交通銀行
BANK OF COMMUNICATIONS

YOUR WEALTH MANAGEMENT BANK

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

2010 ANNUAL REPORT

Stock Code:03328

BRIEF INTRODUCTION

Founded in 1908, Bank of Communications Co., Ltd. (the "Bank") is one of the oldest banks in China as well as one of the note-issuing banks in modern China. The Bank was listed on the Hong Kong Stock Exchange in June 2005 and on the Shanghai Stock Exchange in May 2007.

The Bank currently has 128 domestic branches (including Head Office), comprising 30 provincial branches, 7 branches directly managed by Head Office and 90 provincial branches. It has also established 2,643 operating locations in more than 220 cities nationwide. The Bank has also set up 11 overseas institutions, comprising of branches in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau and Ho Chi Minh City and representative offices in London, Sydney and Taipei. According to the "Top 1000 World Banks 2010" published by the British magazine "The Banker", the Bank was ranked number 49 based on its Tier 1 capital such that it was ranked among the top 50 banks worldwide for the second consecutive year. In addition, it was also ranked one of the top 50 banks worldwide in terms of total assets with its ranking of number 46.

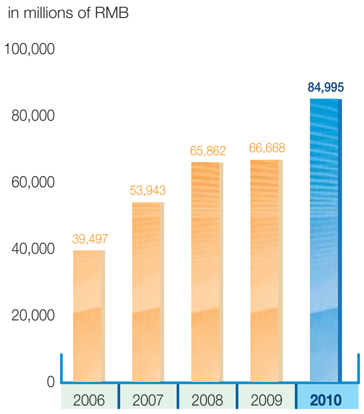
The Bank is one of the major financial services providers in China. The Bank's business scope includes commercial banking, securities services, trust services, financial leasing, fund management, insurance and offshore financial services. Its wholly-owned subsidiaries include BOCOM International Holdings Company Limited, China BOCOM Insurance Co., Ltd and Bank of Communications Finance Leasing CO., Ltd. Subsidiaries controlled by the Bank include Bank of Communications Schroder Fund Management Co., Ltd, Bank of Communications International Trust Co., Ltd, BoCommLife Insurance Company Limited, Dayi Bocom Xingmin Rural Bank Co., Ltd and Zhejiang Anji BOCOM Rural Bank Co., Ltd. In addition, the Bank is also the largest shareholder of Jiangsu Changshu Rural Commercial Bank Co., Ltd.

The Bank's development strategy is to become "a first class listed universal banking group focusing on international expansion and specialising in wealth management".

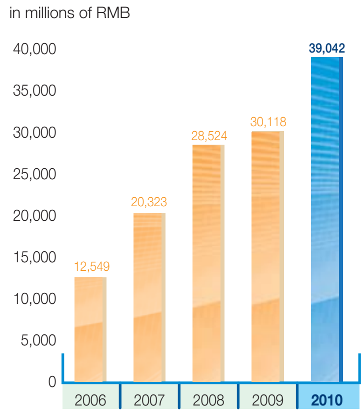
Contents

Financial Highlights

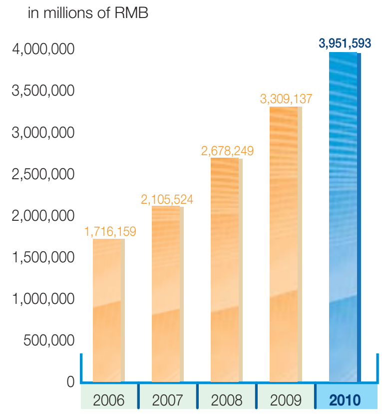
Net interest income



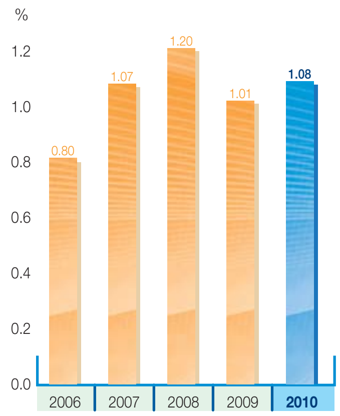
Net profit (attributuble to shareholders of the Bank)



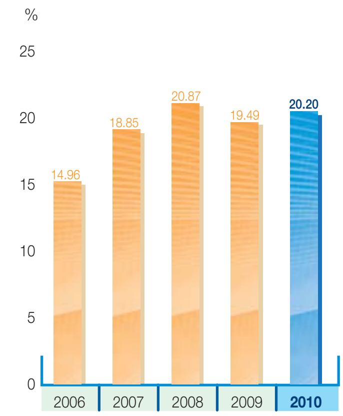
Total assets



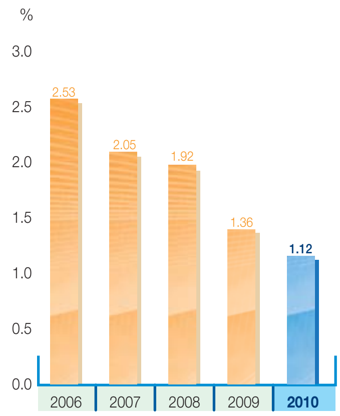
Returns on average assets



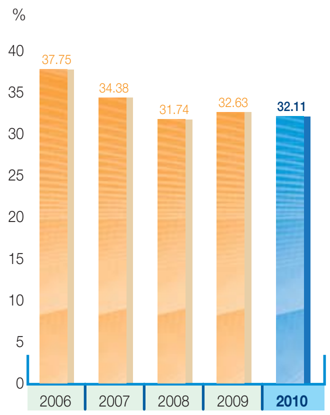
Returns on average shareholders' equity



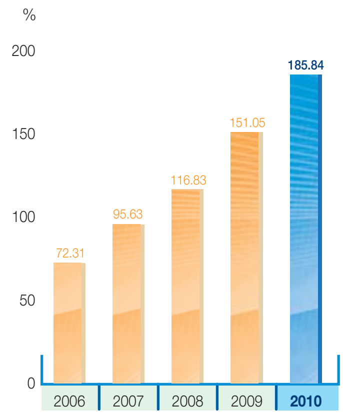
Impaired loans ratio



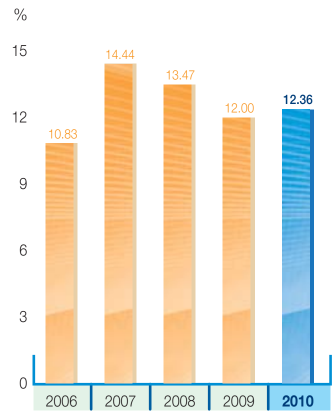
Cost to income ratio



Provision coverage of impaired loans



Capital adequacy ratio



Description	2010	2009	2008	2007	2006
Full year results					*(in millions of RMB)*
Net interest income	**84,995**	66,668	65,862	53,943	39,497
Profit before tax	**49,954**	38,301	35,953	31,242	17,774
Net profit (attributable to shareholders of the Bank)	**39,042**	30,118	28,524	20,323	12,549
As at the end of the year					*(in millions of RMB)*
Total assets	**3,951,593**	3,309,137	2,678,249	2,105,524	1,716,159
Includes: loans and advances to customers	**2,236,927**	1,839,314	1,328,590	1,104,490	924,825
Total liabilities	**3,727,936**	3,144,712	2,532,649	1,976,872	1,628,697
Includes: customer deposits	**2,867,847**	2,372,055	1,865,815	1,555,599	1,344,177
Shareholder's equity (attributable to shareholders of the Bank)	**222,773**	163,848	145,167	128,234	87,403
Per share					*(in RMB)*
Earnings per share (diluted)[1]	**0.73**	0.59	0.56	0.40	0.24
Net assets per share (attributable to shareholders of the Bank)	**3.96**	3.34	2.96	2.62	1.91
Major financial ratios					%
Returns on average assets[2]	**1.08**	1.01	1.20	1.07	0.80
Return on average shareholders' equity[3]	**20.20**	19.49	20.87	18.85	14.96
Cost to income ratio[4]	**32.11**	32.63	31.74	34.38	37.75
Impaired loans ratio[5]	**1.12**	1.36	1.92	2.05	2.53
Provision coverage of impaired loans[6]	**185.84**	151.05	116.83	95.63	72.31
Capital adequacy indicators					%
Core capital adequacy ratio	**9.37**	8.15	9.54	10.27	8.52
Capital adequacy ratio	**12.36**	12.00	13.47	14.44	10.83

Notes:
1. In accordance with IFRS, earnings per share for the corresponding period in previous years was recalculated due to the rights issue during the Reporting Period;
2. Calculated by dividing net profit for the year by the average of total assets at the beginning and the end of the Reporting Period;
3. Calculated by dividing net profit (attributable to shareholders of the Bank) for the year by the average of shareholders' equity (attributable to shareholders of the Bank) at the beginning and the end of the Reporting Period;
4. Refers to the ratio of business and management fee expenses and the sum of the various types of net income;
5. Calculated by dividing the balance of impaired loans by the balance of loans before impairment allowances as at the end of the year;
6. Calculated by dividing the balance of impairment allowances by the balance of impaired loans as at the end of the year.

Corporate Information

LEGAL NAME

交通銀行股份有限公司

Bank of Communications Co., Ltd.

LEGAL REPRESENTATIVE

Hu Huaibang

BOARD OF DIRECTORS

Executive Directors

Hu Huaibang (Chairman)

Niu Ximing (Vice Chairman and President)

Qian Wenhui

Wang Bin

Non-executive Directors

Zhang Jixiang

Hu Huating

Qian Hongyi

Wong Tung Shun, Peter

Fung Yuen Mei, Anita

Ji Guoqiang

Lei Jun

Independent Non-executive Directors

Chen Qingtai

Li Ka-cheung, Eric

Gu Mingchao

Wang Weiqiang

Peter Hugh Nolan

Chen Zhiwu

SUPERVISORY COMMITTEE

Hua Qingshan (Chairman)

Zheng Li

Jiang Zuqi

Gu Huizhong

Guo Yu

Yang Fajia

Chu Hongjun

Li Jin

Yan Hong

Liu Sha

Chen Qing

Shuai Shi

Du Yarong

COMPANY SECRETARY

Du Jianglong

AUTHORISED REPRESENTATIVES

Qian Wenhui

Du Jianglong

INVESTOR SERVICES

Address:	No. 188 Yincheng Zhong Road Pudong New District Shanghai, the PRC (200120)
Tel:	86-21-58766688
Fax:	86-21-58798398
E-mail:	investor@bankcomm.com
Website:	www.bankcomm.com

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Address:	20 Pedder Street, Central, Hong Kong
Tel:	852-29738861

NEWSPAPERS AND WEBSITES FOR INFORMATION DISCLOSURE

A shares: China Securities Journal,
Shanghai Securities News,
Securities Times
Website of The Shanghai Stock Exchange
http://www.sse.com.cn

H shares: Website of The Hong Kong Stock Exchange
http://www.hkexnews.hk

PLACES WHERE THE ANNUAL REPORT ARE AVAILABLE

Head Office of the Bank and its principal business locations

AUDITORS

International Auditor: PricewaterhouseCoopers

PRC Auditor: Deloitte Touche Tohmatsu CPA Ltd.

HONG KONG LEGAL ADVISER

DLA Piper UK LLP

PRC LEGAL ADVISER

King & Wood

A SHARES SPONSORS

UBS Securities Co. Limited
Haitong Securities Company Limited

SHARE REGISTRARS AND TRANSFER OFFICE

A shares: China Securities Depository and Clearing Corporation Limited,
Shanghai Branch
3rd Floor, China Insurance Building,
No. 166 Lujiazui Dong Road,
Pudong New District, Shanghai, PRC

H shares: Computershare Hong Kong Investor Services Limited,
Rooms 1712–16,
17th Floor, Hopewell Centre,
183 Queen's Road East, Hong Kong

PLACE OF LISTING, STOCK NAME AND STOCK CODE

A Shares
Place of Listing: Shanghai Stock Exchange
Stock Name: Bank of Communications
Stock Code: 601328

H Shares
Place of Listing: Hong Kong Stock Exchange
Stock Name: BANKCOMM
Stock code: 03328

OTHER INFORMATION

Date of initial business registration: 30 March 1987
Date of latest change of business registration: 16 September 2010
Registar: State Administration for Industry & Commerce of the People's Republic of China
Corporate business licence registration number: 100000000005954
Tax registration number: 31004310000595X
Organisational code: 10000595-X

Awards

FORTUNE (USA)

No. 440 in Fortune 500

THE BANKER (UK)

No. 49 in Top 50 Global Commercial Banks

ASIAWEEK

"Top 300 Asia Bank" — Number 10 in Total Assets Among Asian Banks

THE BANKER (CHINA)

No. 2 in Core Competitiveness, No. 3 in Financial Review

The Best Wealth Management Award; The Best Corporate Social Responsibility Award; The Best Bank in Research Capability

Top 10 Corporate Business Financial Product "Tax Express"

Top 10 Retail Business Financial Product: "De Li Bao — Intelligence Profit-adding",

Best Financial Products Brand Marketing Award: "OTO Fortune — Brand Enhancement, Service Innovation" Marketing Event

THE ASSET

Best Wealth Management Bank, China

FIRST FINANCIAL

Financial Corporation of the Year, Wealth Management Brand of the Year, Best Forecast Analyst, Best Forecast Financial Corporation, Outstanding Corporate Social Responsibility in China

The Banker (China): Top 10 Retail Business Finanical Product: "De Li Bao — Intelligence Profit-adding"

The Banker (China): The Best Corporate Social Responsibilty Award

Shanghai Stock Exchange: 2010 Information Disclosure Award

FINANCIAL TIMES

Best Wealth Management Bank

21ST CENTURY BUSINESS HERALD

Best Wealth Management Bank in Asia, "China's Best Branding" Award (10 Recipients)

EUROMONEY

Best Cash Management Bank, China

ASIAMONEY

Best Cash Management Bank, China

ASIA RISK

Best Risk Management Bank of the Year in China

SHANGHAI STOCK EXCHANGE

2010 Information Disclosure Award

LEAGUE OF AMERICAN COMMUNICATIONS PROFESSIONALS (LACP)

Vision Awards Annual Report Competition — Visionary (Gold)
Asia-Pacitic Best Letter to Shareholders (Silver)

21ST CENTURY BUSINESS HERALD: Best Wealth Manaement Bank in Asia

First Financial: Financial Corporation of the Year

The Asset: Best Wealth Management Bank, China

Chairman's Statement

Hu Huaibang
Chairman

2010 is the final year of China's "Eleventh Five-Year Plan". Under the effective leadership of the central government, all objectives in its "Eleventh Five-Year Plan" were conclusively achieved as China achieved stable and relatively rapid economic development while also maintaining social stability and harmony. Over the past year, with strong support from domestic and foreign regulatory authorities, all shareholders, customers and the efforts of the Bank's management and staff, the Bank continued to make further improvements in its reforms such that its various lines of business showed stable progress and it displayed relatively rapid business growth, developed management qualities and a harmonious working environment, thus making determined steps towards its stated strategic objectives.

REVIEW OF CURRENT OPERATING RESULTS AND EVENTS OVER THE PAST FIVE YEARS

The operating results for 2010 have further highlighted the advantages of the scale and the growth the Bank enjoys as a giant state-owned listed Bank. As at the end of 2010, the Group's total assets increased by 19.41% from the corresponding period in prior year to RMB3,950 billion and its market share of RMB-denominated loans and deposits increased by 0.18 and 0.07 percentage point respectively. Net profit for the year increased by 29.63% as compared to the corresponding period in prior year to RMB39.042 billion.

Looking back, China achieved major social and economic developments over the course of its 'Eleventh Five-Year Plan" (2006–2010) which was also the most glorious 5 years for the Bank in its hundred years history.

— In these five years, the Bank once again led the development of China's financial sector. The Bank continued to serve as a pioneer as it became the first state-owned bank to complete the transformation of its share structure and to implement an A shares and a H shares rights issue, thus establishing a new and effective development path for the transformation of China's banking sector. As a pioneer in the area of integrated operations, the Group has successfully transformed into a financial holding Group with a bank as the parent, thus pioneering a coordinated development model on the basis of effective risk segregation.

— In these five years, the Bank formally crossed its first hundred years milestone. In 2008, the Bank became the first national financial institution to welcome its first centennial. Over the course of its hundred year history, the Bank has accompanied China through the ups and downs of its social and economic development but this has only served to add to the Bank's maturity and provided it with more confidence regarding the future. As the Bank steps into its next hundred years, it will continue to forge ahead steadily with the help of its clearly defined development strategy and direction as well as the dedication and unity of rank and file alike.

— In these five years, the Bank consecutively achieved the best operating results in its history. Due to good governance, the Bank achieved exponential development despite the ups and downs of the environment. Its asset base increased by 1.8 times and net profit increased by 3.1 times both of which have exceeded the average growth rate of China's banking sector. With its head held high, the Bank entered the ranks of the world's top 500 enterprises, top 20 global commercial bank in terms of profitability and top 30 in terms of market capitalisation. At the same time, the Bank continued to improve the quality of its assets and its proportion of non-performing loans decreased from 2.37% as at the end of 2005 to 1.12% as at the end of 2010.

— In these five years, the Bank's corporate structure has undergone a complete transformation. The Bank successfully returned to the A shares market and commandeered a leading position among its peers in terms of corporate governance and operation. Its strategic management system was gradually improved as it formulated and implemented its development strategy of becoming "A first class listed universal banking group focusing on international expansion and specialising in wealth management". The Bank achieved major breakthroughs in the transformation of various areas such as establishment of a customer-centric business philosophy, finalisation of its fine-grained management mechanism, optimisation of the organisational structure and operating process, product innovation, information technology, human resource management, brand and corporate culture development.

Although the results of the Bank's transformation and development has been encouraging, it must continue to remain focused. While the Bank keeps an eye on its progress, it must not forget its past deficiencies and continue to have in-depth knowledge of regulatory requirements, its strategic objectives and the distance between itself and its more advanced domestic and overseas counterparts. The Bank still has a long journey ahead in the future and it must work doubly hard.

IMPLEMENTATION OF THE STRATEGY TO BECOME "A FIRST CLASS LISTED UNIVERSAL BANKING GROUP FOCUSING ON INTERNATIONAL EXPANSION AND SPECIALISING IN WEALTH MANAGEMENT"

While the Bank's strategic objectives are long and far-sighted, it must implement its strategy tenaciously. As the saying goes, "Persevering is the act of going all the way, from having an idea in mind to making it a reality". I am pleased to see that the Group's strategy of becoming a "first-class listed universal banking group focusing on international expansion and specialising in wealth management" has become deeply rooted among the rank and file and with each individual employee making their own contributions towards the fulfilment of the Group's strategic objectives and mission.

— On the internationalisation front, the Bank is committed towards creating an international network "focusing on the Asia-Pacific region and with Europe and America as the wings" and bringing the Bank's international business management capabilities to a new level. As at the end of 2010, the total assets of our seven overseas branches, including Hong Kong and New York, increased by 19.99% as compared to the corresponding period in prior year to RMB239.870 billion. The Bank is also the first mainland bank to set up a representative office in Taipei and it has successfully received the approval for its branch in Ho Chi Minh City. The Bank's close collaboration with its strategic partner, HSBC, has also helped the Bank leverage on HSBC's network in international markets and its experience in servicing global customers.

— On the integration front, the Bank has reorganised its group structure with the banking entity as the parent and with subsidiaries in the fund, trust, leasing, insurance and investment banking business forming the rest of the financial holding group. This diversification resulted in a significant strengthening of the Group's financial service capabilities. The Bank continued to expand its integrated financial services platform: BoCommLife Insurance, the first domestic bank-owned insurance company received its official licence from the regulators; the Anji Bocom Rural Bank has successfully commenced operations; and the Shihezi Bocom Rural Bank in Xinjiang also received approval from the regulators. The Group and its subsidiaries and associated companies achieved new breakthroughs as its subsidiaries achieve spectacular results. As at the end of 2010, total assets of the Bank's subsidiaries were RMB42.963 billion and their contribution to the Group's net profit for the year was RMB834 million or 2.14%.

— On the wealth management front, the Bank has established a multi-tiered wealth management service system, rapidly enhanced services capabilities and market reputation which has provided greater distinction of the Bank's wealth management capabilities. The Bank spared no effort in building its "Bank of Communications, your wealth management bank" brand image, formulating and implementing a development plan for its corporate customers and personal wealth management business. The proportion of its mid to high net worth customers increased rapidly, of which private banking customers increased by 109.81% in 2010.

In 2010, the Bank continued to maintain its image as a proactive global bank. Returns on average assets (ROAA) and returns on average on shareholders' equity (ROAE) were 1.08% and 20.20% respectively. The Group was ranked among the Fortune Global 500 for the second consecutive year, and its ranking improved from prior year to No. 440. Other important accolades awarded by domestic and foreign mainstream media include "Bank with the best returns", "Listed company with the most sustainable investment value", "Best Wealth Management Bank in China" and "Best Cash Management Bank".

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

The Board of Directors is at the core of the Bank's corporate governance structure and its effectiveness will have a positive impact on the entire Bank. Faced with the complex environment over the past year, the Board has adopted open communications, in depth exchange of views and working with consensus. Working to the best of its abilities, the Board carefully analysed market trends, guided the development of the direction of the Bank utilising its intelligence as well as scientific decision making policies to actively implement every major initiative.

The Fifth Session of the Board of Directors completed its term in 2010 and the following directors: Ms. Laura M. Cha, Mr. Yang Fenglin, Mr. Xie Qingjian, Mr. Ian Ramsay Wilson and Mr. Thomas Joseph Manning retired. Over the years, they have diligently performed their duties and contributed significantly to the development of the Bank. On behalf of the Board of Directors and all the staff of the Bank, I would like to take this opportunity to express my sincere gratitude to them. On the other hand, the Bank welcomed Ms. Anita Fung Yuen Mei, Mr. Wang Weiqiang, Mr. Peter Hugh Nolan and Mr. Chen Zhiwu to the Board of Directors. With their addition, the Board will be even more internationalised and professional. I extend my warmest welcome to them and look forward to working with them.

During the year, Mr. Peng Chun resigned as Executive Director and Vice-President of the Bank. Mr. Peng has served the Bank for 16 years with diligence and dedication and made outstanding contributions to the Bank's development. Mr. Wang Bin was nominated by the Board of Directors and was appointed as Executive Director at the Annual General Meeting. Mr. Wang served as the President of the Bank's Tianjin branch, and as the President of the Bank's Beijing branch. He was appointed as the Vice-President of the Bank in 2005, has demonstrated outstanding leadership capabilities and possesses extensive bank management experience.

In 2010, under the capable leadership of the President, Mr. Niu Ximing, senior management successfully led the Bank's approximately 80,000 employees to accomplish the various operating objectives set out by the Board as the Bank successfully realised its objective of "overtaking the market to achieve pole position". In particular, the fighting spirit and innovative spirit displayed by senior management in areas such as the long-term development of the deposits business, enhancement of customer service capabilities and transformation of the management model was particularly encouraging.

STRENGTHENED ENTERPRISE RISK MANAGEMENT AND CONTROL

Risk management is a crucial theme in any bank's development. The bank's risk management must not only proceed in the appropriate direction and include properly applied measures but must also be consistent and sustainable. Under the guidance of the supervisory department, the Bank's enterprise risk management and internal controls achieved new breakthroughs in 2010. The proportion of non-performing loans continued to experience a "double dip" as it decreased by 0.24 percentage point from the corresponding period in prior year to 1.12% while provision coverage increased by 34.79 percentage points as compared to the corresponding period in prior year to 185.84%.

— The Bank continued to improve its enterprise risk management system. Based on the "Enterprise Risk Management Plan for 2009–2011", the Board of Directors stipulated a series of policies and procedures such as the "Market Risk Management Policy", "Liquidity Risk Management Plan" and "Internal Ratings System Management Policy" and they continued to assess the Bank's enterprise risk management metrics on a quarterly basis. Risk management coverage also improved with the new "1+3+2" enterprise risk management framework developed by senior management.

— The Bank further strengthened its credit, market and operational risk management. Reacting to the trend of rapid credit growth, the Bank promoted the application of its new risk classification system for credit assets and diligently implemented the new "Three Rules and One Guidance" credit regulation introduced by the CBRC by implementing watch-list management and limits management for high risk industries. The Bank also established an annual limit for market risk and implemented its new operational risk management system.

— The Bank made good progress in its New Basel Capital Accord preparation work. The Bank has successfully completed its Pillar 2 project development in accordance with the timeline and requirements stipulated in the "Bank of Communication New Basel Capital Accord Implementation Plan". The Bank's has successfully undergone the CBRC's pre-assessment inspection for its three major risk, thereby completing the initial development of its Pillar 2 groundwork. This gives the Bank a solid foundation for its formal application to become one of the first to be in compliance with the requirements of the New Basel Capital Accord domestically.

— The Bank made steady progress in the development of its internal controls. The Bank comprehensively implemented the "Standards on Enterprise Internal Controls" and internal controls guidelines to provide a framework for the actual execution of its internal control procedures and to evaluate its business management procedures for operational feasibility and compliance with applicable regulations. Internal control evaluation and grading was implemented for the Bank's domestic branches and sub-branches, foreign branches, and its subsidiaries. The Bank also continued its development of anti-fraud projects and strengthened its efforts on incident prevention.

"The journey of a thousand miles begins with the first step." We strongly understand that as a financial institution, the operational risk management is an essential part of the Bank's business and in the face of an increasingly complex and constantly changing business environment, the Bank's must be constantly vigilant and must not be complacent in its efforts with regards to risk management. To progress and to achieve its intended objective, the Bank must rely on comprehensive planning, accumulation of effort over time and focus on paying attention to details.

CORPORATE SOCIAL RESPONSIBILITY

Honest management, good customer service and high profitability are the Bank's fundamental responsibilities as a listed financial enterprise. That said, we have consistently fulfilled our corporate social responsibilities as we strive to become a model corporate citizen and this philosophy has been integrated into the entire management style. In 2010, the Bank's contribution to society per share increased by RMB0.14 as compared to 2009 to RMB2.34.

— There was pro-active provision of services that contributes to the country's economic and social development. The Bank is a staunch supporter of policies by the central government and has increased its financial support to strategic national industries. The Bank managed the volume, structure and momentum of its credit lending in accordance with the national macroeconomic policy and gave strong support to the development of "agriculture, rural areas and farmers" as well as micro-enterprises. Multi-channel support was also provided to industries such as medicine, education and sanitation.

— The Bank gave whole-hearted support for the Shanghai World Expo 2010. As the only global commercial banking partner to the Shanghai World Expo, the Bank had the honour of witnessing and participating in this successful and unforgettable event. During the World Expo, the Bank achieved its target of "zero business errors, zero service complaints and zero accidents" and it consistently emerged top in the World Expo's counter service satisfaction surveys. It was also awarded the "World Expo Financial Services Outstanding Contribution Award" for displaying the outstanding service quality of the Chinese banking industry to the world.

— The Bank was active in the promotion and implementation of green financing. The Bank further promoted its "Green Credit" project by actively supporting energy-saving initiatives and environmentally friendly industries while turning away customers who fail to satisfy the Bank's environmental standards. Low-carbon emission and high energy-saving financial services were provided to customers through efficient electronic channels. Green initiatives were also implemented as part of the Bank's efforts to go "green" for its office environment. In addition, the Bank also whole-heartedly participated in various "green" community projects and low-carbon emission themed activities.

— The Bank was actively involved in community work. With love and concern for society, the Bank and its staff were actively involved in community work during 2010 as it spare no efforts in providing assistance to support disaster relief, poverty alleviation, scholarships to disabled youths and the training of physio-therapists for deaf children. Of this, approximately RMB18.4 million has been provided as disaster relief funds to support various natural disasters stricken areas.

BUSINESS ENVIRONMENT AND OUTLOOK FOR THE FUTURE

The current global economic and financial situation remains uncertain. The effects of the global financial crisis have not completely dissipated and there is a possibility of a slowdown in domestic economic growth. Hence the need for economic restructuring and change in the nation's development model became increasingly urgent. In particular, China's monetary policy has been stabilised to ease inflationary pressures and to ensure greater stability in the financial system. The CBRC has continued to strengthen its prudent supervision over banks and this has resulted in significant changes to the external environment for the operational development for banks.

2011 marks the start of China's "Twelfth Five-Year Plan". This new 5-year period is expected to remain a period of strategic opportunities and significant development for the Chinese banking industry. The Chinese economy is expected to continue its relatively rapid growth and the pace of restructuring will be accelerated. The financial markets are also expected to continue developing rapidly. These developments will create many opportunities for the Bank, while also, bringing about greater challenges. During this period, the Bank has to strive to increase asset base and profitability and begin its development into a leading vibrant international banking group characterised by "innovation, vibrancy, stable operations, excellent service and good returns".

"A good beginning makes for a good ending." In 2011, to ensure a good start to the "Twelfth Five-Year Plan" period, the Bank will continue with its theme of scientific development, structural transformation and innovative management which will fit seamlessly into the nation's and the region's developing of strategy while conscientiously implementing a prudent monetary policy and remaining compliant with regulatory requirements.

— The Bank will diligently moved towards its stated strategy of becoming "A first class listed universal banking group focusing on international expansion and specialising in wealth management" and continuously enhancing its core competitiveness. The Bank will continue to improve its integrated financial services platform and strive to obtain licenses for domestic securities and futures markets as soon as possible. In addition, the Bank will further accelerate the development of its international operations and actively expand into overseas markets while enhancing its global customer service capabilities. To exemplify its niche in wealth management, the Bank will actively create value-adding and comprehensive financial services to its customers. In addition, the Bank will also increase its participation in the government's project to develop Shanghai into a shipping and financial services hub.

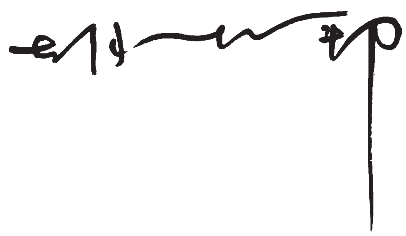
— The Bank will accelerate the pace of its development by continuously exploring new development paths in view of current trends. By striking a balance between speed, quality and efficiency, the Bank will actively adjust its structure and strengthen the stability and sustainability of its development. The Bank will continue to transform into its new growth model from the previous model. Moving from a traditional loans and deposits business to one based on economic capital management which strikes a balance between risk and returns, the Bank's profit model will also change from its previous dependence on interest margin to one based on diversified income streams. It will also continue to transform its service model as it moves from being a credit intermediary to its new role of being an integrated financial services provider.

— The Bank will accelerate the pace of its management innovation process as it continues to improve the quality of its management. It will also establish an open management concept to foster creativity, establishing a customer-centric business philosophy and strengthen its fine-grained management. The Bank will also revolutionise its management techniques so as to optimise its organisational structure, business processes and resource allocation; and enhance its performance and evaluation assessment system. The Bank will also improve its products and services, risk and brand management system as well as strengthen its economic capital management and strengthen its information technology security.

— The Bank will strengthen its risk management and controls to ensure the stable growth of each of its businesses. It will start conceptualising the development of a enterprise risk management system after meeting the targets set by the Basel II Capital Accord, as part of its preparation work for the implementation of the Basel III Capital Accord. At the same time, the Bank will strengthen its control over the risk management process and its risk forecast capabilities to achieve a matching of risk and returns. It will also conscientiously monitor applicable regulatory requirements and focus on controlling risks in key areas.

Looking back, the Bank overcame all obstacles and made great progress forward. Looking ahead to the future, we will continue to scale greater heights. As we stand at the threshold of the 20th year of the 21st century, the Bank will actively participate in the nation's "Twelfth Five Year Plan" helping to develop the nation with great enthusiasm and spirit. The Bank will continue to devote itself to servicing its millions of valued customers globally and continuously open up new and exciting chapters in its revolutionary growth with the guidance of its strategy of becoming a "A first class listed universal banking group focusing on international expansion and specialising in wealth management".

Chairman



President's Statement

Niu Ximing
President

2010: RESTRUCTURING IN THE MIDST OF GROWTH

— Operating results: Strong performance

As a result of the steady development of China's economy and the strong support received from customers, investors and the general public as well as the intelligence and hard work of the Bank's staff, the Bank was able to successfully meet the challenges posed by the complex business environment in 2010 to achieve sustainable growth for its various lines of business. The Bank was also able to maintain its core financial indicators above the industry averages. As at the end of 2010, the Group's total assets increased by 19.41% from the beginning of the year to RMB3,951.593 billion; customer's deposits increased by 20.90% from the beginning of the year to RMB2,867.847 billion; loans and advances to customers balance increased by 21.62% from the beginning of the year to RMB2,236.927 billion. Net profit for the year increased by 29.63% from prior year to RMB39.042 billion. Returns on average total assets (ROAA) and returns on average shareholders' equity (ROAE) increased by 0.07 and 0.71 percentage point respectively to 1.08% and 20.20% respectively.

— Core businesses: Exceeding market growth

After experiencing the high credit growth in lending across the banking industry in 2009, capital and deposits have become the two biggest constraints on the Bank's growth. With generous support from public investors, the Bank successfully raised net funding of RMB32.356 billion from the A and H shares right issue in 2010 which has provided sufficient capital support for the Bank's growth. At the same time, the Bank continued to focus on its deposits business as it builds up a strong foundation for growth in its deposits through various aspects, ranging from customers to products to inspections. In spite of the slowdown in money supply growth and credit disbursements, deposits reached historic highs. With the Bank's increased capital base and sustained growth in deposits, the Bank was able to continue to increase its market share in its major businesses, thus realising its objective of "overtaking the market to achieve pole position". As at the end of 2010, the Bank's market share in RMB deposits and loans increased by 0.18 and 0.07 percentage point respectively from the beginning of the year to 5.93% and 6.62% respectively.

Development strategy: Steady progression

The Bank continued to achieve breakthroughs in its strategy of becoming 'A first class listed universal banking group focusing on international expansion and specializing in wealth management', global bank and integrated financial services group. The features of its wealth management business is more distinctive. BoCommLife Insurance, the first bank-owned insurance company, and the Anji Bocom Rural Bank received their official operating licenses. The Shihezhi Bocom Rural Bank in Xinjiang will also soon commence operations. The Bank also became the first mainland bank to enter the Taiwanese market when its Taipei Representative Office officially opened. In addition, the Bank also received approval for its branch in Ho Chi Minh City. Coordinated development domestically and overseas accelerated such that domestic and foreign cross-linked loans and cross-linked trade financing increased by 201% and 503% respectively as compared to the corresponding period in prior year to USD4.4 billion and USD18.5 billion respectively. The Bank also aims to provide personalised and value-added services to customers by enhancing its wealth management service system. Concurrently, the Bank also collaborated with The Nielsen Company, China Academy of Social Sciences and CBN Weekly to issue the Bank of Communications China Prosperity Index. The Bank's "Bank of Communication, your wealth management bank" brand image has also been well received by the market.

