	9,011	6,217
Authorised but not contracted for	266	1,102
Total	**9,277**	**7,319**

(Amounts in millions of Renminbi, unless otherwise stated)

48. Contingent liabilities and commitments (continued)

Credit commitments

The Group and The Bank

	As at 30.6.2010	As at 31.12.2009
Loan commitments	998,480	744,524
— With an original maturity of less than 1 year	69,826	50,650
— With an original maturity of 1 year or above	928,654	693,874
Letters of credit	54,614	53,933
Letters of guarantee	168,644	151,355
Acceptances	284,762	271,871
Total	**1,506,500**	**1,221,683**

Credit commitments represent credit cards and general credit facility limits granted to customers. These credit facilities may be drawn in the form of loans and advances or through the issuance of letters of credit, acceptances or letters of guarantee.

Operating lease commitments

At the end of each reporting period, the Group and the Bank have the following non-cancellable operating lease commitments:

The Group

	As at 30.6.2010	As at 31.12.2009
Within 1 year	803	1,271
1 to 2 years	1,377	1,087
2 to 3 years	1,199	919
Above 3 years	4,231	3,174
Total	**7,610**	**6,451**

The Bank

	As at 30.6.2010	As at 31.12.2009
Within 1 year	803	1,266
1 to 2 years	1,377	1,083
2 to 3 years	1,199	916
Above 3 years	4,231	3,174
Total	**7,610**	**6,439**

(Amounts in millions of Renminbi, unless otherwise stated)

48. Contingent liabilities and commitments (continued)

Credit risk weighted amounts for credit commitments

The Group and The Bank

	As at 30.6.2010	As at 31.12.2009
Credit commitments	684,024	527,386

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 contingent liabilities and commitments.

Collateral

Assets pledged

The carrying amount of assets pledged as collateral under repurchase agreements as set out in Note 34 "Financial assets sold under repurchase agreements" by the Group and the Bank is as follows:

	As at 30.6.2010	As at 31.12.2009
Bonds	74,117	22,389
Bills	24,249	69,611
Loans and advances to customers	22,271	9,071
Total	**120,637**	**101,071**

The net book value of financial assets sold under repurchase agreements by the Group as at 30 June 2010 was RMB120,670 million (31 December 2009: RMB100,812 million). All repurchase agreements are due within 12 months from the effective dates of these agreements.

In addition, the bonds pledged as collateral by the Group and the Bank and derivative transactions with other banks and financial institutions as at 30 June 2010 amounted to RMB6,129 million (31 December 2009: RMB8,603 million).

Collateral accepted

Part of cash and securities received as collateral can be resold or re-pledged in connection with purchase of assets under resale agreements and security lending business. The fair value of collateral accepted by the Group as at 30 June 2010 was RMB79,033 million (31 December 2009: RMB75,425 million). Of this total, the Group has an obligation to return collateral that had been sold or re-pledged by the Group with a fair value of RMB25,147 million (31 December 2009: RMB51,107 million).

48. Contingent liabilities and commitments (continued)

Collateral (continued)

Government bonds underwriting and redemption commitment

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

As at 30 June 2010, the nominal value of treasury bonds the Group committed to redeem prior to maturity is RMB65,333 million (31 December 2009: RMB59,378 million). The original maturities of these bonds vary from 1 to 5 years. As the benchmark interest rate of deposits set by the PBOC is lower than the coupon rate of these bonds, management of the Group expects the amount of redemption before the maturity dates of those bonds will not be material to the Group.

The MOF will not provide funding for the early redemption of these bonds on a back-to-back basis, but will settle the principal and interest upon maturity.

49. FINANCIAL RISK MANAGEMENT

Overview

The Group's primary risk management is to maintain risk within acceptable parameters and satisfying the regulatory requirements.

The Group has designed risk management policies and has set up risk controls to identify, analyse, monitor and report risks by means of relevant and up-to-date information systems. The Group regularly reviews its risk management policies and systems to address changes in markets, products and emerging best practice.

The most significant types of risk to which the Group is exposed are credit risk, market risk and liquidity risk. Market risk includes foreign currency risk, interest rate risk and other price risk.

Risk management framework

The Board of Directors is responsible for establishing overall risk appetite of the Group and reviewing and approving the risk management objectives and strategies.

Within this framework, the Group's senior management has overall management responsibility for managing all aspects of risk, including implementing risk management strategies, initiatives and credit policies and approving internal rules, measures and procedures related to risk management. The Risk Management Department of the Group implements procedures for monitoring risk arising from financial instruments.

49. FINANCIAL RISK MANAGEMENT (continued)

Credit risk

Credit risk management

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligation. Credit risk can also arise from operational failures that result in an unauthorised or inappropriate advance, commitment or investment of funds. The Group's major credit risks come from loans and receivables, treasury operations and off-balance sheet related credit risk exposures.

The Group exercises standardised credit management procedures, including credit investigation and proposals, credit limit review, loan disbursement, post lending monitoring and non-performing loans management. The Group enhances its credit risk management by strict compliance with its credit management procedures; strengthening customer investigation, credit rating, lending approval and post lending monitoring; enhancing risk mitigation effect of loans through collateral; accelerating disposal process of non-performing loans and continuously upgrade of Credit Management System (CMS).

Apart from the credit risk exposures on credit-related assets and deposits with banks and financial institutions, the credit risk arising from treasury business is managed by selecting counterparties with acceptable credit quality including by reference to external credit rating information where available. In addition, the Group also provides financial guarantee service to customers which may require the Group to make payments on behalf of customers upon their failure to perform under the terms of the contract. Risks arising from financial guarantees are similar to those associated with loans and advances. These transactions are, therefore, subject to the same risk management procedures and policies.

Impairment assessment

Key factors on impairment assessment

The Group generally measures and manages the quality of credit risk-generating assets based on the Guideline for Loan Credit Risk Classification issued by the CBRC, which requires to classify loans into the following five category loan classification: normal, special-mention, substandard, doubtful and loss. Loans classified in the substandard, doubtful and loss categories are regarded as non-performing loans. The main factors considered in loan impairment assessment include probability of loan repayment and recoverability of principal and interest, which relates to borrowers' repayment ability, credit record, repayment intention, projected profitability, guarantees or collateral and legal responsibility of repayment. The allowance for impairment losses are assessed collectively or individually as appropriate.

49. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Impairment assessment (continued)

Key factors on impairment assessment (continued)

The five category loan classification in which the Group classifies its loans and advances to customers is set out below:

Normal	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention	Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.
Substandard	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal operational revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss	Only a small portion or none of principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.

The accounting policy regarding the Group's estimation of impairment losses on financial assets are set out in Note 3.

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements

The maximum exposure to credit risk represents the credit risk exposure to the Group at the end of each reporting period without taking into account any collateral held or other credit enhancements. The maximum exposure to credit risk at the end of each reporting period is represented by the carrying amount of each financial asset recognised in the consolidated statements of financial position and credit commitments disclosed in Note 48 "Contingent liabilities and commitments".

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements (continued)

A summary of the maximum exposure to credit risk is as follows:

The Group

	30.6.2010	**31.12.2009**
Balances with central banks	1,772,749	1,468,910
Deposits with banks and other financial institutions	79,539	61,693
Placements with banks and other financial institutions	57,790	49,435
Financial assets held for trading	24,094	15,346
Financial assets designated as at fair value through profit or loss	73,093	96,830
Derivative financial assets	5,706	4,678
Financial assets held under resale agreements	431,307	421,093
Loans and advances to customers	4,478,230	4,011,495
Available-for-sale financial assets	606,225	729,895
Held-to-maturity investments	1,082,844	883,915
Debt securities classified as receivables	811,149	890,199
Other financial assets	52,475	35,621
Subtotal	9,475,201	8,669,110
Off-balance sheet items		
Credit commitments	1,506,500	1,221,683
Total	**10,981,701**	**9,890,793**

The Bank

	30.6.2010	**31.12.2009**
Balances with central banks	1,772,732	1,468,867
Deposits with banks and other financial institutions	79,176	61,285
Placements with banks and other financial institutions	57,790	49,435
Financial assets held for trading	24,094	15,346
Financial assets designated as at fair value through profit or loss	73,093	96,830
Derivative financial assets	5,706	4,678
Financial assets held under resale agreements	431,287	421,093
Loans and advances to customers	4,477,986	4,011,386
Available-for-sale financial assets	606,212	729,895
Held-to-maturity investments	1,082,764	883,915
Debt securities classified as receivables	811,149	890,199
Other financial assets	52,259	35,551
Subtotal	9,474,248	8,668,480
Off-balance sheet items		
Credit commitments	1,506,500	1,221,683
Total	**10,980,748**	**9,890,163**

49. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements (continued)

The Group implements specific policies and credit enhancement practices to mitigate credit risk exposure to an acceptable level, the most typical of these is by obtaining collateral and guarantees. The amount and type of acceptable collateral are determined by credit risk evaluations of borrowers. The Group implements guidelines on the acceptability of specific classes of collateral and evaluation parameters.

The main types of collateral obtained are as follows:

- Mortgage loans to personal customers are generally collateralised by mortgages over residential properties;

- Other personal lending and corporate loans and advances are mainly collateralised by charges over land and properties and other assets of the borrowers; and

- Reverse repurchase transactions are mainly collateralised by bonds, bills, loans or securities.

The Group monitors the market value of collateral periodically and requests for additional collateral in accordance with the underlying agreement when necessary.

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Loans and advances to customers

The following tables set out the concentration of risk for loans and advances to customers by industry and geographical area.

(1) *The composition of loans and advances to customers by industry is analysed as follows:*

The Group

	30.6.2010		31.12.2009	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Mining	105,978	2.9	98,024	2.9
Manufacturing	1,043,311	28.9	954,760	28.6
Production and supply of power, gas and water	370,656	10.3	421,303	12.6
Construction	136,540	3.8	102,123	3.0
Transportation, logistics and postal services	351,864	9.8	314,872	9.4
Information transmission, computer services and software	22,148	0.6	28,316	0.8
Retail and wholesale	293,569	8.1	263,963	7.9
Real estate	543,103	15.1	434,926	13.1
Leasing and commercial services	207,877	5.8	147,879	4.4
Water, environment and public utilities management	205,739	5.7	155,629	4.6
Others	322,610	9.0	426,936	12.7
Subtotal	3,603,395	100.0	3,348,731	100.0
Personal loans and advances				
Residential mortgage loans	641,668	62.9	497,950	63.1
Loans to private business	118,949	11.7	105,953	13.4
Personal consumption loans	117,809	11.5	85,600	10.8
Credit card balances	22,902	2.2	14,118	1.8
Others	119,260	11.7	85,835	10.9
Subtotal	1,020,588	100.0	789,456	100.0
Gross loans and advances to customers	**4,623,983**		**4,138,187**	

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Loans and advances to customers (continued)

(1) *The composition of loans and advances to customers by industry is analysed as follows:* (continued)

The Bank

	30.6.2010		31.12.2009	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Mining	105,978	2.9	98,024	2.9
Manufacturing	1,043,238	28.9	954,760	28.6
Production and supply of power, gas and water	370,656	10.3	421,303	12.6
Construction	136,540	3.8	102,123	3.0
Transportation, logistics and postal services	351,864	9.8	314,872	9.4
Information transmission, computer services and software	22,148	0.6	28,316	0.8
Retail and wholesale	293,569	8.1	263,963	7.9
Real estate	543,103	15.1	434,926	13.1
Leasing and commercial services	207,877	5.8	147,879	4.4
Water, environment and public utilities management	205,739	5.7	155,629	4.6
Others	322,610	9.0	426,936	12.7
Subtotal	3,603,322	100.0	3,348,731	100.0
Personal loans and advances				
Residential mortgage loans	641,668	62.9	497,950	63.1
Loans to private business	118,901	11.7	105,953	13.4
Personal consumption loans	117,809	11.5	85,600	10.8
Credit card balances	22,902	2.2	14,118	1.8
Others	119,136	11.7	85,725	10.9
Subtotal	1,020,416	100.0	789,346	100.0
Gross loans and advances to customers	**4,623,738**		**4,138,077**	