— Business transformation: Remarkable results

The Bank continued to accelerate the pace of its business transformation to complement the nation's growth and the restructuring of the economy. In 2010, the Bank's new credit policy included 38 industries and 112 sub-industries, which makes up more than 85% of its credit business. The incremental loans were mainly made out to transportation and infrastructure industries etc as well as small enterprises and individuals. In 2010, the increment in loans to small enterprises and personal loans contributed to 42.4% of the total increase in the Bank's loans, while the proportion of personal loans increased by 1.79 percentage points from the beginning of the year to 18.68%. The proportion of loans and advances to customers rated 1 to 8 of total corporate loans was 92.1%. Watch-list management was implemented for 22 industries, including iron and steel, automobiles and real estate while limits management was implemented for industries with excess capacity and for local government financing platforms. The Bank maintained its pace of exit from for these industries and the amounts of corporate loans to companies it was paying special attention to was RMB33.35 billion. The Bank continued to expand its non-credit income sources and returns from the investment securities business reached a satisfactory 3.16%. Businesses such as credit cards, investment banking, cross-border RMB settlement, offshore businesses, new-type custody services and corporate pension grew rapidly and net fee and commission income for the year increased by 27.02% as compared to prior year to RMB14.479 billion.

— Customer structure: Continuous enhancement

The Bank continued to strengthen its customer-centric business philosophy by establishing separate three-year development plans for its corporate and private wealth management clients. Helped by coordinated marketing achieved through more precise and effective customer identification, the Bank made remarkable breakthroughs in expanding its customer base and in improving the business. New corporate and institutional customer accounts (with average daily deposits exceeding RMB1 million) amounted to 9,163 and contributed to 49.1% of new deposits. The Bank's efforts to create a first-mover advantage among its competitors in its private banking service branding received a significant boost as the service model of its private banking centre for its branches has been substantially completed and the Bank's private banking customer base increased substantially by 109.81%. The gradual formation of a comprehensive wealth management branding model also led to an increasing number of high net worth customers. The proportion of mid to high net worth customers increased by 37.25% from the beginning of the year and this segment makes up more than 10% of individual customers.

— Distribution channels: Simple yet efficient

14 new provincial sub-branches were set up, including the branches in Qinghai Province and Ganzhou, as the Bank accelerated its penetration of second and third tier cities. Coverage of municipal-level cities increased by 2.1 percentage points to 43% while coverage for the top 100 counties increased by 15 percentage points to 75%. The Bank also accelerated the set-up of its automated banking and automated point-of-sale machines locations with 186 new self-service banking and 622 new offsite machines. The Bank was also the first to launch mobile phone banking facility which allows card-less cash withdrawals and payment when it pioneered its new card-less financial services concept. The Bank also upgraded its Personal Internet Banking which also underwent a facelift with the introduction of its integrated family financial management account, "super internet banking" function and the development of its "e-terminal" mobile service tools. The proportion of its electronic banking business also increased by 7.47 percentage points as compared to prior year to 57.17%.

— Risk Management: Comprehensive strengthening

The Bank enhanced its risk management framework by re-establishing the Enterprise Risk Management Committee and its three management sub-committees: Credit Risk Management Committee, Market and Liquidity Management Risk Committee, Operational Risk Management and Anti-money Laundering Committee. In addition, the Loan Review Committee and High-risk Asset Review Committee have also been absorbed into the Enterprise Risk Management Committee. The accuracy of the Bank's loan classification has also improved significantly with the integration of its impairment provisioning, five category classification and internal system. Management expressed satisfaction with the results of the Bank's credit administrations subsequent to the implementation of the new "Three Rules and One Guidance" loan regulations. The Bank also developed a corporate loan approving officer qualification management system. The Bank also promoted its market risk management system and new operational risk management system to achieve comprehensive improvements in the level of its monitoring and management of its operational risk management activities. As at the end of 2010, the impaired loans balance continued to decline and the proportion of impaired loans declined by 0.24 percentage point from the beginning of the year to 1.12% while provision coverage of impaired loans increased by 34.79 percentage points from the beginning of the year to 185.84%.

— Shanghai World Expo: Successful conclusion

After four years of painstaking preparation and 184 days of hardwork, the Bank has successfully discharged its responsibilities as the global commercial banking partner to the Shanghai World Expo and also successfully realised its World Expo service objective of "zero business errors, zero service complains and zero accidents". It has also emerged top in the World Expo counter service satisfaction survey. The Bank's image as an innovative and futuristic bank was showcased to the general public as its "Future Bank" exhibit area attracted a total of 350,000 visitors. More importantly, the Bank was able to take advantage of the opportunities provided by its partnership with the World Expo to win a large number of quality customers and important projects, thus reaping benefits both in terms of brand image and economic benefits.

2011: LEADING DEVELOPMENT WITH INNOVATIONS

Looking forward, China is expected to maintain its steady growth. However, the accompanying upgrading of industrial structure, changes in customer income structure and migration of regional hot-spots are expected to result in drastic changes to the Bank's market environment. The expected inflation, return of stability to monetary policy, movement of the market towards a cycle of increasing interest rates, external constraints on credit and significant increases in capital and provision requirements arising from prudent regulatory policies are expected to pose great challenges to the policies of commercial banks and increase market reactions.

As a result of the external environment and the Bank's own development needs, the Bank has developed a development plan for the period of the nation's "12th Five-Year Plan" with a core based on "doubling" assets and profits. The Bank will continue to adhere to its principle of maintaining a balance between prudent management with innovation and reforms. With transformation as the main focus supported by innovation, the Bank aims to achieve growth through business transformation and structural enhancement while also achieving side-by-side improvements in its development quality and operational efficiency. Through the Bank's internationalisation drive and integrated financial services, the Bank aims to realise its strategy of becoming "A first class listed universal banking group focusing on international expansion and specialising in wealth management objectives" and its objectives of doubling assets and profits.

— Comprehensive and integrated wealth management service

China's sustained economic growth has resulted in an accumulation of wealth and an enlargement of the group of wealthy citizens. This has in turn created a large space for development of the wealth management business. The banks of the future will transform from focusing on the management of credit to the management of customer's financial assets such that they become the customer's financial "housekeeper". The Bank will continue to promote its internationalisation and comprehensive business strategy to create an integrated global wealth management platform to enhance the quality of wealth management services and help customers achieve long-term asset growth as it strives to become the market leader in China's wealth management market.

— New "3-in-1" Service Model

Information technology has comprehensively changed productivity, lifestyles and communication modes as the widespread availability of wireless networks and infrastructure has turned "IT living" into a reality and the widespread availability of "3-A's" (ANYTIME, ANYWHERE, ANYWAY) payment method. The Bank will continue to evolve with the IT age and continue to focus on enhancing its process of improving customer's experience while developing a rapid and strong all channel electronic transaction platform. The Bank will also develop its "3-in-1" services system which integrates outlets, e-banking and accounts managers. It will also explore new service models such as home banking, corporate banking and mobile banking as it strives to be the best service brand in the Chinese banking industry.

— Enterprise risk management system emphasising on procedures

"People, Procedures and Culture" are the three key elements of risk management. The Bank will strive to establish full accountability in risk management for all employees and deeply engrain the requirements of risk management within the consciousness of all employees and the entire management process. The Bank will also expand its application of the results of its new Basel Capital Accords project and realise its objective of electronic management of the entire risk management process through the use of advance system and tools.

— A new generation information system to integrate the Group.

In order to meet the future needs of the Group for integrated management, the Bank plans to take approximately three years to complete its "531 Project" to create a new generation information system that is customer-oriented and integrated domestically and overseas that could provide enterprise risk management, centralised back office processing, independent accounting functions and management information collection. The project is currently progressing smoothly and have produced numerous exciting results. The completion of the new generation information system is likely to bring about significant improvements in the Bank's IT level and overall enhancement of the Bank's business processes.

The new market environment brings with it new opportunities and the Bank's innovation capabilities is its core competency. In the coming year, the Bank will rely on its "multiplier" plan at the core of its business development strategy while using its business transformation process to accelerate the transformation of its development model. The Bank will use its management innovation as the driving force to establish a unique competitive advantage to achieve more outstanding business performance!

President

牛锡明

Chairman of the Supervisory Committee

Hua Qingshan
Chairman of the Supervisory Committee

In 2010, in accordance with the requirements of the Company Law and the Bank's Articles of Association etc., the Supervisory Committee monitored the Board of Directors' execution of resolutions approved at General Meetings of shareholders and other decisions made within the Board's authority. The Supervisory Committee also monitored senior management's implementation of resolutions approved at General Meetings of shareholders and the Board of Directors meetings as well as the business activities senior management carries out within its authority. At the same time, the Supervisory Committee also intensified its supervision on the discharge of duties by the Board of Directors, senior management and its members while closely monitoring areas such as the Bank's financials, internal controls and risk management to safeguard the interests of shareholders and the Bank and. The Supervisory Committee also increased its capability to execute its duties and strengthened its own development.

Overcome challenges and endeavour to transform business structure

Management Discussion and Analysis

(1) MACROECONOMICS AND FINANCIAL SITUATION

In 2010, China's economic growth slowed down and began to stabilise while commodity prices continued to rise and the profit growth of commercial banks rebounded significantly.

Judging from the external environment, a gradual recovery and upturn in the global economy can be observed in 2010. As a result of the repercussions of the European sovereign debt crisis and the continued weakness of the US employment and real estate markets, the recovery of the major developed economies continued to remain stalemated. Concurrently, the emerging markets economies which are experiencing rapid recovery and economic growth have become the main 'engines' driving global economic growth. However, these economies also face increasing pressure from overheated economy and inflation.

As far as the domestic front is concerned, China's economic growth has switched from one based on foreign stimulation policy to one based on growth domestic demands in 2010 and the three main drivers, i.e. investments, consumption and net exports are also becoming more balanced. The GDP growth rate declined to 10.3% in 2010 from prior years and began to stabilise. Commodity prices have continued to maintain an upward trend in 2010 due to the effects of significant factors such the relatively rapid growth in money supply during the earlier part of the year, rising labour costs and price increases in major international commodities. The consumer price index (CPI) has also continuously increased month-on-month to reach a new high of 5.1% in November.

Judging from the current monetary and financial situation, there appears to be a gradual tightening of the national monetary policy towards normalisation since 2010 due to the stabilisation of economic growth and the continued increase in commodity prices evidenced by the multiple upward revisions of the reserve ratio and interest rates. The growth in loans was mainly affected by this as its rate of growth declined significantly such that new loans for the year was RMB7.95 trillion, representing a decrease of RMB1.65 trillion as compared to 2009. There was a slight appreciation of the RMB in 2010, particularly after the announcement by the Central Bank in June to further promote exchange rate reforms which resulted in the acceleration of the appreciation of the RMB. The RMB also showed a double-headed fluctuation and the annual cumulative appreciation of the RMB against the USD was 3.1%.

(2) GROUP OPERATION OVERVIEW

The Group achieved favorable operating results by thoroughly analysing and assessing the changes in macroeconomic and financial market trends and actively adapting to the nation's macroeconomic policy adjustments while steadily promoting its strategy to become "a first class listed universal banking group focusing on international expansion and specialising in wealth management". As at the end of the Reporting Period, the Group's total assets increased by 19.41% from the beginning of the year to RMB3,951.593 billion and net profits increased by 29.63% as compared to the corresponding period in prior year to RMB39.042 billion. Returns on average asset and returns on average shareholders' equity were 1.08% and 20.20% respectively. Net interest spread and net interest margin increased by 17 and 16 basis points respectively as compared to the prior year to 2.39% and 2.46% respectively. The impaired loans ratio decreased by 0.24 percentage point from the beginning of the year to 1.12% while provisions coverage of impaired loans increased by 34.79 percentage points from the beginning of the year to 185.84%.

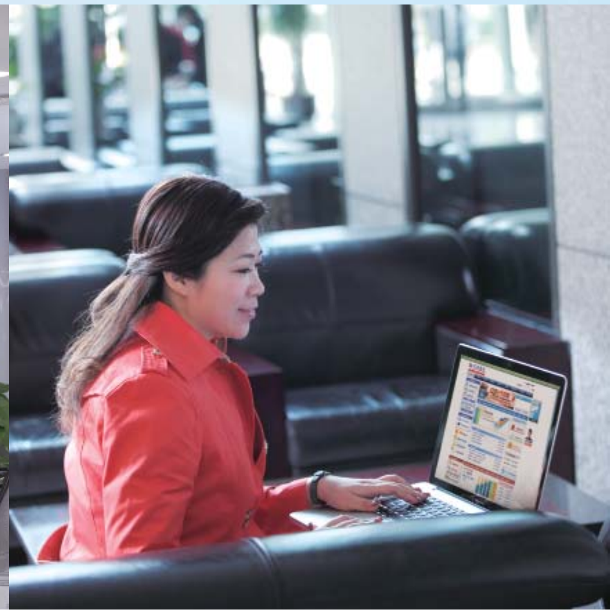
(3) BUSINESS REVIEW

Steady in business growth guided by the China's macroeconomic adjustments and controls

In 2010, China continued to strengthen and improve its macroeconomic adjustments and controls by implementing pro-active fiscal policies and prudent monetary policies as it focused on accelerating economic restructuring and the transformation of its economic development model. Guided by the national macroeconomic policy adjustments and controls, the Group continued to adhere to its pro-active and prudent management policy so as to support and complement the development of the real economy and the enhancement of the industry structure. This has enabled the Group to achieve steady growth in the scale of its business while maintaining reasonable and balanced growth in its credit portfolio and the optimisation of its credit structure. As at the end of the Reporting Period, the Group's total assets increased by 19.41% from the beginning of the year to RMB3,951.593 billion as customer deposits increased by 20.90% from the beginning of the year to RMB2,867.847 billion and loans and advances to customers (before impairment allowances, same applies hereinafter unless otherwise stated) increased by 21.62% from the beginning of the year to RMB2,236.927 billion. The Bank's market share of the RMB deposits and loans increased by 0.18 and 0.07 percentage point respectively from the beginning of the year to 5.93% and 6.62%.

The Group managed to improve its credit structure based upon effective management of loan growth and well-paced loan extension. In terms of industry structure, the Group focused mainly on industries that are in line with the national credit policy and the characteristics of the nation's economy such as transportation and logistics, public infrastructure management, modernised services and strategic emerging. At the same time, the Group actively cultivated new growth areas and capitalised on credit growth opportunities in areas such as consumption, people's livelihood, advanced manufacturing and low-carbon emission industries. In terms of customer structure, the Group continued to focus on the development of its personal loans and small enterprises financing business such that the proportion of personal loans increased by 1.79 percentage points from the beginning of the year to 18.68% such that personal loans increased to RMB417.925 billion. By offering tailored small enterprise financing services to specific customer segments through the introduction of innovative products such as "One-stop Venture Capital Financing", "E-loan Online", "Small Enterprise E-loan Card" and "Account Receivable Financing", the Group was able to satisfy varied demands for financial services of small enterprises so that the balance of its small enterprises loans doubled from the beginning of the year.

In order to further strengthen its capital base for future business development, the Bank was the first among major domestic commercial banks to successfully complete an equity financing exercise through a rights issue for its A shares and H shares during the Reporting Period. The net proceeds of RMB32.356 billion raised from the rights issue for its A shares and H shares has helped to effectively improve the Bank's core capital. As at the end of the Reporting Period, the Group's capital adequacy ratio and core capital adequacy ratio increased by 0.36 and 1.22 percentage points respectively from the beginning of the year to 12.36% and 9.37%.



Further improved profitability through in-depth implementation of strategic transformation

Faced with significant changes in the market environment and guided by its strategic transformation direction, the Group continuously explored various avenues of development for its structural transformation and actively encouraged the transformation of its growth and profitability models.

Faced with the increasing challenges arising from financial disintermediation, the Group intensified the restructuring of its growth model as it transformed from a capital intensive bank to a capital efficient bank and accelerated the development of its retail banking and treasury operations. Against the backdrop of rapid expansion of the securities market and pressures arising from deposit outflows, the Group still managed to achieve relatively rapid growth in its savings and personal financial asset management business. As at the end of the Reporting Period, the Group's domestic RMB deposits increased by 15.49% from the beginning of the year to RMB832.7 billion and its market share increased by 0.04 percentage point from the beginning of the year to 4.18%. Assets under management (AUM) for individuals increased by 15.79% from the beginning of the year to RMB1,317.543 billion. At the same time, the Group took advantage of new trends in capital flows to actively explore funding from various financing channels within financial markets to strengthen its treasury operations. During the Reporting Period, the Group was ranked third in the inter-bank RMB spot trading market as its transaction volume amounted to RMB7,286.670 billion and it was ranked first among the market makers in the inter-bank foreign exchange market as its total transaction volume in the market amounted to USD619.178 billion.

With accelerated paces of interest rate deregulation, the Group proceeded vigorously with the transformation of its profit model towards a diversification of its revenue sources. During the Reporting Period, the proportion of non-interest income increased by 0.57 percentage point as compared to the

corresponding period in prior year to 18.85%. Of this, net fee and commission income increased by 27.02% or RMB3.080 billion as compared to the corresponding period in prior year to RMB14.479 billion as the quality of the Group's fee-based business was further enhanced. As a result of the opportunities arising from the expansion in domestic demand and increase in domestic consumption, the Group devoted significant efforts in the development of its card business such that annual fee and commission income from bank issued cards increased by 29.76% as compared to the corresponding period in prior year to RMB5.180 billion. Of this, credit cards in force exceeded 16.6 million and the accumulated spending volume for the year was RMB230.150 billion. In view of the strong demand for corporate finance services, the Group continued to actively develop its investment banking business. Income from investment banking activities increased by 37.87% as compared to the corresponding period in prior year to RMB3.244 billion. The Group continued to remain as the front-runner in terms of total amount of underwriting issues as it was the lead underwriter for 55 bond issuances. In view of the favourable conditions arising from the upturn in the economy and recovery in foreign trade, the Group actively developed its trade settlement business such that commission income from settlement and agency services increased by 39.26% as compared to the corresponding period in prior year to RMB3.32 billion.

The Group's strategic transformation has continued contributing to improvements in its profitability and growth capacity. During the Reporting Period, the Group's net profit increased by 29.63% as compared to the corresponding period in prior year to RMB39.042 billion. Returns on average asset and returns on average shareholder equity increased by 0.07 and 0.71 percentage point, respectively, as compared to prior year to 1.08% and 20.20% respectively. During the Reporting Period, the Group was once again ranked among the Fortune Global 500 as its ranking by operating income improved by 54 positions from prior year to No. 440. In addition, the Group continued to maintain its No 49 ranking in terms of Tier 1 capital in the global top 1,000 banks rankings published by the British magazine, The Banker. The Bank's long-term credit rating was also upgraded from Baa1 to A3 by Moody's.

Steady interest margin expansion through optimising its asset-liability structure

As the two benchmark interest rate hikes occurred in the fourth quarter of 2010, the impact of the rate hikes was not fully released during the year. The main factors contributing to the margin expansion were the optimisation of its asset-liability structure and the enhancement of its deposits and loans pricing management.

The Group continuously intensified the adjustment of its asset-liability structure and focused on improving its pricing management capabilities and returns from its non-credit assets. This optimisation of its asset-liability structure has helped promote stable increases in its net interest spread and net interest margin. With regards to the Group's management of its assets, there have been further increases in the proportion of high yield assets. The proportion of loans and advances to customers (after impairment allowances) in total assets increased by 0.99 percentage point from the beginning of the year to 55.43%. With regards to the Group's management of its liabilities, the proportion of current deposits as at the end of the Reporting Period increased by 0.86 percentage point from the beginning of the year to 50.56%. The optimisation of the Group's asset-liability structure and the further improvements in deposits and loans pricing management have enabled average returns on interest-earning assets to increase by 8 basis points as compared to the corresponding period in prior year to 4.08% and average costs of interest-bearing liabilities to decrease by 9 basis points as compared to the corresponding period in prior year to 1.69% as at the end of the Reporting Period. In addition, the active expansion of domestic and foreign currency treasury operations and optimisation of the investment portfolio, helped the Bank achieve satisfactory yield from investment in securities of 3.16%.

As the level of interest spread continued to increase during the Reporting Period, net interest income increased significantly. Net interest spread and net interest margin increased by 17 and 16 basis points respectively as compared to the corresponding period in prior year to 2.39% and 2.46% respectively and increased by 4 and 5 basis points respectively as compared to the third quarter such that net interest income increased by 27.49% as compared to the corresponding period in prior year to RMB84.995 billion.

Continued improvements in asset quality arising from the enterprise risk management system

The intertwining of favourable and unfavourable factors and the co-existence of development opportunities and credit risks meant macroeconomic trends in 2010 were relatively complex. The Group continued to strengthen its enterprise risk

management through risk prevention and the development of their business lines concurrently while strengthening risk control in key areas. At the same time, the Group consolidated and formalised its management practices while optimising its risk governance mechanism. It established and developed a enterprise risk management committee discussion and decision making system which includes a enterprise risk management committee, three specialised risk management committees (Credit Risk Management Committee, Market and Liquidity Risk Management Committee and Operational Risk Management and Anti-money Laundering Committee) and two business review committees (Loan Review Committee and High-risk Asset Review Committee). With regards to credit risk management, corporate loans approver qualification examinations and accreditation standards were established. The Group also increased the coverage of credit guidance and enhanced its dynamic management capabilities. The Group introduced and applied a new credit asset risk classification system to effectively implement the requirements of the “Three Rules and One Guidance” set out by the regulatory authorities. There were effective results from the implementation of quota management for loans to excess-capacity industries, inspection of trends in loans to high-risk areas, the withdrawal of loans to high-risk areas and requirements for additional collateral on specific loans to high-risk areas. With regards to market risk management, the Group launched a market risk management system to enhance its independent daily monitoring of market risk. With regards to operational risk management, the Group continued to develop its “Internal Controls and Incident Prevention Year” activities and anti-fraud project while promoting the application of its operational risk management system and formalising its operational risk management process and tools. In addition, the Group also strengthened its cross-market and cross-border risk management capabilities by expanding its risk monitoring and control over its subsidiaries and overseas branches. The Group also further enhanced its internal rating system as part of its preparations for the implementation of the new Basel Capital Accords.

The quality of the Group’s assets continued to improve as a result of the further strengthening of its enterprise risk management measures. As at the end of the Reporting Period, the impaired loans balance decreased by 0.08% or RMB21 million from the beginning of the year to RMB24.988 billion while the impaired loans ratio declined by 0.24 percentage point from the beginning of the year to 1.12%. The provision coverage ratio increased by 34.79 percentage points from the beginning of the year to 185.84%.

Significant acceleration of innovation process to achieve its objective of becoming a world class wealth management bank

The financial needs and wealth management objectives of customers are becoming increasingly diversified and personalised with the rapid growth of social wealth, upgrading of investment demands and changes in consumption culture. In line with the "Bank of Communications, your wealth management bank" branding, the Group accelerated product and service innovation and continuously strengthened its diverse and cross-market competitiveness. The Group introduced a "Cross-Border Integrated Wealth Management" private banking product to provide customers with globalised allocation and wealth management services. The success of the OTO Fortune exhibition has also made the Group the pioneer domestic commercial bank to independently organise a financial product and service exhibition. The Group also accelerated the pace of its cross-border RMB business innovation and obtained approval for pilot of overseas RMB financing projects thus achieving its aim of expansion into overseas financing services through its trade settlement services. It also became one of the two domestic banks managing the largest number of types of foreign currency transactions when it became the first bank to be granted approval to provide RMB/TWD exchange services in the Shanghai region. The Group was the first to introduce the "Lease Financing" shipping finance product and processed the first innovative "3-in-1" financing product integrating cross-border RMB financing, export financing and overseas ship financing. The Group continuously strengthened its cash management services and successfully introduced and optimised various functions such as level two sub-accounts, joint accounts and bills pool. It has also received the "Best Cash Management Bank in China" accolade from "Euromoney" and "Asiamoney" for a few years consecutively.

To meet customer demands for cross-border and cross-market wealth management services, the Group further accelerated the development of its global service network and continued with its integration process. The Bank became one of the first mainland bank to set up office in Taiwan when it established its representative office in Taiwan. In addition, the Bank received approval for the establishment of its Ho Chi Minh City branch which was officially opened in 2011. The Bank continued to prepare for the establishment of its San Francisco branch and is awaiting approval to establish a subsidiary bank in the U.K.. BoCommLife Insurance was officially granted its license and the Zhejiang Anji Bocom Rural Bank Co., Ltd operated smoothly during the year. Overseas branches and subsidiaries remained committed in continuously improving their innovation and service capabilities. This has resulted in rapid developments of their business and the Group's unique wealth management characteristics became increasingly evident. The Hong Kong Branch maintained its market leader position in the local IPO integrated business market and became one of first batch of banks designated for inclusion in the Hong Kong Interbank Clearing Limited's RMB Clearing System in Hong Kong. The Tokyo branch was the first among its peers in Japan to offer cross-border RMB settlement services. The Macau Branch actively developed its wealth management business and there was rapid growth in the number of OTO customers as compared to the corresponding period in prior year. BOCOM International Holdings Company Limited's investment banking business moved to a new level as it continually played important roles in several IPO projects and launched several direct investment funds and retail funds. As part of its drive towards the development of the "agriculture, farmers and countryside" related business, the Group increased its penetration of the rural market through Dayi Bocom Xingmin Rural Bank Co., Ltd and Zhejiang Anji Bocom Rural Bank Co., Ltd.

The Group continued to strive to meet the financial needs of customers by continuing to create values through its cross-border and cross-market integrated wealth management platform. This in turn has become the foundation from which the Group can expand its customer base. During the Reporting Period, the Group continued to enhance its tiered-based customer service system such that its number of high net worth customers grew rapidly and the Group's customer structure continuously optimised. The number of its private banking, "Win to Fortune" and "BOCOM Fortune" customers increased by 109.81%, 40.6% and 38.31% respectively while the number of new corporate customers increased by 124,000. The number of "Leadway Fortune" customers for its international business continued to grow and the number of offshore customers doubled.

Continuous improvements in service capabilities arising from the "trinity" network model

With the rapid development of information technology, the demand for convenient financial services from individual customers has continuously increased. The Group continued to comprehensively expand its customers' service channels and diligently build a new comprehensive customer service network that integrates outlets, e-banking and accounts managers. With regards to outlets, the Bank accelerated its construction of high quality and highly efficient outlets through adjustments in the locations of its outlets to enhance its organisational layout. 14 provincial sub-branches were successfully opened during the year in areas such as Liuan, Jiaozuo, Quzhou and Ganzhou. The Qinghai Province branch was officially established such that the service coverage of municipal-level cities and top 100 counties increased significantly. With regards to e-banking, the Bank expanded the coverage of its automated banking and automated point of sale machines as 186 new off-site automated banking and 622 new off-site automated machines were established. As part of the Bank's innovative electronic banking processing model, customers were able to carry out safe and convenient 'one-stop' transactions on the Bank's online portal. In addition, the Bank also rolled out products with integrated family wealth management account and 'Super Internet Banking' features. The Bank became the pioneer among its peers when it was the first to introduce a new card-less financial services concept by being the first to roll out card-less cash withdrawals and consumption. As at the end of the Reporting Period, new mobile banking customers exceeded one million. The amount of electronic commercial transactions increased by 78.3% percentage points as compared to the corresponding period in prior year to RMB24.87 billion. The usage of electronic banking increased by 7.47 percentage points from the beginning of the year to 57.17%. With regards to accounts manager, the staff structure was further optimised to improve their level of professionalism. The Bank's AFP, CFP and EFP qualified personnel increased by 1,467 from the beginning of the year to 6,701 as at the end of the Reporting Period.

Building on the foundation of its "outlets, e-banking and accounts managers" integrated banking model, the Group continuously strengthen its customer service capabilities and improved its operational efficiency and service quality. As a result, the Bank was awarded the outstanding contribution award by the China Banking Association in its "2010 Service Excellence Organisation Competition". As the global commercial banking partner to the Shanghai World Expo 2010, the Group comprehensively achieved its "zero business errors, zero service complains and zero accidents" target for its provision of financial services during the Shanghai World Expo. The Bank was also awarded the Shanghai World Expo outstanding contribution award by the China Banking Association for its outstanding display of the high service quality of the Chinese banking industry to the world.

Effective strengthening of management foundation through the opportunities arising from its management enhancement activities

The Group expanded the scope of its 'Management Enhancement Year' programmes to further fine-grained the level of its management and realise efficiencies and returns through management effectiveness. The Group actively forged ahead with its management enhancement projects and further consolidated its management foundation. During the Reporting Period, the Group optimised its Head Office organisational structure and its Beijing Management Department also commenced operations. The corporate and organisational business promotion committee and the retail and private banking business promotion committee were formally established such that the two major front-office business lines servicing corporate and individual customers were established. The "total capital budget management model" was comprehensively implemented such that the operating efficiency for the Group's centralised capital management was strengthened considerably and a more scientific operating efficiency evaluation system was established. A product innovation and promotion committee was established to consolidate the work innovation process as well as promote product innovation, process innovation and management innovation. An Operations Management Department was established to specifically manage bank-wide operations management as well as operating system construction. The Nanning Financial Service Center has commenced operations and the development of the Group's Documentary Credit Center is proceeding smoothly. All these have contributed to the building blocks of a multi-location back-up framework and a mutually supportive back-office organisational layout. The Group moved towards the extensive transformation of the operations management model for the provincial sub-branches and actively promoted the pilot transformation to a matrix-style management model for the provincial sub-branches such that all newly opened provincial sub-branches will implement centralised back-office processing which has in turn lead to significant reductions in operating costs. The "531 Project" aimed at building a new generation of business systems for the Bank has been comprehensively initiated. This will help the Group develop an IT structure which is customer-focused, integrated domestically and overseas with an independent accounting function that provides enterprise risk management, centralised back-office operations and centralized management information.

As management foundation moves to a new level, the Group continued to strictly enforce cost controls and efficiency enhancements measures to successfully control costs. While the Group's business costs increased by 24.43% as compared to prior year to RMB32.889 billion, this was comparatively lower than the increase in net operating income which increased by 3.97 percentage points during the Reporting Period. The cost to income ratio decreased by 0.52 percentage point as compared to the prior year to 32.11%.

(4) FINANCIAL STATEMENT ANALYSIS

1. Income Statement Analysis

(1) Profit before tax

During the Reporting Period, the Group's profit before tax increased by RMB11.653 billion or 30.42% as compared to prior year to RMB49.954 billion. Profit before tax was derived mainly from net interest income and net fees and commission income.

The table below shows the significant items which make up the Group's profit before tax for the year indicated:

		(in millions of RMB)
	2010	2009
Net interest income	**84,995**	66,668
Net fee and commission income	**14,479**	11,399
Impairment allowances	**(12,246)**	(11,255)
Profit before tax	**49,954**	38,301

(2) Net interest income

During the Reporting Period, the Group's net interest income increased by 27.49% as compared to prior year to RMB84.995 billion. This accounted for 81.15% of the Group's net operating income and was the most significant component of net operating income.

The table below shows the average daily balances, associated interest income and expenses, and average yield or average cost of the Group's interest-earning assets and interest-bearing liabilities during the periods indicated:

(in millions of RMB unless otherwise stated)

	For the twelve months ended 31 December 2010			For the twelve months ended 31 December 2009		
	Average Balance	Interest income/ (expense)	Average yield/(cost) ratio (%)	Average Balance	Interest income/ (expense)	Average yield/(cost) ratio (%)
Assets						
Balances with central bank	451,052	6,855	1.52	354,396	5,501	1.55
Due from other banks and financial institutions	211,004	4,424	2.10	283,054	4,895	1.73
Loans and advances to customers and receivables	2,067,067	106,056	5.13	1,619,593	83,027	5.13
Of which: Corporate loans and receivables	1,595,373	82,984	5.20	1,222,267	66,267	5.42
Personal loans	338,765	18,701	5.52	230,236	13,142	5.71
Discounted bills	132,929	4,371	3.29	167,090	3,618	2.17
Investment securities	777,937	24,570	3.16	692,916	23,320	3.37
Total interest-earning assets	3,456,166[3]	140,901[3]	4.08	2,901,381[3]	115,977[3]	4.00
Total non-interest earning assets	157,646			133,677		
TOTAL ASSETS	3,613,812[3]			3,035,058[3]		
Liabilities and shareholders' equity						
Due to customers	2,572,046	36,628	1.42	2,161,675	34,007	1.57
Of which: Corporate deposits	1,709,519	24,710	1.45	1,437,109	21,431	1.49
Personal deposits	862,527	11,918	1.38	724,566	12,576	1.74
Due to other banks and financial institutions	723,292	18,220	2.52	598,415	13,994	2.34
Debts issued and others	59,540	2,062	3.46	52,122	2,074	3.98
Total interest-bearing liabilities	3,303,984[3]	55,906[3]	1.69	2,763,634[3]	49,309[3]	1.78
Shareholders' equity and non-interest bearing liabilities	309,828			271,424		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	3,613,812[3]			3,035,058[3]		
Net interest income		84,995			66,668	
Net interest spread[1]			2.39[3]			2.22[3]
Net interest margin[2]			2.46[3]			2.30[3]
Net interest spread[1]			2.46[4]			2.29[4]
Net interest margin[2]			2.53[4]			2.37[4]

Notes:

1. This ratio represents the difference between the average yield on total average interest-earning assets and the average cost of total average interest-bearing liabilities;
2. This ratio represents the net interest income to total average interest-earning assets;
3. This eliminates the impact of wealth management products;
4. This eliminates the impact of wealth management products and takes into account the tax exemption on the interest income from investments in Government bonds.

During the Reporting Period, the Group achieved a steady increase in its net interest margin and net interest income increased significantly. The Group's net interest spread and net interest margin increased by 17 and 16 basis points respectively as compared to prior year to 2.39% and 2.46% respectively. Net interest income increased by 27.49% as compared to the corresponding period in prior year to RMB84.995 billion. Of which, average yield of interest earning assets increased by 8 basis points and average cost of interest-bearing liabilities decreased by 9 basis points.

In the fourth quarter of 2010, the Central Bank raised the benchmark deposit and lending interest rates twice. As the impact of the increase in interest rates had not been fully felt during the Reporting Period, the optimisation of the asset-liability structure and the improvement in the level of pricing management remain the main driving forces for the increase in net interest spread and net interest margin:

① Increase in the proportion of current deposits. As at the end of the Reporting Period, current deposits increased by 0.86 percentage point as compared to prior year to 50.56%.

② Increase in the proportion of loans and advances to customers to total assets. As at the end of the Reporting Period, the proportion of loans and advances to customers (after impairment allowances) to total assets increased by 0.99 percentage point as compared to prior year to 55.43%.

③ Further enhancement in the level of pricing. During the Reporting Period, the proportion of new RMB loans at benchmark interest rates and above benchmark interest rates increased by 4.38 percentage points as compared to the prior year to 60.89%.

The table below shows the impact of changes in volume and interest rates on the Group's interest income and interest expense. Changes indicated are based on the changes in average daily balance and interest rates on interest-earning assets and interest-bearing liabilities during the periods indicated.

(in millions of RMB)

	Comparison between 2010 and 2009		
	Increase/(decrease) due to		
	Balance	Interest rate	Net increase/ (decrease)
Interest-earning assets			
Balances with central banks	1,498	(144)	1,354
Due from other banks and financial institutions	(1,246)	775	(471)
Loans and advances to customers and receivables	23,029	–	23,029
Investment securities	2,865	(1,615)	1,250
Changes in interest income	26,146	(984)	25,162
Interest-bearing liabilities			
Customer deposits	6,443	(3,822)	2,621
Due to other banks and financial institutions	2,922	1,304	4,226
Debts issued and others	295	(307)	(12)
Changes in interest expense	9,660	(2,825)	6,835
Changes in net interest income	16,486	1,841	18,327

During the Reporting Period, the Group's net interest income increased by RMB18.327 billion as compared to prior year. Of this, changes in the volume of average balances of interest-earning assets and interest-bearing liabilities caused net interest income to increase by RMB16.486 billion, while changes in interest rate caused net interest income to increase by RMB1.841 billion.

① **Interest income**

During the Reporting Period, the Group's gross interest income increased by RMB25.162 billion or 21.55% as compared to prior year to RMB141.905 billion.

A. Interest income from loans and advances to customers and receivables

Interest income from loans and advances to customers and receivables contributed the most to the Group's interest income. During the Reporting Period, interest income from loans and advances to customers and receivables increased by RMB23.029 billion or 27.74% as compared to prior year, to RMB106.056 billion, largely due to the increase in loans and advances to customers and receivables.

B. Interest income from investment securities

During the Reporting Period, interest income from investment securities increased by RMB1.25 billion or 5.36% as compared to the previous year, to RMB24.57 billion. The Group managed to seize favourable opportunities for investments, strengthened its investment operations and optimised its investment asset structure. This, in turn, helped to maintain the return on investment securities at a relatively high level of 3.16%.

C. Interest income from cash and balances with central banks

Cash and balances with central banks mainly include cash and balances in deposit reserves and in excess reserves. During the Reporting Period, interest income from cash and balances with central banks increased by RMB1.354 billion as compared to prior year to RMB6.855 billion. This was due to the increase in cash and balances in deposit reserves as a result of the increase in customer deposits and the six upward revisions to the deposit reserve ratio during the year, which together contributed to the growth of the statutory reserve. Average cash and balances with central banks also increased by RMB96.656 billion or 27.27% as compared to the previous year.

D. Interest income from due from other banks and financial institutions

Total interest income from due from other banks and financial institutions decreased by RMB471 million as compared to prior year to RMB4.424 billion. This was mainly driven by the structural optimisation of the structure of current interest-earning assets. This in turn has caused the average balances of amounts due from other banks and financial institutions to decrease by RMB72.05 billion or 25.45% as compared to the corresponding period in prior year.

② **Interest expense**

During the Reporting Period, the Group's interest expense increased by RMB6.835 billion or 13.65% as compared to the corresponding period in prior year to RMB56.910 billion.

A. Interest expense due to customers

Customer deposits are the Group's main source of funding. During the Reporting Period, interest expense on customers deposits increased by RMB2.621 billion or 7.71% as compared to prior year to RMB36.628 billion. This accounted for 64.36% of total interest expense. The increase in interest expense on customer deposits is mainly due to the increase in the size of customer deposits.

B. Interest expense due to other banks and financial institutions

During the Reporting Period, interest expense on amounts due to other banks and financial institutions increased by RMB4.226 billion or 30.20% as compared to prior year to RMB18.220 billion. This was mainly due to the 20.87% increase in average balance of amounts due to other banks and financial institutions as compared to prior year. At the same time, the average cost of funding had increased by 18 basis points due to the increase in interest rates in the domestic money market.

C. Interest expense from debts issued and others

During the Reporting Period, interest expense from debts issued and other interest bearing liabilities decreased by RMB12 million as compared to prior year to RMB2.062 billion. The average cost of funding had decreased from 3.98% in prior year to 3.46%.

(3) Net fee and commission income

Net fee and commission income is a major component of the Group's net operating income. During the Reporting Period, the Group continuously accelerated its product and service innovation and moved towards a business model with diversified revenue streams from one based on interest spread. This resulted in sustained rapid growth of its fee-based business. During the Reporting Period, the Group's net fee and commission income increased by RMB3.080 billion or 27.02% as compared to prior year to RMB14.479 billion. Overall, this accounted for 13.82% of net operating income. Investment banking, credit card, settlement and agent services have been the main growth areas for the Group's fee-based business.

The table below shows the major components of the Group's net fee and commission income for the periods indicated:

	(in millions of RMB)	
	2010	2009
Commission income on settlement and agent services	**3,320**	2,384
Bank card related fee income	**5,180**	3,992
Guarantee and commitment commission income	**1,238**	1,133
Commission income on custodian service	**707**	655
Commission income on sales of investment funds	**741**	984
Funds management income	**736**	761
Investment banking income	**3,244**	2,353
Other commission income	**1,910**	1,152
Total fee and commission income	**17,076**	13,414
Less: Fee and commission expense	**(2,597)**	(2,015)
Net fee and commission income	**14,479**	11,399

Commission income on settlement and agent services increased by RMB936 million or 39.26% as compared to the corresponding period in prior year to RMB3.320 billion. Of these amounts, agency services commission income increased by 36.69% to RMB734 million.

Bank card related fee income increased by RMB1.188 billion or 29.76% from the corresponding period in prior year to RMB5.180 billion. The increase is mainly due to an increase in card issuance, an increase in consumption and higher transaction volume at self-service machines.

Guarantee and commitment commission income increased by RMB105 million or 9.27% from the previous year, to RMB1.238 billion. The increase is mainly due to increased non-financing related guarantee and loan commitment businesses.

Commission income on custodian service increased by RMB52 million as compared to the previous year to RMB707 million. This is due to an increase in the size of the asset in custody.

Commission income on sales of investment funds decreased by RMB243 million from the previous year to RMB741 million. The decrease is mainly due to a decrease in fund sales.

Income from investment banking increased by RMB891 million or 37.87% as compared to the corresponding period in prior year to RMB3.244 billion. The increase is mainly due to relatively rapid growth in the various types of investment banking services.

(4) Operating costs

The Group achieved significant results from its cost-reduction measures during the Reporting Period as the Group's operating costs increased by RMB6.458 billion or 24.43% as compared to prior year to RMB32.889 billion such that the increase in operating costs was 3.97 percentage points lower than the increase in net operating income. The cost-to-income ratio decreased by 0.52 percentage point as compared to prior year to 32.11%.

(5) Impairment allowances

During the Reporting Period, the Group's impairment allowances on loans increased by RMB991 million from the previous year to RMB12.246 billion, and comprised of (1) a decrease in collectively assessed allowances by RMB218 million to RMB9.1 billion; partially offsetted by (2) an increase in individually assessed allowances by RMB1.206 billion from prior year to RMB3.146 billion. During the Reporting Period, credit to cost ratio also decreased by 0.06 percentage point from the prior year to 0.55%.

(6) Income tax

During the Reporting Period, the Group's income tax expense increased by RMB2.735 billion or 33.99% as compared to prior year to RMB10.782 billion. The effective tax rate of 21.58%, lower than the statutory tax rate of 25%, was due to the exemption of the interest income from government bonds held by the Group from tax of pursuant to the relevant tax provisions.

The table below shows the Group's current tax and deferred tax for the periods indicated:

		(in millions of RMB)
	2010	2009
Current tax	**11,752**	9,149
Deferred tax	**(970)**	(1,102)

2. Analysis on major Balance Sheet items

(1) Assets

As at the end of the Reporting Period, the Group's total assets was RMB3,951.593 billion, representing an increase of RMB642.456 billion or 19.41% from the beginning of the year.

The table below shows the outstanding balances (after allowances) of the principal components of the Group's total assets and their proportion to the total assets as at the dates indicated:

(in millions of RMB unless otherwise stated)	**31 December 2010**		31 December 2009	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Loans and advances to customers	**2,190,490**	**55.43**	1,801,538	54.44
Investment securities	**809,820**	**20.49**	775,761	23.44
Cash and balances with central banks	**586,554**	**14.84**	434,996	13.15
Due from other banks and financial institutions	**262,976**	**6.65**	222,671	6.73
Total assets	**3,951,593**		3,309,137	

① **Loans and advances to customers**

During the Reporting Period, the Group capitalised on opportunities that arose from government stimulus policies. Additionally, the Group achieved further growth from increased credit disbursements to creditworthy customers and conglomerates. As at the end of the Reporting Period, the Group's total loans and advances to customers increased by RMB397.613 billion or 21.62% from the beginning of the year to RMB2,236.927 billion.

Loans concentration by industry

During the Reporting Period, the Group adjusted its credit strategy in accordance with the national macroeconomic policy by balancing the volume, direction and momentum of credit disbursements, thus enhancing its credit structure. Corporate loans were mainly made out to industries such as the transportation and logistics, public infrastructure management, modernised services and strategic emerging industries that are in line with the national credit policy and the characteristics of the nation's economy.

The table below shows the distribution of the Group's loans and advances by industry as of the dates indicated:

				(in millions of RMB, unless otherwise stated)
	31 December 2010		31 December 2009	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Mining	**40,223**	**1.80**	31,230	1.70
Manufacturing				
— Petroleum and chemical	**93,525**	**4.18**	82,319	4.48
— Electronics	**44,993**	**2.01**	38,132	2.07
— Steel, smelting and processing	**45,568**	**2.04**	40,109	2.18
— Machinery	**68,911**	**3.08**	56,766	3.09
— Textile and clothing	**29,560**	**1.32**	27,918	1.52
— Other manufacturing	**155,663**	**6.96**	133,450	7.25
Electricity, gas and water production and supply	**138,707**	**6.20**	141,628	7.70
Construction	**68,337**	**3.05**	55,387	3.01
Transportation, storage and postal service	**307,422**	**13.74**	226,757	12.33
IT services and telecommunications	**9,618**	**0.43**	8,213	0.45
Wholesale and retail	**214,588**	**9.59**	145,278	7.90
Accommodation and catering	**15,746**	**0.70**	13,163	0.72
Financial institutions	**37,108**	**1.66**	22,853	1.24
Real estate	**142,868**	**6.39**	106,089	5.77
Services	**131,496**	**5.88**	95,151	5.17
Water conservancy, environmental and other public services	**163,992**	**7.33**	147,976	8.05
Education	**30,192**	**1.35**	27,822	1.51
Others	**23,411**	**1.06**	26,563	1.43
Discounted bills	**57,074**	**2.55**	101,872	5.54
Total corporate loans	**1,819,002**	**81.32**	1,528,676	83.11
Mortgage loans	**268,240**	**11.99**	198,695	10.80
Medium-term and long-term working capital loans	**31,616**	**1.41**	27,573	1.50
Short-term working capital Loans	**28,740**	**1.28**	21,482	1.17
Car loans	**6,607**	**0.30**	4,894	0.27
Credit card advances	**43,561**	**1.95**	30,693	1.67
Others	**39,161**	**1.75**	27,301	1.48
Total personal loans	**417,925**	**18.68**	310,638	16.89
Gross amount of loans and advances to customers before impairment allowances	**2,236,927**	**100.00**	1,839,314	100.00

As at the end of the Reporting Period, the Group's corporate loans increased by RMB290.326 billion or 18.99% from the beginning of the year to RMB1,819.002 billion. Corporate loans were mainly concentrated in the four industries of manufacturing, transportation, storage and postal service, wholesale and retail and water conservancy, environmental and other public services businesses, which collectively accounted for 61.80% of total corporate loans.

As at the end of the Reporting Period, personal loans increased by RMB107.287 billion or 34.54% from the beginning of the year to RMB417.925 billion. The proportion of personal loans as a percentage of loans and advances to customers increased by 1.79 percentage points from the beginning of the year to 18.68%.

Loan concentration by borrowers

Under the prevailing PRC banking regulations, the total credit exposure to a single group customer must not exceed 15% of the net capital base of the bank and the total loans to a single borrower shall not exceed 10% of the net capital base of the bank. The Group currently complies with these regulatory requirements.

The table below shows the loan balances to the top 10 single borrower of the Group as at the date indicated:

(in millions of RMB unless otherwise stated)

	As at 31 December 2010		
	Type of industry	**Loan balance**	**Percentage of total loans and advance (%)**
Customer A	Financial institutions	13,245	0.59
Customer B	Real estate	10,000	0.45
Customer C	Transportation, storage and postal service	7,519	0.34
Customer D	Transportation, storage and postal service	7,244	0.32
Customer E	Transportation, storage and postal service	6,908	0.31
Customer F	Transportation, storage and postal service	6,378	0.29
Customer G	Transportation, storage and postal service	5,560	0.25
Customer H	Services	5,530	0.25
Customer I	Transportation, storage and postal service	5,020	0.22
Customer J	Electricity, gas and water production and supply	5,000	0.22
Total		**72,404**	**3.24**

Loan concentration by geographical locations

The Group's credit customers are mainly concentrated in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta. As at the end of the Reporting Period, loans and advances to customers in these three regions accounted for 31.70%, 23.48% and 8.20% of the Group's total loans respectively.

Loan quality

The Group continuously improved the quality of its loans. As at the end of the Reporting Period, the impaired loans ratio decreased by 0.24 percentage point from the beginning of the year to 1.12%. The provision coverage of impaired loans increased by 34.79 percentage points from the beginning of the year to 185.84%.

The table below shows certain information on the Group's impaired loans and loans overdue by more than 90 days as at the dates indicated:

(in millions of RMB unless otherwise stated)	**31 December 2010**	31 December 2009
Impaired loans	**24,988**	25,009
Loans overdue by more than 90 days	**16,297**	21,190
Percentage of impaired loans to gross amount of loans and advances to customers (%)	**1.12**	1.36

Loan customer structure

In line with the Bank's implementation of the New Basel Capital Accord Plan, the use of internal customer ratings with effect from the fourth quarter of 2010, as the only form of customer evaluation has bore fruit. As at the end of 2010, based on the Bank's internal rating system for corporate customers, loans to customers from class 1 to class 8, which comprises high quality customers, amounted to 92.10% of the total loans and advances to customers, loans to customers from class 9 to class 12, amounted to 5.06% of total loans and advances to customers and loans to customers from class 13 to class 15 amounted to 1.36% of total loans and advances to customers.

② **Investment securities**

The Group continued to strengthen the centralisation of its treasury operations and the optimisation of its investment structure. As at the end of the Reporting Period, the Group's investment securities increased by RMB34.059 billion or 4.39% from prior year to RMB809.820 billion. Returns on investment in securities was a satisfactory level of 3.16%.

Distribution of the Group's investment securities

The table below shows the distribution of the Group's investment securities by financial asset classification and by type of issuers as of the dates indicated:

— By financial asset classification

	(in millions of RMB unless otherwise stated)			
	31 December 2010		31 December 2009	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Financial assets at fair value through profit or loss (excluding derivatives financial instruments)	**41,312**	**5.10**	26,884	3.47
Investment securities — loans and receivables	**42,617**	**5.26**	107,604	13.87
Investment securities — available-for-sale	**162,170**	**20.03**	132,094	17.03
Investment securities — held-to-maturity	**563,721**	**69.61**	509,179	65.63
Total	**809,820**	**100.00**	775,761	100.00

— By type of issuers

	(in millions of RMB unless otherwise stated)			
	31 December 2010		31 December 2009	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Central governments and central banks	**309,198**	**38.18**	301,136	38.82
Public sector entities	**17,131**	**2.11**	11,643	1.50
Banks and other financial institutions	**266,805**	**32.95**	250,860	32.34
Corporate entities	**216,686**	**26.76**	212,122	27.34
Total	**809,820**	**100.00**	775,761	100.00

(2) Liabilities

As at the end of the Reporting Period, the Group's total liabilities increased by RMB583.224 billion or 18.55% from the beginning of the year to RMB3,727.936 billion. Customer deposits increased by RMB495,792 billion from the beginning of the year. This accounted for 76.93% of total liabilities, representing an increase of 1.50 percentage points from the beginning of the year. Amounts due to other banks and financial institutions, which accounted for 19.23% of total liabilities, decreased by 1.54 percentage points from the beginning of the year to RMB63.860 billion.

Customer deposits

Customer deposits are the main source of funding for the Group. As at the end of the Reporting Period, the Group's customer deposits balance increased by RMB495.792 billion or 20.90% from the beginning of the year to RMB2,867.847 billion. The Group has a sound deposit structure based on its customer structure. The proportion of corporate deposits increased by 2.45 percentage points from the beginning of the year to 68.17% of total deposits. The proportion of personal deposits decreased by 2.39 percentage points from the beginning of the year to 31.60% of total deposits. With regards to the terms of deposits, the proportion of current deposits increased by 0.86 percentage points from the beginning of the year to 50.56% of total deposits, while the proportion of time deposits decreased by 0.79 percentage points from the beginning of the year to 49.21% of total deposits.

The table below shows the Group's corporate and personal deposits as of the dates indicated:

		(in millions of RMB)
	31 December 2010	31 December 2009
Corporate deposits	**1,954,936**	1,558,842
Of which: Corporate current deposits	**1,064,528**	865,097
Corporate time deposits	**890,408**	693,745
Personal deposits	**906,301**	806,190
Of which: Personal current deposits	**385,449**	313,835
Personal time deposits	**520,852**	492,355

3. Segment Analysis

(1) Operating results by geographical segments

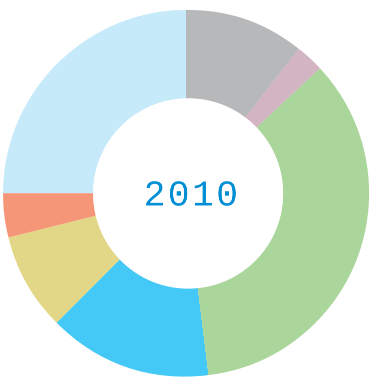
The table below shows the net profit and net operating income from each of the Group's geographical segments for the periods indicated:

(in millions of RMB)

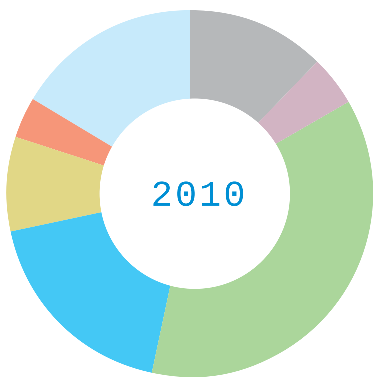
	2010		2009	
	Net profit	**Net operating income[1]**	Net profit	Net operating income[1]
Northern China	**4,215**	**13,000**	4,372	12,252
North-eastern China	**989**	**4,460**	501	3,238
Eastern China[2]	**13,632**	**38,637**	11,002	29,745
Central and Southern China	**5,666**	**19,098**	4,035	14,465
Western China	**3,359**	**8,771**	1,789	6,071
Overseas	**1,592**	**3,727**	1,572	3,549
Head Office	**9,719**	**17,050**	6,983	12,258
Total[3]	**39,172**	**104,743**	30,254	81,578

Notes:

1. Includes net interest income, net fee and commission income, dividend income, gains less losses from trading activities, gains less losses arising from the de-recognition of investment securities, premium income from insurance and other operating income;
2. Excluding Head Office.
3. Includes non-controlling interest.



Net profit (in million of RMB)



Net operating income (in million of RMB)

Northern China 4,215
Northern Eastern China 989
Eastern China 13,632
Central and Southern China 5,666
Western China 3,359
Overseas 1,592
Head Office 9,719

Northern China 13,000
Northern Eastern China 4,460
Eastern China 38,637
Central and Southern China 19,098
Western China 8,771
Overseas 3,727
Head Office 17,050

(2) Deposits and loans and advances by geographical segments

The table below shows the Group's deposits and loans and advances balances of the customers by geographical segments as at the dates indicated:

	31 December 2010		31 December 2009	(in millions of RMB)
	Deposit balance	Loans and advances balance	Deposit balance	Loans and advances balance
Northern China	**549,157**	**422,830**	446,405	332,812
North-eastern China	**199,400**	**110,034**	175,077	90,882
Eastern China[Note]	**1,108,096**	**880,314**	920,550	750,489
Central and Southern China	**587,970**	**424,785**	482,137	360,322
Western China	**267,576**	**206,079**	222,223	172,251
Overseas	**125,187**	**147,128**	93,918	100,761
Head Office	**30,461**	**45,757**	31,745	31,797
Total	**2,867,847**	**2,236,927**	2,372,055	1,839,314

Note: Excluding Head Office.

(3) Operating results by business segments

The Group's four main business segments are: corporate banking, retail banking, treasury and others, the corporate banking segment is the primary source of profits for the Group. The corporate banking segment accounted for 66.46% of the Group's total profit before tax.

The table below shows the amounts of operating results of each of the Group's business segments for the periods indicated:

	Revenue from external customers		Profit before tax (in millions of RMB)
	2010	2009	2010
Corporate banking	**93,420**	74,975	**33,199**
Retail banking	**29,131**	20,302	**6,503**
Treasury	**38,527**	35,754	**9,815**
Others	**3,172**	2,637	**437**
Total	**164,250**	133,668	**49,954**

(5) OTHER FINANCIAL INFORMATION

The relevant information disclosed below are set out in accordance with the requirements of the CSRC.

(1) Fair value measurement related items

The Group established a market risk management system under the responsibility and leadership of the Board of Directors. It also established an internal control framework based on fair value in order to satisfy the relevant internal control and information disclosure requirements. It also gradually and in an orderly manner, improved the systematic management of its market risk by connecting all the relevant front office, middle office and back office departments and encompassing fair value valuation, measurement, monitoring and verification. The Group will continue to learn from the experience of its peers and international best practices to further optimise its internal control system in connection with fair value measurement. The Group primarily uses quoted market prices as the fair value of financial instruments traded in active markets. It uses valuation models and observable market parameters or comparison to third party quotes which are reviewed by the relevant risk management departments, to determine the fair value of financial instruments that are not traded in active market.

The table below shows the fair value measurement related items of the Group in 2010:

(in millions of RMB)

Item	Opening balance	Gains/ (losses) on change in fair value	Cumulative fair value gains/ (losses) recognised in equity	Impairment losses (accrued)/ reversed	Closing balance
Financial assets includes:					
1. Financial assets at fair value through profit and loss (excluding derivative financial instruments)	26,884	(158)	—	—	41,312
2. Derivative financial instruments	2,370	2,341	—	—	4,731
3. Investment securities — available-for-sale	132,094	—	(731)	(150)	162,170
Total financial assets	161,348	2,183	(731)	(150)	208,213
Investment property	124	21	—	—	141
Total	161,472	2,204	(731)	(150)	208,354
Total financial liabilities[Note]	(9,375)	(2,275)	—	—	(14,379)

Note: Only applicable to financial liabilities at fair value through profit or loss

(2) Holdings in foreign currency denominated financial assets and financial liabilities

The table below shows the foreign currency denominated financial assets and financial liabilities held by the Group in 2010:

(in millions of RMB)

Item	Opening balance	Gains/ (losses) on change in fair value	Cumulative fair value gains/ (losses) recognised in equity	Impairment losses (accrued)/ reversed	Closing balance
Financial assets include:					
1. Financial assets at fair value through profit and loss (excluding derivative financial instrument)	10,042	58	—	—	8,391
2. Derivative financial instrument	1,158	319	—	—	1,497
3. Loans and receivables[1]	232,079	—	—	165	278,112
4. Investment securities — available-for-sale	35,587	—	631	(150)	34,011
5. Investment securities — held-to-maturity	2,730	—	—	—	2,460
Total of financial assets	281,596	377	631	15	324,471
Financial liabilities[2]	(249,263)	(2,466)	—	—	(281,787)

Notes:

1. Includes cash and balances with central banks, due from other banks and financial institutions, loans and advances to customers and investment securities — loans and receivables and other financial assets.
2. Includes due to other banks and financial institutions, financial liabilities at fair value through profit or loss, customer deposits and other financial liabilities.

(6) RISK MANAGEMENT

In 2010, the Bank continued to be guided by its three-year enterprise risk management plan. It maintained its “positive, stable and balanced” risk preference and adhered to the principles of “striking a balance between pro-activeness and stability; complementing models with experience; combination of unified management and variance reconciliation and striking a balance between synergy and efficiency from specialisation” to implement its enterprise risk management. To further optimise the bank-wide risk management system, the Bank complied a bank-wide Risk Management Manual, continuously improved its risk management and control coordination mechanism, accelerated the enhancement of its enterprise risk management capabilities and further strengthened the foundations for the stable functioning of the Group’s operations management.

1. Risk management framework

The Bank's Board of Directors have ultimate responsibility and decision-making authority for the Group's risk management. The Board monitors and controls the bank-wide risk management matters through its underlying Risk Management Committee. The Bank has established a "1+3+2" Risk Management Committee system whereby: One Enterprise Risk Management Committee established by senior management will be charged with leading the bank-wide risk management effort in accordance with the risk management strategies established by the Board. It will also conduct regular risk assessments and review the effectiveness of risk management. Three committees have been established under the Enterprise Risk Management Committee. They are the Credit Risk Management Committee, Market and Liquidity Risk Management Committee, Operational Risk Management and Anti-money Laundering Committee. Two business review committees: the Loan Credit Review Committee and the High-risk Assets Review Committee have also been established. These committees will come under the supervision of the Enterprise Risk Management Committee and will be responsible for the execution and implementation of the supervision and guidance of the bank-wide risk management work. In addition, these committees are required to periodically report to the Enterprise Risk Management Committee. The responsibility of promoting the work for the various aspects of enterprise risk management will be divided between the Bank's President, Vice President and Chief Risk Officer.

The Bank has established a enterprise risk management execution system and reporting line. The establishment of a risk management unit to organise and coordinate the entire Bank's risk management work and provide consolidated reporting has helped to consolidate the Bank's risk management capabilities. The various component departments of the Risk Management Committee have utilised business line management at all organisational levels to lead and comprehensively implement its risk management requirements. By formalising its "large, small and medium platforms" and dual reporting mechanisms, the Bank has established a four-tier linear risk management framework organised by business lines.

During the Reporting Period, the Bank made steady progress in its preparations for compliance with the New Basel Capital Accords and continued to improve its internal rating system. The Bank's market risk management, operational risk management and capital adequacy assessment systems have also started to materialise.

2. Credit risk management

Departments such as the Bank's Corporate Business Department, Retail Finance Management Department, Credit Administration Department, Credit Approval Centre, Risk Management Department, Asset Custody Department and Credit Card Centre, collectively form the main functional departments responsible for the Group's credit risk management. They are responsible for formalising the management of the Bank's corporate and retail loans business over areas such as providing guidance over credit policy, credit assessment, credit approval, credit disbursements, credit monitoring and non-performing loans management.

(1) Risk classification procedures and methodology

The Bank has implemented a five category system that classifies loans according to their inherent risk as pass, special-mention, substandard, doubtful and loss with the last three categories regarded as non-performing loans in accordance with the regulatory requirements of the "Guidelines on Risk-Based Loan Classification" issued by the China Banking Regulatory Commission. This system in substance, assesses the principal and interest of credit assets and the probability of their timely repayment in full. For corporate credit assets, the Bank has relied on the core regulatory definition as a basis to assess the results of its internal ratings and its individually assessed allowances. This has enabled the Bank to define in greater detail more stringent risk characteristics and the quantification, assessment and standardisation aspects of its five category system classification. This has also helped to ensure that sufficient consideration is given to the various factors affecting credit asset quality and at the same time ensure prudence in risk classification. For retail credit assets (including credit cards), the Bank has uniformly adopted a five category system based on the aging of overdue credit assets and type of guarantee provided.

To further enhance fine-grained management of its credit asset management, the Bank has adopted the Basel II Advanced Internal Ratings Based approach and established a standard of classification based on the probability of default (PD). This has enabled the Bank to develop a more detailed internal credit risk assessment process to implement the management by category of corporate loans, small enterprises loans, personal loans, credit card customers and businesses for domestic branches.

In 2010, the Bank continued to optimise its internal credit risk rating model and enhanced its internal assessment management system by creating an automated internal risk operations and customer credit risk diagnostic and evaluation system while actively promoting the application of internal ratings in the entire credit management process. This has helped to improve the Bank's ability to categorise customers by credit risk and its credit risk management capability.

(2) Risk management and control policies

① **Corporate loans credit risk management**

In 2010, in accordance with the guidance from the nation's macroeconomic adjustments and controls and government policies, the Bank enhanced its industry credit policy to encompass more than 85% of the Bank's credit business. It also implemented watch-list management for selected industries and this has helped to improve the fine-grained management and functionality of its credit policy. The Bank also established a dynamic credit policy trend feedback and adjustment mechanism to increase the applicability and flexibility of its credit policy.

In 2010, the Bank further optimised its credit approval authorisation structure and streamlined the credit approval renewal process for small and medium enterprises and deposit customers. Green credit tracking management mechanisms and tools were established to increase fine-grained management of its green credit project. Corporate loan approver qualification examinations and accreditation standards were established to strengthen the professionalism of credit officers and develop a team of loan approval experts. With the comprehensive implementation of the new "3 Rules and 1 Guidance" loan regulations, the management of areas such as loan repayment and disbursements have been strengthened.

In 2010, the Bank continued to strengthen its management and control of potential and existing risks. Tools such as quota and limits were utilised to implement credit quota and limits management for major industries such as excess capacity and local government financing platforms. In strict accordance with the requirements of the regulatory authorities, the Bank initiated a review of its loans to local government financing platforms to comprehensively manage its risk and promoted the implementation of control measures. The Bank also strengthened its management and control over the proportion of loan balances to the real estate industry and developed a list of approved borrowers. The Bank also reinforced its emphasis of work over the investigation of potential risks, exit from high-risk areas and collection of additional collaterals. The management of special mention and watch-list loans as well as new loans to repay existing loans also became more stringent and detailed. The continued strengthening of the level of the Bank's systematic monitoring and control over the usage of disbursed funds led to increasingly evident results from its corporate business post-loans management activities and improvements in the level of risk management.

② **Personal loans credit risk management**

In 2010, the Bank was able to formulate and implement a personal loan credit policy in accordance with regulatory requirements in a timely manner and this has enabled the Bank to provide differentiated and dynamic personal loans management at the branch level. The Bank continued to actively adjust its product structure and optimised its customer structure. It also continued to strengthened its selection of targeted customers, promoted cross-selling strategy and strongly explored quality partnership opportunities with other organisations.

In 2010, the Bank strengthened its personal loans risk management comprehensively. The Bank focused on economic and market trends to initiate the early warning and investigation of risks in a timely manner while also strengthening its risk monitoring and reporting. It enhanced and strengthened its collateral registration management, collateral valuation monitoring and its monitoring of asset quality trends and credit risk analysis. The Bank also implemented measures to resolve potential risks in advance.

③ **Credit card business credit risk management**

The Bank has an independent credit card centre responsible for the operational management of its credit card business. In 2010, under the theme of risk mitigation and control, the Bank's credit card centre focused on the profitability of its assets to achieve a balance between risk and returns. By optimising its credit policy and expanding its credit channels, the Bank was able to continuously improve its operational efficiency and enhance its customer structure. By strengthening its data analysis and detailed analysis of risk characteristics, the Bank was able to develop regionalised and differentiated credit policies and anti-fraud strategies. This has helped the Bank to effectively improve its front-end sales risk control capabilities. By implementing risk-based pricing, optimising its credit collection strategy through adopting differentiated pricing and collection measures, the Bank was able to achieve risk adjusted profit maximization. Through continuous improvement and optimisation of various forecasting models, the introduction of advanced risk management systems and the strengthening of risk management methods, the Bank was able to improve the technical level of its credit card business risk management processes.

④ **Treasury operations credit risk management**

The Bank implemented centralised Head Office approval and quota management procedures over treasury operations involving other financial institutions. In 2010, the Bank further formalised its financial institutions credit process and quota management. Clear bank-wide guidance was provided for transactions with institutions belonging to the financial and insurance industries. The Bank also further formalised the division of responsibilities for the annual credit review of other financial institutions. Reporting processes and requirements were revised as part of the Bank's comprehensive assessment of its limits with financial institutions and the Bank also enhanced the capabilities of its financial institutions credit management system.

⑤ **Management of non-performing loans**

Through measures such as collection, restructuring, disposal of collaterals, recourse to guarantors, litigation or arbitration, the Bank manages its non-performing loan in accordance with the requirements of the regulatory authorities. In 2010, the Bank further strengthened the scope of direct manual involvement by Head Office and provincial branches to provide guidance and supervision on the collection of key non-performing assets. A Head Office centralised collection platform has been established and the disposal of non-performing credit card advances has been accelerated. In addition, comprehensive income has increased significantly due to higher recoveries and optimisation of loan quality.

(3) Asset quality and migration

As at the end of 2010, the breakdown of the Group's five loans categories as stipulated by the CBRC were as follows:

(in millions of RMB unless otherwise stated)

Categories	As at 31 December 2010 Balance	As at 31 December 2010 Proportion (%)	As at 31 December 2009 Balance	As at 31 December 2009 Proportion (%)	As at 31 December 2008 Balance	As at 31 December 2008 Proportion (%)
Pass	**2,149,629**	**96.10**	1,764,060	95.91	1,248,988	94.00
Special mention	**62,310**	**2.78**	50,245	2.73	54,142	4.08
Total performing loan balance	**2,211,939**	**98.88**	1,814,305	98.64	1,303,130	98.08
Sub-standard	**10,592**	**0.47**	10,756	0.59	12,087	0.91
Doubtful	**9,930**	**0.45**	11,490	0.62	11,086	0.84
Loss	**4,466**	**0.20**	2,763	0.15	2,287	0.17
Total non-performing loan balance	**24,988**	**1.12**	25,009	1.36	25,460	1.92
Total	**2,236,927**	**100.00**	1,839,314	100.00	1,328,590	100.00

As at the end of 2010, the Group's loan migration rates in accordance with guidance stipulated by the China Banking Regulatory Commission were as follows:

Loan migration rate (%)	2010	2009	2008
Pass	**1.60**	1.96	2.32
Special mention	**35.69**	24.22	21.72
Sub-standard	**45.93**	36.46	43.86
Doubtful	**30.11**	5.46	9.04

For details of the Group's loan restructuring, please refer to "Supplementary Unaudited Financial Information — Overdue and Rescheduled Assets".

3. Market risk management

In 2010, the Bank continued to develop its market risk management system in accordance with the relevant regulatory guidelines and requirements. The Bank established an internal market risk model and formalised the management of its risk measurement validation, stress testing and Value-at-Risk back-testing. The Bank has developed and launched its market risk management information system which has helped to provide the Bank with many new functions such as product valuation, sensitivities analysis, Value-at-Risk (VaR) measurement and stress testing. In addition, the Bank also established an independent daily market risk monitoring system.

1. *Trading book market risk management*

The Bank has implemented limits management for its trading portfolio in accordance with its risk appetite and scale of business operation. In 2010, the Bank further improved its market risk limits management and implemented independent monitoring and control over the execution of market risk limits. In times of market environment changes that causes risk indicators to approach risk limits, the Bank was able to effectively manage and control its trading book risk through measures such as timely adjustments of interest rates and currency gaps and hedging through the use of financial derivatives.

The Bank conducts daily routine monitoring and uses the historical simulation method to measure its interest rate risk and currency risk for its trading book.

2. *Banking books market risk management*

The Bank had completed the preliminary development of a relatively comprehensive banking book interest rate risk monitoring system. The Bank was able to effectively manage its banking book interest rate risk through the use of measures such as gap analysis to implement periodic monitoring and control over the gap between re-pricing dates for interest rate sensitive assets and liabilities and active adjustments to the proportion of fixed and floating rate assets. The Bank continued to strengthen its operations and limits monitoring during 2010 by closing monitoring interest rate trends for both domestic and foreign currencies and increasing fine-grained management of its risk limits. The Bank also maximised its returns from risk control by reasonably adjusting its loan pricing strategy and strengthening the fine-grained management of loan pricing.

3. *Market risk analysis*

The Group utilises sensitivity analysis to assess and quantify the market risks for its trading and banking books.