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Loans and advances to customers (continued)

(2) *The composition of loans and advances to customers by geographical area is analysed as follows:*

The Group

	30.6.2010		31.12.2009	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Head Office	80,225	2.2	121,899	3.6
Yangtze River Delta	976,446	27.1	894,868	26.7
Pearl River Delta	469,075	13.0	446,597	13.3
Bohai Rim	664,894	18.5	601,191	18.0
Central China	443,507	12.3	407,555	12.2
Western China	802,813	22.3	739,592	22.1
Northeastern China	120,469	3.3	109,219	3.3
Overseas	45,966	1.3	27,810	0.8
Subtotal	3,603,395	100.0	3,348,731	100.0
Personal loans and advances				
Head Office	92	—	—	—
Yangtze River Delta	318,739	31.2	252,867	32.1
Pearl River Delta	207,988	20.4	167,321	21.2
Bohai Rim	132,129	13.0	104,369	13.2
Central China	112,674	11.0	80,601	10.2
Western China	213,221	20.9	162,045	20.5
Northeastern China	35,571	3.5	22,139	2.8
Overseas	174	—	114	—
Subtotal	1,020,588	100.0	789,456	100.0
Gross loans and advances to customers	**4,623,983**		**4,138,187**	

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Loans and advances to customers (continued)

(2) *The composition of loans and advances to customers by geographical area is analysed as follows:* (continued)

The Bank

	30.6.2010		31.12.2009	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Head Office	80,225	2.2	121,899	3.6
Yangtze River Delta	976,446	27.1	894,868	26.7
Pearl River Delta	469,075	13.0	446,597	13.3
Bohai Rim	664,894	18.5	601,191	18.0
Central China	443,507	12.3	407,555	12.2
Western China	802,813	22.3	739,592	22.1
Northeastern China	120,469	3.3	109,219	3.3
Overseas	45,893	1.3	27,810	0.8
Subtotal	3,603,322	100.0	3,348,731	100.0
Personal loans and advances				
Head Office	92	—	—	—
Yangtze River Delta	318,739	31.2	252,867	32.1
Pearl River Delta	207,988	20.4	167,321	21.2
Bohai Rim	132,129	13.0	104,369	13.2
Central China	112,674	11.0	80,601	10.2
Western China	213,221	20.9	162,045	20.5
Northeastern China	35,571	3.5	22,139	2.8
Overseas	2	—	4	—
Subtotal	1,020,416	100.0	789,346	100.0
Gross loans and advances to customers	**4,623,738**		**4,138,077**	

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Loans and advances to customers (continued)

(3) *The composition of gross loans and advances to customers by contractual maturity and security type is analysed as follows:*

THE Group

	As at 30 June 2010			
	Less than 1 year	1 to 5 years	More than 5 years	Total
Unsecured loans	310,172	286,867	315,964	913,003
Guaranteed loans	629,655	323,013	347,674	1,300,342
Collateralised and other secured loans				
— loans secured by property and other immovable assets	639,580	533,437	715,235	1,888,252
— other pledged loans	257,616	29,943	234,827	522,386
Total	**1,837,023**	**1,173,260**	**1,613,700**	**4,623,983**

	As at 31 December 2009			
	Less than 1 year	1 to 5 years	More than 5 years	Total
Unsecured loans	261,892	231,768	302,949	796,609
Guaranteed loans	537,988	265,127	298,546	1,101,661
Collateralised and other secured loans				
— loans secured by property and other immovable assets	576,790	418,080	567,271	1,562,141
— other pledged loans	441,634	27,790	208,352	677,776
Total	**1,818,304**	**942,765**	**1,377,118**	**4,138,187**

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Loans and advances to customers (continued)

(3) *The composition of gross loans and advances to customers by contractual maturity and security type is analysed as follows:* (continued)

The Bank

	As at 30 June 2010			
	Less than 1 year	1 to 5 years	More than 5 years	Total
Unsecured loans	310,172	286,867	315,964	913,003
Guaranteed loans	629,655	323,013	347,674	1,300,342
Collateralised and other secured loans				
— loans secured by property and other immovable assets	639,335	533,437	715,235	1,888,007
— other pledged loans	257,616	29,943	234,827	522,386
Total	**1,836,778**	**1,173,260**	**1,613,700**	**4,623,738**

	As at 31 December 2009			
	Less than 1 year	1 to 5 years	More than 5 years	Total
Unsecured loans	261,892	231,768	302,949	796,609
Guaranteed loans	537,988	265,127	298,546	1,101,661
Collateralised and other secured loans				
— loans secured by property and other immovable assets	576,680	418,080	567,271	1,562,031
— other pledged loans	441,634	27,790	208,352	677,776
Total	**1,818,194**	**942,765**	**1,377,118**	**4,138,077**

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Loans and advances to customers (continued)

(4) Past due loans

The Group and The Bank

	As at 30 June 2010				
	Up to 90 days (including 90 days)	91–360 days	361 days to 3 years	Over 3 years	Total
Unsecured loans	2,549	367	929	232	4,077
Guaranteed loans	7,661	3,066	13,858	1,966	26,551
Collateralised and other secured loans					
— loans secured by property and other immovable assets	14,760	5,476	22,214	1,946	44,396
— other pledged loans	725	433	5,822	277	7,257
Total	**25,695**	**9,342**	**42,823**	**4,421**	**82,281**

	As at 31 December 2009				
	Up to 90 days (including 90 days)	91–360 days	361 days to 3 years	Over 3 years	Total
Unsecured loans	1,398	337	872	168	2,775
Guaranteed loans	4,917	4,375	14,427	489	24,208
Collateralised and other secured loans					
— loans secured by property and other immovable assets	13,746	8,540	21,422	507	44,215
— other pledged loans	356	3,047	3,512	37	6,952
Total	**20,417**	**16,299**	**40,233**	**1,201**	**78,150**

Note: If either a loan's principal or interest was past due by 1 day in any period, the whole loan is classified as past due loan.

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Loans and advances to customers (continued)

(5) *Credit quality of loans and advances to customers*

The Group

	30.6.2010	31.12.2009
Neither past due nor impaired (i)	4,496,746	4,003,287
Past due but not impaired (ii)	20,151	14,659
Impaired (iii)	107,086	120,241
Subtotal	4,623,983	4,138,187
Less: Allowance for impairment losses of loans and advances to customers	(145,753)	(126,692)
Loans and advances to customers	4,478,230	4,011,495

The Bank

	30.6.2010	31.12.2009
Neither past due nor impaired (i)	4,496,501	4,003,177
Past due but not impaired (ii)	20,151	14,659
Impaired (iii)	107,086	120,241
Subtotal	4,623,738	4,138,077
Less: Allowance for impairment losses of loans and advances to customers	(145,752)	(126,691)
Loans and advances to customers	4,477,986	4,011,386

(i) Loans and advances neither past due nor impaired

The Group

	As at 30 June 2010		
	Normal	Special mention	Total
Corporate loans and advances	3,220,454	283,372	3,503,826
Personal loans and advances	979,010	13,910	992,920
Total	**4,199,464**	**297,282**	**4,496,746**

	As at 31 December 2009		
	Normal	Special mention	Total
Corporate loans and advances	2,941,136	297,590	3,238,726
Personal loans and advances	749,987	14,574	764,561
Total	**3,691,123**	**312,164**	**4,003,287**

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Loans and advances to customers (continued)

(5) Credit quality of loans and advances to customers (continued)

(i) Loans and advances neither past due nor impaired (continued)

The Bank

	As at 30 June 2010		
	Normal	**Special mention**	**Total**
Corporate loans and advances	3,220,380	283,372	3,503,752
Personal loans and advances	978,839	13,910	992,749
Total	**4,199,219**	**297,282**	**4,496,501**

	As at 31 December 2009		
	Normal	**Special mention**	**Total**
Corporate loans and advances	2,941,136	297,590	3,238,726
Personal loans and advances	749,877	14,574	764,451
Total	**3,691,013**	**312,164**	**4,003,177**

(ii) Loans and advances past due but not impaired

The Group and The Bank

	As at 30 June 2010				
	Up to 30 days (including 30 days)	**31–60 days (including 60 days)**	**61–90 days (including 90 days)**	**Total**	**Fair value of collateral**
Corporate loans and advances	2,650	626	22	3,298	4,337
Personal loans and advances	13,523	2,442	888	16,853	23,714
Total	**16,173**	**3,068**	**910**	**20,151**	**28,051**

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Loans and advances to customers (continued)

(5) Credit quality of loans and advances to customers (continued)

(ii) Loans and advances past due but not impaired (continued)

	As at 31 December 2009				
	Up to 30 days (including 30 days)	31–60 days (including 60 days)	61–90 days (including 90 days)	Total	Fair value of collateral
Corporate loans and advances	720	39	77	836	1,085
Personal loans and advances	10,323	2,253	1,247	13,823	20,836
Total	**11,043**	**2,292**	**1,324**	**14,659**	**21,921**

(iii) Impaired loans and advances

The Group and The Bank

	As at 30 June 2010		
	Book value	Impairment	Net value
Individually assessed	96,270	(55,303)	40,967
Collectively assessed	10,816	(5,830)	4,986
Total	**107,086**	**(61,133)**	**45,953**

	As at 31 December 2009		
	Book value	Impairment	Net value
Individually assessed	109,169	(55,596)	53,573
Collectively assessed	11,072	(5,039)	6,033
Total	**120,241**	**(60,635)**	**59,606**

Including:

	30.6.2010	31.12.2009
Individually assessed and impaired	96,270	109,169
Individually assessed and impaired %	2.08%	2.64%
Fair value of collateral	10,376	18,349

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Loans and advances to customers (continued)

(5) Credit quality of loans and advances to customers (continued)

(iv) The composition of impaired loans and advances to customers by geographical area is analysed as follows:

The Group and The Bank

	30.6.2010		31.12.2009	
	Amount	% of total	Amount	% of total
Head Office	2,023	1.9	2,127	1.8
Yangtze River Delta	18,238	17.0	22,194	18.5
Pearl River Delta	12,153	11.3	14,888	12.4
Bohai Rim	17,352	16.2	19,642	16.3
Central China	15,349	14.3	16,086	13.4
Western China	36,116	33.8	38,840	32.3
Northeastern China	5,556	5.2	6,146	5.1
Overseas	299	0.3	318	0.2
Total	**107,086**	**100.0**	**120,241**	**100.0**

(6) Rescheduled loans and advances

Rescheduled loans and advances arise from rescheduling and deferral of repayment terms. Rescheduled loans and advances are under continuous monitoring. Rescheduled loans and advances as at 30 June 2010 and 31 December 2009 were RMB9,959 million and RMB11,675 million, respectively.

(7) Assets foreclosed under credit enhancement arrangement

The Group disclosed such assets in Note 29(3).

Debt securities

Credit quality of debt securities

The Group

	30.6.2010	31.12.2009
Neither past due nor impaired (i)	2,589,023	2,606,881
Impaired (ii)	8,405	9,173
Subtotal	2,597,428	2,616,054
Less: Allowance for impairment	(179)	(210)
	2,597,249	**2,615,844**

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Debt securities (continued)

Credit quality of debt securities (continued)

The Bank

	30.6.2010	31.12.2009
Neither past due nor impaired (i)	2,588,930	2,606,881
Impaired (ii)	8,405	9,173
Subtotal	2,597,335	2,616,054
Less: Allowance for impairment	(179)	(210)
	2,597,156	**2,615,844**

(i) Debt securities neither past due nor impaired

The Group

	As at 30 June 2010				
	Financial assets at FVTPL	Available-for-sale financial assets	Held-to-maturity investments	Debt securities classified as receivables	Total
Government bonds	19,108	335,212	671,193	—	1,025,513
Public sector, quasi-government bonds	7,610	155,082	317,490	—	480,182
Financial institution bonds	4,980	18,543	40,614	11,759	75,896
Corporate bonds	8,185	91,096	51,619	—	150,900
Special government bond	—	—	—	93,300	93,300
Certificate treasury bonds and savings treasury bonds	—	—	—	30,868	30,868
PBOC's designated bills	—	—	—	73,923	73,923
PBOC's special bills	—	—	—	112	112
Receivable from the MOF	—	—	—	601,181	601,181
Credit notes issued by trust companies	57,148	—	—	—	57,148
Total	**97,031**	**599,933**	**1,080,916**	**811,143**	**2,589,023**

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Debt securities (continued)

Credit quality of debt securities (continued)

(i) Debt securities neither past due nor impaired (continued)

The Bank

	As at 30 June 2010				
	Financial assets at FVTPL	Available-for-sale financial assets	Held-to-maturity investments	Debt securities classified as receivables	Total
Government bonds	19,108	335,211	671,193	—	1,025,512
Public sector, quasi-government bonds	7,610	155,082	317,474	—	480,166
Financial institution bonds	4,980	18,543	40,614	11,759	75,896
Corporate bonds	8,185	91,084	51,555	—	150,824
Special government bond	—	—	—	93,300	93,300
Certificate treasury bonds and savings treasury bonds	—	—	—	30,868	30,868
PBOC's designated bills	—	—	—	73,923	73,923
PBOC's special bills	—	—	—	112	112
Receivable from the MOF	—	—	—	601,181	601,181
Credit notes issued by trust companies	57,148	—	—	—	57,148
Total	**97,031**	**599,920**	**1,080,836**	**811,143**	**2,588,930**

The Group and The Bank

	As at 31 December 2009				
	Financial assets at FVTPL	Available-for-sale financial assets	Held-to-maturity investments	Debt securities classified as receivables	Total
Government bonds	18,389	476,700	536,566	—	1,031,655
Public sector, quasi-government bonds	24,620	157,027	263,890	—	445,537
Financial institution bonds	6,245	18,164	41,504	9,306	75,219
Corporate bonds	8,797	70,713	40,288	—	119,798
Special government bond	—	—	—	93,300	93,300
Certificate treasury bonds and savings treasury bonds	—	—	—	32,193	32,193
PBOC's designated bills	—	—	—	119,744	119,744
PBOC's special bills	—	—	—	112	112
Receivable from the MOF	—	—	—	635,539	635,539
Credit notes issued by trust companies	53,784	—	—	—	53,784
Total	**111,835**	**722,604**	**882,248**	**890,194**	**2,606,881**

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Debt securities (continued)

Credit quality of debt securities (continued)

(ii) Impaired debt securities

The Group and The Bank

	As at 30 June 2010			
	Available-for-sale financial assets	Held-to-maturity investments	Debt securities classified as receivables	Total
Public sector, quasi-government bonds	1,383	562	—	1,945
Financial institution bonds	4,909	1,212	—	6,121
Corporate bonds	—	246	93	339
Total	**6,292**	**2,020**	**93**	**8,405**

	As at 31 December 2009			
	Available-for-sale financial assets	Held-to-maturity investments	Debt securities classified as receivables	Total
Public sector, quasi-government bonds	2,188	952	—	3,140
Financial institution bonds	5,103	838	—	5,941
Corporate bonds	—	—	92	92
Total	**7,291**	**1,790**	**92**	**9,173**

Debt securities analysed by credit rating and credit risk characteristic

The Group

	As at 30 June 2010					
	Unrated	AAA	AA	A	Lower than A	Total
Government bonds	1,024,486	332	74	619	—	1,025,511
Public sector and quasi-government bonds	452,317	26,406	—	3,223	180	482,126
Financial institution bonds	6,250	59,605	6,419	8,772	882	81,928
Corporate bonds	5,491	86,551	12,292	45,904	914	151,152
Receivable from the MOF	601,181	—	—	—	—	601,181
Special government bond	93,300	—	—	—	—	93,300
Certificate treasury bonds and savings treasury bonds	30,868	—	—	—	—	30,868
PBOC's designated bills	73,923	—	—	—	—	73,923
PBOC's special bills	112	—	—	—	—	112
Credit notes issued by trust companies	57,148	—	—	—	—	57,148
Total	**2,345,076**	**172,894**	**18,785**	**58,518**	**1,976**	**2,597,249**

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Debt securities (continued)

Debt securities analysed by credit rating and credit risk characteristic (continued)

The Bank

	As at 30 June 2010					
	Unrated	AAA	AA	A	Lower than A	Total
Government bonds	1,024,486	332	74	619	—	1,025,511
Public sector and quasi-government bonds	452,300	26,406	—	3,223	180	482,109
Financial institution bonds	6,250	59,605	6,419	8,772	882	81,928
Corporate bonds	5,415	86,551	12,292	45,904	914	151,076
Receivable from the MOF	601,181	—	—	—	—	601,181
Special government bond	93,300	—	—	—	—	93,300
Certificate treasury bonds savings treasury bonds	30,868	—	—	—	—	30,868
PBOC's designated bills	73,923	—	—	—	—	73,923
PBOC's special bills	112	—	—	—	—	112
Credit notes issued by trust companies	57,148	—	—	—	—	57,148
Total	**2,344,983**	**172,894**	**18,785**	**58,518**	**1,976**	**2,597,156**

The Group and The Bank

	As at 31 December 2009					
	Unrated	AAA	AA	A	Lower than A	Total
Government bonds	1,028,407	2,537	77	634	—	1,031,655
Public sector and quasi-government bonds	409,644	35,817	707	2,307	190	448,665
Financial institution bonds	2,723	58,820	8,483	9,885	1,138	81,049
Corporate bonds	1,764	72,238	8,146	34,872	2,783	119,803
Receivable from the MOF	635,539	—	—	—	—	635,539
Special government bond	93,300	—	—	—	—	93,300
Certificate treasury bonds and savings treasury bonds	32,193	—	—	—	—	32,193
PBOC's designated bills	119,744	—	—	—	—	119,744
PBOC's special bills	112	—	—	—	—	112
Credit notes issued by trust companies	53,784	—	—	—	—	53,784
Total	**2,377,210**	**169,412**	**17,413**	**47,698**	**4,111**	**2,615,844**

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. This may arise from cash flows or maturity mismatches of assets and liabilities.

The Group's Assets and Liabilities Management Department manages its liquidity risk via:

- Optimising assets and liabilities structure;
- Maintaining stability of deposit base;
- Making advance projection on future cash flows and evaluating the appropriate current assets position; and
- Maintaining an efficient internal fund transfer mechanism within the Group.

Analysis of the remaining maturity of the financial assets and liabilities

The tables below summarise the maturity analysis of financial assets and liabilities by remaining contractual maturities at the end of each reporting period.

The Group

	As at 30 June 2010							
	Past due/ undated	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Cash and balances with central banks	1,453,778	218,697	—	—	—	154,000	—	1,826,475
Deposits with banks and other financial institutions	—	47,881	1,030	19,219	11,395	14	—	79,539
Placements with banks and other financial institutions	—	543	34,291	3,460	16,057	3,439	—	57,790
Financial assets held for trading	—	—	126	481	12,452	9,567	1,468	24,094
Financial assets designated as at fair value through profit or loss	—	1,183	8,699	8,802	27,017	24,137	3,255	73,093
Derivative financial assets	—	27	340	437	1,314	740	2,848	5,706
Financial assets held under resale agreements	—	—	210,759	145,155	75,393	—	—	431,307
Loans and advances to customers	72,668	23	194,124	358,205	1,439,970	1,211,531	1,201,709	4,478,230
Available-for-sale financial assets	452	—	33,010	62,051	142,692	229,729	138,743	606,677
Held-to-maturity investments	—	—	92,134	60,452	224,539	454,451	251,268	1,082,844
Debt securities classified as receivables	6	—	19,000	57,013	8,885	21,506	704,739	811,149
Other financial assets	3,051	10,224	9,802	17,378	10,562	1,458	—	52,475
Total financial assets	1,529,955	278,578	603,315	732,653	1,970,276	2,110,572	2,304,030	9,529,379
Borrowings from central bank	—	(30)	—	—	—	—	—	(30)
Deposits from banks and other financial institutions	—	(314,988)	(13,468)	(5,450)	(20,768)	(147,651)	(15,000)	(517,325)
Placements from banks and other financial institutions	—	—	(13,208)	(10,678)	(4,444)	(67)	(150)	(28,547)
Financial liabilities held for trading	—	—	(344)	—	—	—	—	(344)
Financial liabilities designated as at fair value through profit or loss	—	—	(19,611)	(7,024)	(36,661)	(2,330)	(71)	(65,697)
Financial assets sold under repurchase agreements	—	—	(91,700)	(23,675)	(5,295)	—	—	(120,670)
Derivative financial liabilities	—	(193)	(205)	(651)	(1,019)	(1,281)	(5,141)	(8,490)
Due to customers	—	(5,045,294)	(325,532)	(578,451)	(1,916,665)	(481,076)	(1,802)	(8,348,820)
Debt securities issued	—	—	(305)	(204)	(2,606)	(29,086)	(24,978)	(57,179)
Other financial liabilities	—	(42,917)	(6,157)	(10,533)	(30,936)	(22,195)	(7)	(112,745)
Total financial liabilities	—	(5,403,422)	(470,530)	(636,666)	(2,018,394)	(683,686)	(47,149)	(9,259,847)
Net position	**1,529,955**	**(5,124,844)**	**132,785**	**95,987**	**(48,118)**	**1,426,886**	**2,256,881**	**269,532**

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

Analysis of the remaining maturity of the financial assets and liabilities (continued)

The Group (continued)