① Interest rate risk and sensitivity analysis

The Group's asset/liability re-pricing date or maturity date (whichever is earlier) as at 31 December 2010 is as follows:

(in millions of RMB)

	Due in 1 month	Due between 1 month and 3 months	Due between 3 months to 12 months	Due between 1 year to 5 years	More than 5 years	Non-interest bearing	Total
Total assets	1,763,357	394,769	1,125,194	386,921	181,346	100,006	3,951,593
Total liabilities	(2,309,304)	(343,557)	(654,688)	(297,416)	(32,143)	(90,828)	(3,727,936)
Net exposure	(545,947)	51,212	470,506	89,505	149,203	9,178	223,657

The table below shows the impact of a 100 basis points movement in interest rate levels on the Group's net interest income Group's other comprehensive income based on the asset/liability structure as at the dates shown:

				(in millions of RMB)
	As at 31 December 2010		As at 31 December 2009	
	Expected change in net interest income	**Change in other comprehensive income**	Expected change in net interest income	Change in other comprehensive income
Increase of all interest rates by 100 basis points	**8,258**	**(2,400)**	5,387	(1,951)
Decrease of all interest rates by 100 basis points	**(8,258)**	**2,553**	(5,387)	2,055

② **Exchange rate risk and sensitivity analysis**

As at 31 December 2010, the Group's foreign exchange risk exposure is as follows:

					(in millions of RMB)
	RMB	**US$ converted to RMB**	**HKD converted to RMB**	**Other currencies converted to RMB**	**Total**
Total assets	3,625,990	234,469	61,931	29,203	3,951,593
Total liabilities	(3,445,505)	(161,530)	(86,793)	(34,108)	(3,727,936)
Net exposure	180,485	72,939	(24,862)	(4,905)	223,657

The table below shows the impact of a 5% movement in RMB against the USD and HKD on the Group's net profit and other comprehensive income based on the asset/liability structure as at the dates shown:

				(in millions of RMB)
	As at 31 December 2010		As at 31 December 2009	
	Expected change in net (loss)/profit	**Change in other comprehensive income**	Expected change in net (loss)/profit	Change in other comprehensive income
RMB appreciate 5%	**(896)**	**(560)**	(747)	(496)
RMB depreciate 5%	**1,329**	**560**	747	496

4. Liquidity risk management

The key measures undertaken by the Bank to manage its liquidity risk includes: (1) developing monitoring indicators and limits to maintain the Bank's foreign and domestic currency liquidity at reasonable levels by determining its liquidity risk tolerance and capital management requirements in accordance with in accordance with regulatory requirements; (2) increasing the proportion of core long-term deposits in liabilities and stability of liabilities by actively expanding its sources (3) maintaining appropriate proportions of central bank reserves and liquid secondary reserves by centralising capital management at the Head Office to standardise the management of liquid capital reserves; (4) reasonable matching of asset maturity structure and using multi-tiered liquidity combinations to reduce liquidity risk; (5) actively participating in money market and bond market transactions and maintaining an excellent market image to ensure it has sufficient market financing capabilities.

In 2010, China began to gradually tighten its loose monetary policy. As a result of the increasing expectations for the strengthening of the RMB, there have been numerous instances whereby the Shanghai Interbank Offer Rate ("SHIBOR") experienced negative spreads. The increasing interest spread in the foreign and domestic foreign currency markets and increasingly severe liquidity crunch in the market has exerted a certain amount of pressure on the Bank's liquidity management. The Bank continued to closely monitor its macroeconomic environment and changes in the financial markets and national monetary policy to further strengthen its liquidity risk management. It has also adopted measures such as: actively expanding the sources of deposits, imposing strict controls on the growth of loans and maintaining appropriate loan-to-deposit ratios to ensure that the Bank is self-sufficient in terms of funding for its future business development. The Bank also strengthened its monitoring and analysis of macroeconomic policies in foreign and domestic financial markets and implemented liquidity risk stress testing. Based on a reasonable estimation of its liquidity requirements, it also adopted pre-emptive measures such as timely adjustments to its liquid reserves and asset-liability structure to prevent any worsening of its liquidity risk. The Bank also enhanced the development of its liquidity risk management information system and utilised quantitative measures such as statistical analysis to optimise its cash flow forecasting model. It also improved its liquidity risk identification and monitoring capabilities. In addition, the Bank also developed and enhanced its bank-wide fund management framework, strengthened Head Office's centralised capital management process so as to improve its liquidity risk prevention capabilities and capital utilisation efficiency.

As at the end of 2010, relevant indicators to reflect the Bank's liquidity are as follows:

Major regulatory indicators (%)	**As at 31 December 2010**	As at 31 December 2009	As at 31 December 2008
Liquidity ratio (Local and foreign currencies)	**32.23**	27.83	39.62
Deposit-to-loan ratio (Local and foreign currencies)	**72.10**	71.97	64.91

For the matching of maturities and structure of the Group's Balance Sheet as at the end of 2010, please refer to Note 3.3 "Liquidity Risk" of the Notes to the Consolidated Financial Statements.

5. Operational risk management

In 2010, the Bank accelerated the development of its operational risk system and mechanism. It introduced foundational bank-wide operational risk management policies, implementation plans and formalised its operational risk management process and tools. The Bank also completed the development and subsequent bank-wide roll out of its operational risk management system, launched its branch level risk and control self-evaluation and activated its bank-wide loss data collection process. It also initiated a re-organisation of operating processes and risk and conducted control self-evaluation for back office units to enhance the coverage of its operational risk management system.

Operational risk management over key areas such as Operations, IT and Private Banking was enhanced. In 2010, the Bank established its accounting risk verification, early warning and focused remediation mechanisms. It also strengthened system processes, employee quality, the culture of taking responsibility and encouraged peer exchanges. The Bank also enhanced its risk controls tools, processes and improved its level of automation. It encouraged process re-engineering and the active conceptualisation of a "safe, efficient and excellent" operating system. The Bank also enhanced its information security management system and strengthened its security training and risk assessment while also enhancing its operations management and emergency response safeguard mechanisms. It also implemented stringent controls over system changes, outsourcing services and end-user management. This has helped to further enhance the sustainability of its information technology risk management level and contributed to the success of the Bank's information security work during the Shanghai World Expo. The Bank adopted innovative private banking risk management controls and effectively controlled its private banking risk through a series of integrated management measures such as integration of risk management and sales cultures, quantification of sales risk control indicators and conceptualising a private banking risk management system. Other measures taken include quantitative assessments, five category classification, assessment linkages, dynamic management, regular inspections, sample checks and early-warning.

6. Anti-money laundering ("AML")

The Bank was able to continue developing its AML work by gradually establishing a bank-wide AML operating system grounded by organisational developments, internal controls at its core and secured by its system platforms.

In 2010, the Bank directed and supervised the bank-wide strengthening of its AML work by further strengthening the development of its AML procedures by introducing work guidance and formalising the management of its AML work evaluation. The Bank continued to upgrade and improve its AML information system by introducing a bank-wide guidance for AML checks and the enhancement of quality in AML work. It also place significant emphasis on large and suspicious transactions reporting and investigation and the Bank received much commendations from many local government departments and agencies for its AML efforts and initiatives.

7. Related party transactions management

In accordance with the relevant provisions of the "Provisional Guidance on Consolidated Supervision of Banks" issued by the CBRC the Bank continued to strengthen its related party transaction management. The Group gradually enhanced its related party transaction risk reporting, monitoring, control and processing mechanism by clearly defining the required content and frequency of related party transactions reporting for its subsidiaries based on their industrial characteristics in its subsidiary risk management plan issued for its subsidiaries in industries such as securities and funds, leasing and trust as well as insurance.

No related party transactions for the purposes of regulatory arbitrage and risk transference; that were not made on terms equivalent to those that prevail in arm's length transactions; and which will adversely impact the healthy operations of the Bank have been identified during the Bank's monthly reporting and quarterly review of related party transaction data in 2010. The Bank is currently developing a related party transactions management system that would bring the management of its related party transactions to a new level.

(7) OPERATIONS OF MAJOR SUBSIDIARIES

1. Bocom Schroder

Bocom Schroder was set up in August 2005 with a registered capital of RMB200 million. It was 65% owned by Bank of Communications Co., Ltd., 30% owned by Schroder Investment Management Limited and 5% owned by China International Marine Containers (Group) Co., Ltd.. In 2010, Bocom Schroder realised a net profit of RMB357 million, the fund's total assets under management reached RMB49.219 billion, ranked No. 17 in the market and representing 1.96% of market share; with operations in personal accounts amounting to RMB8 billion.

2. Bocom International Trust

Bocom International Trust was set up in October 2007 with a registered capital of RMB1.2 billion. It is 85% owned by the Bank and 15% owned by Hubei Province Finance Bureau. In 2010, its net profit increased by 21.03% from the corresponding period in prior year to RMB83.15 million. Business revenue increased by 47.51% from the corresponding period in prior year to RMB148 million. As at the end of the Reporting Period, existing AUM was RMB35.07 billion while the average volume of existing trust plans increased by 59.32% from the corresponding period in prior year to RMB41.726 billion.

3. Bocom Leasing

Bocom Leasing was set up in December 2007 with a registered capital of RMB4 billion and is wholly owned by the Bank. In 2010, it realised a net profit of RMB243 million, total finance leases reached 128, total new invested amounting to RMB20.348 billion, total lease balance as at the end of the year increased by 101% from the beginning of the year to RMB30.042 billion and overall quality of leasing assets remains excellent.

4. BoCommLife Insurance

BoCommLife Insurance was set up in January 2010 with a registered capital of RMB500 million. It is 62.5% owned by the Bank and 37.5% owned by the Commonwealth Bank of Australia. In 2010, BoCommLife Insurance's premium income was 8.48 times that of prior year or RMB713 million.

Premium income from new businesses was 21.79 times that of prior year or RMB663 million. Total assets as at the end of the year increased by 72.14% as compared to the end of prior year to RMB1.892 billion. The Company's realised investment gains increased by 34.79% to RMB68.87 million and rate of return on investment was 4.81%

5. BOCOM International

Bocom International was set up in May 2007 with a registered capital of HKD2 billion and is wholly owned by the Bank. It has three subsidiaries in Hong Kong, namely BOCOM International (Asia) Limited, BOCOM International Securities Limited and BOCOM International Asset Management Limited. In October 2010, the Company established the wholly-owned Bank of Communications International (Shanghai) Equity Investment Management Limited domestically. In 2010, its net profit increased by 82.13% as compared to prior year to HKD301 million; revenue from investment banking increased by 113.41% as compared to prior year to HKD146 million; returns from the securities investment business was 12.49%. Its trading volume was 0.8038% of the market and it ranked No. 29 in the Hong Kong market.

6. Bocom Insurance

Bocom Insurance was set up in November 2000 with a registered capital of HKD400 million and is wholly owned by the Bank. In 2010, BOCOM Insurance's net profit was HKD23.95 million, total asset as at the end of the year increased by 5.29% as compared to prior year to RMB703 million. Annual gross premium income increased by 4.65% as compared to the corresponding period in prior year as it exceeded the HKD100 million mark while the annual compensation rate of 35.82%, outperformed the industry average of 50.11% for the first three quarters of 2010 according to the information provided by the Hong Kong Commissioner of Insurance.

7. Dayi Bocom Xingmin Rural Bank

Dayi Bocom Xingmin Rural Bank was set up in August 2008 with a registered capital of RMB60 million, with 61% of its shares held by the Bank. As at the end of 2010, its total assets was RMB389 million, total deposits balance was RMB272 million, loans amounted to RMB263 million. Annual net profit was RMB5.30 million and its interest recovery rate was 100%.

8. Anji Bocom Rural Bank

Anji Bocom Rural Bank was set up in April 2010 with a registered capital of RMB150 million, with 51% of its shares held by the Bank. At the end of 2010, its total assets was RMB557 million, total deposits was RMB405 million, total loan was RMB400 million and net assets was RMB147 million. Annual net profit before provision was RMB1.1893 million and its interest recovery rate was 100%.

(8) COOPERATION WITH INTERNATIONAL STRATEGIC INVESTOR

In 2010, the Bank further promoted its comprehensive strategic partnership with Hong Kong and Shanghai Banking Corporation Limited, bringing the bilateral strategic cooperative partnership to a higher level.

Further strengthening of shareholding relationship. In 2010, the Bank's implementation of the A + H rights issue received the full endorsement of HSBC. As the second largest shareholder of the Bank, HSBC's full subscription of the shares it was allocated allowed both parties to continue to build on its strong foundation for the comprehensive strategic partnership.

Seamless communication among the top management. Top management from both banks established close and seamless communication through various ways. Two top management meetings were held in the year where both banks' Executive Chairmen would meet. There are also ad-hoc management meetings, correspondences and other forums where management would discuss the results of cooperation, existing problems and areas for future cooperation.

Fruitful exchange of technical expertise. The Bank continued to learn and absorb HSBC's advanced management concepts, tools and experience through technical cooperation and exchanges to promote better self-governance and improve the quality of staff. On 18 August 2010, the two banks signed a three-year Technical Cooperation and Exchange agreement ("TCE" Agreement) to abide by the principle of "Cooperation if a need arises for a party, and the other have the resources and capacity", through the following three avenues of communication — exchanges of expertise from technical experts from both banks, staff training and exchange programs promoting effective two-way communication and sharing of experiences.

— Exchange of technical expertise:
  As at 31 December 2010, HSBC stationed a total of 23 experts to 12 departments within the Bank to provide operational expertise. These departments include the Credit, Audit, Risk Management, Budgetary and Personal Finance Departments amongst others. These experts from HSBC also participated in and supported the Bank's strategic development projects, including the "process-based bank" development and enterprise risk management.

— Staff training:
  Beginning from 2010, the Bank and HSBC commenced a fresh round of secondments whereby the Bank's senior management personnel from various business lines were seconded to HSBC. This plan aims to send provincial Branch Presidents and relevant Head Office personnel from the respective business units for training over a three-year period to understand HSBC's development strategies for the various business lines, product capabilities and management experiences. As at 31 December 2010, the Bank has sent 38 senior management personnel from the Private Banking Business to participate in this secondment. As at 31 December 2010, HSBC has organised 41 seminars, totalling to 70 days training for of participants exceeding 2,440.

— Staff exchange programs:
  As at 31 December 2010, the Bank has sent a total of 136 employees from departments such as Corporate Banking, Personal Banking, Asset Custodian Services, Assets Preservation and Financial Markets to various locations such as HSBC Hong Kong and HSBC Singapore on internship programs to allow them to learn directly from HSBC's world-class commercial bank management experience and operation model.

— Bilateral cooperation:
  The Bank has also conducted a total of 66 seminars for 812 HSBC employees and arranged for working exchanges with 22 members from HSBC's Asia-Pacific region as at 31 December 2010. In addition, it has also sent three experts to provide technical consultation and support to HSBC and to share the Bank's vast experience in the domestic banking sector.

Further exploration and expansion of business cooperation:

— The development of the credit card business jointly managed by the two banks gained much momentum. Total credit card issuance as at 31 December 2010 has exceeded 16.6 million and accumulated consumer spending for 2010 has exceeded RMB230.1 billion with accumulated net profit exceeding RMB1 billion.

— In the international banking business, the Bank and HSBC cooperated largely on overseas foreign treasury trading, cash business, foreign currency settlement, overseas corporate financing business among others. Both banks actively seize the business opportunities from the globalisation of RMB and fully integrated the Bank's extensive network with HSBC's international business expertise, to benefit in the RMB cross-border trade settlement and bonds business among other areas.

— On the corporate banking front, both Banks continue to service reputable multinational corporations and continue to provide financial services and green credit projects through joint-marketing to key customers, and actively explore rural financing and investment businesses among other areas. The second phase of the corporate banking integration project progressed steadily, and the third-party account enquiries functions had gone online. The stable operation of the system increased the capabilities of both banks in servicing in global cash flow management for multinationals.

(9) OUTLOOK

Looking ahead, the management for commercial banks can expect to face numerous new pressures and challenges in 2011. The stabilisation of the nation's monetary policy from its previous volatility and the increasing number of regulatory requirements from the central government are all expected to result in strong policy constraints on the development of loans business for commercial banks. The slow-down in the growth of M2 and the increase in the rate of the migration of funds from fixed deposits into equity markets due to inflationary expectations are also expected to exert pressures on funding operations. With the on-set of a new interest rate hike cycle and increasing exchange rate volatility, commercial banks can expect new challenges in their sensitivity to the market and their ability to analyse and interpret the nation's policies. The Group will diligently take advantage of new developments and characteristics in economic and financial trends to continue to forge ahead with its development strategy. To achieve its goals of stable development, accelerated transformation, innovative management, team development and improvements in efficiency, the Group plans to devote significant effort to: (1) pro-actively adapt to the new requirements for foreign exchange and credit adjustments and control while maintaining reasonable and balanced growth in its credit portfolio; (2) accelerate the transformation of its development model and promote the comprehensive transformation of its business to further enhance the development of its fee-based business and treasury operations; (3) implement prudent supervision requirements by the regulatory authorities and strengthen its pre-emptive risk management capabilities so as to enhance its risk mitigation capabilities; (4) continue to strengthen management innovation and further enhance fine-grained management to strengthen the sustainability of its development capabilities; (5) actively raise service quality and improve market competitiveness and brand image and (6) to strengthen its talent development and improve staff quality to build a solid foundation for future developments.

Refine management and accelerate innovation

Changes in Share Capital and Substantial Shareholders

1. DETAILS OF CHANGES IN SHARE CAPITAL

As at 31 December 2010, the Bank had a total of 474,665 shareholders with 430,170 shareholders holding A shares and 44,495 shareholders holding H shares

	1 January 2010		Increase/(decrease) during the Reporting Period					31 December 2010	
	Number of shares	Percentage (%)	Issue of new shares	Bonus shares	Shares transferred from the surplus reserve	Others	Sub-total	Number of shares	Percentage (%)
1. Shares subject to sales restriction	9,974,982,648	20.36	–	–	–	-9,974,982,648	-9,974,982,648	–	–
1. State-owned shares	9,974,982,648	20.36	–	–	–	-9,974,982,648	-9,974,982,648	–	–
2. Shares held by state-owned entities	–	–	–	–	–	–	–	–	–
3. Shares held by other domestic investors	–	–	–	–	–	–	–	–	–
Comprising:									
Shares held by domestic legal persons	–	–	–	–	–	–	–	–	–
Shares held by domestic natural persons	–	–	–	–	–	–	–	–	–
4. Shares held by foreign investors									
Comprising:									
Shares held by foreign legal persons	–	–	–	–	–	–	–	–	–
Shares held by foreign natural persons	–	–	–	–	–	–	–	–	–
2. Shares not subject to sales restriction	39,019,401,055	79.64	+7,265,257,695	–	–	+9,974,982,648	+17,240,240,343	56,259,641,398	100.00
1. RMB-denominated ordinary shares	15,954,932,919	32.56	+3,805,587,475	–	–	+9,974,982,648	+13,780,570,123	29,735,503,042	52.85
2. Domestically listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas listed foreign shares	23,064,468,136	47.08	+3,459,670,220	–	–	–	+3,459,670,220	26,524,138,356	47.15
4. Others	–	–	–	–	–	–	–	–	–
3. Total	48,994,383,703	100.00	+7,265,257,695	–	–	–	+7,265,257,695	56,259,641,398	100.00

Note:

1. Based on the 36-month sales restriction period guaranteed by the largest shareholder, the Ministry of Finance of the People's Republic of China, during the listing of the Bank's A shares, the 9,974,982,648 shares held by it became available for trading on 17 May 2010. For more details, please refer to the announcements published in China Securities Journal, Shanghai Securities News, Securities Times and the Shanghai Stock Exchange website (www.sse.com.cn) on 12 May 2010.
2. Pursuant to the approval at the General Meeting and China Securities Regulatory Commission Zheng Jian Xu Ke (2010) No. 778 and (2010) No. 779, the Bank undertook a rights issue of its A shares and H shares during the Reporting Period. The A shares rights issue was completed in June 2010 with 3,805,587,475 A shares issued and which were listed and traded on 30 June 2010. For more details, please refer to the announcements published in China Securities Journal, Shanghai Securities News, Securities Times and the Shanghai Stock Exchange website (www.sse.com.cn) on 29 June 2010. The H shares rights issue was completed in July 2010 with 3,459,670,220 H shares issued and which were listed and traded on 19 July 2010. For more details, please refer to the announcements published in China Securities Journal, Shanghai Securities News, Securities Times, the Shanghai Stock Exchange website (www.sse.com.cn) Hong Kong Stock Exchange website (www.hkexnews.hk) on 16 July 2010.

2. PARTICULARS OF SHAREHOLDING OF THE TOP 10 SHAREHOLDERS SUBJECT SALES RESTRICTION AND DETAILS OF RESTRICTION

As at 31 December 2010, there was no shareholder of the Bank holding shares which were subject to sales restriction.

3. PARTICULARS OF SHAREHOLDINGS OF THE TOP 10 SHAREHOLDERS AND THE TOP 10 SHAREHOLDERS NOT SUBJECT TO SALES RESTRICTION (ACCORDING TO THE BANK'S REGISTER OF SHAREHOLDERS MAINTAINED AT ITS SHARE REGISTRAR)

1. Shareholdings of top 10 shareholders

Name of shareholder	Nature of shareholder	Number of shares held	Shareholding percentage (%)	Number of pledged or frozen shares[1]
Ministry of Finance of the People's Republic of China	State	14,921,230,045	26.52	Nil
HKSCC Nominees Limited[2]	Foreign-owned	12,335,266,807	21.93	—
The Hongkong and Shanghai Banking Corporation Limited[3]	Foreign-owned	10,482,252,967	18.63	Nil
Capital Airports Holding (Group) Company	State-owned	1,133,264,625	2.01	—
State Grid Asset Management Company Limited	State-owned	519,161,972	0.92	—
Yunnan Hongta Group Co. Ltd.	State-owned	398,806,176	0.71	—
Sinopec Finance Company Limited	State-owned	348,400,000	0.62	—
Shanghai Haiyan Investment Management Co., Ltd	State-owned	335,077,253	0.60	—
Aviation Industry Corporation of China	State-owned	282,434,940	0.50	—
Daqing Petroleum Administration Bureau	State-owned	268,123,786	0.48	—

Note:

1. Unless otherwise stated, the Bank is not aware of any circumstances where shares held by the above shareholders have been frozen or pledged, nor of the existence of any connected relationship between the above shareholders.
2. The aggregate number of shares held by HKSCC Nominees Limited, being the nominees, represents the total number of H shares held by all institutional and individual investors who maintain an account with it as at 31 December 2010. (same applies hereinafter)
3. According to the Bank's register of shareholders kept by Computershare Hong Kong Investor Services Limited, HSBC held 10,482,252,967 H shares of the Bank as at 31 December 2010, or 18.63% of the Bank's total issued share capital. In addition, according to the disclosure of interests forms filed with the Hong Kong Stock Exchange by HSBC Holding plc, HSBC beneficially held 10,716,204,617 H shares of the Bank as at 31 December 2010, or 19.05% of the Bank's total issued share capital. Please refer to "4. Substantial shareholders and holders of interest or short positions required to be disclosed under Division 2 and 3 of Part XV of the Hong Kong Securities and Futures Ordinance" ("**SFO**") for details. (same applies hereinafter)

2. Shareholding of the top 10 shareholders not subject to sales restriction

Name of shareholders	Nature of shareholders	Number of shares held	Shareholding percentage (%)	Category of shares
Ministry of Finance of the People's Republic of China	State	14,921,230,045	26.52	A and H Shares
HKSCC Nominees Limited	Foreign-owned	12,335,266,807	21.93	H Shares
The Hongkong and Shanghai Banking Corporation Limited	Foreign-owned	10,482,252,967	18.63	H Shares
Capital Airports Holding (Group) Company	State-owned	1,133,264,625	2.01	A Shares
State Grid Asset Management Company Limited	State-owned	519,161,972	0.92	A Shares
Yunnan Hongta Group Co. Ltd.	State-owned	398,806,176	0.71	A Shares
Sinopec Finance Company Limited	State-owned	348,400,000	0.62	A Shares
Shanghai Haiyan Investment Management Co., Ltd	State-owned	335,077,253	0.60	A Shares
Aviation Industry Corporation of China	State-owned	282,434,940	0.50	A Shares
Daqing Petroleum Administration Bureau	State-owned	268,123,786	0.48	A Shares

4. SUBSTANTIAL SHAREHOLDERS AND HOLDERS OF INTERESTS OR SHORT POSITIONS REQUIRED TO BE DISCLOSED UNDER DIVISION 2 AND 3 OF PART XV OF THE SFO

As at 31 December 2010, to the knowledge of the Bank's directors, supervisors and chief executive, the substantial shareholders and other persons (other than directors, supervisors and chief executive of the Bank) who had interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept pursuant to Section 336 of the SFO were as follows:

Name of substantial shareholder	Capacity	Number of A shares	Nature of interest[1]	Approximate percentage of issued A shares (%)	Approximate percentage of total issued shares (%)
Ministry of Finance of the People's Republic of China	Beneficial owner	11,471,230,045	Long position	38.58	20.39

Name of substantial shareholder	Capacity	Number of H shares	Nature of Interest[1]	Approximate percentage of issued H shares (%)	Approximate percentage of total issued shares (%)
National Council for Social Security Fund	Beneficial owner	6,388,888,889[2]	Long position	24.09	11.36
Ministry of Finance of the People's Republic of China	Beneficial owner	3,450,000,000	Long position	13.01	6.13
The Hongkong and Shanghai Banking Corporation Limited	Beneficial owner	10,716,204,617	Long position	40.40	19.05
	Interest of controlled corporation[3]	41,377,660	Long position	0.16	0.07
	Total:	10,757,582,277		40.56	19.12
HSBC Finance (Netherlands)	Interest of controlled corporation[4]	10,757,582,277	Long position	40.56	19.12
HSBC Bank plc	Interest of controlled corporation[5]	50,000	Long position	0.0002	0.0001
HSBC Holdings plc	Interest of controlled corporation[6]	10,757,632,277	Long position	40.56	19.12

Notes:

1. Long position not held through equity derivatives;
2. According to the information provided by SSF, SSF held 6,388,888,889 H shares of the Bank as at 31 December 2010, representing 11.36% of the total issued share capital of the Bank and all these shares were held through HKSCC Nominees Limited;
3. HSBC holds 62.14% interest in Hang Seng Bank Limited. Pursuant to the SFO, HSBC is deemed to be interested in the Bank's H shares which are held by Hang Seng Bank Limited;

   Hang Seng Bank Limited is deemed to be interested in the 41,377,660 H shared held by its wholly-owned subsidiaries. Such 41,377,660 H shares represent the aggregate of 41,216,098 H shares directly held by Hang Seng Bank Trustee International Limited and 161,562 H shares directly held by Hang Seng Bank (Trustee) Limited;
4. HSBC is wholly-owned by HSBC Asia Holdings BV. HSBC Asia Holdings BV is, in turn, wholly-owned by HSBC Asia Holdings (UK) Limited. HSBC Asia Holdings (UK) Limited is, in turn, wholly-owned by HSBC Holdings BV. HSBC Holdings BV is, in turn, wholly-owned by HSBC Finance (Netherlands). Pursuant to the SFO, HSBC Asia Holdings BV, HSBC Asia Holdings (UK) Limited, HSBC Holdings BV and HSBC Finance (Netherlands) are each deemed to be interested in the 10,757,582,277 H shares which HSBC has an interest;
5. HSBC Trustee (C.I.) Limited held 50,000 H shares and is wholly-owned by HSBC Private Bank (C.I.) Limited. HSBC Private Bank (C.I.) Limited is, in turn, wholly-owned by HSBC Private Banking Holdings (Suisse) SA. HSBC Private Banking Holdings (Suisse) SA is, in turn, wholly-owned by HSBC Europe (Netherlands) BV, which is in turn 94.90% owned by HSBC Bank plc. Pursuant to the SFO, HSBC Private Bank (C.I.) Limited, HSBC Private Banking Holdings (Suisse) SA, HSBC Europe (Netherlands) BV and HSBC Bank plc are each deemed to be interested in the 50,000 H shares which HSBC Trustee (C.I.) Limited has an interest;
6. HSBC Finance (Netherlands) and HSBC Bank plc are wholly-owned by HSBC Holdings plc. Pursuant to Notes 3, 4, 5 and the SFO, HSBC Holdings plc is deemed to be interested in the 10,757,582,277 H shares in which HSBC has an interest and the 50,000 H shares in which HSBC Bank plc has an interest.

Except as disclosed above, to the knowledge of the Bank's directors, supervisors and chief executive, no person or corporation was recorded in the register required to be kept under Section 336 of the SFO as holding any interests or short positions in the shares or underlying shares of the Bank that would fall to be disclosed to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO as at 31 December 2010.

5. SHAREHOLDERS HOLDING 5% OR MORE OF THE ISSUED SHARE CAPITAL OF THE BANK

(1) Ministry of Finance

Ministry of Finance, being a constituent part of the State Council, is responsible for various matters, which includes overseeing the country's fiscal revenue, expenditure and taxation policies. Its address is No. 3, Nansanxiang, Sanlihe, Xi Cheng District, Beijing, the PRC.

As at 31 December 2010, the Ministry of Finance of the People's Republic of China held 14,921,230,045 shares of the Bank, representing approximately 26.52% of the total issued share capital of the Bank. These shares were neither pledged nor the subject of any disputes.

(2) The Hongkong and Shanghai Banking Corporation Limited ("HSBC")

HSBC is a wholly-owned subsidiary of HSBC Holdings plc. It is principally engaged in providing banking and financial services. HSBC is one of the founding members of HSBC Holdings plc, the largest licensed bank in Hong Kong and one of the three note-issuing banks in Hong Kong. HSBC is the strategic investor of the Bank. Its address is 1 Queen's Road Central, Hong Kong.

As at 31 December 2010, HSBC, directly and indirectly through its subsidiaries and associated companies, held 10,716,204,617 H shares of the Bank, representing approximately 19.05% of the total issued share capital of the Bank. These shares were neither pledged nor the subject of any disputes.

(3) National Council for Social Security Fund ("SSF")

SSF is a government agency on the ministerial level of directly under the State Council. It is responsible for the management and operation of the national social security fund, the management of the proceeds from the reduction of state-owned shares. It also manages funds disbursed by the Ministry of Finance and funds raised from various sources, as well as the selection and engagement of asset management companies to manage the fund assets for capital value-maintenance/ appreciation purposes. Its address is Fenghui Times Mansion, South Wing, No. 11 Fenghuiyuan, Xicheng District, Beijing.

As at 31 December 2010, SSF held 6,388,888,889 H shares of the Bank, representing approximately 11.36% of the total issued share capital of the Bank. These shares were held through HKSCC Nominees Limited. These shares were neither pledged nor the subject of any disputes.

Directors, Supervisors, Senior Management and Human Resource Management

1. PROFILE OF DIRECTORS

Mr. Hu Huaibang, aged 55, joined the Bank in September 2008 and is the Chairman of the Board of Directors and Executive Director of the Bank. Mr. Hu was the Chairman of the Supervisory Committee of China Investment Corporation from September 2007 to September 2008, Director of the Banking Supervision Department and Commissioner of Discipline Inspection of the CBRC from July 2003 to September 2007, Deputy Governor of the PBOC's Chengdu Branch, Governor of the PBOC's Xi'an Branch and Administrator of the State Administration of Foreign Exchange's Shaanxi Branch from June 2000 to July 2003. Mr. Hu received his doctor's degree in economics from Shaanxi Institute of Finance and Economics in 1999. Mr. Hu has been the Chairman of the Board of Directors and Executive Director of the Bank since September 2008.

Mr. Niu Ximing, aged 54, joined the Bank in December 2009 and is the Vice Chairman, Executive Director and the President of the Bank. Mr. Niu served in several positions in the Industrial and Commercial Bank of China ("ICBC") from July 1986 to December 2009, including Deputy General Manager and General Manager of the ICBC's Xining Branch in Qinghai Province, Deputy Director, Director and General Manager of the Public Transportation Credit Department of ICBC, General Manager of ICBC's Beijing Branch, Assistant to the President of ICBC and General Manager of ICBC's Beijing Branch, Executive Vice President of ICBC, Executive Director and Executive Vice President of ICBC. Mr. Niu received a master's degree in Economics from Harbin Institute of Technology in 1997. Mr. Niu has been the Vice Chairman and Executive Director of the Board of Directors of the Bank since December 2009.

Mr. Qian Wenhui, aged 49, joined the Bank in October 2004 and is an Executive Director and Executive Vice President of the Bank. Mr. Qian has served as Executive Vice President of the Bank since October 2004 (and concurrently served as General Manager of Shanghai Branch from July 2005 to November 2006). Before joining the Bank, Mr. Qian worked in China Construction Bank ("CCB") and served as Director of the General Office of the Asset and Liability Committee of CCB and the Deputy General Manager of CCB's Shanghai Branch. He then served as the Director of the General Office of the Asset and Liability Committee of CCB, Director of System Reform Office and Deputy General Manager of CCB's Shanghai Branch. He next served as the General Manager of the Asset and Liability Management Department. Thereafter he served as the General Manager of the Asset and Liability Management Department and Director of the Restructuring Office. Mr. Qian received a MBA degree from Shanghai University of Finance and Economics in 1998. Mr. Qian has been an Executive Director of the Bank since August 2007.

Mr. Wang Bin, aged 52, joined the Bank in January 2000 and is an Executive Director and Vice President of the Bank. Mr. Wang has served in several positions within the Bank, including Deputy General Manager and General Manager of the Beijing Branch, General Manager of the Tianjin Branch. Mr. Wang has served in several positions with the Agricultural Development Bank of China ("ADBC") between December 1993 to January 2000, including Head of Planning Office, Office Assistant Manager and Office Manager, and Deputy General Manager and General Manager of ADBC's Jiangxi Branch. Mr. Wang received his doctor's degree in Economics from Nankai University in 2005. Mr. Wang has been an Executive Director since June 2010.

Mr. Zhang Jixiang, aged 57, is a Non-executive Director of the Bank. Before joining the Bank, Mr. Zhang served as Inspector in the General Department of the Ministry of Finance from January 2003 to September 2004; as Deputy Director of the Infrastructure Department and Deputy Director of the General Department of the Ministry of Finance from July 1998 to January 2003; as Deputy Director and Director of the Foreign Studies Office of the Research Institute, as Deputy Director and Director of the Property Ownership Department, and Director of Asset Appraisal Centre of the State-Owned Assets Supervision and Administration Commission of the State Council from October 1990 to July 1998. Mr. Zhang received a Ph.D. degree in Economics from the Chinese Academy of Social Sciences in 1989. He is also a qualified Chinese Certified Public Accountant and a Chinese Certified Public Valuer. Mr. Zhang has been a Non-executive Director since August 2009, Mr. Zhang served as Non-Executive Director and Board Secretary from August 2007 to August 2009 and Executive Director and Board Secretary from September 2004 to July 2007.

Mr. Hu Huating, aged 53, is a Non-executive Director. Mr. Hu served in several positions within the Ministry of Finance from December 1978 to September 2004, including Director of the Bureau for Retired Officials Affairs, Deputy Director of the Economic Construction Department, Assistant Inspector of the Infrastructure Department and Head of the General Affairs Department, Head of the Comprehensive Investment Second Division, Head of the Comprehensive Planning Supplementary Budget Management Department Second Division, Deputy Head of the Special Division of Agricultural Taxation Department, Deputy Head of the Central Division of the Supplementary Budget Management Department, Deputy Head of the Wages and Commodity Prices, Division of the Comprehensive Planning Department and Secretary of the General Office, among others. Mr. Hu received a postgraduate degree in Investment Economics from Dongbei University of Finance and Economics in 1998. Mr. Hu has been a Non-executive Director of the Bank since September 2004.