	As at 31 December 2009							
	Past due/ undated	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Cash and balances with central banks	1,211,017	152,789	—	—	—	154,000	—	1,517,806
Deposits with banks and other financial institutions	—	42,798	5,100	9,435	4,360	—	—	61,693
Placements with banks and other financial institutions	—	—	35,572	3,942	9,439	482	—	49,435
Financial assets held for trading	—	—	1,230	2,062	5,086	5,564	1,404	15,346
Financial assets designated as at fair value through profit or loss	—	41	1,105	6,959	35,772	38,489	14,464	96,830
Derivative financial assets	—	—	190	156	677	566	3,089	4,678
Financial assets held under resale agreements	—	—	147,267	229,380	44,446	—	—	421,093
Loans and advances to customers	17,146	—	200,279	453,547	1,297,465	997,473	1,045,585	4,011,495
Available-for-sale financial assets	487	—	103,357	78,280	156,748	259,684	131,826	730,382
Held-to-maturity investments	—	—	22,328	92,358	149,928	416,376	202,925	883,915
Debt securities classified as receivables	7	—	—	22,967	108,411	22,171	736,643	890,199
Other financial assets	735	2,385	5,946	12,830	13,616	109	—	35,621
Total financial assets	1,229,392	198,013	522,374	911,916	1,825,948	1,894,914	2,135,936	8,718,493
Borrowings from central bank	—	(30)	—	—	—	(28)	—	(58)
Deposits from banks and other financial institutions	—	(267,459)	(39,212)	(75,431)	(45,172)	(146,675)	—	(573,949)
Placements from banks and other financial institutions	—	—	(18,249)	(6,162)	(1,685)	(67)	(149)	(26,312)
Financial liabilities held for trading	—	(56)	—	—	—	—	—	(56)
Financial liabilities designated as at fair value through profit or loss	—	—	(46,283)	(18,602)	(46,341)	(2,537)	(80)	(113,843)
Financial assets sold under repurchase agreements	—	—	(75,094)	(10,561)	(15,157)	—	—	(100,812)
Derivative financial liabilities	—	—	(160)	(202)	(550)	(1,140)	(5,638)	(7,690)
Due to customers	—	(4,492,349)	(319,646)	(602,158)	(1,602,159)	(479,593)	(1,713)	(7,497,618)
Debt securities issued	—	—	—	—	(1,354)	(28,848)	(24,977)	(55,179)
Other financial liabilities	—	(49,081)	(12,233)	(11,503)	(23,195)	(23,701)	(3)	(119,716)
Total financial liabilities	—	(4,808,975)	(510,877)	(724,619)	(1,735,613)	(682,589)	(32,560)	(8,495,233)
Net position	**1,229,392**	**(4,610,962)**	**11,497**	**187,297**	**90,335**	**1,212,325**	**2,103,376**	**223,260**

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

Analysis of the remaining maturity of the financial assets and liabilities (continued)

The Bank

	As at 30 June 2010							
	Past due/ undated	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Cash and balances with central banks	1,453,777	218,593	—	—	—	154,000	—	1,826,370
Deposits with banks and other financial institutions	—	47,518	1,030	19,219	11,395	14	—	79,176
Placements with banks and other financial institutions	—	543	34,291	3,460	16,057	3,439	—	57,790
Financial assets held for trading	—	—	126	481	12,452	9,567	1,468	24,094
Financial assets designated as at fair value through profit or loss	—	1,183	8,699	8,802	27,017	24,137	3,255	73,093
Derivative financial assets	—	27	340	437	1,314	740	2,848	5,706
Financial assets held under resale agreements	—	—	210,739	145,155	75,393	—	—	431,287
Loans and advances to customers	72,668	23	194,124	358,205	1,439,726	1,211,531	1,201,709	4,477,986
Available-for-sale financial assets	390	—	33,010	62,051	142,692	229,716	138,743	606,602
Held-to-maturity investments	—	—	92,134	60,452	224,539	454,371	251,268	1,082,764
Debt securities classified as receivables	6	—	19,000	57,013	8,885	21,506	704,739	811,149
Other financial assets	3,042	10,019	9,800	17,378	10,562	1,458	—	52,259
Total financial assets	1,529,883	277,906	603,293	732,653	1,970,032	2,110,479	2,304,030	9,528,276
Borrowings from central bank	—	(30)	—	—	—	—	—	(30)
Deposits from banks and other financial institutions	—	(316,251)	(13,468)	(5,450)	(20,768)	(147,651)	(15,000)	(518,588)
Placements from banks and other financial institutions	—	—	(13,208)	(10,678)	(4,444)	(67)	(150)	(28,547)
Financial liabilities held for trading	—	—	(344)	—	—	—	—	(344)
Financial liabilities designated as at fair value through profit or loss	—	—	(19,611)	(7,024)	(36,661)	(2,330)	(71)	(65,697)
Financial assets sold under repurchase agreements	—	—	(91,700)	(23,675)	(5,295)	—	—	(120,670)
Derivative financial liabilities	—	(193)	(205)	(651)	(1,019)	(1,281)	(5,141)	(8,490)
Due to customers	—	(5,045,062)	(325,532)	(578,451)	(1,916,608)	(481,076)	(1,802)	(8,348,531)
Debt securities issued	—	—	(305)	(204)	(2,606)	(29,086)	(24,978)	(57,179)
Other financial liabilities	—	(42,203)	(6,158)	(10,533)	(30,936)	(22,195)	(7)	(112,032)
Total financial liabilities	—	(5,403,739)	(470,531)	(636,666)	(2,018,337)	(683,686)	(47,149)	(9,260,108)
Net position	**1,529,883**	**(5,125,833)**	**132,762**	**95,987**	**(48,305)**	**1,426,793**	**2,256,881**	**268,168**

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

Analysis of the remaining maturity of the financial assets and liabilities (continued)

The Bank (continued)

	As at 31 December 2009							
	Past due/ undated	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Cash and balances with central banks	1,210,974	152,788	—	—	—	154,000	—	1,517,762
Deposit with banks and other financial institutions	—	42,390	5,100	9,435	4,360	—	—	61,285
Placements with banks and other financial institutions	—	—	35,572	3,942	9,439	482	—	49,435
Financial assets held for trading	—	—	1,230	2,062	5,086	5,565	1,403	15,346
Financial assets designated as at fair value through profit or loss	—	41	1,105	6,959	35,772	38,488	14,465	96,830
Derivative financial assets	—	—	190	156	677	566	3,089	4,678
Financial assets held under resale agreements	—	—	147,267	229,380	44,446	—	—	421,093
Loans and advances to customers	17,146	—	200,279	453,547	1,297,356	997,473	1,045,585	4,011,386
Available-for-sale financial assets	487	—	103,357	78,280	156,748	259,684	131,826	730,382
Held-to-maturity investments	—	—	22,328	92,358	149,928	416,376	202,925	883,915
Debt securities classified as receivables	7	—	—	22,967	108,411	22,171	736,643	890,199
Other financial assets	697	2,385	5,926	12,820	13,616	107	—	35,551
Total financial assets	1,229,311	197,604	522,354	911,906	1,825,839	1,894,912	2,135,936	8,717,862
Borrowings from central bank	—	(30)	—	—	—	(28)	—	(58)
Deposits from banks and other financial institutions	—	(268,304)	(39,212)	(75,431)	(45,172)	(146,675)	—	(574,794)
Placements from banks and other financial institutions	—	—	(18,249)	(6,162)	(1,685)	(67)	(149)	(26,312)
Financial liabilities held for trading	—	(56)	—	—	—	—	—	(56)
Financial liabilities designated as at fair value through profit or loss	—	—	(46,283)	(18,602)	(46,341)	(2,537)	(80)	(113,843)
Financial assets sold under repurchase agreements	—	—	(75,094)	(10,561)	(15,157)	—	—	(100,812)
Derivative financial liabilities	—	—	(160)	(202)	(550)	(1,140)	(5,638)	(7,690)
Due to customers	—	(4,492,221)	(319,646)	(602,158)	(1,602,111)	(479,593)	(1,713)	(7,497,442)
Debt securities issued	—	—	—	—	(1,354)	(28,848)	(24,977)	(55,179)
Other financial liabilities	—	(48,688)	(12,233)	(11,503)	(23,195)	(23,698)	(3)	(119,320)
Total financial liabilities	—	(4,809,299)	(510,877)	(724,619)	(1,735,565)	(682,586)	(32,560)	(8,495,506)
Net position	**1,229,311**	**(4,611,695)**	**11,477**	**187,287**	**90,274**	**1,212,326**	**2,103,376**	**222,356**

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

Analysis of the undiscounted contractual cash flows

The tables below present the cash flows of non-derivative financial assets and financial liabilities by remaining contractual maturities at the end of each reporting period. The amounts disclosed in the tables are the undiscounted contractual cash flows.

The Group

	As at 30 June 2010							
	Past due/ undated	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Non-derivative financial assets								
Cash and balances with central banks	1,453,778	218,697	—	591	—	162,188	—	1,835,254
Deposits with banks and other financial institutions	—	47,888	1,035	19,365	11,576	14	—	79,878
Placements with banks and other financial institutions	—	543	34,350	3,614	16,278	3,475	—	58,260
Financial assets held for trading	—	—	130	511	12,938	10,309	1,574	25,462
Financial assets designated as at fair value through profit or loss	—	1,183	9,046	9,106	28,332	26,497	4,389	78,553
Financial assets held under resale agreements	—	—	213,313	146,819	77,994	—	—	438,126
Loans and advances to customers	109,800	23	201,736	376,850	1,553,781	1,533,442	1,977,968	5,753,600
Available-for-sale financial assets	452	—	33,913	65,843	152,624	264,672	161,155	678,659
Held-to-maturity investments	—	—	93,937	65,681	245,669	525,944	311,077	1,242,308
Debt securities classified as receivables	7	—	19,917	65,572	24,452	112,477	884,083	1,106,508
Other financial assets	2,068	11,754	1,040	125	416	—	—	15,403
Total non-derivative financial assets	1,566,105	280,088	608,417	754,077	2,124,060	2,639,018	3,340,246	11,312,011
Non-derivative financial liabilities								
Borrowings from central bank	—	(30)	—	—	—	—	—	(30)
Deposits from banks and other financial institutions	—	(315,061)	(13,565)	(5,714)	(23,004)	(160,786)	(15,052)	(533,182)
Placements from banks and other financial institutions	—	—	(13,257)	(10,716)	(4,472)	(74)	(158)	(28,677)
Financial liabilities held for trading	—	—	(344)	—	—	—	—	(344)
Financial liabilities designated as at fair value through profit or loss	—	—	(19,736)	(7,184)	(37,322)	(2,433)	(104)	(66,779)
Financial assets sold under repurchase agreements	—	—	(91,798)	(24,012)	(5,395)	—	—	(121,205)
Due to customers	—	(5,047,428)	(330,416)	(590,984)	(1,974,941)	(539,336)	(1,893)	(8,484,998)
Debt securities issued	—	—	(306)	(221)	(4,470)	(35,598)	(29,000)	(69,595)
Other financial liabilities	—	(40,710)	(1,352)	—	—	(59)	—	(42,121)
Total non-derivative financial liabilities	—	(5,403,229)	(470,774)	(638,831)	(2,049,604)	(738,286)	(46,207)	(9,346,931)
Net position	**1,566,105**	**(5,123,141)**	**137,643**	**115,246**	**74,456**	**1,900,732**	**3,294,039**	**1,965,080**

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

Analysis of the undiscounted contractual cash flows (continued)

The Group (continued)

	As at 31 December 2009							
	Past due/ undated	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Non-derivative financial assets								
Cash and balances with central banks	1,211,017	152,789	—	596	2,733	161,214	—	1,528,349
Deposits with banks and other financial institutions	1	42,801	5,115	9,526	4,472	—	—	61,915
Placements with banks and other financial institutions	—	—	35,580	3,972	9,666	493	—	49,711
Financial assets held for trading	—	—	1,251	3,925	3,557	6,138	1,507	16,378
Financial assets designated as at fair value through profit or loss	—	41	1,237	5,484	39,620	43,508	18,482	108,372
Financial assets held under resale agreements	—	—	147,650	230,349	45,058	—	—	423,057
Loans and advances to customers	50,206	—	210,802	477,443	1,395,420	1,263,197	1,719,442	5,116,510
Available-for-sale financial assets	487	—	103,964	80,858	190,060	293,868	152,744	821,981
Held-to-maturity investments	—	—	23,248	97,363	170,737	477,848	238,834	1,008,030
Debt securities classified as receivables	7	—	—	23,616	133,842	108,381	934,610	1,200,456
Other financial assets	76	2,383	1,017	11	5	2	—	3,494
Total non-derivative financial assets	1,261,794	198,014	529,864	933,143	1,995,170	2,354,649	3,065,619	10,338,253
Non-derivative financial liabilities								
Borrowings from central bank	—	(30)	—	—	—	(28)	—	(58)
Deposits from banks and other financial institutions	—	(267,606)	(39,456)	(76,114)	(45,902)	(159,079)	—	(588,157)
Placements from banks and other financial institutions	—	—	(18,393)	(6,216)	(1,686)	(68)	(164)	(26,527)
Financial liabilities held for trading	—	(56)	—	—	—	—	—	(56)
Financial liabilities designated as at fair value through profit or loss	—	—	(46,351)	(18,821)	(46,973)	(2,699)	(107)	(114,951)
Financial assets sold under repurchase agreements	—	—	(75,201)	(10,669)	(15,298)	—	—	(101,168)
Due to customers	—	(4,495,021)	(325,203)	(615,418)	(1,648,619)	(541,629)	(1,731)	(7,627,621)
Debt securities issued	—	—	—	(1)	(4,258)	(36,080)	(30,000)	(70,339)
Other financial liabilities	—	(46,262)	(6,627)	(1)	(2)	(62)	—	(52,954)
Total non-derivative financial liabilities	—	(4,808,975)	(511,231)	(727,240)	(1,762,738)	(739,645)	(32,002)	(8,581,831)
Net position	**1,261,794**	**(4,610,961)**	**18,633**	**205,903**	**232,432**	**1,615,004**	**3,033,617**	**1,756,422**

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

Analysis of the undiscounted contractual cash flows (continued)

The Bank

	As at 30 June 2010							
	Past due/ undated	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Non-derivative financial assets								
Cash and balances with central banks	1,453,777	218,593	—	592	—	162,188	—	1,835,150
Deposit with banks and other financial institutions	—	47,524	1,035	19,365	11,576	14	—	79,514
Placements with banks and other financial institutions	—	543	34,350	3,614	16,278	3,475	—	58,260
Financial assets held for trading	—	—	130	511	12,938	10,309	1,574	25,462
Financial assets designated as at fair value through profit or loss	—	1,183	9,046	9,106	28,332	26,497	4,389	78,553
Financial assets held under resale agreements	—	—	213,292	146,819	77,994	—	—	438,105
Loans and advances to customers	109,800	23	201,736	376,850	1,553,536	1,533,442	1,977,968	5,753,355
Available-for-sale financial assets	390	—	33,913	65,843	152,624	264,659	161,155	678,584
Held-to-maturity investments	—	—	93,937	65,681	245,669	525,863	311,077	1,242,227
Debt securities classified as receivables	7	—	19,917	65,572	24,452	112,477	884,083	1,106,508
Other financial assets	2,059	11,551	1,040	125	416	—	—	15,191
Total non-derivative financial assets	1,566,033	279,417	608,396	754,078	2,123,815	2,638,924	3,340,246	11,310,909
Non-derivative financial liabilities								
Borrowings from central bank	—	(30)	—	—	—	—	—	(30)
Deposits from banks and other financial institutions	—	(316,325)	(13,565)	(5,714)	(23,004)	(160,786)	(15,052)	(534,446)
Placements from banks and other financial institutions	—	—	(13,257)	(10,716)	(4,472)	(74)	(158)	(28,677)
Financial liabilities held for trading	—	—	(344)	—	—	—	—	(344)
Financial liabilities designated as at fair value through profit or loss	—	—	(19,736)	(7,184)	(37,322)	(2,433)	(104)	(66,779)
Financial assets sold under repurchase agreements	—	—	(91,798)	(24,012)	(5,395)	—	—	(121,205)
Due to customers	—	(5,047,195)	(330,416)	(590,984)	(1,974,884)	(539,336)	(1,893)	(8,484,708)
Debt securities issued	—	—	(306)	(221)	(4,470)	(35,598)	(29,000)	(69,595)
Other financial liabilities	—	(39,996)	(1,353)	—	—	(59)	—	(41,408)
Total non-derivative financial liabilities	—	(5,403,546)	(470,775)	(638,831)	(2,049,547)	(738,286)	(46,207)	(9,347,192)
Net position	**1,566,033**	**(5,124,129)**	**137,621**	**115,247**	**74,268**	**1,900,638**	**3,294,039**	**1,963,717**

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

Analysis of the undiscounted contractual cash flows (continued)

The Bank (continued)

	As at 31 December 2009							
	Past due/ undated	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Non-derivative financial assets								
Cash and balances with central banks	1,210,974	152,788	—	596	2,733	161,214	—	1,528,305
Deposit with banks and other financial institutions	—	42,393	5,115	9,526	4,472	—	—	61,506
Placements with banks and other financial institutions	—	—	35,580	3,972	9,666	493	—	49,711
Financial assets held for trading	—	—	1,251	3,925	3,557	6,138	1,507	16,378
Financial assets designated as at fair value through profit or loss	—	41	1,237	5,484	39,620	43,508	18,482	108,372
Financial assets held under resale agreements	—	—	147,650	230,349	45,058	—	—	423,057
Loans and advances to customers	50,206	—	210,802	477,443	1,395,310	1,263,197	1,719,442	5,116,400
Available-for-sale financial assets	487	—	103,964	80,858	190,060	293,868	152,744	821,981
Held-to-maturity investments	—	—	23,248	97,363	170,737	477,848	238,834	1,008,030
Debt securities classified as receivables	7	—	—	23,616	133,842	108,381	934,610	1,200,456
Other financial assets	39	2,383	997	1	5	—	—	3,425
Total non-derivative financial assets	1,261,713	197,605	529,844	933,133	1,995,060	2,354,647	3,065,619	10,337,621
Non-derivative financial liabilities								
Borrowings from central bank	—	(30)	—	—	—	(28)	—	(58)
Deposits from banks and other financial institutions	—	(268,451)	(39,456)	(76,114)	(45,902)	(159,079)	—	(589,002)
Placements from banks and other financial institutions	—	—	(18,393)	(6,216)	(1,686)	(68)	(164)	(26,527)
Financial liabilities held for trading	—	(56)	—	—	—	—	—	(56)
Financial liabilities designated as at fair value through profit or loss	—	—	(46,351)	(18,821)	(46,973)	(2,699)	(107)	(114,951)
Financial assets sold under repurchase agreements	—	—	(75,201)	(10,669)	(15,298)	—	—	(101,168)
Due to customers	—	(4,494,893)	(325,203)	(615,418)	(1,648,570)	(541,629)	(1,731)	(7,627,444)
Debt securities issued	—	—	—	(1)	(4,258)	(36,080)	(30,000)	(70,339)
Other financial liabilities	—	(45,869)	(6,627)	(1)	(2)	(59)	—	(52,558)
Total non-derivative financial liabilities	—	(4,809,299)	(511,231)	(727,240)	(1,762,689)	(739,642)	(32,002)	(8,582,103)
Net position	**1,261,713**	**(4,611,694)**	**18,613**	**205,893**	**232,371**	**1,615,005**	**3,033,617**	**1,755,518**

Assets available to meet all of the liabilities and outstanding loan commitments include cash and balances with central banks, deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets designated as at fair value through profit or loss, and financial assets held for trading. In the normal course of business, the majority of customer deposits repayable on demand are expected to be revolved. In addition the Group is able to sell the available-for-sale financial assets to repay the matured liabilities if necessary.

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

Derivative cash flows

Derivatives settled on a net basis

Derivatives that will be settled on a net basis are mainly interest rate related. The tables below set forth the Group's net derivative financial instruments positions by remaining contractual maturities at the end of each reporting period. The amounts disclosed in the table are the undiscounted contractual cash flows.

The Group and The Bank

	As at 30 June 2010					
	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Interest rate derivatives	(50)	(49)	(282)	(513)	(130)	(1,024)

	As at 31 December 2009					
	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Interest rate derivatives	2	(66)	(175)	(583)	(180)	(1,002)

Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis refer to exchange rate derivatives. The tables below set forth the Group's positions by remaining contractual maturities at the end of each reporting period. The amounts disclosed in the tables are the undiscounted contractual cash flows.

The Group and The Bank

	As at 30 June 2010					
	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Exchange rate derivatives						
— Inflow	62,225	71,319	147,507	9,324	1,326	291,701
— Outflow	(62,129)	(71,596)	(147,216)	(10,220)	(2,411)	(293,572)
Total	**96**	**(277)**	**291**	**(896)**	**(1,085)**	**(1,871)**

	As at 31 December 2009					
	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Exchange rate derivatives						
— Inflow	50,357	29,702	103,004	6,340	1,556	190,959
— Outflow	(50,340)	(29,830)	(103,060)	(7,260)	(2,829)	(193,319)
Total	**17**	**(128)**	**(56)**	**(920)**	**(1,273)**	**(2,360)**

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

Off-balance sheet items

The Group's off-balance sheet items mainly include loan commitments, letters of credit, letters of guarantee and bank acceptances. The tables below set forth the amounts of the off-balance sheet items by remaining maturity.

The Group and The Bank

	As at 30 June 2010			
	Less than 1 year	1–5 years	Over 5 years	Total
Loan commitments	764,527	34,383	199,570	998,480
Letters of credit	52,774	1,840	—	54,614
Letters of guarantee	48,702	51,449	68,493	168,644
Acceptances	284,762	—	—	284,762
Total	**1,150,765**	**87,672**	**268,063**	**1,506,500**

	As at 31 December 2009			
	Less than 1 year	1–5 years	Over 5 years	Total
Loan commitments	564,128	31,404	148,992	744,524
Letters of credit	51,630	2,294	9	53,933
Letters of guarantee	41,099	37,073	73,183	151,355
Acceptances	271,871	—	—	271,871
Total	**928,728**	**70,771**	**222,184**	**1,221,683**

Market risk

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from movements in market rates including interest rates, foreign exchange rates, and stock prices. Market risk arises from both the Group's proprietary and customer driven business.

The Group is primarily exposed to interest rate risk arising from corporate and personal banking and other price risk arising from treasury operations. Interest rate risk is inherent in many of its businesses and largely arises from mismatches between the re-pricing dates of interest-generating assets and interest-bearing liabilities.

The Group's foreign currency risk is the risk of loss in respect of its foreign currency exposures, arising from transactions taken on foreign currency denominated assets and liabilities, which results from movements in foreign currency exchange rates.

The Group considers the market risk arising from commodity and equity prices in respect of its trading and investment portfolios are immaterial.

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Foreign currency risk

The Group conducts its businesses mainly in RMB, with certain transactions denominated in USD, HKD and, to a lesser extent other currencies. Transactions in foreign currencies mainly arise from the Group's treasury exposures and foreign operations.

The exchange rate of RMB to USD is under a managed floating exchange rate system. The exchange rate of RMB to USD has gradually risen over the past two years. The HKD exchange rate has been pegged to the USD and therefore the exchange rate of RMB to HKD has fluctuated in line with the changes in the exchange rate of RMB to USD.