Mr. Qian Hongyi, aged 59, is a Non-executive Director of the Bank. Mr. Qian served successively as the Deputy Supervisor and the Supervisor of the Ministry of Finance's Special Supervisor Office to Jiangsu from March 1995 to July 2008. He was the Head of the Financial Division for Industrial and Transport Enterprises under the Department of Finance of Jiangsu Province from September 1989 to March 1995. Mr. Qian graduated from the Faculty of Finance in People's University of China in 1986. Mr. Qian has been a Non-Executive Director of the Bank since August 2008.

Mr. Peter Wong Tung Shun, aged 59, is a Non-executive Director of the Bank. Mr. Wong has been the Chief Executive Officer of HSBC, the Bank's substantial shareholder, as well as the General Manager of the HSBC Group and member of the Group's Management Committee since February 2010. Mr. Wong joined HSBC in 2005 and served as General Manager of HSBC Plc and Executive Director of HSBC from April 2005 to January 2010. He was responsible for HSBC's operations in Hong Kong and China. Mr. Wong concurrently served as the Chairman of HSBC Bank Malaysia Berhad as well as the Vice Chairman of HSBC Bank (China) Company Limited, and the Vice Chairman of HSBC Bank (Vietnam) Ltd. He also serves as a Non-executive Director for HSBC Bank Australia, Hang Seng Bank Limited and Ping An Insurance (Group) Company of China, Ltd. as well as an Independent Non-executive Director of Cathay Pacific Airways Ltd. Mr. Wong was the Chairman of The Hong Kong Association of Banks in 2001, 2004, 2006 and 2009. His official duties in mainland China include: being a member of the 10th Chinese People's Political Consultative Conference ("CPPCC") in Hubei Province, Consultant (Overseas) for the Mayor of Tianjin and International Economics Consultant for the Mayor of Chongqing. Before joining HSBC, Mr. Wong served with Citibank and Standard Chartered Bank. Mr. Wong received a master's degree in Marketing & Finance and Computer Science from Indiana University of USA in 1976 and 1979 respectively. Mr. Wong has been a Non-executive Director of the Bank since August 2005.

Ms. Anita Fung Yuen Mei, aged 50, is a Non-executive Director of the Bank. She is currently the Group General Manager of HSBC Holdings plc and the Head of Global Banking and Markets for Asia-Pacific, as well as Director of HSBC Markets (Asia) Limited and HSBC Securities (Japan) Limited. Ms. Fung served as Group General Manager of HSBC Holding plc and Treasurer and Head of Global Banking and Markets for Asia-Pacific, from May 2008 to January 2010. She previously held verious positions such as the Head of HSBC Bond Market (HKD), Head of Asian Fixed Income Trading, Joint-Head of Asian Trading, Treasurer and Head of Global Markets for Asia-Pacific from September 1996 to April 2008. Ms. Fung obtained a master's degree in Applied Finance from Macquarie University of Australia in 1995. Ms. Fung has been a Non-executive Director since November 2010.

Mr. Ji Guoqiang, aged 45, is a Non-executive Director of the Bank. Mr. Ji has been a member of the Third Youth Federation in the Central Government since 2005, and is a Non-Executive Director of Beijing-Shanghai High-Speed Railway Pte Ltd. and the Bohai Industrial Investment Fund Management Co., Ltd. Mr. Ji has been with the National Council for Social Security Fund, one of the Bank's major shareholder, since March 2003. He previously held positions such as Secretary of the General Office (Division Chief Level), Deputy Head of the Equity and Assets Management Department, Deputy Secretary of Party Committee and Deputy Head of the Personnel Department (in-charge), and Head of the Equity and Assets Management Department (Industrial Investment). Mr. Ji obtained a MPA degree from Beijing University in 2007. Mr. Ji has been a Non-Executive Director of the Bank since August 2008.

Mr. Lei Jun, aged 41, is a Non-executive Director of the Bank. Mr. Lei is the General Manager of the Capital Operation Department of Beijing Capital Airport Holding Company from June 2005, and also a Director of Goldstate Securities Co. Ltd., China Minzu Securities Co., and Suzhou Guoxin Group. He served as General Manager of the Mergers and Acquisitions Department in Goldstate Securities Co., Ltd. from January 2005 to June 2005; as Supervisor of the Management and Innovation Division in Shanghai Baosteel Group from October 2003 to January 2005 and Division Deputy General Manager in Fortune Trust from June 1998 to October 2003. Mr. Lei obtained a MBA degree from the University of Hong Kong in 2000. Mr. Lei has been a Non-executive Director of the Bank since August 2008.

Mr. Chen Qingtai, aged 73, is an Independent Non-executive Director of the Bank. Mr. Chen currently serves as the Research Analyst in the R&D Center of the State Council, Professor and Supervisor of PhD Candidates in Tsinghua University, Independent Non-executive Director of Minmentals Development Co., Ltd., Mindray Medical International Limited, and Hollysys Automation Technologies Ltd. Mr. Chen previously held positions such as the President and General Manager of Dongfeng Automobile Co., Ltd. and President of Dongfeng Peugeot Citroen Automobile Company Ltd.. Mr. Chen had also been holding important posts in various national economics departments and had successively served as Secretary of the Party Committee and Deputy Head in the R&D Center of the State Council, Deputy Head and Deputy Secretary of the Party Committee in the State Economic and Trade Commission. Mr. Chen is a standing member of the standing committee of the 10th CPPCC and Deputy Head of its Committee for Economic Affairs. Mr. Chen graduated from Tsinghua University majoring in Dynamics in 1962. Mr. Chen has been an Independent Non-executive Director of the Bank since April 2005.

Mr. Eric Li Ka-cheung, aged 57, Justice of the Peace, Officer of the Most Excellent Order of the British Empire (OBE) and a recipient of the Gold Bauhinia Star, is currently an Independent Non-executive Director of the Bank. He is also a senior partner of Li, Tang, Chen & Co and the Independent Non-executive Director of Hang Seng Bank Limited, China Resources Enterprise Limited, Transport International Holdings Ltd., RoadShow Holdings Limited, SmarTone Telecommunications Holdings Limited, Wong's International (Holdings) Ltd and Sun Hung Kai Properties Limited. Mr. Li is a Fellow Member of the Hong Kong Institute of Certified Public Accountants (Practising), a Fellow Member of The Institute of Chartered Accountants in England and Wales and a Fellow Member of CPA Australia. Mr. Li is concurrently a fellow member of The Institute of Chartered Secretaries and Administrators and Hong Kong Institute of Chartered Secretaries. Mr. Li received a Bachelor of Arts (Economics) honours degree from the University of Manchester and an honorary doctorate degree from the University of Manchester and the Hong Kong Baptist University. Mr Li has been an Independent Non-executive Director of the Bank since January 2007.

Mr. Gu Mingchao (Retiree – May 2007), aged 67, is an Independent Non-executive Director of the Bank. Mr Gu is also an Independent Non-executive Director of Kasen International Holdings Limited. Mr. Gu served as the Chairman of the Supervisory Committee of China Galaxy Securities Company Limited, Bank of Communications and Agricultural Bank of China as designated by the State Council from July 2000 to April 2007; as Vice President and Executive Director of The Export-Import Bank of China from June 1994 to June 2000. Mr. Gu graduated from Shanghai Institute of Foreign Trade in 1968. Mr. Gu has been an Independent Non-Executive director of the Bank since August 2007.

Mr. Wang Weiqiang, aged 63, is an Independent Non-executive Director of the Bank. Mr. Wang is a CPPCC member and a member of the Economic Committee of the CPPCC, part-time professor in South Western University of Finance and Economics, Deputy President of China Urban Finance Society. Mr. Wang serves as Chief Supervisor in ICBC International Holdings Limited from June 2008 to present, served as Chief Supervisor of Industrial and Commercial Bank of China Limited from October 2005 to June 2008, and as the Chairman of the Supervisory Committee of Agricultural Bank of China ("ABC") and Industrial and Commercial Bank of China ("ICBC") upon designation by the State Council from July 2000 to October 2005. Mr. Wang graduated from the Economics and Management faculty in Liaoning University in 1984. Mr. Wang has been an Independent Non-executive director of the Bank since November 2010.

Mr. Peter Hugh Nolan, aged 62, recipient of the Commander of the Order of the British Empire honour, is an Independent Non-executive Director of the Bank. Mr. Nolan is a professor in Judge Business School in Cambridge University since 1997 and was a lecturer in the Faculty of Economics and Politics in Cambridge University from 1979 to 1997. Mr. Nolan received a doctor's degree in Economics from London University in 1981. He has been an Independent Non-executive Director of the Bank since November 2010.

Mr. Chen Zhiwu, aged 48, is an Independent Non-executive Director of the Bank. Mr. Chen has been a professor of Finance in Yale School of Management since July 1999. Mr. Chen is one of the founding partners for Zebra Capital Management, the Independent Director of Lord Abbett China Asset Management Co., Ltd., visiting professor in Tsinghua University, Yangtze Chair Professor and Chairman of Academic Council in ChangCe Thinktank. Mr. Chen was Assistant Professor and Associate Professor of Business and Finance at Ohio State University from July 1995 to July 1999. Mr. Chen received his doctor's degree from Yale University in 1990. He has been an Independent Non-executive Director since November 2010.

2. PROFILE OF SUPERVISORS

Mr. Hua Qingshan, aged 58, joined the Bank in June 2007 and is the Chairman of the Supervisory Committee of the Bank. Mr. Hua served as Executive Vice President of Bank of China from December 1998 to June 2007; Non-executive Director of BOC Hong Kong (Holdings) Limited (a subsidiary of Bank of China, which is also listed on the Hong Kong Stock Exchange) from June 2002 to June 2007; Executive Director of Bank of China from August 2004 to June 2007 and Assistant to the President of Bank of China from May 1994 to December 1998. From 1979 to 1994, Mr. Hua successively held positions in China Federation of Labour Union, Ministry of Labour, and General Office of the State Council. Mr. Hua received a master's degree of engineering from Hunan University in 1996. Mr. Hua has been the Chairman of the Supervisory Committee of the Bank since August 2007.

Ms. Zheng Li, aged 75, Certified Public Accountant, Certified Internal Auditor, is the External Supervisor of the Bank. Ms. Zheng served as President of the Association of Internal Auditors of China from June 1997 to July 2005; as a member on the CPPCC Ninth National Committee from January 1998 to January 2003; as Audit Commissioner of the State Council from November 1998 to March 2001; as a member of the Supervisory Committee of the China Development Bank from November 1996 to October 1998 and Deputy Auditor General at the National Audit Office from July 1987 to November 1996. Ms. Zheng received a university degree from the Moscow Institute of Finance of the former Soviet Union in 1959. Ms. Zheng has been an External Supervisor of the Bank since August 2007.

Mr. Jiang Zuqi, aged 70, is an External Supervisor of the Bank. Mr. Jiang served as the Chairman of the Supervisory Committee for several key state-owned financial institutions upon appointment by the State Council from June 2000 to August 2005. He was the Chairman of the Supervisory Committee of the Bank from June 2000 to August 2003. From August 2003 to August 2005, he was the Chairman of the Supervisory Committee in The Export-Import Bank of China. From August 1995 to June 2000, he was the Vice Chairman of the Board and Vice President of the Bank of China and in August 1997 to February 1999, he was the Head of the Hong Kong and Macau Administration Office. Mr. Jiang graduated from the Commerce and Economics Faculty of the Beijing Business School in 1966 with a major in Finance and Accounting. Mr. Jiang has been an External Supervisor of the Bank since August 2007.

Mr. Gu Huizhong, aged 54, is a Supervisor of the Bank. Mr. Gu serves as the Deputy General Manager and Chief Accountant in the Aviation Industry Corporation of China from August 2008 to present. Mr. Gu was the Deputy General Manager in the China Aviation Industry Corporation First Group from June 1999 to August 2008, during which he concurrently served as Chief Accountant from February 2005 onwards. He served as Deputy Director of Finance Department in Technology and Industry for National Defence from July 1998 to December 1998. Mr. Gu was the Deputy Chief of Finance Bureau in the Aviation Industry General Company from November 1995 to July 1998. Mr. Gu served as the General Manager of Zhongzhen Accounting Consulting Firm from August 1994 to November 1995. Mr. Gu received a master's degree in International Finance from the Beijing University of Aeronautics & Astronautics in 2000 and received an EMBA degree in senior accountant from Cheung Kong Gradate School of Business in 2008. Mr. Gu has been a Supervisor of the Bank since August 2010.

Mr. Guo Yu, aged 36, is a Supervisor of the Bank. Mr. Guo is the Deputy Department Head of Investment Division in Shanghai Tobacco (Group) Corp. Ltd (in charge) from November 2009 to present, and was the Deputy General Manager of Shanghai Tobacco Package Printing Co., Ltd. from October 2008 to November 2009. He held various positions in Shanghai Tobacco (Group) Corp. from July 1997 to October 2008. Mr. Guo received a MBA degree from the University of Texas at Arlington, USA in December 2003. Mr. Guo has been a Supervisor of the Bank since August 2010.

Mr. Yang Fajia, aged 56, is a Supervisor of the Bank. Mr. Yang has been the General Manager and Director of Yunnan Hongta Group Ltd. since January 2003. He served as the Deputy General Manager of Yunnan Hongta Group Ltd. from September 1993 to January 2003. From December 1982 to September 1993, Mr. Yang was Deputy Secretary of the Communist Party Committee, Commissioner of Discipline Inspection, and plant manager in Yunnan Artificial Fibre Company. Mr. Yang received a university degree in electromechanical science from China University of Mining & Technology in 1980. Mr. Yang has been a Supervisor of the Bank since August 2007.

Mr. Chu Hongjun, aged 57, is a Supervisor of the Bank. Mr. Chu is the General Manager in Sinopec Finance Company Limited Nanjing Branch from June 2007 to present and concurrently serves as the Deputy Compliance Office from May 2010 onwards. Mr. Chu was the Deputy Director and Director in Sinopec Finance Company Limited Nanjing office from May 1999 to June 2007. Mr. Chu graduated from the Correspondence Institute of the Party School of C.C. in 1998. Mr. Chu has been a Supervisor of the Bank since August 2010.

Mr. Li Jin, aged 44, is a Supervisor of the Bank. Mr. Li has served as the Deputy General Manager of Huaneng Capital Service Co., Ltd. since September 2006. He was the President of Alltrust Insurance Company of China Limited from January 2005 to September 2006; Deputy Director of the Operations Department in Shanghai Branch, Assistant Manager and Manager of the General Planning Department, Deputy General Manager and General Manager of Huaneng Capital Service Co., Ltd. from April 1994 to January 2005. Mr. Li received a Master's degree in Economics from the Financial Research Institution for the Head Office of PBOC in 1989. Mr. Li has been a Supervisor of the Bank since August 2007.

Mr. Yan Hong, aged 44, is a Supervisor of the Bank. Since March 2008, Mr. Yan has served as the Chief Accountant of Daqing Oilfield Limited Company and Daqing Petroleum Administration Bureau. Mr. Yan was the Deputy Chief Accountant, Head of Finance and Assets Management Department and the Chief Accountant of Daqing Oilfield Limited Company from March 2002 to March 2008 and Deputy Head and Director of Finance and Assets Management in Daqing Oilfield Limited Company from May 2000 to March 2002. He previously served as the Deputy General Accountant in Daqing Oilfield Limited Liability Company's oil rig construction subsidiary, from January 1999 to May 2000. Mr. Yan graduated from Shanghai University of Finance and Economics with a MBA in 2003 and from China Europe International Business School with a MBA in 2008. Mr. Yan has been a Supervisor of the Bank since August 2008.

Ms. Liu Sha, aged 55, joined the Bank in November 2004, is an Employee Representative Supervisor of the Bank. Since September 2005, she has served as the General Manager of the Audit Department of the Bank for Northern China. Ms. Liu was the Secretary of the Supervisory Committee from March 2005 to August 2005; Supervisor appointed by the State Council to the Bank (Department Chief Level) from August 2003 to October 2004 and Supervisior appointed by the State Council to China Galaxy Securities Company Limited (Division Chief Level) from August 2000 to July 2003. Ms. Liu graduated from the Finance Faculty of Dongbei University of Finance and Economics in 1979. Ms. Liu has been an Employee Representative Supervisor of the Bank since November 2004.

Ms. Chen Qing, aged 50, joined the Bank in November 2004 and is an Employee Representative Supervisor of the Bank, since March 2005. Ms. Chen has served as the Head of the General Office for the Bank's Supervisory Committee. In November 2004, Ms. Chen was appointed Assistant Supervisor of the Bank and was elected as an Employee Representative Supervisor of the Bank in the same month. Ms. Chen was the Supervisor of Agricultural Bank of China (Division Chief Level) State Council appointed by the from August 2003 to October 2004; the Deputy Division Head, Division Head (Division Chief Level) and Supervisor of Bank of China, appointed by the State Council from July 2000 to August 2003. Ms. Chen served in the National Audit Office of People's Republic of China from August 1984 to July 2000. Ms. Chen received a MBA from Shanghai University of Finance and Economics in 2009. Ms. Chen has been an Employee Representative Supervisor of the Bank since November 2004.

Mr. Shuai Shi, aged 42, joined the Bank in November 1992 and is an Employee Representative Supervisor of the Bank. Since December 2007, Mr. Shuai has served as the General Manager of the Employee Work Department. He was the Deputy Director of Labour Union since January 2008. Mr. Shuai served as the Vice President of the Bank's Huhhot Branch from July 2006 to December 2007 and Senior Manager of Personal Financial Services Division in the Shanghai Branch from January 2001 to July 2006. Previously, he was the Assistant to the Head of the Finance Office in the Inner Mongolia Autonomous Region from February 2004 to February 2006. Mr Shuai graduated with a economic management major from the Communist Party of China Central Party School of China in June 2009. Mr. Shuai has been an Employee Representative Supervisor of the Bank since August 2008.

Mr. Du Yarong, aged 47, joined the Bank in October 1997 and is an Employee Representative Supervisor of the Bank. Mr. Du serves as the Head of the Office of Discipline Investigation and Supervision from November 2009 to present. He was the Vice President in Zhejiang Branch from January 2009 to November 2009 and served as the Vice President in Hangzhou Branch from October 2004 to January 2009. Mr. Du is the Head of the General Office in Hangzhou Branch from April 2004 to October 2004 and is the President in the Xiaoshan sub-branch of the Hangzhou Branch from May 2001 to April 2004. He was the Deputy Head of the Internal Risk Control Division in Head Office from April 2003 to March 2004. Mr. Du also previously served as managerial staff (Division Chief Level), Deputy Head and Head of the Party Committee Office of the Hangzhou Branch from October 1997 to May 2001. Mr. Du graduated from Hangzhou Normal University in 1986. Mr. Du has been a Supervisor of the Bank since August 2010.

3. PROFILE OF SENIOR MANAGEMENT

Mr. Niu Ximing (Please refer to details in "1. Profile of Directors")

Mr. Qian Wenhui (Please refer to details in "1. Profile of Directors")

Mr. Wang Bin (Please refer to details in "1. Profile of Directors")

Ms. Yu Yali, aged 53, joined the Bank in February 1993 and is the Executive Vice President and Chief Financial Officer of the Bank. Ms. Yu has been the CFO of the Bank since August 2004 and was the General Manager of the Financial Accounting Department and Budget and Finance Department of the Bank from December 1999 to August 2004. Ms Yu served as Head of Financial Accounting Division and Vice President of the Bank's Zhengzhou Branch and Deputy General Manager of Financial Accounting Department in Head Office from February 1993 to December 1999. Ms. Yu received an MBA degree from Fudan University in 2006.

Mr. Shou Meisheng, aged 54, joined the Bank in January 1992 and is the Commissioner of Discipline Inspection and Chief of the Bank Industry Labour Union. Mr. Shou was the General Manager of Human Resources Department of the Bank from May 2005 to December 2007; General Manager of International Banking Department of the Bank from June 1998 to May 2005, and was the General Manager of Dalian Branch of the Bank from January 2002 to March 2004. Mr. Shou received his doctor's degree in economics from Dongbei University of Finance & Economics in 2006.

Mr. Hou Weidong, aged 51, joined the Bank in April 2002, and is the Executive Vice President and Chief Information Officer of the Bank. Mr. Hou has been the Chief Information Officer since August 2004 and was the General Manager of the Information Technology Department of the Bank from November 2002 to August 2004 and the Deputy General Manager of Computer Department of the Bank from April 2002 to November 2002. Prior to joining the Bank, he served as Deputy General Manager of Technology Security Department and General Manager of Data Centre in the Industrial and Commercial Bank of China from November 1998 to April 2002. Mr. Hou received his doctor's degree in economics from Peking University in 2003.

Mr. Dicky Peter Yip, aged 64, joined the Bank in April 2005 and is the Vice President of the Bank. Before joining the Bank, Mr. Yip served as Chief Executive of China Business of HSBC's China main representative office between January 2003 to April 2005. Mr. Yip worked in several positions in HSBC including Senior General Manager of Personal Banking Service, Senior Manager of Retail Business, Assistant General Manager of Retail Business, Assistant General Manager of Personal Banking Service and was the Deputy Head of Private Wealth Management from June 1988 to January 2003. Mr. Yip received an MBA degree from the University of Hong Kong.

Mr. Yang Dongping, aged 54, joined the Bank in May 1989, and is the Chief Risk Management Officer of the Bank. Mr. Yang served as Deputy General Manager and was the General Manager of the Bank's Hong Kong Branch from September 2003 to September 2007. He also served in several positions in Wuhan Branch, including Deputy Manager of Securities Business Department, Deputy Head and Director of Credit and Loan Division, Senior Manager of International Business Division, Deputy General Manager and General Manager from May 1989 to September 2003. Mr. Yang received a master's degree in international finance from Wuhan University in 1998.

Mr. Du Jianglong, aged 40, joined the Bank in August 2009 and is the Secretary of the Board of Directors of the Bank and Head of the Board Office. From July 1997 to July 2009, Mr. Du worked in the Department of Trade Finance, Department of National Debt Financing and Department of Finance of the Ministry of Finance. He was the Deputy Head of Division I in the Department of Finance, Secretary of the Department of Finance (Division Chief Level), Head of Division I in the Department of Finance and Deputy Director-General of the Department of Finance. At the same time, he was the Supervisor of The Export-Import Bank of China and Agricultural Development Bank of China. Mr. Du obtained a master's degree in Economics from the Research Institute for Fiscal Science of MOF in 1997, and a master's degree in economics from University of Manchester in 2003.

Mr. Zhu Hexin, aged 43, joined the Bank in 1993 and is the Supervisor of Corporate Business and concurrently Managing Vice President of the Beijing Administrative Department and General Manager of Institutional Business Department of the Beijing Administrative Department. Mr. Zhu served as the General Manager of Jiangsu Branch from January 2009 to January 2010, General Manager of Nanjing Branch from November 2006 to January 2009 and General Manager of Suzhou Branch from November 2001 to November 2006. Mr. Zhu received a bachelor's degree in engineering from Shanghai University of Finance and Economics in 1991.

4. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

(1) Changes in Directors

1) On 21 April 2010, Mr. Peng Chun resigned as Executive Director, Vice President and member of the Board of Director's Strategy Committee.

2) On 29 April 2010, pursuant to the twenty-fourth meeting of the Fifth Session of the Board of Directors, Mr. Wang Bin was appointed as Executive Director and will served until the end of the Annual General Meeting for 2009. He was eligible to stand for re-election in the Annual General Meeting for 2009. Mr. Wang's appointment was approved by the CBRC.

3) On 19 August 2010, pursuant to the Annual General Meeting for 2009, Mr. Hu Huaibang, Mr. Niu Ximing, Mr. Qian Wenhui and Mr. Wang Bin were appointed as Executive Directors of the Bank. Mr. Zhang Jixiang, Mr. Hu Huating, Mr. Qian Hongyi, Mr. Peter Wong Tung Shun, Ms. Anita Fung Yuen Mei, Mr. Ji Guoqiang, Mr. Lei Jun and Ms. Ma Xiaoyan were appointed as Non-executive Directors of the Bank. Mr. Chen Qingtai, Mr. Li Jiaxiang, Mr. Gu Mingchao, Mr. Wang Weiqiang, Mr. Peter Hugh Nolan and Mr. Chen Zhiwu were appointed as Independent Non-executive Directors. The appointments of the abve-mentioned Directors, apart from Ms. Ma Xiaoyan, have been approved by the CBRC. Ms. Laura M. Cha, Mr. Yang Fenglin, Mr. Xie Qingjian, Mr. Ian Ramsay Wilson, and Mr. Thomas Joseph Manning have ceased to be Directors of the Bank.

(2) Changes in Supervisors

On 19 August 2010, pursuant to the Annual General Meeting for 2009, Mr. Hua Qingshan, Mr. Gu Huizhong, Mr. Guo Yu, Mr. Yang Fajia, Mr. Chu Hongjun, Mr. Li Jin and Mr. Yan Hong were appointed as Supervisors of the Bank. Ms. Zheng Li and Mr. Jiang Zuqi were appointed as External Supervisors of the Bank. In addition, pursuant to Employee Representative Meeting, Ms. Liu Sha, Ms. Chen Qing, Mr. Shuai Shi and Mr. Du Yarong were appointed as Employee Representative Supervisors of the Bank.

(3) Changes in Senior Management

1) Mr. Peng Chun (Please refer to details in "(1) Changes in Directors")

2) On 23 February 2010, pursuant to the Bank's twenty-second meeting of the Fifth Session of the Board of Directors, Mr. Zhu Hexin was appointed as the Bank's Corporate Business Director.

3) On 28 October 2010, pursuant to the Bank's third meeting of the Sixth Session of the Board of Directors, Mr. Hou Weidong was appointed as the Vice President and Chief Information Officer of the Bank. The appointment was approved by the CBRC.

5. HUMAN RESOURCE MANAGEMENT

(1) Basic Information of Employee

As at 31 December 2010, the Bank had a total of 85,290 employees, of which 83,762 employees are based domestically, representing an increase of 5.86% compared to the beginning of the year. There are a total of 3,844 retired employees under the Bank's pension scheme.

Among the employees based domestically, 627 employees hold an senior professional and technical position, accounting for 0.75% of the work force; 16,508 employees hold an mid-level professional and technical positions, accounting for 19.71% of the work force and 20,343 employees hold a entry-level professional and technical positions, accounting for 24.29% of the work force.

The average age of the Bank's domestic employees is 33.5, with 40,884 employees under the age of 30 (accounting for 48.81% of total employees); 25,408 employees between the age of 30 and 40 (accounting for 30.33%); 13,096 employees between the age of 40 and 50 (accounting for 15.63%); and 4,374 employees above the age of 50 (accounting for 5.22%).

Among the employees stationed domestically, 4,495 or 5.37% of the work force possess postgraduate or higher academic qualifications; 45,985 or 54.90% possess undergraduate qualifications; 26,166 or 31.24% possess college qualifications and 7,116 or 8.50% have junior college or lower qualifications.

(2) Remuneration policy

The Bank's remuneration framework consists of basic salaries and performance-linked compensation and continues to "ensure that remuneration is determined with reference to job positions, responsibilities and capabilities of employees, and is reflective of market value in the labour market". The employees' basic salaries and performance-linked compensation adequately reflect the value of their positions and responsibilities, which aligns remuneration with performance. In order to continue growth and maintain competitiveness, the Bank continuously assess and improve the remuneration system by adjusting its market positioning, optimising its remuneration system, reinforcing the balance between job stability and effective motivation and the continuous improvement of competitiveness. The Bank implemented a stable remuneration management system based on its current remuneration framework so as to strengthen stability and promote self constraint among exployees. This will also promote the effectiveness of remuneration in guiding corporate governance and risk control. The purpose was to enhance stable operation and continuous development and meet the requirements of being a public listed bank.

(3) Performance management

The Bank continuously sought to optimise its performance management framework and is focused on improving performance evaluation processes at each level, including Head Office, provincial branches and overseas organisations. The Bank was in the testing stage of differentiating remuneration based on job responsibilities. The aim is to strengthen strategic communication, scientific measurement and assessment of performance for employees at each level and to optimise the effect of performance management.

(4) Employee pension scheme

Details of the Bank's employee pension scheme are set out in Note 29 in the Consolidated Financial Statements.

Report of the Board of Directors

The Board of Directors hereby present its report and the audited consolidated financial statements of the Group for the fiscal year ended 31 December 2010.

1. PRINCIPAL ACTIVITIES

The Group is principally engaged in the provision of banking and related financial services. Details of the Group's operating results by business segments for the year is set out in Note 42 to the Consolidated Financial Statements.

2. RESULTS AND PROFIT DISTRIBUTION

The operating results of the Group for the year are set out in the Consolidated Statement of Comprehensive Income on page 119.

The Bank made an interim dividend payment of RMB0.10 per share (before tax), totalling RMB5.626 billion based on its 56.260 billion A shares and H shares after the rights issue in 2010. This was approved, in accordance with the Bank's Articles of Association, at the twenty-seventh meeting of the Fifth Session of the Board of Directors held on 18 August 2010.

The Board of Directors has recommended that the Bank distribute 1 bonus share for every 10 shares held by the registered holders of the Bank's A shares and H shares. Based on the total number of shares outstanding of 56.260 billion shares as at 31 December 2010, this would translate into stock dividends of RMB5.626 billion and a cash dividend of RMB0.2 per 10 shares (before tax) which would translate into cash dividends of RMB1.125 billion.

The total amount of dividends distributed for the financial year ended 31 December 2010 was RMB12.377 billion.

3. RESERVES

Changes in the Group's reserves during the year are set out in the Consolidated Statement of Changes in Equity on page 122.

4. CHARITABLE DONATIONS

Charitable donations and sponsorships made by the Group during the year 2010 amounted to RMB145.57 million (2009: RMB135.03 million)

5. FIXED ASSETS

Changes in the Group's fixed assets during the year are set out in Note 22 to the Consolidated Financial Statements.

6. SHARE CAPITAL AND PUBLIC FLOAT

Details of the Bank's share capital during the year are set out in Note 31 to the Consolidated Financial Statements.

During 2010 and for the period up to the latest practicable date prior to the printing of this annual report, the Bank has fulfilled the minimum public float requirement of the Hong Kong Listing Rules, based on the information that is publicly available to the Bank and within the knowledge of the Directors.

7. FINANCIAL SUMMARY

A summary of the operating results, assets and liabilities of the Group for the last 5 financial years is set out on page 2.

8. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of the Directors, Supervisors and senior management of the Bank are set out on pages 68 to 81 of this Annual Report. The Bank has received an annual confirmation of independence from each of the Independent Non-executive Directors, and considers each of them to be independent.

9. BOARD COMMITTEES

Please refer to the "Corporate Governance Report" set out on pages 96 to 110 of this Annual Report.

10. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACT

None of the Directors or Supervisors of the Bank has entered into any service contract with the Bank or its subsidiaries which would entails compensation if terminated (other than statutory compensation).

11. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE FIVE HIGHEST PAID INDIVIDUALS OF THE BANK

Details of the emoluments of the Directors, Supervisors and the five highest paid individuals of the Bank are set out in Note 13 to the Consolidated Financial Statements.

12. INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS OF SIGNIFICANCE

During the Reporting Period, neither the Bank nor its subsidiaries have entered into any significant contracts in which the Directors and Supervisors have any significant direct or indirect interest with any entity within the Group.

13. MANAGEMENT CONTRACT

During the Reporting Period, the Bank has not entered into nor has any existing contract for the provision of management services of the whole or any part of the Bank's business.

14. INTERESTS OF DIRECTORS, SUPERVISORS IN COMPETING BUSINESS OF THE BANK

During the Reporting Period, none of the Directors or Supervisors of the Bank had any interest in any business that compete or is likely to compete, whether directly or indirectly, with the Bank's business.

15. INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Shares held at beginning of the year	Change of shares held in the Reporting Period	Shares held at end of the year	Reason of change	Category
Yang Dongping	Chief Risk Officer	75,000	11,200	86,200	Rights issue	A shares

As at 31 December 2010, other than disclosed above, none of the Bank's Directors, Supervisors and Chief Executive had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO), or which were required to be entered in the register pursuant to section 352 of the SFO, or which were required, pursuant to Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Hong Kong Listing Rules, to be notified to the Bank and the Hong Kong Stock Exchange.

16. INTERESTS OF SUBSTANTIAL SHAREHOLDER

Interests of substantial shareholders of the Bank are set out in the section headed "Changes in Share Capital and Substantial Shareholder" in this Annual Report.

17. PURCHASE, SALE AND REDEMPTION OF SHARES OF THE BANK

During the Reporting Period, neither the Bank nor any of its subsidiaries purchased, sold or redeemed any shares of the Bank.

18. PRE-EMPTIVE RIGHTS AND SHARE OPTION ARRANGEMENTS

There are no mandatory provisions regarding pre-emptive rights under the Bank's Articles of Association and the relevant laws and regulations of the People's Republic of China and currently the Bank does not have any arrangement with respect to share option either.

19. ISSUE OF SHARES AND DEBENTURES

Pursuant to the first Extraordinary General Meeting for 2010, the first A share class General Meeting for 2010 and the first H share class General Meeting for 2010 on 20 April 2010 and with the approval of the domestic and foreign regulatory authorities, the Bank executed the rights issue for A and H shares, of which the A share rights issue of 3,805,587,475 shares was completed in June 2010 and the shares were listed and traded as at 30 June 2010 and the H share rights issue of 3,459,670,220 shares was completed in July 2010 and the shares were listed and traded as at 19 July 2010. Upon completion of the rights issue, the share capital of the Bank was increased to 56,259,641,398 shares.

Except for the rights issue as mentioned above, the Bank and its subsidiaries have not issued, redeemed or granted any convertible securities, options, warrants or other rights during the Reporting Period.

20. SHARE APPRECIATION RIGHTS

As part of the incentive scheme, the Bank has granted to members of senior management share appreciation rights. These share appreciation rights issued do not involve any issue of new shares or dilution of existing shareholders' equity. Details of the share appreciation rights are set out in Note 13 to the Consolidated Financial Statements.

As at 31 December 2010, the Bank has not granted to its Directors, Supervisors, chief executive nor their spouses or dependents under 18 years old any rights to subscribe for the shares or debentures of the Bank or any of its subsidiaries and associated companies, nor have any such rights to subscribe for the above shares or debentures been exercised by them. The Bank and its subsidiaries also have not entered into any agreement or arrangement whose arrangement was to enable the Directors, Supervisors, chief executive nor their spouses or dependents under 18 years old to acquire benefits by means of the acquisition of shares in, or debentures of the Bank or any other corporate.

21. MAJOR CUSTOMERS

During the Reporting Period, the total interest income and other operating income from the five largest customers of the Group accounted for less than 2% of the Group's total interest income and other operating income. None of the Bank's Directors, their associates or shareholders (which, to the knowledge of the Directors, owns more than 5% of the Bank's issued share capital), have any beneficial interest in the Bank's five largest customers.

22. INCOME TAXES

In accordance with the Letter on Matters Concerning the Taxation Levied on Dividends Derived by Foreign Individuals Holding Shares of Listed Companies Incorporated in PRC (Guoshuihan [1994] No. 440) published by the State Administration of Taxation, foreign individuals holding H Shares are exempted from paying personal income tax for dividends obtained from companies incorporated in PRC that issue H shares.