A breakdown of all financial assets and liabilities analysed by currency is as follows:

The Group

	As at 30 June 2010				
	RMB	USD RMB equivalent	HKD RMB equivalent	Other currencies RMB equivalent	Total
Cash and balances with central banks	1,819,072	5,717	1,037	649	1,826,475
Deposits with banks and other financial institutions	33,748	32,417	2,909	10,465	79,539
Placements with banks and other financial institutions	32,339	25,224	95	132	57,790
Financial assets held for trading	23,943	151	—	—	24,094
Financial assets designated as at fair value through profit or loss	63,567	5,358	3,753	415	73,093
Derivative financial assets	1,952	2,361	458	935	5,706
Financial assets held under resale agreements	430,875	412	20	—	431,307
Loans and advances to customers	4,288,336	167,081	18,467	4,346	4,478,230
Available-for-sale financial assets	563,198	40,767	1,420	1,292	606,677
Held-to-maturity investments	1,057,662	24,090	428	664	1,082,844
Debt securities classified as receivables	811,143	—	—	6	811,149
Other financial assets	50,198	1,658	514	105	52,475
Total financial assets	9,176,033	305,236	29,101	19,009	9,529,379
Borrowings from central bank	(30)	—	—	—	(30)
Deposits from banks and other financial institutions	(392,511)	(122,278)	(977)	(1,559)	(517,325)
Placements from banks and other financial institutions	(1,250)	(20,093)	(5,450)	(1,754)	(28,547)
Financial liabilities held for trading	—	(344)	—	—	(344)
Financial liabilities designated as at fair value through profit or loss	(63,802)	(1,895)	—	—	(65,697)
Derivative financial liabilities	(1,384)	(4,917)	(586)	(1,603)	(8,490)
Financial assets sold under repurchase agreements	(76,495)	(43,258)	(76)	(841)	(120,670)
Due to customers	(8,229,001)	(87,351)	(18,323)	(14,145)	(8,348,820)
Debt securities issued	(49,958)	(1,188)	(6,033)	—	(57,179)
Other financial liabilities	(107,211)	(5,272)	(132)	(130)	(112,745)
Total financial liabilities	(8,921,642)	(286,596)	(31,577)	(20,032)	(9,259,847)
Net position	**254,391**	**18,640**	**(2,476)**	**(1,023)**	**269,532**

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Foreign currency risk (continued)

The Group (continued)

	As at 31 December 2009				
	RMB	USD RMB equivalent	HKD RMB equivalent	Other currencies RMB equivalent	Total
Cash and balances with central banks	1,510,843	5,154	1,088	721	1,517,806
Deposits with banks and other financial institutions	19,879	37,272	784	3,758	61,693
Placements with banks and other financial institutions	19,591	29,522	87	235	49,435
Financial assets held for trading	15,346	—	—	—	15,346
Financial assets designated as at fair value through profit or loss	87,963	5,768	2,793	306	96,830
Derivative financial assets	1,421	1,281	178	1,798	4,678
Financial assets held under resale agreements	420,922	171	—	—	421,093
Loans and advances to customers	3,860,236	122,874	22,842	5,543	4,011,495
Available-for-sale financial assets	679,883	46,116	949	3,434	730,382
Held-to-maturity investments	858,168	24,682	393	672	883,915
Debt securities classified as receivables	890,193	—	—	6	890,199
Other financial assets	33,868	1,637	43	73	35,621
Total financial assets	8,398,313	274,477	29,157	16,546	8,718,493
Borrowings from central bank	(58)	—	—	—	(58)
Deposits from banks and other financial institutions	(445,618)	(126,165)	(1,165)	(1,001)	(573,949)
Placements from banks and other financial institutions	(5,600)	(11,853)	(7,087)	(1,772)	(26,312)
Financial liabilities held for trading	(56)	—	—	—	(56)
Financial liabilities designated as at fair value through profit or loss	(109,385)	(4,367)	(84)	(7)	(113,843)
Derivative financial liabilities	(1,904)	(2,423)	(160)	(3,203)	(7,690)
Financial assets sold under repurchase agreements	(69,557)	(30,677)	(501)	(77)	(100,812)
Due to customers	(7,404,694)	(69,921)	(12,934)	(10,069)	(7,497,618)
Debt securities issued	(49,955)	(342)	(4,882)	—	(55,179)
Other financial liabilities	(118,388)	(804)	(409)	(115)	(119,716)
Total financial liabilities	(8,205,215)	(246,552)	(27,222)	(16,244)	(8,495,233)
Net position	**193,098**	**27,925**	**1,935**	**302**	**223,260**

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Foreign currency risk (continued)

The Bank

	As at 30 June 2010				
	RMB	USD RMB equivalent	HKD RMB equivalent	Other currencies RMB equivalent	Total
Cash and balances with central banks	1,818,967	5,717	1,037	649	1,826,370
Deposits with banks and other financial institutions	33,640	32,417	2,654	10,465	79,176
Placements with banks and other financial institutions	32,339	25,224	95	132	57,790
Financial assets held for trading	23,943	151	—	—	24,094
Financial assets designated as at fair value through profit or loss	63,567	5,358	3,753	415	73,093
Derivative financial assets	1,952	2,361	458	935	5,706
Financial assets held under resale agreements	430,875	412	—	—	431,287
Loans and advances to customers	4,288,092	167,081	18,467	4,346	4,477,986
Available-for-sale financial assets	563,198	40,767	1,345	1,292	606,602
Held-to-maturity investments	1,057,662	24,090	348	664	1,082,764
Debt securities classified as receivables	811,143	—	—	6	811,149
Other financial assets	50,144	1,937	73	105	52,259
Total financial assets	9,175,522	305,515	28,230	19,009	9,528,276
Borrowings from central bank	(30)	—	—	—	(30)
Deposits from banks and other financial institutions	(392,663)	(122,278)	(2,088)	(1,559)	(518,588)
Placements from banks and other financial institutions	(1,250)	(20,093)	(5,450)	(1,754)	(28,547)
Financial liabilities held for trading	—	(344)	—	—	(344)
Financial liabilities designated as at fair value through profit or loss	(63,802)	(1,895)	—	—	(65,697)
Derivative financial liabilities	(1,384)	(4,917)	(586)	(1,603)	(8,490)
Financial assets sold under repurchase agreements	(76,495)	(43,258)	(76)	(841)	(120,670)
Due to customers	(8,228,846)	(87,351)	(18,189)	(14,145)	(8,348,531)
Debt securities issued	(49,958)	(1,188)	(6,033)	—	(57,179)
Other financial liabilities	(105,585)	(6,288)	(29)	(130)	(112,032)
Total financial liabilities	(8,920,013)	(287,612)	(32,451)	(20,032)	(9,260,108)
Net position	**255,509**	**17,903**	**(4,221)**	**(1,023)**	**268,168**

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Foreign currency risk (continued)

The Bank (continued)

	As at 31 December 2009				
	RMB	USD RMB equivalent	HKD RMB equivalent	Other currencies RMB equivalent	Total
Cash and balances with central banks	1,510,799	5,154	1,088	721	1,517,762
Deposit with banks and other financial institutions	19,710	37,272	545	3,758	61,285
Placements with banks and other financial institutions	19,591	29,522	87	235	49,435
Financial assets held for trading	15,346	—	—	—	15,346
Financial assets designated as at fair value through profit or loss	87,963	5,768	2,793	306	96,830
Derivative financial assets	1,421	1,281	178	1,798	4,678
Financial assets held under resale agreements	420,922	171	—	—	421,093
Loans and advances to customers	3,860,127	122,874	22,842	5,543	4,011,386
Available-for-sale financial assets	679,883	46,116	949	3,434	730,382
Held-to-maturity investments	858,168	24,682	393	672	883,915
Debt securities classified as receivables	890,193	—	—	6	890,199
Other financial assets	33,798	1,637	43	73	35,551
Total financial assets	8,397,921	274,477	28,918	16,546	8,717,862
Borrowings from central bank	(58)	—	—	—	(58)
Deposits from banks and other financial institutions	(445,759)	(126,165)	(1,869)	(1,001)	(574,794)
Placements from banks and other financial institutions	(5,600)	(11,853)	(7,087)	(1,772)	(26,312)
Financial liabilities held for trading	(56)	—	—	—	(56)
Financial liabilities designated as at fair value through profit or loss	(109,385)	(4,367)	(84)	(7)	(113,843)
Derivative financial liabilities	(1,904)	(2,423)	(160)	(3,203)	(7,690)
Financial assets sold under repurchase agreements	(69,557)	(30,677)	(501)	(77)	(100,812)
Due to customers	(7,404,518)	(69,921)	(12,934)	(10,069)	(7,497,442)
Debt securities issued	(49,955)	(342)	(4,882)	—	(55,179)
Other financial liabilities	(118,329)	(804)	(72)	(115)	(119,320)
Total financial liabilities	(8,205,121)	(246,552)	(27,589)	(16,244)	(8,495,506)
Net position	**192,800**	**27,925**	**1,329**	**302**	**222,356**

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Foreign currency risk (continued)

The table below indicates the potential effect of an appreciation or depreciation of RMB spot and forward exchange rate against all other currencies by 5% on the profit before tax.

The Group

	Profit before tax	
	30.6.2010	**31.12.2009**
5% appreciation	(135)	(1,335)
5% depreciation	135	1,335

The Bank

	Profit before tax	
	30.6.2010	**31.12.2009**
5% appreciation	(11)	(1,305)
5% depreciation	11	1,305

The impact on the profit before tax arises from the effects of movement in RMB exchange rate on the net positions of foreign monetary assets and liabilities and currency derivative instruments.

The effect on the profit before tax is based on the assumption that the Group's net foreign currency and currency derivative instruments positions at the end of each reporting period remain unchanged. The Group mitigates its foreign currency risk through active management of its foreign currency exposures and appropriate use of derivative instruments, based on the management expectation of future foreign currency movements, and therefore the above sensitivity analysis may differ to the actual situation.

Interest rate risk

The Group's interest rate risk arises from the mis-matches between contractual maturities and re-pricing of interest-generating assets and interest-bearing liabilities. The Group's interest-generating assets and interest-bearing liabilities are mainly denominated in RMB. The PBOC establishes RMB benchmark interest rates which include a cap for RMB deposit rates and a floor for RMB loan rates.

The Group manages its interest rate risk by:

- Regularly monitoring the macro-economic factors that may impact on the PBOC benchmark interest rates;
- Minimising the mis-matches between contractual maturities and repricing of interest-generating assets and interest-bearing liabilities; and
- Enhancing the interest rate margin on interest-generating assets and interest-bearing liabilities with reference to the prevailing PBOC benchmark interest rates.

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Interest rate risk (continued)

The tables below summarise the contractual repricing or maturity date, whichever is earlier, of the Group's financial assets and liabilities.

The Group

	As at 30 June 2010						
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with central banks	1,519,995	—	—	154,000	—	152,480	1,826,475
Deposits with banks and other financial institutions	46,921	19,364	11,250	14	—	1,990	79,539
Placements with banks and other financial institutions	34,977	4,463	15,350	3,000	—	—	57,790
Financial assets held for trading	318	833	12,906	8,942	1,095	—	24,094
Financial assets designated as at fair value through profit or loss	10,762	11,519	42,727	3,826	3,089	1,170	73,093
Derivative financial assets	—	—	—	—	—	5,706	5,706
Financial assets held under resale agreements	210,739	145,155	75,413	—	—	—	431,307
Loans and advances to customers	1,415,534	1,044,810	2,010,524	4,324	3,038	—	4,478,230
Available-for-sale financial assets	46,533	77,896	174,592	200,346	106,858	452	606,677
Held-to-maturity investments	117,878	106,165	275,066	356,197	227,538	—	1,082,844
Debt securities classified as receivables	19,000	57,013	8,885	21,506	704,739	6	811,149
Other financial assets	—	—	—	—	—	52,475	52,475
Total financial assets	3,422,657	1,467,218	2,626,713	752,155	1,046,357	214,279	9,529,379
Borrowings from central bank	—	—	—	—	—	(30)	(30)
Deposits from banks and other financial institutions	(354,716)	(5,450)	(20,768)	(128,161)	(7,000)	(1,230)	(517,325)
Placements from banks and other financial institutions	(13,208)	(10,678)	(4,535)	—	(126)	—	(28,547)
Financial liabilities held for trading	(344)	—	—	—	—	—	(344)
Financial liabilities designated as at fair value through profit or loss	(19,611)	(7,024)	(36,658)	(1,340)	(71)	(993)	(65,697)
Derivative financial liabilities	—	—	—	—	—	(8,490)	(8,490)
Financial assets sold under repurchase agreements	(91,700)	(23,675)	(5,295)	—	—	—	(120,670)
Due to customers	(5,326,088)	(568,428)	(1,903,877)	(450,950)	(735)	(98,742)	(8,348,820)
Debt securities issued	(1,564)	(3,397)	(5,615)	(21,625)	(24,978)	—	(57,179)
Other financial liabilities	—	—	—	—	—	(112,745)	(112,745)
Total financial liabilities	(5,807,231)	(618,652)	(1,976,748)	(602,076)	(32,910)	(222,230)	(9,259,847)
Interest rate gap	**(2,384,574)**	**848,566**	**649,965**	**150,079**	**1,013,447**	**(7,951)**	**269,532**

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Interest rate risk (continued)

The Group (continued)

	As at 31 December 2009						
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with central banks	1,241,274	—	—	154,000	—	122,532	1,517,806
Deposits with banks and other financial institutions	45,728	9,435	4,360	—	—	2,170	61,693
Placements with banks and other financial institutions	36,031	4,983	8,421	—	—	—	49,435
Financial assets held for trading	1,541	2,805	4,666	5,231	1,103	—	15,346
Financial assets designated as at fair value through profit or loss	1,710	8,844	34,761	37,115	14,379	21	96,830
Derivative financial assets	—	—	—	—	—	4,678	4,678
Financial assets held under resale agreements	147,267	229,551	44,275	—	—	—	421,093
Loans and advances to customers	1,490,928	1,051,095	1,466,940	2,274	258	—	4,011,495
Available-for-sale financial assets	114,824	92,144	154,616	246,819	121,492	487	730,382
Held-to-maturity investments	43,602	134,106	218,857	315,713	171,637	—	883,915
Debt securities classified as receivables	—	22,967	108,411	22,171	736,644	6	890,199
Other financial assets	—	—	—	—	—	35,621	35,621
Total financial assets	3,122,905	1,555,930	2,045,307	783,323	1,045,513	165,515	8,718,493
Borrowings from central bank	—	—	—	—	—	(58)	(58)
Deposits from banks and other financial institutions	(423,608)	(73,384)	(39,326)	(36,421)	—	(1,210)	(573,949)
Placements from banks and other financial institutions	(18,249)	(6,162)	(1,685)	(67)	(149)	—	(26,312)
Financial liabilities held for trading	—	—	—	—	—	(56)	(56)
Financial liabilities designated as at fair value through profit or loss	(46,283)	(18,602)	(46,341)	(1,768)	(80)	(769)	(113,843)
Derivative financial liabilities	—	—	—	—	—	(7,690)	(7,690)
Financial assets sold under repurchase agreements	(75,094)	(10,561)	(15,157)	—	—	—	(100,812)
Due to customers	(4,719,663)	(602,155)	(1,624,749)	(457,002)	(1,713)	(92,336)	(7,497,618)
Debt securities issued	(621)	(2,959)	(5,337)	(21,285)	(24,977)	—	(55,179)
Other financial liabilities	—	—	—	—	—	(119,716)	(119,716)
Total financial liabilities	(5,283,518)	(713,823)	(1,732,595)	(516,543)	(26,919)	(221,835)	(8,495,233)
Interest rate gap	**(2,160,613)**	**842,107**	**312,712**	**266,780**	**1,018,594**	**(56,320)**	**223,260**

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Interest rate risk (continued)

The Bank

	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**
Cash and balances with central banks	1,519,979	—	—	154,000	—	152,391	1,826,370
Deposits with banks and other financial institutions	46,558	19,364	11,250	14	—	1,990	79,176
Placements with banks and other financial institutions	34,977	4,463	15,350	3,000	—	—	57,790
Financial assets held for trading	318	833	12,906	8,942	1,095	—	24,094
Financial assets designated as at fair value through profit or loss	10,762	11,519	42,727	3,826	3,089	1,170	73,093
Derivative financial assets	—	—	—	—	—	5,706	5,706
Financial assets held under resale agreements	210,739	145,155	75,393	—	—	—	431,287
Loans and advances to customers	1,415,534	1,044,810	2,010,280	4,324	3,038	—	4,477,986
Available-for-sale financial assets	46,533	77,896	174,579	200,346	106,858	390	606,602
Held-to-maturity investments	117,878	106,165	274,986	356,197	227,538	—	1,082,764
Debt securities classified as receivables	19,000	57,013	8,885	21,506	704,739	6	811,149
Other financial assets	—	—	—	—	—	52,259	52,259
Total assets	3,422,278	1,467,218	2,626,356	752,155	1,046,357	213,912	9,528,276
Borrowings from central bank	—	—	—	—	—	(30)	(30)
Deposits from banks and other financial institutions	(355,979)	(5,450)	(20,768)	(128,161)	(7,000)	(1,230)	(518,588)
Placements from banks and other financial institutions	(13,208)	(10,678)	(4,535)	—	(126)	—	(28,547)
Financial liabilities held for trading	(344)	—	—	—	—	—	(344)
Financial liabilities designated as at fair value through profit or loss	(19,611)	(7,024)	(36,658)	(1,340)	(71)	(993)	(65,697)
Derivative financial liabilities	—	—	—	—	—	(8,490)	(8,490)
Financial assets sold under repurchase agreements	(91,700)	(23,675)	(5,295)	—	—	—	(120,670)
Due to customers	(5,325,856)	(568,428)	(1,903,820)	(450,950)	(735)	(98,742)	(8,348,531)
Debt securities issued	(1,564)	(3,397)	(5,615)	(21,625)	(24,978)	—	(57,179)
Other financial liabilities	—	—	—	—	—	(112,032)	(112,032)
Total liabilities	(5,808,262)	(618,652)	(1,976,691)	(602,076)	(32,910)	(221,517)	(9,260,108)
Interest rate gap	**(2,385,984)**	**848,566**	**649,665**	**150,079**	**1,013,447**	**(7,605)**	**268,168**

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Interest rate risk (continued)

The Bank (continued)

	As at 31 December 2009						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with central banks	1,241,274	—	—	154,000	—	122,488	1,517,762
Deposits with banks and other financial institutions	45,320	9,435	4,360	—	—	2,170	61,285
Placements with banks and other financial institutions	36,031	4,983	8,421	—	—	—	49,435
Financial assets held for trading	1,541	2,805	4,666	5,231	1,103	—	15,346
Financial assets designated as at fair value through profit or loss	1,710	8,844	34,761	37,115	14,379	21	96,830
Derivative financial assets	—	—	—	—	—	4,678	4,678
Financial assets held under resale agreements	147,267	229,551	44,275	—	—	—	421,093
Loans and advances to customers	1,490,928	1,051,095	1,466,831	2,274	258	—	4,011,386
Available-for-sale financial assets	114,824	92,144	154,616	246,819	121,492	487	730,382
Held-to-maturity investments	43,602	134,106	218,857	315,713	171,637	—	883,915
Debt securities classified as receivables	—	22,967	108,411	22,171	736,644	6	890,199
Other financial assets	—	—	—	—	—	35,551	35,551
Total assets	3,122,497	1,555,930	2,045,198	783,323	1,045,513	165,401	8,717,862
Borrowings from central bank	—	—	—	—	—	(58)	(58)
Deposits from banks and other financial institutions	(424,453)	(73,384)	(39,326)	(36,421)	—	(1,210)	(574,794)
Placements from banks and other financial institutions	(18,249)	(6,162)	(1,685)	(67)	(149)	—	(26,312)
Financial liabilities held for trading	—	—	—	—	—	(56)	(56)
Financial liabilities designated as at fair value through profit or loss	(46,283)	(18,602)	(46,341)	(1,768)	(80)	(769)	(113,843)
Derivative financial liabilities	—	—	—	—	—	(7,690)	(7,690)
Financial assets sold under repurchase agreements	(75,094)	(10,561)	(15,157)	—	—	—	(100,812)
Due to customers	(4,719,536)	(602,155)	(1,624,700)	(457,002)	(1,713)	(92,336)	(7,497,442)
Debt securities issued	(621)	(2,959)	(5,337)	(21,285)	(24,977)	—	(55,179)
Other financial liabilities	—	—	—	—	—	(119,320)	(119,320)
Total liabilities	(5,284,236)	(713,823)	(1,732,546)	(516,543)	(26,919)	(221,439)	(8,495,506)
Interest rate gap	**(2,161,739)**	**842,107**	**312,652**	**266,780**	**1,018,594**	**(56,038)**	**222,356**

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Interest rate risk (continued)

The following table illustrates the potential impact of a parallel upward or downward shift of 100 basis points in all currencies' yield curves on the Group's net interest income and equity, based on the Group's positions of interest-bearing assets and liabilities at the end of each reporting period.

The Group

	30.6.2010		31.12.2009	
	Net interest income	Equity	Net interest income	Equity
+100 basis points	(12,803)	(14,677)	(12,516)	(14,826)
-100 basis points	12,803	15,795	12,516	15,851

The Bank

	30.6.2010		31.12.2009	
	Net interest income	Equity	Net interest income	Equity
+100 basis points	(12,817)	(14,677)	(12,527)	(14,826)
-100 basis points	12,817	15,795	12,527	15,851

The sensitivity analysis on net interest income is based on reasonably possible changes in interest rates with the assumption that the structure of financial assets and financial liabilities held at the period end remains unchanged.

The sensitivity analysis on equity is the effect on changes of fixed rate available-for-sale financial assets at the period end after adjusting in accordance with the reasonably possible changes in interest rates.

The assumption does not represent the group's capital and interest rate risk management policy. Therefore the above analysis may differ to the actual situation.

In addition, the impact of interest rate fluctuation is only for illustrating purpose, showing the anticipated revenue under different situation and the anticipated interest income and other income of the group under the current interest rate risk situation. The result was not impacted from the potential interest rate risk control activities carried out by the management.

49. FINANCIAL RISK MANAGEMENT (continued)

Capital management

The Group's objectives on capital management are to:

- safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- support the Group's stability and growth;
- allocate capital in an efficient and risk based approach to optimise risk adjusted return to the shareholders; and
- maintain an adequate capital base to support the development of its business.

The CBRC requires that the capital adequacy ratio and core capital adequacy ratio for commercial banks shall not fall below 8% and 4% respectively. For commercial banks, supplementary capital shall not exceed 100% of core capital while long-term subordinated liabilities included in the supplementary capital should not exceed 50% of the core capital. When total positions of trading accounts exceed 10% of the on and off-balance sheet total assets, or RMB8.5 billion, commercial banks must provide for market risk capital. At present, the Group is fully compliant with legal and regulatory requirements.

The on-balance sheet risk-weighted assets are measured according to the nature of, and are reflecting an estimate of credit, market and other risks associated with, each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. Market risk capital adjustment is calculated using the standardised approach.

The Group computes the capital adequacy ratio in accordance with *the Decision of China Banking Regulatory Commission on Revising the Measures for the Management of Capital Adequacy Ratios of Commercial Banks, Notice from China Banking Regulatory Commission on the Relevant Issues on Calculating the Capital Adequacy Ratio After Banks and Financial Institutions Implementing <Accounting Standards for Business Enterprises>* and other related regulations promulgated by the CBRC.