As stipulated by the Notice on Issues relating to Enterprise Income Tax Withholding over Dividends Distributable to Their H Share Holders Who are Overseas Non-resident Enterprises by Chinese Resident Enterprises published by the State Administration of Taxation (Guoshuihan [2008] No. 897), when Chinese resident enterprises distribute annual dividends for the year 2008 and years thereafter to their H-Share holders who are overseas non-resident enterprises, the enterprise income tax shall be withheld at a uniform rate of 10%. Non-resident enterprises may apply for tax refund in accordance with relevant provisions including taxation agreement (arrangement) after receiving dividends. Shareholders should consult their tax advisers regarding the PRC, Hong Kong and other tax consequences of owning and disposing of the H Shares.

23. CONTINUING CONNECTED TRANSACTIONS

As HSBC is a substantial shareholder of the Bank, HSBC and its subsidiaries (the "HSBC Group") are connected persons of the Bank. The Bank and its subsidiaries have regularly engaged in various kinds of transactions in the normal course of banking business with HSBC, for example, on sales and purchases of bonds, sales and purchases of money market instruments, foreign currency transactions, swap and option transaction, factoring and third party loans guaranteed by the HSBC Group.

To regulate the abovementioned continuing transactions, the Bank has entered into an interbank transactions master agreement (the "Interbank Transactions Master Agreement") with HSBC on 16 June 2008 pursuant to which HSBC and the Bank agree to conduct continuing connected transactions (the "Continuing Connect Transactions") in accordance with applicable market interbank practices and on arms-length commercial terms.

There is no fixed price or rate for the transactions set out in the Interbank Transactions Master Agreement. The parties agreed to apply the prevailing market prices or rates normally used by independent counterparties for the same type of transaction when transacting pursuant to the Interbank Transactions Master Agreement. The factoring transactions and guarantee transactions under the Interbank Transactions Master Agreement were exempt transactions under the Hong Kong Listing Rules. The factoring transactions are exempt from the reporting, annual review announcement and independent shareholders' approval requirements pursuant to Rule 14A.33(3) of the Hong Kong Listing Rules, whereas the guarantees provided by the HSBC Group to the Bank's branches for third-party loans are exempt from the reporting, annual review announcement and independent shareholders' approval requirements under Rule 14A.65(4) of the Hong Kong Listing Rules.

Bonds, money market instruments, foreign currency and swap and option transactions entered into between the Group and the HSBC Group under the Interbank Transactions Master Agreement ("Non-exempt Continuing Connected Transactions") constitutes non-exempt continuing connected transactions under Rule 14A.34 of the Hong Kong Listing Rules and are only subject to the reporting and announcement requirements and are exempt from the independent shareholders' approval requirement under the Hong Kong Listing Rules. For the financial year ended 31 December 2010, the Non-exempt Continuing Connected Transactions have not exceeded their respective annual caps and are as follow:

(1) Each of the realised gains, realised losses and unrealised gains or losses (as the case may be) arising from the Non-exempt Continuing Connected Transactions has not exceeded RMB1.569 billion.

(2) The fair value of the derivative financial instruments entered into with the HSBC Group (whether recorded as assets or liabilities) under the Non-exempt Continuing Connected Transactions has not exceeded RMB10.415 billion.

Upon careful review of the Continuing Connected Transactions, each of the Independent Non-executive Director considers that the Continuing Connected Transactions were entered into by the Group are:

(1) in the ordinary and usual course of business of the Bank;

(2) either on arms-length commercial terms or if there are not sufficient comparable transactions to judge whether they are on arms-length commercial terms, from the Bank's prospective, on terms no less favourable to the Bank than terms available to or from (as appropriate) independent third parties; and

(3) in accordance with the Interbank Transactions Master Agreement and on terms that are fair and reasonable and in the interests of the shareholders of the Bank as a whole.

The auditors have issued a letter to the Board of Directors of the Bank confirming that:

(1) the Non-exempt Continuing Connected Transactions have received the approval of the Board of Directors of the Bank;

(2) the Non-exempt Continuing Connected Transactions were in accordance with the pricing policies of the Bank;

(3) the Non-exempt Continuing Connected Transactions have been entered into in accordance with the terms of the Interbank Transactions Master Agreement; and

(4) the Non-exempt Continuing Connected Transactions have not exceeded their respective annual caps set out above for the year ended 31 December 2010.

Save as disclosed above, there is no related party transaction or continuing related party transaction included in Note 41 to the Consolidated Financial Statements that constitute a connected transaction or continuing connected transactions under the Hong Kong Listing Rules. The Bank has complied with the disclosure requirements of the Hong Kong Listing Rules in respect of the disclosure of its connected transactions and continuing connected transactions in force from time to time.

During the Reporting Period, the transactions between the Bank and HSBC are as set out below:

(1) As at 31 December 2010, the aggregate balance of deposits placed in and loans to HSBC by the Bank amounted to RMB602 million, and the interest income arising from these deposits and loans were approximately RMB13 million in 2010.

(2) As at 31 December 2010, the aggregate balance of deposits placed in and loans to the Bank by HSBC amounted to RMB10.368 billion, and the interest expenses arising from these deposits and loans were approximately RMB38 million in 2010.

The transactions set out in items (1) and (2) above are exempt from complying with the reporting, annual review announcement and independent shareholders' approval requirements under Rule 14A.65(1) or Rule 14A.65(4) of the Hong Kong Listing Rules.

24. USE OF PROCEEDS FROM PUBLIC OFFERINGS

In June 2005, the Bank issued 6,733.970 million H shares (including the over-allotment of 878.340 million shares) in its overseas public offering, raising net proceeds of approximately RMB17.290 billion.

In April 2007, the Bank issued 3,190,350,487 A shares in its domestic public offering, raising net proceeds of approximately RMB24.750 billion.

In June 2010, the Bank executed an A and H shares rights issue domestically and overseas, involving the issuance of 3,805,587,475 A shares which raise net proceeds of approximately RMB17 billion and the issuance of 3,459,670,220 H shares which raise net proceeds of approximately RMB15.356 billion.

All the proceeds raised by the Bank were used to enhance the capital base of the Bank.

25. WORK PERFORMED BY THE AUDIT COMMITTEE AND HUMAN RESOURCE AND REMUNERATION COMMITTEE

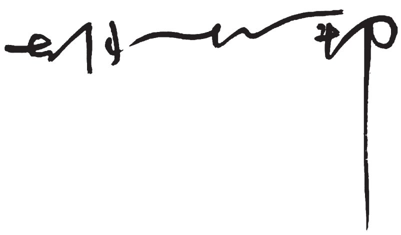
The work performed by the Audit Committee and the Human Resource and Remuneration Committee of the Bank are set out in the "Corporate Governance Report" of this Annual Report.

26. AUDITORS

The Group's financial statements for the year 2010 prepared in accordance with China Accounting Standard were audited by Deloitte Touche Tohmatsu, while the Group's financial statements for the year 2010 prepared in accordance with International Financial Reporting Standards were audited by PricewaterhouseCoopers.

There is no change in auditors of the Bank for the past three years.

By order of the Board
Chairman



30 March 2011, Dongguan, PRC

Report of the Supervisory Committee

In 2010, in accordance with the requirements of the Company Law and the Bank's Articles of Association etc., the Supervisory Committee monitored the Board of Directors' execution of resolutions approved at General Meetings of shareholders and other decisions made within the Board's authority. The Supervisory Committee also monitored senior management's implementation of resolutions approved at General Meetings of shareholders and the Board of Directors meetings as well as the business activities senior management carries out within its authority. At the same time, the Supervisory Committee also intensified its supervision on the discharge of duties by the Board of Directors, senior management and its members while closely monitoring areas such as the Bank's financials, internal controls and risk management to safeguard the interests of shareholders and the Bank and. The Supervisory Committee also increased its capability to execute its duties and strengthened its own development.

1. MAIN RESPONSIBILITIES OF THE SUPERVISORY COMMITTEE

During the Reporting Period, the Supervisory Committee fulfilled its supervisory responsibilities through Supervisory Committee meetings, discharge of duties interviews and seminars, discharge of duties assessments; attendance at General Meetings of shareholders, Board of Directors meetings, special committees' meetings, participation in meetings of the President's Office, quarterly business review/analysis meetings. It also received work progress reports from senior management and the relevant branches and departments, carried out on-site inspections, reviewed financial information such as periodic reports and analysed business data and reviewed internal and external investigation reports. The Supervisory Committee has performed its duties in an effective and diligent manner and has comprehensively carried out its supervisory duties.

(1) Continuous enhancement of work the over supervision of discharge of duty. Through interviews with all Directors and senior management, seminars with representatives of the regulatory authorities and management from branches and departments, providing evaluation forms to the relevant attendees of Board meetings and reviewing annual discharge of duty reports for individual directors and senior management, the Supervisory Committee was able to consolidate the results of its daily supervision and prepared the "Supervisory Committee's Appraisal of the Discharge of Duties by the Board of Directors and senior management for 2010" for consideration at Board of Directors meetings and submission to the CBRC. It also completed its "Discharge of Duty Appraisal for 2010" for individual Directors and senior management. The Supervisory Committee also prepared appraisal reports for Mr. Li Jun during his term as the President and Mr. Peng Chun during his term as the Vice President as well as for Ms. Laura M. Cha, Mr. Yang Fenglin, Mr. Xie Qingjian, Mr. Ian Ramsay Wilson, and Mr. Thomas Joseph Manning during their term as Directors. The appraisal reports were submitted to the CBRC, CBRC Shanghai Office, CSRC Shanghai and Shanghai Stock Exchange in accordance with the requirements of the "Guidance on Corporate Governance of and Relevant Supervisions on State-owned Commercial Banking Corporations", the "Guidance on Corporate Governance of Joint Stock Commercial Banking Corporations" and the "Guidance on Appointment and Behaviour of Directors".

(2) Diligent discharge of financial supervisory duties. During the Reporting Period, the Supervisory Committee diligently reviewed financial information such as periodic reports and the profit distribution plan. It reviewed and analysed the relevant business statistics, attended discussions of the Supervisory Committee's Financial and Internal Control Committee and discussed with the auditors over their report on items such as key areas, significant events and material adjustments and management recommendations. The Supervisory Committee also discussed with the Budget and Financial Department with regards to the preparation of the financial statements as well as any material variances from prior year. The Supervisory Committee also closely monitored the potential risk over parts of its credit portfolio and the execution of post-loan management, treasury operations profitability, formalised management over financial expenses and the liquidity risk and proposed improvements.

(3) Continued strengthening of supervision over risk management and internal controls. Firstly, based on in-depth research of field operations, the Supervisory Committee proposed improvements on compliance and risk management of the Bank. Secondly, for areas such as business strategy of overseas branches, liquidity management, joint operation and development of the business, internal control and risk prevention management, the Supervisory Committee proposed different categories of guidances focusing on integrated management, expanded financing channels, and evaluated different suggestions to resolve the shortage of liquidity. Thirdly, the Supervisory Committee continually focused on compliance with "Basic Principle of Business Internal Control" issued by Ministry of Finance. It carefully reviewed "Self-evaluation Report on Internal Control" prepared by the Bank, and emphasised that the Bank should focus on reporting the overall situation and improvement of the internal control measures, This in turn would enhance process monitoring and vertical management, and improve emergency response capabilities. Fourthly, the Supervisory Committee raised the issue on the simplicity of the "Fixed Assets Investment Plan" and inadequacies on the preparation and execution, the Supervisory Committee also advised on strengthen abilities of the Board of Directors regarding investment budgeting.

(4) Strengthened the overall supervision of the Group. Firstly, the Supervisory Committee developed a "Guidance on the work for the Supervisory Committee of subsidiaries" to define in details areas such as work responsibility, reporting lines and discharge of duty evaluation for the Supervisory Committee of subsidiaries. Secondly, work exchanges between the Supervisory Committees for subsidiaries was enhanced, emphasised on important issues relating to Group's integrated development and promoted the smooth progress of its supervisory work. Thirdly, review of supervisory information such as new problems arising from operations management and regulatory and disciplinary violations and their corresponding mitigation measures through Head Office inspection reports and joint supervisory working meetings.

(5) Further enhancements to the work of the Supervisory Committee. The Supervisory Committee improved their procedures by developing the "Supervisory Committee Implementation Plan for the Reporting on the Discharge of Duties by ex-Directors". This paper further defined the content of the performance report, requirements of the report, and determined the work flow of report preparation. Secondly, the Supervisory Committee successfully completed the election of the Supervisory Committee, and reorganized the Financial and Internal Control Supervision Committee and the Nomination Committee, in accordance with professional strengths of the supervisors. Thirdly, the Supervisory Committee focused on self-development via hosting of Capital Market Business and Risk Management Training. It also facilitates its supervisors to attend professional training sessions held by CBRC Shanghai Office, as well as various in-house trainings. The Supervisory Committee also performed intensive research in order to gain further understanding of business and operation to increase the competency of the Supervisors.

(6) Continued its focus on issues common to the industry. Following the submission of its "Report on the business risk surrounding the introduction of the bank's acceptance bill product focusing on the use of credit capital to offset guarantee fees" in 2006. During the year, the Supervisory Committee submitted another report to the CBRC titled "Advice on improving management of note financing business", to highlight the issuance of bill discounting without real trading transaction from financial institutions and entities. Such behaviour would result in increasing bank loans that do not support the real economy. It may also mislead decision making due to inflated loans and accumulation of operational risk, credit risk and reputation risk of the Bank. The Supervisory Committee suggested that the CBRC amend regulations on bank acceptances.

The Board of Directors and senior management highly values the supervisory work performed by the Supervisory Committee. And they actively report their progress to the Supervisory Committee. The Board of Directors, the Supervisory Committee and senior management worked in harmony to further enhance corporate governance of the Bank.

2. MEETINGS OF THE SUPERVISORY COMMITTEE

In 2010, the Supervisory Committee convened six meetings on 25 March, 30 March, 29 April, 1 July, 18 August, 19 August and 28 October. The Supervisory Committee was briefed by senior management on compliance risk management and overseas branch operations. It also presented the contents in "Opinions arising from On-site Inspection of Bank of Communication in 2009 by CBRC", "Follow up Report on Improvement Points of Senior Managements' Duties by the Supervisory Committee 2009" and election results of the Employee Representative Supervisors. During the Meetings of the Supervisory Committee, 21 resolutions were approved, including the "2009 Report of the Supervisory Committee", a report presented during the General Meeting of shareholders.

(1) With regards to the monitoring of the discharge of duties, the Supervisory Committee approved two reports: "Opinion of the Supervisory Committee on the Discharge of Duty by the Board of Directors and Senior Management in 2009" and "Bank of Communications Implementation Plan for the Reporting on the Discharge of Duties by ex-Directors".

(2) With regards to the monitoring of revenue and expenditures, the Supervisory Committee have approved the eight following reports: “Annual Report for 2009”, “Management Accounts for 2009”, “Profit Distribution Plan for 2009”, “First Quarter Result Announcement for 2010”, “Interim Report for 2010”, “Semi-annual Profit Distribution Plan for 2010”, “Special Report on Proceeds Placement and Usage in the First Half-year of 2010”, and “Third Quarter Result Announcement for 2010”.

(3) With regards to the election of a new Supervisory Committee and self-development, the Supervisory Committee have approved the following eight reports: “Proposal on Election of Mr. Hua Qingshan as the Chairman of the Sixth Session of the Supervisory Committee”, “Proposals on Candidates for the Sixth Session of the Supervisory Committee”, “Proposal on forming the Discharge of Duty Committee of the Sixth Session of the Supervisory Committee”, “Proposal on Forming Nomination Committee of the Sixth Session of the Supervisory Committee”, “Proposal on Forming Financial and Internal Control Committee of the Sixth Session of the Supervisory Committee”, “Report of Self-evaluation on Duties Performed by the Supervisory Committee for 2009”, “Work Plan of the Supervisory Committee for 2010”, and “Proposal on Revision of Working Procedures for the Nomination Committee and Financial & Internal Control Committee”

In addition, the Supervisory Committee approved the “Internal Control Self-Appraisal Report for 2009” and the “Corporate Social Responsibility Report for 2009” in accordance to regulatory requirements.

The Discharge of Duty Monitoring Committee of the Supervisory Committee had convened three meetings and discussed the “Guidelines of Report on Directors’ Discharge of Duty”, “Work Plan for the Board of Directors and Senior Management 2010”, and summary of interviews with Directors and senior management.

The Nomination Committee of the Supervisory Committee has convened two meetings and approved the “Work Plan of the Nomination Committee of the Supervisory Committee for 2010”, discussed “Appraisal Report of Discharge of Duty for the Supervisory Committee for 2009”, and reviewed the qualifications of candidates of the members of the Sixth Session of the Supervisory Committee.

The Financial and Internal Control Committee of the Supervisory Committee has convened four meetings and discussed the “ Work Plan of the Financial and Internal Control Committee of the Supervisory Committee for 2010”, periodical reports, proposal of profit allocation, and “Internal Control Self-Appraisal Report for 2009”.

Attendance at Supervisory Committee Meetings by Supervisory Committee members

Members of the Supervisory Committee	Attendance in person	Attendance Percentage %
Hua Qingshan	6/6	100
Zheng Li	6/6	100
Jiang Zuqi	5/6	83.33
Gu Huizhong	2/2[1]	100
Guo Yu	1/2[1]	50
Yang Fajia	4/6	66.67
Chu Hongjun	2/2[1]	100
Li Jin	5/6	83.33
Yan Hong	4/6	66.67
Liu Sha	6/6	100
Chen Qing	6/6	100
Shuai Shi	6/6	100
Du Yarong	2/2[1]	100
Guan Zhenyi	2/4[2]	50
Wang Lisheng	4/4[2]	100
Average attendance percentage		**86.67**

Note:

1. Mr. Gu Huizhong, Mr. Guo Yu, Mr. Chu Hongjun, and Mr. Du Yarong were appointed as Supervisors of the Bank since 19 August 2010.
2. Mr. Guan Zhenyi and Ms. Wang Lisheng resigned as Supervisors of the Bank since 19 August 2010.

3. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS

(1) Truthfulness of the financial statements

The financial statements present, truly and fairly, the financial position and operating results of the Bank.

(2) Use of proceeds

During the Reporting Period, the Bank launched a rights issue to all its A shares and H shares shareholders at the ratio of 1.5 shares for every 10 shares held. The total proceeds raised was RMB32.623 billion. Excluding issuance costs of RMB267 million incurred, the net proceeds raised was RMB32.356 billion. The net proceeds raised were used to increase the Bank's capital, which is consistent with the Bank's commitment.

(3) Acquisition and disposal of assets

During the Reporting Period, pursuant to the approval from the Board of Directors, the Bank paid RMB137.20 million and purchased the shares of BoCommLife Insurance held by the China Life Insurance (Group) Company. It paid RMB44.6085 million and purchased 11.5% of the shares of BoCommLife Insurance that were held by Commonwealth Bank Group. The Bank also made a capital injection of RMB187.50 million into BoCommLife Insurance whose share capital increased to RMB500 million and the Bank now holds 62.5% of the share capital of BoCommLife Insurance. The Bank made a capital injection of RMB2 billion into the Bocom Leasing whose share capital increased to RMB4 billion and the Bank now holds 100% of the shares. The Supervisory Committee is not aware of any acquisition or disposal of assets by the Bank which may damage the interest of the shareholder or which may cause a loss to the Bank's assets.

(4) Related party transactions

During the Reporting Period, the Supervisory Committee is not aware of any related party transactions entered into by the Bank that would damage the interest of the Bank or its shareholder.

(5) The Auditors' report

PricewaterhouseCoppers and Deloitte Touche Tohmatsu CPA have issued unqualified audit reports on the financial position and operating results of the Bank in 2010 and the Supervisory Committee has no objection to the report.

(6) Execution of resolutions approved at the Shareholders' General Meeting

The Supervisory Committee has no objection to the various resolutions proposed in the Shareholders' General Meeting and considered the Board of Directors to have effectively executed the resolutions approved at the Shareholders' General Meetings during the Reporting Period.

(7) Implementation of information disclosure

During the Reporting Period, the Bank welcomes the supervision by the public and made 4 quarterly announcements of results in Shanghai and Hong Kong in compliance with applicable laws and made 42 and 38 announcements regarding price sensitive information such as corporate government and significant investment plans in compliance with the Hong Kong Listing Rules of the Shanghai Stock Exchange and the Hong Kong Listing Rules, respectively. The Supervisory Committee has not identified any false records, misleading statements or material omissions.

(8) Internal control system

During the Reporting Period, the Bank accorded great importance to the development of its internal control system and strived to enhance and improve its internal controls. The Supervisory Committee has no objection to the "Internal Control Self-Appraisal Report 2010" of the Bank.

(9) Fulfilling of corporate social responsibilities

The Bank has discharged its corporate social responsibilities during the Reporting Period by following the nation's macroeconomic policy adjustments, increasing its support on major state projects, key reforms projects and on new and emerging businesses; following the national development policy of promoting Green Credit; accomplishing its responsibilities for Shanghai World Expo satisfactorily. The Supervisory Committee has no objection to the "2010 Corporate Social Responsibility Report".

(10) Compliance with applicable laws

During the Reporting Period, the Board of Directors and senior management were diligent, hardworking and prudent and no instances of any breach of laws or regulations which would damage the interests of the Bank and shareholders have been identified.

The Bank has diligently implemented the nation's macroeconomic policy adjustments, and the Bank's strategy of becoming "a first class listed universal banking group focusing on international expansion and specialising in wealth management", continuously improved its customer structure, implemented a regionalised development strategy enhanced enterprise risk management, enhanced Head Office organizational structure and functions, enforced the integration of outlets, e-banking and accounts managers, fully committed to the "531 Project" with the aim of developing a new generation information system, and accomplished its responsibilities for the Shanghai World Expo satisfactorily. The level of operations management was steadily improved as the above-mentioned work progressed in order. However, faced with the complex and volatile global economic and financial environment, the Bank should perform an in-depth analysis of the "Twelfth Five-year Plan" with regards to its requirements over the deepening of reforms to the financial system, actively conceptualise its transformation to a capital efficiency and internal development business model. The Bank should actively develop its deposits business and strengthened the integrated management of its asset-liability maturity structure as well as continuously improve its liquidity management. It should also promote its work over compliance with the New Based Capital Accord and continuously enhance its enterprise risk management mechanism. The Bank should continue to work towards its strategy of becoming "a first class listed universal banking group focusing on international expansion and specialising in wealth management.

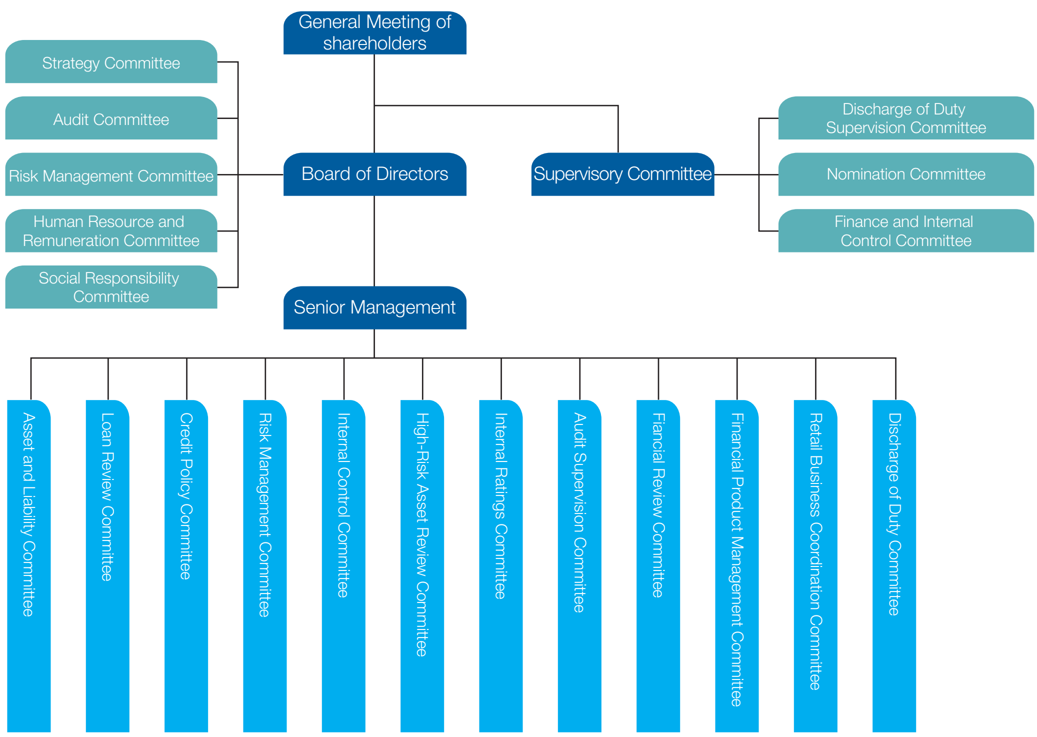
Corporate Governance Report

The Bank believes that a sound corporate governance framework is critical for the stability and effective operation of a commercial bank as well as for maintaining investor confidence. The Bank has committed itself to developing a corporate governance framework that is in line with international standards and also applicable to the Bank's unique circumstances. In 2010, the Bank fully complied with the relevant laws and regulations such as the Company Law as well as rules and guidelines promulgated by domestic and overseas regulatory authorities to protect the legal interest of shareholders and other stakeholders. The Bank duly elected new members of the Board of Directors and the Supervisory Committee, continuously optimised its corporate governance structure, further enhanced its governance principles and practices, and reinforced its risk management and internal control framework. Furthermore, the Bank continued to strengthen its investor relationship management and promote transparency of disclosure. The Bank has been active in fulfilling its social responsibilities and further developing its corporate culture and branding. In 2010, the Bank continued to follow up on the results of several special governance projects, and no there are no open issues issue remaining.

The Director of the Bank confirmed that the Bank has fully complied with the principles and provisions stipulated in Appendix 14 to the Hong Kong Listing Rules — the Code on Corporate Governance Practices (the "Code") for the year ended 31 December 2010, and has also followed most of the best practices recommended by the Code.

1. CORPORATE GOVERNANCE STRUCTURE

The Bank has established an effective, balanced and independent corporate governance structure, with clearly defined roles and responsibilities for the General Meetings, Board of Directors, Supervisory Committee and senior management (refer to chart below).



2. SHAREHOLDERS AND GENERAL MEETINGS OF SHAREHOLDERS

As at 31 December 2010, the total issued share capital of the Bank was 56.26 billion shares, consisting of 52.85% A shares and 47.15% H shares. There is no controlling shareholder in the Bank. The largest shareholder, the Ministry of Finance, and the second largest shareholder, HSBC, held 26.52% and 19.05% of the total shares respectively. The Bank is independent from all shareholders in terms of its business, employees, assets, institutions and finance, and possess independent and complete autonomy over its business and operations. The Bank is listed on the exchange as a whole and therefore will not result in market competition and related party transactions.

The General Meeting of shareholders is the highest authority making body of the Bank. During the Reporting Period, the Bank held two General Meetings of shareholders. On 20 April 2010, the first Extraordinary General Meeting, the first A share class General Meeting of shareholders for 2010, and the first H share class General Meeting of shareholders for 2010 were held in Shanghai. On 19 August 2010, the 2009 Annual General Meeting was held in Shanghai. Individual matters were raised in separate proposals and were resolved by vote. The results for the matters voted on during those meetings had been published on the official websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Bank, respectively, and had also been published on China Securities Journal, Shanghai Securities News and Securities Times. All resolutions passed at the General Meetings of shareholders have been executed.

3. BOARD OF DIRECTORS AND SPECIAL COMMITTEES UNDER THE BOARD OF DIRECTORS

(1) Responsibilities of the Board of Directors

The Board of Directors is the strategic decision making body of the Bank and is responsible to the shareholders. Its main responsibilities include, but not limited to, convening shareholders' general meetings and reporting on the Bank's performance at such meetings, executing the resolutions approved in the Shareholders' General Meetings and formulated business plans and investment strategies. The Board also reviews and monitors the performance of the President.

All Directors of the Bank are committed to protecting the interest of the shareholders and other stakeholders, and improving the standards of the Board's practices, displaying a high level of professionalism and competence. The Board of Directors diligently follow the "Delegation Proposal to the Board of Directors in the Shareholders' General Meeting" when making important decisions. During the Reporting Period, the Board focused on 6 key areas: first, reinforced the strategy of 'being as a first class listed universal banking group focusing on international expansion and specializing in wealth management', improving the group's overall competitiveness; second, continued to optimise the corporate governance structure and enhance the governance principles and practices; third, upgraded the overall risk management framework to balance quality with speed of growth in business development; fourth, increased its capital base by completing the rights issue of A and H shares; fifth, provided adequate information disclosure in accordance with the relevant regulations, facilitating better communications with investors and analysts; sixth, fulfilled its social responsibilities as a corporate citizen by providing financial related services for Shanghai World Expo.

(2) Composition of the Board of Directors

The Board of Directors completed its term at the 2009 Annual General Meeting. The Shareholders elected the members for the Sixth Session of the Board of Directors by vote in August 2010. The term of the Sixth Session of the Board of Directors will be until the 2012 Annual General Meeting. As at the end of 2010, the Board of Directors comprised of 17 members, including four Executive Directors, namely Mr. Hu Huaibang, Mr. Niu Ximing, Mr. Qian Wenhui, and Mr. Wang Bin; seven Non-executive Directors, namely Mr. Zhang Jixiang, Mr. Hu Huating, Mr. Qian Hongyi, Mr. Peter Wong Tung Shun, Ms. Anita Fung Yuen Mei, Mr. Ji Guoqiang and Mr. Lei Jun; six Independent Non-executive Directors, namely Mr. Chen Qingtai, Mr. Li Jiaxiang, Mr. Gu Mingchao, Mr. Wang Weiqiang, Mr. Peter Hugh Nolan and Mr. Chen Zhiwu. The Bank's Independent Non-executive Directors accounted for one-third of the total number of Directors, which met the relevant regulatory requirements. Please refer to the "Directors, Supervisors, Senior Management and Staff" section in this Annual Report for the biographical details of the Directors. Their individual profiles are also available on the Bank's website.

The Chairman of the Board of Directors is Mr. Hu Huaibang. Mr. Niu Ximing serves as the Vice Chairman of the Board of Directors and the President of the Bank. The roles of the Chairman and the President are mutually independent and each of them have clearly defined roles and responsibilities.

(3) Meetings of the Board of Directors

The Bank has formulated the "Procedural Rules of the Board of Directors' Meeting" to clearly outline matters in respect of the requirements for convening and giving notice for a meeting, the procedures, agenda and minutes of the meeting and so on. During the Reporting Period, the Board of Directors of the Bank held eleven meetings (including seven physical meetings and four meetings via correspondence) and passed 58 resolutions. Details are as follows:

The Twenty-first Meeting of the Fifth Session of the Board of Directors was conducted via correspondence from 5 to 12 February 2010. The Twenty-second Meeting of the Fifth Session of the Board of Directors was convened in Shanghai (physical site) with Nanjing & Beihai joined through teleconference on 23 February. The Twenty-third Meeting of the Fifth Session of the Board of Directors was convened in Shenzhen on 30 March 2010. The Twenty-fourth Meeting of the Fifth Session of the Board of Directors was convened in Shanghai (physical site) with Hong Kong and Xi'an joined through teleconference on 29 April 2010. The Twenty-fifth Meeting of the Fifth Session of the Board of Directors was convened in Shanghai (physical site) with Hong Kong and Shenzhen joined through teleconference on 29 June 2010. The Twenty-sixth Meeting of the Fifth Session of the Board of Directors was conducted via correspondence from 14 to 23 July 2010. The Twenty-seventh Meeting of the Fifth Session of the Board of Directors was convened in Shanghai (physical site) with Hong Kong and Shenzhen joined through teleconference on 18 August 2010. The First Meeting of the Sixth Session of the Board of Directors was convened in Shanghai (physical site) with Hong Kong joined through teleconference on 19 August 2010. The Second Meeting of the Sixth Session of the Board of Directors was conducted by way of a meeting in circulation from 10 to 17 September 2010. The Third Meeting of the Sixth Session of the Board of Directors was convened in Shanghai (physical site) with Beijing joined through teleconference on 28 October 2010. The Fourth Meeting of the Sixth Session of the Board of Directors was conducted via correspondence from 22 to 31 December 2010.

All the aforementioned meetings were held in compliance with the Bank's Articles of Association, the "Procedural Rules of the Board of Directors' Meetings" and the code provisions of the Hong Kong Stock Exchange's Code on Corporate Governance Practices.

The summary of attendance at the meetings of the Board of Directors by the Directors during the Reporting Period is as follow:

Director	Attendance at Meetings	Attendance Percentage (%)
Executive Directors		
Hu Huaibang	11/11	100
Niu Ximing	11/11	100
Qian Wenhui	11/11	100
Wang Bin	7/7	100
Peng Chun	3/3	100
Non-executive Directors		
Zhang Jixiang	11/11	100
Hu Huating	11/11	100
Qian Hongyi	11/11	100
Peter Wong Tung Shun	11/11	100
Anita Fung Yuen Mei	1/1	100
Ji Guoqiang	11/11	100
Lei Jun	11/11	100
Laura M. Cha	7/7	100
Yang Fenglin	7/7	100
Independent Non-executive Directors		
Chen Qingtai	11/11	100
Li Ka-cheung Eric	11/11	100
Gu Mingchao	11/11	100
Wang Weiqiang	1/1	100
Peter Hugh Nolan	1/1	100
Chen Zhiwu	1/1	100
Xie Qingjian	7/7	100
Ian Ramsay Wilson	7/7	100
Thomas Joseph Manning	7/7	100
Average attendance percentage		**100**

Note:

1. Mr. Peng Chun resigned as the Executive Director and Vice-President of the Bank on 21 April 2010. Mr. Wang Bin was appointed as the Executive Director in the Twenty-fourth Meeting of the Fifth Session of the Board of Directors on 29 April 2010 and the term ended on the 2009 Annual General Meeting. Mr. Wang Bin's appointment was approved by the CBRC on 17 June 2010.
2. The Fifth Session of the Board of Directors completed their term on the 2009 Annual General Meeting. The Sixth Session of the Board of Directors were elected by vote in the 2009 Annual General Meeting, comprising of Mr. Hu Huaibang, Mr. Niu Ximing, Mr. Qian Wenhui, Mr. Wang Bin as Executive Directors; Mr. Zhang Jixiang, Mr. Hu Huating, Mr. Qian Hongyi, Mr. Peter Wong Tung Shun, Ms. Anita Fung Yuen Mei, Mr. Ji Guoqiang and Mr. Lei Jun as Non-executive Directors; Mr. Chen Qingtai, Mr. Li Ka-cheung Eric, Mr. Gu Mingchao, Mr. Wang Weiqiang, Mr. Peter Hugh Nolan and Mr. Chen Zhiwu as Independent Non-executive Directors. The appointments of Anita Fung Yuen Mei, Wang Weiqiang, Peter Hung Nolan and Chen Zhiwu were approved by the CBRC on 18 November 2010.