(Amounts in millions of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (continued)

Capital management (continued)

		As at 30 June 2010		As at 31 December 2009	
		Group	Bank	Group	Bank
Core capital adequacy ratio	(1)	6.72%	6.68%	7.74%	7.69%
Capital adequacy ratio	(2)	8.31%	8.27%	10.07%	10.01%
Components of capital base					
Core capital:					
Share capital		270,000	270,000	260,000	260,000
Capital reserve		5,512	5,512	—	—
Surplus reserve and general and regulatory reserves		70,607	70,578	18,448	18,431
Unappropriated profit		1,421	34	59,817	58,385
Minority interest		154	—	106	—
		347,694	346,124	338,371	336,816
Supplementary capital:					
General allowance of impairment loans		45,550	45,550	66,057	66,056
Reserve of fair value changes of available-for-sale financial assets	(3)	3,410	3,410	2,312	2,312
Long-term subordinated bonds		50,000	50,000	50,000	50,000
		98,960	98,960	118,369	118,368
Total capital base before deductions		446,654	445,084	456,740	455,184
Deductions:					
Equity investments which are not consolidated		(197)	(1,333)	(197)	(1,333)
Other deductible item		(16,490)	(16,490)	(16,194)	(16,194)
Total capital base after deductions		429,967	427,261	440,349	437,657
Risk-weighted assets and market risk capital adjustment	(4)	5,172,079	5,168,624	4,373,006	4,370,842

(1) Core capital adequacy ratio is calculated by dividing the net amount of core capital, which is after deductions of 50% unconsolidated equity investments, by risk-weighted assets and market risk capital adjustment.

(2) Capital adequacy ratio is calculated by dividing total capital base after deductions by risk-weighted assets and market risk capital adjustment.

(3) The reserve arising from the cumulative net positive changes in the fair value of available-for-sale financial assets is excluded from the core capital and 50% of the balance is included in the supplementary capital.

(4) The amount of market risk capital adjustment equals 12.5 times of the market risk capital.

(Amounts in millions of Renminbi, unless otherwise stated)

50. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;

- the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives; and

- the fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

The tables below summarise the carrying amounts and fair values of those financial assets and liabilities not presented on the consolidated statement of financial position at their fair value. Financial assets and liabilities for which the carrying amounts approximates fair value, such as deposits with central banks, deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements, borrowings from central bank, placements from banks and other financial institutions, financial assets sold under repurchase agreements and certificates of deposit issued are not included in the tables below.

The Group

	30.6.2010		31.12.2009	
Financial assets	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Loans and advances to customers	4,478,230	4,478,115	4,011,495	4,011,504
Held-to-maturity investments	1,082,844	1,098,093	883,915	894,861
Debt securities classified as receivables	811,149	811,684	890,199	891,458
	6,372,223	6,387,892	5,785,609	5,797,823
Financial liabilities				
Deposits from banks and other financial institutions	517,325	513,510	573,949	574,025
Due to customers	8,348,820	8,356,571	7,497,618	7,507,370
Subordinated bonds issued	49,958	48,882	49,955	47,155
	8,916,103	8,918,963	8,121,522	8,128,550

(Amounts in millions of Renminbi, unless otherwise stated)

50. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The Bank

	30.6.2010		31.12.2009	
Financial assets	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Loans and advances to customers	4,477,986	4,477,871	4,011,386	4,011,395
Held-to-maturity investments	1,082,764	1,098,013	883,915	894,861
Debt securities classified as receivables	811,149	811,684	890,199	891,458
	6,371,899	6,387,568	5,785,500	5,797,714
Financial liabilities				
Deposits from banks and other financial institutions	518,588	514,774	574,794	574,870
Due to customers	8,348,531	8,356,282	7,497,442	7,507,194
Subordinated bonds issued	49,958	48,882	49,955	47,155
	8,917,077	8,919,938	8,122,191	8,129,219

Fair value measurements recognised in the statements of financial position.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(Amounts in millions of Renminbi, unless otherwise stated)

50. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The Group

	As at 30 June 2010			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading	16	24,078	—	24,094
Financial assets designated as at fair value through profit or loss	2,916	12,600	57,577	73,093
Available-for-sale financial assets	34,084	570,498	1,895	606,477
Derivative financial assets	31	2,417	3,258	5,706
Total assets	37,047	609,593	62,730	709,370
Financial liabilities held for trading	—	(344)	—	(344)
Financial liabilities designated as at fair value through profit or loss	—	(572)	(65,125)	(65,697)
Derivative financial liabilities	—	(1,622)	(6,868)	(8,490)
Total liabilities	—	(2,538)	(71,993)	(74,531)

The Bank

	As at 30 June 2010			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading	16	24,078	—	24,094
Financial assets designated as at fair value through profit or loss	2,916	12,600	57,577	73,093
Available-for-sale financial assets	34,084	570,423	1,895	606,402
Derivative financial assets	31	2,417	3,258	5,706
Total assets	37,047	609,518	62,730	709,295
Financial liabilities held for trading	—	(344)	—	(344)
Financial liabilities designated as at fair value through profit or loss	—	(572)	(65,125)	(65,697)
Derivative financial liabilities	—	(1,622)	(6,868)	(8,490)
Total liabilities	—	(2,538)	(71,993)	(74,531)

The Group and The Bank

	As at 31 December 2009			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading	—	15,346	—	15,346
Financial assets designated as at fair value through profit or loss	2,040	39,133	55,657	96,830
Available-for-sale financial assets	39,599	688,950	1,631	730,180
Derivative financial assets	—	1,193	3,485	4,678
Total assets	41,639	744,622	60,773	847,034
Financial liabilities held for trading	(56)	—	—	(56)
Financial liabilities designated as at fair value through profit or loss	—	(2,022)	(111,821)	(113,843)
Derivative financial liabilities	—	(1,228)	(6,462)	(7,690)
Total liabilities	(56)	(3,250)	(118,283)	(121,589)

There were no transfers between Level 1 and 2 in the current period and the year ended 31 December 2009.

(Amounts in millions of Renminbi, unless otherwise stated)

50. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Reconciliation of Level 3 fair value measurements of financial assets and liabilities is as follows:

The Group and The Bank

	Financial assets designated as at fair value through profit or loss	Available-for-sale financial assets	Derivatives financial instruments, net	Financial liabilities designated as at fair value through profit or loss
As at 1 January 2010	55,657	1,631	(2,977)	(111,821)
Recognised in	214	189	165	(820)
— Profit (loss)	214	—	165	(820)
— Other comprehensive income	—	189	—	—
Purchases/Issues	37,863	222	—	(148,857)
Settlements	(35,610)	—	(798)	196,373
Transfers out of Level 3	(547)	(147)	—	—
As at 30 June 2010	**57,577**	**1,895**	**(3,610)**	**(65,125)**
Total gain or loss for the year included in the profit or loss for assets/liabilities held as at 30 June 2010	87	—	79	(406)

	Financial assets designated as at fair value through profit or loss	Available-for-sale financial assets	Derivatives financial instruments, net	Financial liabilities designated as at fair value through profit or loss
As at 1 January 2009	8,346	9,657	(3,970)	(22,677)
Recognised in	448	3,750	901	1,468
— Profit	448	3,554	901	1,468
— Other comprehensive income	—	196	—	—
Purchases/Issues	51,537	1,560	—	(106,498)
Settlements	(4,435)	(12,760)	92	15,886
Transfers out of Level 3	(239)	(576)	—	—
As at 31 December 2009	**55,657**	**1,631**	**(2,977)**	**(111,821)**
Total gain for the year included in the profit or loss for assets/liabilities held as at 31 December 2009	303	21	630	1,517

51. EVENT AFTER THE END OF THE INTERIM PERIOD

Upon the approval of The China Banking Regulatory Commission, China Securities Regulatory Commission and the Hong Kong Stock Exchange, the Bank has issued common stock of (A shares) 25,570,588,000 shares with RMB2.68 per A share of offer price and foreign listed foreign shares (H shares) 29,223,529,000 shares with HKD3.20 per H share of offer price from July to August. The above proceeds of share offering after deduction of the issue expenses was RMB147,849 million.

According to Hong Kong Listing Rule and disclosure regulations of banking industry, the Group discloses the following supplementary information:

1. LIQUIDITY RATIOS

	As at 30 June 2010	As at 31 December 2009
RMB current assets to RMB current liabilities	40.77%	40.99%
Foreign currency current assets to foreign currency current liabilities	185.37%	122.54%

2. CURRENCY CONCENTRATIONS

	Equivalent in millions of Renminbi			
	USD	HKD	Other	Total
As at 30 June 2010				
Spot assets	168,662	57,378	26,662	252,702
Spot liabilities	(125,864)	(56,437)	(23,353)	(205,654)
Forward purchases	108,027	3,430	14,856	126,313
Forward sales	(81,599)	(23,920)	(12,439)	(117,958)
Net options position	4,578	—	12	4,590
Net long/(short) position	31,006	(20,490)	2,429	12,945
Net structural position	**(36,011)**	**76**	**(1,469)**	**(37,404)**

	Equivalent in millions of Renminbi			
	USD	HKD	Other	Total
As at 31 December 2009				
Spot assets	256,865	41,615	22,417	320,897
Spot liabilities	(207,227)	(41,031)	(17,763)	(266,021)
Forward purchases	61,405	5,358	3,435	70,198
Forward sales	(58,759)	(3,859)	(6,465)	(69,083)
Net options position	41	—	(10)	31
Net long position	52,325	2,083	1,614	56,022
Net structural position	**(36,212)**	**75**	**(1,442)**	**(37,579)**

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 deposits with central banks, deposits and placements with banks and other financial institutions, financial assets held for trading, financial assets designated as at fair value through profit or loss, loans and advances to customers, financial assets held under resale agreements, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.

(Amounts in millions of Renminbi, unless otherwise stated)

3. CROSS-BORDER CLAIMS (continued)

Cross-border claims have been disclosed by different 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	Others	Total
As at 30 June 2010				
Asia Pacific excluding				
Mainland China	19,603	76	46,167	65,846
— of which attributed to				
Hong Kong	4,186	76	39,445	43,707
Europe	19,945	1,778	—	21,723
North and South America	31,529	23,225	73	54,827
Africa	27,340	—	—	27,340
Total	**98,417**	**25,079**	**46,240**	**169,736**

	Banks and other financial institutions	Public sector entities	Others	Total
As at 31 December 2009				
Asia Pacific excluding				
Mainland China	20,732	269	32,533	53,534
— of which attributed to				
Hong Kong	2,302	77	25,631	28,010
Europe	28,554	3,749	652	32,955
North and South America	57,525	28,823	898	87,246
Africa	81	—	—	81
Total	**106,892**	**32,841**	**34,083**	**173,816**

(Amounts in millions of Renminbi, unless otherwise stated)

4. OVERDUE ASSETS

Gross amount of overdue loans and advances to customers

	As at 30 June 2010	As at 31 December 2009
Gross loans and advances to customers which have been overdue for		
below 3 months	25,695	20,417
between 3 and 6 months	3,282	3,873
between 6 and 12 months	6,060	12,426
over 12 months	47,244	41,434
Total	**82,281**	**78,150**
Percentage		
below 3 months	31.22%	26.12%
between 3 and 6 months	3.99%	4.96%
between 6 and 12 months	7.37%	15.90%
over 12 months	57.42%	53.02%
Total	**100.00%**	**100.00%**

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