(4) BOARD COMMITTEES

The Bank's Board of Directors has set up five Board Committees, being the Strategy Committee, the Audit Committee, the Risk Management Committee, Human Resource and Management Committee and the Social Responsibility Committee. The discharge of duty of the respective Board Committees are summarised as follows:

1. Strategy Committee. The Strategy Committee is primarily responsible for designing and developing the strategic plans for the Bank, formulating medium to long term development plans, significant equity investment proposals and capital management of the Bank. As at the end of 2010, the Strategy Committee comprises five members, including Mr. Hu Huaibang, Mr. Niu Ximing, Mr. Qian Wenhui, Mr. Wang Bin and Mr. Peter Wong Tung Shun. Mr. Hu Huaibang serves as the Chairman of the Strategy Committee. During the Reporting Period, the Strategy Committee held six meetings and discussed on subjects like A shares & H shares rights issue, capital planning, overseas investment and RMB bond issuance etc, and presented its recommendations to the Board of Directors. The summary of attendance at the meetings of the Strategy Committee is as follows:

Strategy Committee Members	Attendance	Attendance Percentage (%)
Hu Huaibang (Chairman)	6/6	100
Niu Ximing	6/6	100
Qian Wenhui	6/6	100
Wang Bin	4/4	100
Peng Chun	1/1	100
Peter Wong Tung Shun	6/6	100
Average attendance percentage		**100**

Note:

1. Mr. Peng Chun resigned as a member of the Strategy Committee on 21 April 2010. Mr. Wang Bin was appointed as a member of the Strategy Committee in the Twenty-fourth Meeting of the Fifth Session of the Board of Directors on 29 April 2010.
2. Mr. Hu Huaibang, Mr. Niu Ximing, Mr. Qian Wenhui, Mr. Wang Bin and Mr. Peter Wong Tung Shun were appointed as members of the Strategy Committee in the First Meeting of the Sixth Board of Director on 19 August 2010. Mr. Hu Huaibang was appointed as the Chairman of the Strategy Committee.

2. Audit Committee. The Audit Committee is mainly responsible for proposing the appointment, change or termination of the Bank's auditors, supervising the Bank's internal audit system and control implementation, acting as the communication channel between the Bank's internal and external auditors, reviewing the Bank's financial information and related disclosures, overseeing the Bank's accounting policies, financial conditions and financial reporting procedures, and monitoring the Bank's compliance management. As at the end of 2010, the Audit Committee of the Board of Directors comprised of four members, including Mr. Li Ka-cheung Eric, Mr. Qian Hongyi, Mr. Gu Mingchao and Mr. Chen Qingtai. Mr. Li Ka-cheung Eric, one of the Independent Non-executive Directors, serves as the Chairman of the Audit Committee. The number of Independent Non-executive Directors exceeded half of the total number of the Audit Committee members.

   During the Reporting Period, the Audit Committee held four meetings and discussed on subjects like periodical reports and results announcements, financial statements, profit distribution plan and internal control assessment reports, as well as the appointment of external auditors and presented its recommendations to the Board of Directors. The summary of attendance at the meetings of the Audit Committee is as follows:

Audit Committee Members	Attendance	Attendance Percentage (%)
Li Ka-cheung Eric (Chairman)	4/4	100
Qian Hongyi	4/4	100
Yang Fenglin	3/3	100
Chen Qingtai	4/4	100
Gu Mingchao	4/4	100
Average attendance percentage		**100**

Note: On 19 August 2010, Mr. Yang Fenglin ceased to be the Chairman of the Audit Committee upon completion of the service term of the Fifth Session of the Board of Directors. Mr. Li Ka-cheung Eric, Mr. Qian Hongyi, Mr. Gu Mingchao and Mr. Chen Qingtai were appointed as members of the Audit Committee at the First Meeting of the Sixth Session of the Board of Directors. Mr. Li Ka-cheung Eric serves as the Chairman of the Audit Committee.

3. Risk Management Committee. The Risk Management Committee is mainly responsible for supervising and controlling the Bank's credit, market and operational risks, performing periodic evaluations of the Bank's risk exposure, management issues, risk tolerance and capability, reviewing significant related-party transactions, significant fixed asset investments, asset disposals, asset pledges and external guarantees. It also presents its recommendations to the Board of Directors in relation to the possible enhancements on the Bank's risk management and internal controls. In addition, it is responsible for monitoring and reviewing significant related party transactions as well as the associated risks. As at the end of 2010, the Risk Management Committee comprised of five members, including Mr. Wang Weiqiang, Mr. Ji Guoqiang, Mr. Lei Jun, Mr. Peter Hugh Nolan and Mr. Chen Zhiwu. The Independent Non-executive Director, Mr. Wang Weiqiang, serves as the Chairman of the Risk Management Committee.

   During the Reporting Period, the Risk Management Committee held four meetings and reviewed quarterly risk assessment reports, "Operational Risk Management Policy", "Liquidity Risk Management Policy" and "Liquidity Risk" Index etc and presented its recommendations to the Board of Directors. The summary of attendance at the meetings of the Risk Management Committee is as follows:

Risk Management Committee Members	Attendance	Attendance Percentage (%)
Wang Weiqiang (Chairman)	—	—
Xie Qingjian	3/3	100
Ji Guoqiang	4/4	100
Lei Jun	4/4	100
Ian Ramsay Wilson	3/3	100
Peter Hugh Nolan	—	—
Chen Zhiwu	—	—
Average attendance percentage		**100**

Note:

1. Upon the completion of the term of the Fifth Session of the Board of Directors on 19 August 2010, Mr. Xie Qingjian and Mr. Ian Ramsay Wilson ceased to be members of the Risk Management Committee. With the election of new members at the First Meeting of the Sixth Session of the Board of Directors, Wang Weiqiang, Mr. Ji Guoqiang, Mr. Lei Jun, Mr. Peter Hugh Nolan, and Mr. Chen Zhiwu were appointed as members of the Risk Management Committee of the Sixth Session of the Board of Directors. Mr. Wang Weiqiang was appointed as the Chairman of the Risk Management Committee.

4. Human Resource and Remuneration Committee. The Human Resource and Remuneration Committee is primarily responsible for establishing the performance evaluation criteria for the Board of Directors and senior management and conducting the evaluations, formulating the remuneration plans for Directors, Supervisors and senior management and monitoring its implementation, developing the criteria and procedures for nomination of Directors and senior management and performing initial assessments. As at the end of 2010, the Human Resource and Remuneration Committee comprised of four members, including Mr. Gu Mingchao, Mr. Zhang Jixiang, Ms. Anita Fung Yuen Mei and Mr. Chen Qingtai. The Independent Non-executive Director, Mr. Gu Mingchao, serves as the Chairman of the Human Resource and Remuneration Committee. Independent Non-executive Directors account for more than half of the total number of members in the Human Resource and Remuneration Committee.

During the Reporting Period, the Human Resource and Remuneration Committee held five meetings, reviewed the remuneration and compensation plans for newly-appointed Directors, newly-hired senior management, Directors, Supervisors, and senior management and the Committee subsequently presented its recommendations to the Board of Directors. The summary of attendance at the meetings of the Human Resource and Remuneration Committee is as follows:

Human Resource and Remuneration Committee	Attendance	Attendance Percentage (%)
Gu Mingchao (Chairman)	1/1	100
Thomas Joseph Manning	4/4	100
Zhang Jixiang	5/5	100
Laura M. Cha	4/4	100
Chen Qingtai	5/5	100
Anita Fung Yuen Mei	—	—
Average attendance percentage		**100**

Note: On 19 August 2010, Mr. Thomas Joseph Manning and Ms. Laura M. Cha ceased to be members of the Human Resource and Remuneration Committee upon the completion of the service term of the Fifth Session of the Board of Directors. Mr. Gu Mingchao, Mr. Zhang Jixiang, Ms. Anita Fung Yuen Mei and Mr. Chen Qingtai were appointed as the new members of the Human Resource and Remuneration Committee of the Sixth Session of the Board of Directors. Mr. Gu Mingchao serves as the Chairman of the Committee.

5. Social Responsibility Committee. The Social Responsibility Committee is primarily responsible for designing and formulating the Bank's social responsibility strategy and policy, monitoring, inspecting and evaluating the Bank's progress in fulfilling its social responsibility, and approving external donations based on the authorization granted by the Board of Directors. As at the year end of 2010, the Social Responsibility Committee comprised of five members, Mr. Niu Ximing, Mr. Qian Wenhui, Mr. Hu Huating, Mr. Ji Guoqiang and Mr. Chen Zhiwu. Mr. Niu Ximing serves as the Chairman of the Committee. During the Reporting Period, the Social Responsibility Committee held two meetings and reviewed matters such as the Corporate Social Responsibility Report and external donations and presented its recommendations to the Board of Directors. The summary of attendance at the meetings of the Social Responsibility Committee is as follows:

Social Responsibility Committee Members	Attendance	Attendance Percentage (%)
Niu Ximing (Chairman)	2/2	100
Qian Wenhui	2/2	100
Hu Huating	2/2	100
Ji Guoqiang	2/2	100
Gu Mingchao	1/1	100
Chen Zhiwu	—	—
Average attendance percentage		**100**

Note:
On 19 August 2010, Mr. Gu Mingchao ceased to be a member of the Social Responsibility Committee upon completion of the service term of the Fifth Session of the Board of Directors. Mr. Niu Ximing, Mr. Qian Wenhui, Mr. Hu Huating, Mr. Ji Guoqiang and Mr. Chen Zhiwu were appointed as new members of the Social Responsibility Committee of the Sixth Session of the Board of Directors. Mr. Niu Ximing serves as the Chairman of the Committee.

4. INDEPENDENT NON-EXECUTIVE DIRECTORS

There are currently six Independent Non-executive Directors in the Bank, all of whom are considered qualified under the domestic laws and regulations, as well as under Rules 3.10(1) and 3.10(2) of the Hong Kong Listing Rules. The independence of the Bank's Independent Non-executive Directors is maintained as they do not have any business or financial interests in the Bank or its subsidiaries and they do not assumed any executive positions in the Bank. In addition, the Bank has received annual independence declarations from all Independent Non-executive Directors confirming that they have complied with the requirements set out under Rule 3.13 of the Hong Kong Listing Rules. The Bank confirmed that each of the Independent Non-executive Directors is independent.

During the Reporting Period, the Independent Non-executive Directors attended all the board meetings to ensure that the Bank fulfills the requirements of the "Procedures for the work of Independent Directors". Three of the five Board Committees, being the Audit Committee, the Risk Management Committee and the Human Resource and Remuneration Committee are chaired by Independent Non-executive Directors. The Independent Non-executive Directors accounted for more than half of the total committee members. These Directors actively participated in discussions during the board meetings, thereby promoting objectivity in the Board's decision making process. In addition to attending board meetings, each Independent Non-executive Director communicated with senior management regularly through on-site inspections and discussion sessions. The Independent Non-executive Directors have given their opinions on significant matters which arose during the Reporting Period, including related party transactions, nomination of Directors and appointment of senior management and had no objections to the resolutions of the Board of Directors or any other matters.

5. RESPONSIBILITY OF THE BOARD OF DIRECTORS FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of financial statements to give a true and fair view of the Group's state of affairs, operating results and cash flows in each accounting period. In preparing for the financial statements for the year ended 31 December 2010, the Directors have selected and consistently applied appropriate accounting policies and have made reasonable and prudent accounting estimates. The Directors have acknowledged their responsibility for the preparation of financial statements and the auditor's acknowledgement of their responsibility has been stated on page 117 of the Independent Auditor's Report.

6. SPECIFIC NOTIFICATION AND INDEPENDENT OPINION BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS ON EXTERNAL GUARANTEES BY THE BANK

The Independent Non-executive Directors consider that provision of external guarantees is in the ordinary course of the Group's business and is approved by the various banking regulatory authorities in China. The Bank has formulated detailed procedures for its external guarantees business, which cover areas such as risk prevention and operational assessment.

As at 31 December 2010, all the transactions between the Bank and its related parties are at arms-length.

7. SUPERVISORY COMMITTEE AND SPECIAL COMMITTEES OF THE SUPERVISORY COMMITTEE

Supervisory Committee is the Bank's supervisory department and is responsible to the Shareholders. It reviews financials of the Bank and supervises operational behaviors of Directors and senior management. It provides recommendations on the dismissal of Directors and senior management in event of violation of laws and regulations, violation of Article of Association of the Bank and violation of resolution of General Meetings of shareholders. It also devises corrective actions on any misconduct which harms the Bank's interests. The Supervisory Committee checks the financial information submitted by the Board of Directors such as the financial reports and profit sharing plans at the General Meeting of shareholders. For items in doubt, it is authorised to commission, on behalf of the Bank, CPAs and practicing auditors to review. It is authorised to propose the convening of an EGM, convene and preside over meetings of shareholders, when the Board of Directors does not fulfill the provisions of the Company Law for General Meetings of shareholders. It is also authorised to submit proposals to General Meeting of shareholders and investigate abnormal operations of the Bank.

There are 13 members on the Supervisory Committee, including the Chairman — Mr. Hua Qingshan, who is also the Chairman of the Performance and Due Diligence Supervision Committee, two external supervisors, six Shareholder Representative Supervisors, and four Employee Representative Supervisors. The Supervisory Committee has three special committees; the first being the Performance and Due Diligence Supervision Committee, comprising of four members including the Chairman, two external supervisors and one Employee Representative Supervisors. They are responsible for the oversight of board and senior management performance. The Nomination Committee has five members, with the External Supervisor as the Chairman, two Shareholder Representative Supervisors, and two Employee Representative Supervisors. They are responsible for the development of supervisor nomination procedures and standards, the selection of qualified audit supervisors, and the evaluation of their annual performance. The third is the Financial and Internal Control Supervision Committee, which consists of seven members, including the Chair being the external supervisor, four Shareholder Representative Supervisors and two Employee Representative Supervisors. They are responsible for the supervision of financial management, internal controls and risk management of the Bank.

The attendance rate of Supervisory Committee meetings was 86.67%. Supervisors provide quality comments and suggestions on financial reports, improvement of risk management and internal controls, and enhancement of liquidity and risk management matters including government financing. They actively participate in research, seminars and training organized by the Board to continually improve performance and implement external regulatory requirements. New Supervisory Committee members are professionals engaged in auditing, economics and financial management, and they have extensive experience in business management and financial accounting. The Supervisory Committee and its special committees attend meetings, conduct interviews with directors and senior management, go on branch visits to perform in-depth analysis as well as off-site analysis to monitor the board's and senior management's performance.

Please refer to the "Supervisory Committee Report" for work performance of Supervisory Committee and its special committees.

8. SENIOR MANAGEMENT

The Bank's senior management comprises of the President, the Vice-President, Chief Financial Officer, Chief Information Officer, Chief Risk Officer and Corporate Business Director. The Bank adheres to a system whereby the President, as the ultimate responsible officer, is responsible to the Board of Directors. The President reports to the Board of Directors while all other functional departments, branch offices and senior management report to the President. The President has the authority to manage the Bank's business in compliance with the relevant laws and regulations, the Bank's Articles of Association and authorisation from the Board of Directors.

During the Reporting Period, senior management ran the day-to-day operation of the Bank in accordance with the Bank's Articles of Association and authorization from the Board of Directors. Each individual business line maintained healthy growth and achieved the targets set by the Board of Directors. The Board of Directors was satisfied with the performance of the senior management in 2010.

9. INTERNAL CONTROL

9.1 Internal control system overview

Using the guidance provided by the "Guidelines on Internal Controls for Commercial Banks" issued by the CBRC and the "Internal Control Code for Companies" jointly issued by the Ministry of Finance, China Securities Regulatory Commission, National Audit Office, China Banking Regulatory Commission and China Insurance Regulatory Commission, the Bank developed its internal control system which encompasses the five main elements of internal control environment, risk identification and assessment, internal control measures, information exchange and feedback and supervisory evaluation and rectification. The Bank's internal control objectives are as follows: (1) to ensure that all its lines of business are in accordance with the nation's laws and regulations as well as the respective company's articles of association; (2) to ensure an effective risk management system; (3) to ensure the timeliness, accuracy and completeness of business records, financial information and other management information and (4) to ensure the achievement of the Bank's development strategy and operating objectives.

With regards to the internal control environment, the Bank aims to develop a matrix-style organisational format to implement a corporate culture based on responsibility and an incentive system based on economic efficacy. With regards to risk identification and assessment, the Bank has adopted a enterprise risk management approach through the use of measurement models and monitoring system to identify, measure, monitor and control the various type of risks. With regards to internal control measures for the various lines of business, the Bank has adopted a comprehensive internal control system. With regards to information exchange and feedback channels, the Bank has developed a centralised IT production, business management and information transfer platform to implement large scale data collation. With regards to internal supervision and rectification, the Bank has established a four-tier supervisory mechanism that encompasses business inspections, internal audit, disciplinary and anti-fraud inspections by senior management. In addition, the Bank takes into consideration supervisory comments from various organisational levels in its business decisions and internal management.

With regards to internal controls over financial reporting, the Bank has abided strictly with the requirements of International Financial Reporting Standards and Chinese Accounting Standards and requirements of the China Securities Regulatory Commission, Shanghai Stock Exchange and Hong Kong Stock Exchange in its preparation of its financial reports and disclosures. Through the use of the following frameworks, procedures and processes to effectively guard against inappropriate preparation and disclosure practices, the Bank has developed a comprehensive financial reporting governance framework to ensure the accuracy, completeness and effectiveness of its financial reporting information: (1) The Directors, Supervisors and senior management personnel have joint responsibility for the accuracy and completeness of over the Bank's financial reporting. The Audit Committee under the Board of Directors is responsible for the review of the Bank's financial information and disclosures, its accounting policies, financial situation and financial reporting process as well as the appointment, change and retirement of the Bank's auditors. The Financial and Internal Control Supervision Committee under the Supervisory Committee is responsible for the review of the Bank's financial and information disclosures and commenting on the validity, accuracy and completeness of reports disclosed externally. It is also responsible for ensuring the validity and fairness of the process over the appointment, change and retirement of auditors while ensuring the independence and effectiveness of the audit process. The Bank's Financial Budgeting Department is responsible for the preparation of financial reports and for implementing various accounting procedures to ensure that the Bank's accounts classification is in accordance with International Financial Reporting Standards and Chinese Reporting Standards while the Business Management Center and Operations Management unit is responsible for daily accounting settlement. The Bank's Internal Audit Department and auditors are responsible for auditing the Bank's financial reporting. (2) The development of a systematic financial reporting control system. The Bank's Articles of Association has specific paragraphs which define the Bank's basic "Financial Accounting System". Under this framework, the Bank has formulated various financial management systems and accounting procedures for its various business lines such as the "Basic Accounting Code for the Bank of Communications" and "Bank of Communications Financial Management Manual" to clearly formalise the accounting policies for its various business lines as well as the division of responsibilities for the Bank's financial and accounting settlement. In addition, these systems and procedures also clearly define the Bank's booking, internal reconciliation, accounting standards reconciliation, accounting error correction and settlement process. (3) The package development of a financial reporting and accounting IT support system. The Bank was able to perform accounting settlement for its various business lines through the use of systems such as its core accounting system, internal accounting system, OPICS system and Summit system. The Bank was able to manage by category its respective financial reports through the use of systems such as the "integrated report processing system" and "accounting standards migration system". Each of the respective systems are accompanied by standardised procedure manuals, process guidelines and the consistency between reports and reporting items is ensured through various comprehensive system checks.

9.2 Internal control measures

Surrounding its "Management Enhancement Year" theme, the Bank arranged a series of management quality and management improvement projects in 2010 to systematically improve the bank-wide internal control system on the following areas: business organisation and monitoring mechanism, business development and risk management mechanism and business operations and support mechanism. First, a re-organisation of segmental layout and department functions at the Head Office level was carried out based on the principles of being customer-centric and complementary, effective linkages between front, back and middle offices with the aim of achieving the decentralisation of processes and to divide the Bank into 6 main business segments. This initiative also resulted in a risk management framework consisting of 3 business promotion committees and "A Enterprise Risk Management Committee encompassing 3 subsidiary risk management committees and 2 business review committees". Second, the Bank formulated its 2010–2012 organisational development plan to conceptualise the development of "3-in-1" services system which integrates man-made network locations with electronic banking and customer management to produce a mutually supporting, all encompassing 3-dimensional business operations network. Third, the implementation of total capital management by implementing centralised control over funding and funds utilisation bank-wide and consolidated allocation and pricing by category. Fourth, the integration of the implementation of the new Basel Capital Accord with continued improvement of management plans and management tools over risks such as credit risk, market risk, operational risk and liquidity risk such that the Bank will meet the China Banking Regulatory Commission inspection requirements. Fifth, the development of a new corporate credit risk classification system accompanied by the development of an IT management system to make the credit classification process more stringent and scientific. Six, a bank-wide reconstruction of the operations management framework and process for the entire bank based on the requirements for the development of a process-based bank and positioning itself for business transformation. Seven, the activation of the Bank's "531" project to develop a new generation customer information service platform, production operations platform and management information system platform for both domestic and foreign group entities.

The Bank also implemented a series of internal control measures in 2010 which target specific risk characteristics existing in its domestic and foreign operating environment and to ensure the stable and orderly internal control operations. One, it strengthened its liability management to deal with deposits volatility. Two, it enriched its credit policy tools and implemented the CBRC's new loan requirements by implementing a credit approval qualification system and enhancing the level of professionalism of its credit process management. In addition, it also went into greater details in terms of its risk prevention measure over hotspots such as local government financing platforms. Third, its refined management overall risk measures on risk arising from its individual customer information management, wealth management business and individual financing business by improving its personal loan process and the digitisation of its retail credit tools and channels. Fourth, restructuring its international and off-shore business structure to develop a centralised processing model for international documentary credit settlement business. Fifth, enhancing its level of authorisation classification mechanism and regulatory compliance inspection process by strengthening regulatory compliance training and inspections. Sixth, to strengthen personnel behaviour management and incident prevention through organising quarterly anti-fraud activities.

In 2010, the Bank's internal control system proved reliable and operated smoothly. In 2011, the Bank will implement the requirements of the "Corporate Internal Control Code" and various "Enterprise Internal Controls Guidelines" in depth and enterprise internal control standards on a bank-wide basis. Surrounding the theme of "Stable and accelerated development, innovative management and talent development, improving efficacy", the Bank continued to enhance its internal control system while empowering targeted parties and maintaining balanced development of its various business lines, resulting in further improvements of the Bank's level of internal control.

10. ACCOUNTABILITY OF MAJOR MISTAKES IN INFORMATION DISCLOSURE IN ANNUAL REPORTS

According to the "Rules on Management of Information Disclosure", "Rules on Management of Major Information in Internal Reports" and "Rules on Management of Major Information in Internal Reports for Subsidiaries", "Guidelines on Management of Confidential and Inside Information", and "BoCom Disciplinary Procedures for Employee Misconduct", employees who are responsible for information disclosure or those with inside knowledge will be given disciplinary sanctions based on the seriousness of the misconduct, if it is proven that the employees misrepresentated in the Bank's information disclosure or caused damages to the Bank.

During the Reporting Period, no major mistake regarding information disclosure was found by the Bank.

11. SECURITIES TRANSACTIONS BY THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the Reporting Period, the Bank's Directors, Supervisors and senior management have strictly adhered to the "Guidelines on Management of Shares held by Directors, Supervisors and Senior Management of Listed Company" by the China Securities Regulatory Commission and the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 to the Hong Kong Listing Rules for their securities transactions.

12. AUDITOR'S REMUNERATION

The Group's financial statements for the financial year ended 31 December 2010 prepared in accordance with the China Accounting Standards have been audited by Deloitte Touche Tohmatsu CPA Ltd. and financial statements prepared in accordance with International Financial Reporting Standards have been audited by PricewaterhouseCoopers. The total audit fees are approximately RMB42.36 million.

The fees for non-audit services provided by PricewaterhouseCoopers for 2010 are approximately RMB3.41 million. The Audit Committee has been informed of the nature of the non-audit services (such as the translation of documents) provided as well as the relevant fees. The Audit Committee was satisfied that the services provided have not impaired the independence of PricewaterhouseCoopers.

Deloitte Touche Tohmatsu CPA Ltd. has provided audit services to the Group for 6 years and PricewaterhouseCoopers has provided audit services to the Group for 10 years.

The Board has recommended appointing Deloitte Touche Tohmatsu CPA Ltd. and Deloitte Touch Tohmatsu as the Group's external auditors for 2011, and will present its recommendations at the 2010 Annual General Meeting.

13. INVESTOR RELATIONS (IR)

Consistent with the goal of maximising shareholder value, the Bank continued to maintain close communications and interaction with investors, to facilitate better understanding of the Bank's operations and promote investor' consensus on the Bank's investment value.

Open communication with investors was critical for the success of the A and H share rights issue. During the execution process, the Bank tailored its comprehensive communication plans to the needs of legal persons, institutions and natural persons. Communication through various media effectively enhanced investors' understanding and support of the rights issue, and thereby provided a strong foundation for success.

During the Reporting Period, the Bank held four periodical results announcement press conferences. The Bank's senior management also went on global road shows after the Q1 result announcement press conference, visited domestic and foreign financial centers such as Hong Kong, London, Frankfurt, Singapore, Beijing, Shanghai and Shenzhen, and held in-depth discussions with institutional investors. The Bank has also improved on communications with investors by participating in investor seminars, hosting investor and analysts' visits etc. The Bank's IR team hosted visits by institutional investors and equity analysts more than 100 times, attended 6 investment promotional events held by domestic and foreign investment banks and equity firms, organized company visits for domestic and foreign investors and analysts to Card Centres, Data Center and subsidiaries. Those activities allowed investors and analysts to gain better understanding of the latest development in the Bank as well as in the industry. Through the above mentioned activities, the IR team has talked to over 1,300 investors and analysts in total.

The Bank highly valued feedback from investors on its business operations. During the Reporting Period, the Bank obtained feedbacks and suggestions from investors and analysts on its development strategy, corporate governance and business operation by conducting surveys. These will provide invaluable reference and inspiration for the Bank's future development.

Corporate Social Responsibilities

Following our principle of "harmony and credibility as our foundation and constantly to overcome our limit and progress together with the society", we are actively looking for a healthy and sustainable way develop our business as a commercial bank, promoting "Green Finance", paying close attention to livelihood issues, continuously participating social welfare activities, striving to contribute more values for shareholders, customers, employees and the community as a responsible corporate. In the FY2010, we have contributed RMB2.34 per share to the society (RMB2.20 per share in FY2009).

1. ACTIVELY PROMOTE "GREEN CREDIT"

2010 is the third year since the Bank implemented its "Green Credit" project. We continue with the green concept throughout the entire loan granting process, innovating on green credit management and control means, taking necessary measures to further promote the "Green Credit" project, resolutely rejecting customers who do not comply with environmental policy. We will ensure the rules and measures of "Green Credit" are standardized and refined, and will effectively promote the sustainable and healthy development of credit business. In this Reporting Period, the coverage ratio of our identified environmental friendly credit customers achieved 99.87% of total customers while the average ratio as a percentage of the credit portfolio is 99.93%.

Through implementing revised or new rules for the 31 sector specific sub-industries' "Green Credit" management and operational requirements; the Bank refused to provide credit support for specific industries through establishing strict environmental entry barriers to prevent "high energy consumption, pollution and resource consumption" projects from being granted loans; for new projects in the restricted and phase-out categories. For projects newly added to the restriction list, the Bank took immediate action to end all forms of new credit and tried to recover disbursed loans; the Bank also, took various measures to effectively support projects which qualify as new energy utilisation, energy conservation and emission reduction technology and implementation of comprehensive management of pollution sources. End of 2010, total loan balance for "high energy consumption, pollution and resource consumption" projects is RMB142.712 billion, the proportion decreased by 0.77 percentage points as compared to the beginning of the year, and the number for energy saving projects is RMB62.214 billion YoY 7.61%; over 30 CDM (Clean Development Mechanism) projects are being funded credit amounts of more than RMB10 billion.

2. CONSCIENTIOUS IMPLEMENTATION OF THE NATION'S MACROECONOMIC POLICIES

The Bank conscientiously implemented the nation's structural adjustment and economic development model, shifted its corporate strategy, controlled total credit, projects and its pace, continued to optimise credit structure, accelerated development in West Coast Economic Development Zone and Central and Western regions and promoted regional economic coordinated development. End of 2010, we disbursed RMB35.242 billion to support national key projects for construction project financing (the central government investment loans)with a year-on-year growth of 35.86%; continued to increase our concentration on the western regions and ethnic minority areas in the way of credit support, with the total amount of loans of RMB261.62 billion, growing at a year-on-year rate of 18.35%; increased credit support to the field of technological innovation with the loan balance at RMB2.34 billion, increasing 26.49% compared to the beginning of the year; improved service efficiency and financing product innovation to support SME's development, the Bank now has 28,500 small business customers being financed through of micro loans amounting to RMB86.3 billion, which is a year-on-year increase of 118.48%. The Bank continued to increase construction financing of public affordable housing. As at the year end of 2010, public affordable housing loans amounted to RMB17.35 billion, an increase of 123%.

3. SUPPORTING THE DEVELOPMENT OF RURAL VILLAGES

The Bank actively responded to the national strategy on helping "agriculture, rural communities and farmers" from the perspective of promoting nation economy development and maintaining stability of the society. Based on the location of branches and characteristics of financial products, the Bank formulated special measures to improve development of "agriculture, rural communities and farmers". In 2010, the Bank agriculture related loans increased by 25.83% from the beginning of the year to RMB313.676 billion. This is faster than the average rate of increase in total bank loans as the Bank continued its financial support amounting to RMB3.8 billion for agricultural insurance, reproducible sow insurance, subsidy of compulsory 9-year education in rural areas, rural medical subsidy and subsidy of household electronic appliances. The Bank set up more branches and improved services at villages and county level with concentration on areas such as "agriculture, rural communities and farmers". 106 branches (including those under construction) were set up in counties and county-level cities and the Bank set up another 3 branches in a way of holding shares.

4. FULL SUPPORT OF EXPO 2010 SHANGHAI

In 2010, the Bank was the sole commercial banking global partner of Shanghai World Expo 2010. The Bank offered a comprehensive range of financial services and its performance with "zero operation mistakes, zero service complaint, and zero incidents" facilitated a "successful, wonderful and unforgettable" Expo 2010 Shanghai. The Bank continuously provided bank loans of more than RMB5 billion to Expoland and offered low-interest funds of more than RMB10 billion to facilitate construction for Expo. The Bank also provided complete coverage of financial services inside the Expo Park, including 109 self-serviced payment machines with major international credit cards and UnionPay located at 45 locations; 7 foreign currency exchange agencies and more than 3800 POS machines. The Bank also set up special Expo Park service teams comprising about 900 persons in 7 special service teams to provide high-quality service, network coverage, card service, maintenance on self-service machines & IT systems, security service, cash deposits, delivery, and foreign currency exchange. The Bank also acted as sales & collection agent on Expo admission tickets and authorized commercial products, amounting to RMB4.3 billion, through network branches, online banking and phone banking and facilitated the operating cash flow collection cycle.

5. ACTIVELY DEVOTED TO CHARITY WORK

The Bank is conscious of society development, showed enthusiasm towards donations and volunteerism and actively devoted to charity activities to contribute to a harmony and developed society. During the Reporting Period, the Bank made donation and subsidies amounting to RMB146 million through helping disaster relief work, poor and disabled people, sending volunteered teachers to undeveloped areas, and sponsoring Expo 2010 Shanghai. The Bank donated RMB18.40 million to the Yushu and Zhouqu natural disasters victims; continued with the "Gateway to Tomorrow: Plan of Subsidizing Disabled Youth by the Bank of Communication"; provided financial subsidy and support to nearly 4,000 poor and disabled students located in 26 areas and 63 special-education schools; contributed RMB7.33 million to continue targeted support of poor counties and development of new rural areas such as Tianzhu in Gansu province; set up about 2300 "Petty Cash Donation Boxes" covering 90% of the network branches and collected RMB336 thousand and donated to the China Children and Teenagers' Fund. At the same time, the Bank set up the "Bank of Communications Young Volunteer Association" in January 2010 as the pioneer in the financial industry to actively inculcate the mentality of "contributing, friendship, helping and progress" among volunteers.

1. RELATED PARTY TRANSACTIONS

Details of related party transactions as at the end of the Reporting Period are disclosed in Note 41 to the Consolidated Financial Statements.

2. MATERIAL CONTRACTS AND PERFORMANCE OF OBLIGATIONS THEREUNDER

(1) Material trust, sub-contract and lease

During the Reporting Period, the Bank has not held in trust to a material extent or entered into any material sub-contract or lease arrangement in respect of assets of other corporations, and no other corporation has held in trust to a material extent or entered into any material sub-contract or lease arrangement in respect of the Bank's assets.

(2) Material guarantees

The provision of guarantees is one of the off-balance-sheet business carried out by the Bank in its ordinary course of business. During the Reporting Period, the Bank did not provide any material guarantees that need to be disclosed except for the financial guarantee services within the business scope as approved by PBOC.

(3) Material events concerning entrusting other persons for cash management

No such matters concerning entrusting other persons for cash management occurred in the Bank during the Reporting Period.

3. MATERIAL LITIGATION AND ARBITRATION

During the Reporting Period, there are no material litigation and arbitration that might have a significant impact on the operation of the Bank.

As at 31 December 2010, the Bank has been involved in certain outstanding litigations as defendant or third party. The outstanding litigation amount was approximately RMB1.384 billion. After consultations with the legal advisors, the Bank is of the view that these litigation cases will not have any significant impact on the financial position of the Group.

4. UNDERTAKINGS

As at the end of the Reporting Period, neither the Bank nor its shareholders with more that 5% shareholdings have undertaken any significant undertakings.

5. DISCIPLINARY ACTIONS AGAINST THE BANK, ITS DIRECTORS, ITS SUPERVISORS AND SENIOR MANAGEMENT

During the Reporting Period, neither the Bank, nor any of its Directors, Supervisors and senior management was subject to any investigations by competent authorities, compulsory enforcement of judicial and discipline departments, investigation or administrative penalty by CSRC and public reprimand by the stock exchanges.

6. OTHER SIGNIFICANT EVENTS

(1) Holdings of shares issued by other listed companies

(in RMB unless otherwise stated)

Stock Code	Simplified stock name	Initial investment cost	Percentage shareholding (%)	Term-end cost	Gains/(losses) in the Reporting Period	Equity movement in the Reporting Period	Accounting items	Source of shares
600068	Gezhouba	135,080,299.07	1.42	572,460,000.00	–	187,201,000.00	AFS securities	Foreclosed assets
000979	Zhong Hong Real Estate	12,494,400.00	1.95	193,444,000.00	–	20,495,200.00	AFS securities	Foreclosed assets
01798	ChinaDatang Renewable Power	133,222,431.13	2.66	120,571,666.91	–	(12,650,764.22)	AFS securities	Equity investment
00388	HKEX	2,203,412.56	0.07	116,264,693.23	29,284.47	21,218,553.70	AFS securities	Equity investment
02198	China Sanjiang Fine Chemicals Company Limited	70,731,203.07	4.31	99,443,934.45	–	28,712,731.38	AFS securities	Equity investment
03377	Sino-Ocean Land	136,051,534.61	0.36	88,266,054.15	(42,526,235.07)	5,815,993.45	Financial asset at fair value through profit or loss/AFS securities	Equity investment
01193	China Resources Gas (Holdings) Limited	65,838,893.27	0.38	66,112,155.42	765,490.20	(492,228.06)	Financial asset at fair value through profit or loss/AFS securities	Equity investment
01428	Bright Smart Securities & Commodities Group Limited	9,703,884.04	7.36	51,906,730.00	–	42,202,845.96	AFS securities	Equity investment
00658	China High Speed Transmission Equipment Group Co., Ltd	40,056,556.71	0.22	30,837,703.20	–	(21,092,286.33)	AFS securities	Equity investment
600728	ST Suntek Technology	6,152,015.00	0.76	29,308,199.46	–	23,156,184.46	AFS Securities	Foreclosed assets
	Others	313,354,861.70		258,414,559.86	48,447,187.93	(77,078,651.17)		
	Total	**924,889,491.16**		**1,627,029,696.68**	**6,715,727.53**	**217,488,579.17**		

Notes:

1. The table sets out the Group's holdings of shares in other listed companies that are classified as investment securities -available-for-sale and financial assets held for trading in the Group's consolidated financial statements.
2. Gains or losses in the Reporting Period refer to the impact of such investments on the Group's consolidated net profit during the Reporting Period.

(2) Holdings of shares issued by unlisted financial institutions

(in RMB unless otherwise stated)

Name of institution	Initial investment cost	Number of shares	Percentage shareholding (%)	Term-end cost	Gains/(losses) in the Reporting Period	Equity movement in the Reporting Period	Accounting items	Source of shares
Jiangsu Changshu Rural Commercial Bank Co., Ltd.	489,500,000.00	101,340,337	10.00	489,500,000.00	17,268,067.50	–	AFS securities	Equity investment
China Union Pay Co., Ltd.	146,250,000.00	112,500,000	3.90	146,250,000.00	3,037,500.00	–	AFS securities	Equity investment
Total	**635,750,000.00**	**213,840,337**		**635,750,000.00**	**20,305,567.50**	**–**		

(3) Purchases and sales of other listed equity shares

(in RMB)

	Number of shares held at beginning of the Reporting Period	Number of shares bought/sold during the Reporting Period	Number of shares held at end of the Reporting Period	Purchase price	Gains in the Reporting Period
Purchases	39,102,000	206,185,696	245,287,696	456,785,691.34	—
Sales	74,365,590	67,891,090	6,474,500	—	115,479,842.94

Notes: All changes shown in the table above are results of sales and purchases of other listed equity shares by subsidiaries controlled by the Bank, except disposal of shares obtained as security for loans in the course of business.

Sense of responsibility and care for the social well-being

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF BANK OF COMMUNICATIONS CO., LTD.

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

We have audited the consolidated financial statements of Bank of Communications Co., Ltd. ('the Bank') and its subsidiaries (collectively 'the Group') set out on pages 119 to 247, which comprise the Bank's and its consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Bank and the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 March 2011

Consolidated Statement of Comprehensive Income

(All amounts expressed in millions of RMB unless otherwise stated)

Group

	Note	For the year ended 31 December 2010	2009
Interest income		141,905	116,743
Interest expense		(56,910)	(50,075)
Net interest income	4	84,995	66,668
Fee and commission income	5	17,076	13,414
Fee and commission expense	6	(2,597)	(2,015)
Net fee and commission income		14,479	11,399
Dividend income	7	60	65
Gains less losses arising from trading activities	8	677	1,335
Gains less losses arising from de-recognition of investment securities	21	568	791
Insurance business income		689	—
Other operating income	9	3,275	1,320
Impairment losses	10	(12,246)	(11,255)
Insurance business expense		(599)	—
Other operating expenses	11	(41,944)	(32,022)
Profit before tax		49,954	38,301
Income tax	14	(10,782)	(8,047)
Net profit for the year		39,172	30,254
Net profit attributable to:			
Shareholders of the Bank		39,042	30,118
Non-controlling interest		130	136
Other comprehensive income			
Transfer out of investment property revaluation gain		—	(3)
Available-for-sale ('AFS') securities			
Changes in fair value taken to other comprehensive income		(1,150)	(795)
Changes in fair value transferred to net profit		(452)	(902)
Translation difference on foreign operations		(329)	105
Total	37	(1,931)	(1,595)
Total comprehensive income for the year		37,241	28,659
Total comprehensive income attribute to:			
Shareholders of the Bank		37,123	28,480
Non-controlling Interest		118	179
Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)	15	0.73	0.59
Dividends			
Interim dividends declared during the year	33	5,626	4,899
Final dividends proposed after the reporting date	33	6,751	4,899

The accompanying notes presented on pages 125 to 247 form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

(All amounts expressed in millions of RMB unless otherwise stated)

Group

	Note	As at 31 December 2010	2009
ASSETS			
Cash and balances with central banks	16	586,554	434,996
Due from other banks and financial institutions	17	262,976	222,671
Financial assets at fair value through profit or loss	18	46,043	29,254
Loans and advances to customers	20	2,190,490	1,801,538
Investment securities — loans and receivables	21	42,617	107,604
Investment securities — available-for-sale ('AFS')	21	162,170	132,094
Investment securities — held-to-maturity ('HTM')	21	563,721	509,179
Property and equipment	22	33,911	29,878
Deferred income tax assets	28	7,341	5,821
Other assets	23	55,770	36,102
Total assets		3,951,593	3,309,137
LIABILITIES			
Due to other banks and financial institutions	24	717,032	653,172
Financial liabilities at fair value through profit or loss	25	14,379	9,375
Due to customers	26	2,867,847	2,372,055
Other liabilities	27	71,997	53,349
Current tax liabilities		4,615	3,726
Deferred income tax liabilities	28	66	35
Debts issued	30	52,000	53,000
Total liabilities		3,727,936	3,144,712
EQUITY			
Capital and reserves attributable to the Bank's shareholders			
Share capital	31	56,260	48,994
Capital surplus	31	69,465	44,404
Other reserves		67,107	44,404
Retained earnings		29,941	26,046
		222,773	163,848
Non-controlling Interest		884	577
Total equity		223,657	164,425
Total equity and liabilities		3,951,593	3,309,137

Consolidated financial statements above mentioned were approved for issue by the Board of Directors on 30 March 2011 and signed on its behalf by:

Chairman of Board: Hu Huaibang

Vice Governor and Chief Financial Officer: Yu Yali

The accompanying notes presented on pages 125 to 247 form an integral part of these consolidated financial statements.

Statement of Financial Position

(All amounts expressed in millions of RMB unless otherwise stated)

Bank

	Note	As at 31 December 2010	2009
ASSETS			
Cash and balances with central banks	16	586,466	434,989
Due from other banks and financial institutions	17	261,767	221,113
Financial assets at fair value through profit or loss	18	45,815	28,627
Loans and advances to customers	20	2,189,154	1,801,996
Investment securities — loans and receivables	21	42,349	107,419
Investment securities — available-for-sale ('AFS')	21	159,420	131,168
Investment securities — held-to-maturity ('HTM')	21	563,393	509,020
Investments in subsidiaries	39	8,089	5,660
Property and equipment	22	33,360	29,295
Deferred income tax assets	28	7,372	5,864
Other assets	23	24,426	19,757
Total assets		3,921,611	3,294,908
LIABILITIES			
Due to other banks and financial institutions	24	696,593	642,614
Financial liabilities at fair value through profit or loss	25	14,379	9,375
Due to customers	26	2,867,983	2,372,759
Other liabilities	27	66,664	50,272
Current tax liabilities		4,482	3,592
Deferred income tax liabilities	28	13	9
Debts issued	30	50,000	53,000
Total liabilities		3,700,114	3,131,621
EQUITY			
Capital and reserves attributable to the Bank's shareholders			
Share capital	31	56,260	48,994
Capital surplus	31	69,494	44,404
Other reserves		66,892	44,199
Retained earnings		28,851	25,690
Total equity		221,497	163,287
Total equity and liabilities		3,921,611	3,294,908

The accompanying notes presented on pages 125 to 247 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

(All amounts expressed in millions of RMB unless otherwise stated)

			Other Reserves							
	Share capital Note 31	Capital surplus Note 31	Statutory Reserve Note 32	Discretionary reserve Note 32	Statutory general reserve Note 32	Revaluation reserve for AFS securities	Translation reserve on foreign operations	Retained earnings Note 31,32	Non-controlling interest	Total
Balance at 1 January 2009	48,994	44,407	4,163	9,087	12,574	2,741	(1,094)	24,295	433	145,600
Net profit	–	–	–	–	–	–	–	30,118	136	30,254
Changes in fair value taken to other comprehensive income	–	–	–	–	–	(838)	–	–	43	(795)
Changes in fair value transferred to net profit	–	–	–	–	–	(902)	–	–	–	(902)
Translation difference on foreign operations	–	–	–	–	–	–	105	–	–	105
Transfer out of investment property revaluation gain	–	(3)	–	–	–	–	–	–	–	(3)
Total comprehensive income	–	(3)	–	–	–	(1,740)	105	30,118	179	28,659
Dividends	–	–	–	–	–	–	–	(9,799)	(35)	(9,834)
Transfer to other reserves	–	–	5,786	6,900	5,882	–	–	(18,568)	–	–
Balance at 31 December 2009	48,994	44,404	9,949	15,987	18,456	1,001	(989)	26,046	577	164,425
Balance at 1 January 2010	48,994	44,404	9,949	15,987	18,456	1,001	(989)	26,046	577	164,425
Net profit	–	–	–	–	–	–	–	39,042	130	39,172
Changes in fair value taken to other comprehensive income	–	–	–	–	–	(1,155)	–	–	5	(1,150)
Changes in fair value transferred to net profit	–	–	–	–	–	(435)	–	–	(17)	(452)
Translation difference on foreign operations	–	–	–	–	–	–	(329)	–	–	(329)
Total comprehensive income	–	–	–	–	–	(1,590)	(329)	39,042	118	37,241
Establishment and acquisition of new subsidiaries	–	–	–	–	–	–	–	–	145	145
Acquisition of non-controlling interest in a subsidiary (Note 39)	–	(29)	–	–	–	–	–	–	(16)	(45)
Capital increase in a subsidiary	–	–	–	–	–	–	–	–	113	113
Dividends	–	–	–	–	–	–	–	(10,525)	(53)	(10,578)
Transfer to reserve	–	–	3,831	15,285	5,506	–	–	(24,622)	–	–
Rights issue (A+H shares) (Note 31)	7,266	25,090	–	–	–	–	–	–	–	32,356
Balance at 31 December 2010	56,260	69,465	13,780	31,272	23,962	(589)	(1,318)	29,941	884	223,657

The accompanying notes presented on pages 125 to 247 form an integral part of these consolidated financial statements.

CONSOLIDATED Statement of Cash Flows

(All amounts expressed in millions of RMB unless otherwise stated)

	For the year ended 31 December 2010	2009
Cash flows from operating activities:		
Profit before taxation:	49,954	38,301
Adjustments for:		
Impairment of loans and advances to customers	11,858	10,735
Reversal of impairment of due from other banks and financial institutions	—	(3)
Impairment of financial leasing receivables	175	76
Impairment of other receivables	4	55
Insurance reserve	599	—
Impairment/(reversal of impairment) of investment securities	150	(157)
Depreciation of property and equipment	3,307	2,880
Amortization of deferred assets	471	430
Amortization of land use rights	32	31
Amortization of intangible assets	258	230
Interest income from investment securities	(24,570)	(23,320)
Gains less losses arising from de-recognition of investment securities	(568)	(791)
Gains on disposal of fixed assets	(39)	(86)
Increase in the fair value of investment property	(21)	(18)
Interest expense on debt issued	1,990	2,011
Dividend income	(60)	(65)
	43,540	30,309
Net increase in mandatory reserve deposits	(131,623)	(82,348)
Net (increase)/decrease in due from other banks and financial institutions	(71,342)	61,141
Net increase in financial assets at fair value through profit or loss	(16,789)	(2,318)
Net increase in loans and advances to customers	(400,755)	(513,497)
Net increase in other assets	(17,950)	(9,541)
Net increase in due to other banks and financial institutions	63,860	83,719
Net decrease/(increase) in financial liabilities at fair value through profit or loss	5,004	(638)
Net increase in due to customers	495,792	506,240
Net increase in other liabilities	16,472	10,109
Net increase in business tax payable	487	159
Income tax paid	(10,863)	(9,588)
Net cash (used in)/from operating activities	(24,167)	73,747

CONSOLIDATED Statement of Cash Flows *(Continued)*

(All amounts expressed in millions of RMB unless otherwise stated)

	For the year ended 31 December 2010	2009
Cash flows from investing activities:		
Acquisition of subsidiary, net of cash paid	(173)	—
Purchase of investment securities	(357,866)	(676,695)
Disposal or redemption of investment securities	337,106	527,244
Dividends received	60	65
Interest received from investment securities	24,390	21,988
Acquisition of intangible assets and deferred assets	(915)	(579)
Purchase of land use rights	—	(112)
Disposal of intangible assets and deferred assets	42	178
Purchase and construction of property and equipment	(7,696)	(4,679)
Disposal of property and equipment	264	403
Net cash used in investing activities	(4,788)	(132,187)
Cash flows from financing activities:		
Cash received from A+H share rights issue	32,623	—
Issuance cost paid	(267)	—
Subordinated debts issued	2,000	25,000
Fee on debt issue	(6)	(45)
Interest paid on debt	(2,012)	(1,960)
Dividends paid to shareholders of the Bank	(10,528)	(9,862)
Repayment of debt	(3,000)	(12,000)
Capital contribution by non-controlling interest	186	—
Acquisition of additional interest in a subsidiary	(45)	—
Dividends paid to non-controlling interest	(53)	(35)
Net cash from financing activities	18,898	1,098
Effect of exchange rate changes on cash and cash equivalents	(1,542)	108
Net decrease in cash and cash equivalents	(11,599)	(57,234)
Cash and cash equivalents at the beginning of the period	168,498	225,732
Cash and cash equivalents at the end of the period (Note 38)	156,899	168,498
Supplementary Information		
Interest received	139,017	114,846
Interest paid	(49,351)	(47,178)

The accompanying notes presented on pages 125 to 247 form an integral part of these consolidated financial statements.

1 GENERAL

Bank of Communications Co., Ltd. (the 'Bank') is a commercial and retail bank providing banking services mainly in the People's Republic of China ('PRC'). The Bank was reorganised as a joint stock national commercial bank on 1 April 1987, in accordance with the approval notice (Guo Fa (1986) No. 81) issued by the State Council of the PRC and the approval notice (Yin Fa (1987) No. 40) issued by the People's Bank of China ('PBOC'). Headquartered in Shanghai, the Bank operates 127 city level branches in the PRC. In addition, the Bank has branches in Hong Kong, New York, Macao, Tokyo, Singapore, Seoul and Frankfurt. The Bank's A shares are listed on Shanghai Stock Exchange and H shares are listed on Hong Kong Stock Exchange.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are the provision of corporate and personal banking services, conducting treasury business, the provision of asset management, trustee, insurance, finance leasing and other financial services.

2 ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to the periods presented unless otherwise stated.

2.1 Basis of presentation

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ('IFRS') and disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost method except the revaluation of investment securities classified as available-for-sale, financial assets and financial liabilities held at fair value through profit or loss, investment properties and all derivative contracts, which are carried at fair value.

Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements in conformity with IFRS and the disclosure requirements of the Hong Kong Companies Ordinance requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

a) *Impairment allowances on loans and advances*

The Group reviews its loan portfolios to assess impairment on a quarterly basis, unless known circumstances indicate that impairment may have occurred as of an interim date. In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Group makes judgment as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the Group. The impairment loss for a loan and advance that is individually assessed for impairment is the difference between estimated discounted future cash flows and book value. When loans and advances are collectively assessed for impairment, Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

b) *Fair value of financial instruments*

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Valuation techniques used include discounted cash flows analysis and models. To the extent practicable, only observable data is used in models, however areas such as credit risk (both ours and counterparties'), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

c) *Income taxes*

The Group is subject to income taxes in various jurisdictions; principally in the Mainland China and Hong Kong. Significant estimates are required in determining the provision for income taxes. There are certain transactions and calculations for which the ultimate tax determination is judgemental. The Group recognizes liabilities on anticipated tax audit issues based on estimates of whether additional taxes will be due. In particular, the deductibility of certain items in Mainland China is subject to government approval. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax and current tax liabilities and deferred income tax assets and liabilities in the period during which such a determination is made (Note 28).

(All amounts expressed in millions of RMB unless otherwise stated)

2 ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

Critical accounting estimates and judgments in applying accounting policies *(Continued)*

d) *Held-to-maturity*

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, 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 defined in IAS 39 such as, selling an insignificant amount close to maturity, it will be required to reclassify the entire portfolio of assets as available-for-sale. The investments would therefore be measured at fair value, not at amortised cost.

e) *Impairment of available-for-sale financial assets and held-to-maturity securities*

The Group follows the guidance of IAS 39 to determine when an available-for-sale or held-to-maturity financial asset is impaired.

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires management judgment. In making this judgment, the Group evaluates, among other factors, 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.

The Group recognises an impairment loss for an available-for-sale debt instrument and held-to-maturity debt securities when there is objective evidence that the debt instrument is impaired. Objective evidence of an impairment for a debt instrument exists when one or more events have occurred after the initial recognition of the debt instrument, that reduce the estimated future cash flows to be received on the debt instrument.

The following standards and amendments, which became effective in 2010 are relevant to the Group:

Standards, Amendments and Interpretations	**Content**	**Applicable for financial years beginning on/after**
IFRS 3 (revised)	Business combinations	1 July 2009
IAS 27 (revised)	Consolidated and separate financial statements	1 July 2009
Amendments to IAS 28	Investments in associates	1 July 2009
Amendments to IAS 31	Interests in joint ventures	1 July 2009
Amendments to IAS 17 (revised)	Leases	1 January 2010
Amendments to IAS 39 (revised)	Financial Instruments: Recognition and Measurement	1 January 2010
Amendments to IFRS 2 (revised)	Group cash-settled share-based payment transactions	1 January 2010

IFRS 3 (revised), ‘Business combinations’, and consequential amendments to IAS 27, ‘Consolidated and separate financial statements’, IAS 28, ‘Investments in associates’, and IAS 31, ‘Interests in joint ventures’

They are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual Reporting Period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net assets. All acquisition-related costs are expensed.

(All amounts expressed in millions of RMB unless otherwise stated)

2 ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

Critical accounting estimates and judgments in applying accounting policies *(Continued)*

e) Impairment of available-for-sale financial assets and held-to-maturity securities (Continued)

IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The amendment was applied to the Bank's purchase of additional 11.5% share of BoCom Life Insurance Company Limited from its non-controlling interest in June 2010. The difference between the consideration paid and the relevant share acquired of the carrying value of net assets is recorded in capital surplus, amounting to RMB29 millions.

Amendments to IAS 17, 'Leases'

IAS 17 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of IAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. There is no material impact to the financial statements of the Group as a result of this amendment.

Amendments to IAS 39, 'Financial Instruments: Recognition and Measurement'

'Treating loan prepayment penalties as closely related derivatives' (Amendment to IAS 39) is effective for the annual periods beginning on or after 1 January 2010. This amendment clarifies that loan prepayment penalties are only treated as closely related embedded derivatives, if the penalties are payments that compensate the lender for loss of interest by reducing the economic loss from reinvestment risk. A specific formula is given to calculate the lost interest. There is no material impact to the financial statements of the Group as a result of this amendment.

Amendments to IFRS 2, 'Group cash-settled share-based payment transactions'

IFRS 2 (amendments), 'Group cash-settled share-based payment transactions', effective form 1 January 2010. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 — Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of Group arrangements that were not covered by that interpretation. There is no material impact to the financial statements of the Group as a result of this amendment.

The following standards, amendments and interpretations became effective for financial years beginning on 1 January 2010, but were not relevant for the Group:

Standards, Amendments and Interpretations	**Content**	**Applicable for financial years beginning on/after**
IFRIC 17	Distribution of non-cash assets to owners	1 July 2009
IFRIC 18	Transfers of assets from customers	1 July 2009
Amendments to IAS 39	Financial instruments: Recognition and Measurement-Eligible hedged items, Cash flow hedge accounting	1 July 2009
Amendments to IFRIC 9 and IAS 39	Reassessment of embedded derivatives and Financial instruments: Recognition and measurement	1 July 2009
Amendments to IAS 36	Impairment of assets	1 January 2010
Amendments to IAS 1	Presentation of financial statements	1 January 2010
Amendments to IFRS 5	Non-current assets held for sale and discontinued operations	1 January 2010
Improvements to IFRSs	Improvements to IFRSs (apart from those mentioned before)	1 January 2010

(All amounts expressed in millions of RMB unless otherwise stated)

2 ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

Critical accounting estimates and judgments in applying accounting policies *(Continued)*

The Group has chosen to early adopt the revised IAS 24 that was issued and will be effective on 1 January 2011:

In 2009, the Group partially adopted the revised IAS 24 — Related Party Disclosures. Specifically, the Group applied the exemption in the revised IAS 24 regarding disclosure requirements for government-related entities and was exempted from certain disclosure requirements for transactions between government-related entities and the government. In 2010, the Group early adopted the remainder of the revised IAS 24. The early application does not have any material effect on the Group's operating results and financial position or comprehensive income. The prior year's related party disclosures have been changed accordingly.

The Group has chosen to early adopt the amendments to IAS 32-Classifications of rights issues that was issued and will be effective from the annual period beginning on or after 1 February 2010:

The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The Group early applied the amendment for its rights issue of HKD ordinary shares ("H shares") on 16 July 2010 and recorded the funds received in share capital with the amount of RMB7,266 millions and capital surplus with the amount of RMB25,090 millions. As a result of this rights issue, the Bank adjusted the basic and diluted earnings per share of 2009 to RMB0.59 per share.

The Group has chosen not to early adopt the following standards and interpretations that were issued but not yet effective for the accounting period beginning on 1 January 2010:

Standards, Amendments and Interpretations	Content	Applicable for financial years beginning on/after
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
Amendments to IFRIC 14	Prepayments of a minimum funding requirement	1 January 2011
Third improvements to IFRSs	Third improvements to IFRSs (2010)	1 January 2011
Amendments to IAS 12	Income tax	1 January 2012
IFRS 9	Financial Instruments part 1: Classification and Measurement	1 January 2013
IFRS 9	Accounting treatment of financial liabilities	1 January 2013

IFRS 9 and its amendments were issued in November 2009 and October 2010 separately to replace the section of classification and measurement of financial assets and financial liabilities in IAS39. The major elements are as follows:

- Financial assets should be: (a) classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. (b) initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs.(c) subsequently measured at amortised cost or fair value.

- IFRS9 retains almost all guidance on the classification and measurement of financial liabilities from IAS39,except: (1) One substantive change from IAS 39 is to eliminate the exception from fair value measurement contained in IAS 39 for derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured. (2) the portion of the fair value changes that is attributable to changes in the credit risk of a liability designated as at fair value through profit or loss should be included in other comprehensive income, unless this results in an accounting mismatch of gains and losses.

- IFRS9 retains all guidance on the derecognition requirements for financial assets and liabilities from IAS39.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

The Group is considering the impact of the standard on the consolidated financial statements and the timing of its application.

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

2 ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation

2.2.1 Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries in the Bank's separate financial statements are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes directly attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

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

2.2.2 Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Changes in accounting policy

The Group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control or significant influence from 1 January 2010 when revised IAS 27, 'Consolidated and separate financial statements', became effective. The revision to IAS 27 contained consequential amendments to IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures'.

Previously transactions with non-controlling interests were treated as transactions with parties external to the Group. Disposals therefore resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

Previously, when the Group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

The Group has applied the new policy prospectively to transactions occurring on or after 1 January 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

2 ACCOUNTING POLICIES *(Continued)*

2.3 Derivative financial instruments

Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps, and other derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active market and valuation techniques, including discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profit or loss on day 1.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their risks and economic characteristics are not closely related to those of the host contract and the host contract is not a financial asset or a liability at fair value through profit or loss, with unrealised gains and losses reported in profit and loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit and loss.

Certain derivative transactions, while considered as hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading.

Changes in the fair value of derivatives held for trading are included in gains less losses arising from trading activities.

2.4 Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

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

Financial assets are designated at fair value through profit or loss when:

- The designation eliminates or significantly reduces a recognition or measurement inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring the financial assets or recognizing the gains or losses on them on different bases; or

- Certain investments, such as equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis; or

- Financial assets, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows.

2 ACCOUNTING POLICIES *(Continued)*

2.4 Financial assets *(Continued)*

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (i) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (ii) those that the entity upon initial recognition designates as available-for-sale; or (iii) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(c) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

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

(d) Available-for-sale financial assets

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available-for-sale are recognised on trade-date — the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss. Gains or losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gains or losses previously recognised in equity is recognised in profit or loss. Interest earned whilst holding monetary financial assets, including available-for-sale financial assets, is reported as interest income using the effective interest rate method and foreign currency gains or losses in monetary assets classified as available-for-sale are recognised in profit or loss.

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

2 ACCOUNTING POLICIES *(Continued)*

2.5 Impairment of financial assets

a) *Assets carried at amortised cost*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

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. 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.

For loans and receivables category, the amount of a loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three months and twelve months; in exceptional cases, longer periods are warranted.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Group and their magnitude) to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

2 ACCOUNTING POLICIES *(Continued)*

2.5 Impairment of financial assets *(Continued)*

a) Assets carried at amortised cost *(Continued)*

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss in the impairment charge for credit losses.

b) Assets classified as available-for-sale

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in comprehensive income — is transferred out from equity and recognised in profit and loss. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through profit and loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit and loss, the impairment loss is reversed through the statement of profit and loss.

2.6 Financial liabilities

Financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities. All financial liabilities are classified at inception and recognised initially at fair value.

(a) Financial liabilities at fair value through profit or loss

This category has two sub-categories: financial liabilities held for trading, and those designated at fair value through profit or loss at inception.

A financial liability is classified as held for trading if it is incurred principally for the purpose of repurchasing in the short term. It is carried at fair value and any gains or losses from changes in fair value are recognised in profit or loss.

A financial liability is designated as fair value through profit or loss at inception if it meets the following criteria:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring the financial liabilities or recognising the gains or losses on them on different bases; or

- Part of a group of financial liabilities that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis; or

- Financial liabilities, containing one or more embedded derivatives that significantly modify cash flows, for which the Group has elected to designate the entire hybrid (combined) contract as a financial liability at fair value through profit or loss

Financial liabilities designated at fair value through profit or loss are carried at fair value and any gains or losses from changes in fair value are recognised in profit or loss.

2 ACCOUNTING POLICIES *(Continued)*

2.6 Financial liabilities *(Continued)*

(b) Other financial liabilities

Other financial liabilities are recognised initially at fair value net of transaction costs incurred. Other financial liabilities are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in profit or loss over the period of the other financial liabilities using the effective interest method.

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

2.7 Interest income and expense

Interest income and expense are recognised in profit or loss for interest-bearing instruments on an accruals basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) 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.

2.8 Fee and commission income

Fees and commissions are generally recognised on an accruals basis when the service has been provided. Loan syndication fees are recognised as commission income when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate as the other participants. Commissions and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party — such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses — are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised ratably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Performance linked fees or fee components are recognised when the performance criteria are fulfilled. The guarantee and commitment commission of loans are recognised on a straight line basis over the life the guarantee and commitment.

2.9 Dividend income

Dividends are recognised when the right to receive payment is established.

2.10 Sale/purchase and repurchase/resale agreements

Securities sold subject to a linked repurchase agreements ('repos') with banks and other financial institutions are retained in the financial statements as financial assets held for trading or investment securities, as the Group still retains substantially all risk and rewards of the ownership of the underlying securities. The related liability is recorded as due to other banks and financial institutions.

Securities purchased under agreements to resell ('reverse repos') are recorded as due from other banks and financial institutions and the securities are not included in the statement of financial position. The difference between sale and repurchase price (purchase and resale price) is treated as interest expense (income) and accrued over the life of the repos (reverse repos) using the effective interest method.

2.11 Property and equipment

The Group's fixed assets mainly comprise land and buildings, equipment, motor vehicles, property improvement and construction in progress.

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

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

(All amounts expressed in millions of RMB unless otherwise stated)

2 ACCOUNTING POLICIES *(Continued)*

2.11 Property and equipment *(Continued)*

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

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

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

Land and buildings comprise primarily branch office premises and office premises. The estimated useful lives, depreciation rate and estimated residual value rate of land and buildings, equipment, motor vehicles and property improvement are as follows:

Type of assets	Estimated useful lives	Estimated residual value rate	Depreciation rate
Land and buildings	25–50 years	3%	1.94%–3.88%
Equipment	3–11 years	3%	8.82%–32.33%
Motor vehicles	4–8 years	3%	12.13%–24.25%
Property improvement	5–10 years	—	10%–20%

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating expenses in the consolidated statement of comprehensive income.

2.12 Foreclosed assets

Foreclosed assets are initially and subsequently measured at lower of carrying values or fair value less cost to sale. Foreclosed assets are included in the balance of other assets.

2.13 Land use rights

Land use rights are recognised initially at 'cost', being the consideration paid for the rights to use and occupy the land. Land use rights are amortised using the straight-line method to write off the cost over the term of the right use of 30 to 70 years.

Land use rights are not separately presented from building, when they are acquired together with the building at inception and the costs attributable to the land use rights cannot be reasonably measured and separated from that of the building.

2.14 Intangible assets

Intangible assets are recognised initially at their costs, which include expenditure that is directly attributable to the acquisition of the items. Where payment for an intangible asset is deferred beyond normal credit terms, its cost is the equivalent cash price. Costs associated with maintaining computer software program are recognised as an expense as incurred. However, expenditure that enhances or extends the performance of computer software program beyond their original specifications is recognised as capital improvement and added to the original cost of the software. Amortization for intangible assets is calculated on a straight-line basis from the month of acquisition over the estimated useful period and is recognised in the profit and loss. Intangible assets are stated at cost less accumulated amortization and impairment.

2 ACCOUNTING POLICIES *(Continued)*

2.14 Intangible assets *(Continued)*

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. Goodwill on acquisitions of subsidiaries is included in other assets. Goodwill on acquisitions of associates is included in investments in associates and is tested for impairment as part of the overall balance.

Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

2.15 Investment property

Property held to earn rentals which is not occupied by the Group is classified as investment property. Investment property comprises land and buildings.

Investment property is initially measured at its cost, which includes expenditure that is directly attributable to the acquisition of the items. Subsequent to initial recognition, the Group adopts the fair value model to account for its investment property. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Where active market price information is not available, the Group uses alternative valuation methods such as discounted cash flow projections or recent prices in less active markets. These valuations are reviewed annually by an independent valuer. Changes in fair values are recorded in profit or loss.

2.16 Impairment of non-financial assets

Assets such as goodwill that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.17 Leases

(a) ***Finance lease***

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred or not.

When the Group is a lessor under finance leases, the present value of the aggregate of the minimum lease payment receivable from the lessee, unguaranteed residual value and initial direct costs is recognised as a receivable in 'Other assets'. The difference between the aggregate of the minimum lease payment receivable from the lessee, unguaranteed residual value and initial direct costs and their present value is recognised as unearned finance income. Lease income is recognised over the term of the lease using an interest rate which reflects a constant rate of return.

Estimated unguaranteed residual values used in computing the lessor rate of investment in a lease are reviewed regularly by the Group management. If there has been a reduction in the estimated unguaranteed residual value, the income allocation over the lease term is revised and any reduction in respect of amounts accrued is recognized immediately.

The Group leases assets under finance leases to manufacturing, transportation and construction companies. The leased assets were mainly machinery and equipment, aircrafts and ships. Leasing periods are between 1–12 years.

2 ACCOUNTING POLICIES *(Continued)*

2.17 Leases *(Continued)*

(b) Operating lease

All leases other than finance leases are classified as operating leases.

The leases entered into by the Group as lessee have been determined to be operating leases. The lease payments/receipts made under operating leases are charged to/recognised in the profit and loss on a straight-line basis over the period of the lease.

2.18 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, together with short-term, highly liquid assets that are readily convertible to a known amount of cash, and that are subject to an insignificant risk of changes in value. Cash and cash equivalents generally include the balances with less than 90 days maturity from the date of acquisition including: cash and balances with central banks (after deduction of mandatory reserve deposits) and amounts due from other banks and financial institutions used for the purpose of meeting short-term cash commitments.

2.19 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

2.20 Current and deferred income taxes

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Bank and the subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The principal temporary differences arise from depreciation of property and equipment, impairment of loans and advances, receivables and other assets, and revaluation of certain financial assets and liabilities. The rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences, unused tax losses and unused tax credits can be utilized. Deferred income tax liabilities are the amounts of income tax payable in respect of taxable temporary differences, which are measured at the amount expected to be paid to the tax authorities in the future.

The tax effects of income tax losses available for carry forward are recognized as an asset when it is probable that future taxable profits will be available against which these losses can be utilized.

2.21 Share capital

a) Share capital

Ordinary shares are classified as equity.

b) Share issue costs

External costs directly attributable to the issue of new shares are shown in equity as a deduction, from the proceeds.

c) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the financial period in which they are declared and approved by the Bank's shareholders.

2 ACCOUNTING POLICIES *(Continued)*

2.22 Acceptances

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. Acceptances are accounted for as financial guarantees and credit related commitments transactions and are disclosed as contingent liabilities and commitments.

2.23 Employee benefits

a) *Staff benefit and retirement benefit obligations*

Salaries and bonuses, housing benefits and costs for social security benefits are accrued in the financial period in which the services are rendered by employees of the Group. The Group also participates in various defined contribution retirement plans principally organized by municipal and provincial governments.

In addition, the Bank pays supplementary retirement benefits to employees in Mainland China, who retired before 31 December 2008. The Bank's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Bank is committed to pay to the employees after their retirement using actuarial techniques. Such benefits are discounted to determine their present values. The discount rate is the yield on government bonds at the balance sheet date, the maturity dates of which approximate to the terms of the Bank's obligations. Actuarial gains and losses, changes in actuarial assumptions and amendments to pension plan are charged or credited to the profit and loss as they occur.

Employees in Mainland China who retire after 1 January 2009 can also voluntarily participate in a defined contribution plan established by the Bank ("the Annuity Plan"). The Bank contributes to the Annuity Plan based on certain percentages of the employees' gross salaries. The Bank's contributions to annuity plans are charged to profit or loss in the financial period to which they relate. Forfeited contributions by those employees who leave the schemes prior to the full vesting of their contributions are retained in the Annuity Plan.

b) *Share-based compensation*

The Group operates a cash-settled, share-based compensation plan for certain senior management of the Bank, under which the entity receives services from employees as consideration for equity instruments (options) of the Group.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit and loss with a corresponding adjustment to the liability recognised.

2.24 Foreign currency translation

a) *Functional and presentation currency*

The Group's presentation currency is Renminbi ('RMB'), the legal currency of China. Items included in the financial statements of each of the entities of the Group are measured using the currency that best reflects the economic environment of the underlying events and circumstances relevant to that entity ('the functional currency'). The consolidated financial statements are presented in RMB which is the functional and presentation currency of the Bank.

b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

2 ACCOUNTING POLICIES *(Continued)*

2.24 Foreign currency translation *(Continued)*

c) *Group companies*

The operating results and financial positions of all Group companies that have different functional currencies from RMB are translated to RMB in the following manner:

— Assets and liabilities for each statement of financial position are translated at the closing rate at the balance sheet date;

— Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

— All resulting exchange differences are recognised as a separate component equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, are recorded in other comprehensive income. When a foreign operation is disposed of, or partially disposed of, such exchange differences are recognised in the statement of comprehensive income as part of the gain or loss on sale.

2.25 Contingent liabilities and contingencies

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation can not be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and the amount can be reliably measured, it will then be recognised as a provision.

2.26 Insurance contracts

a) *Insurance contracts*

The Group's insurance subsidiaries perform significant insurance risk test to every line of business. Insurance risk is significant if an insured event could cause the Group's insurance subsidiaries to pay significant additional benefits, except scenarios that lack commercial substance. Additional benefits refer to additional payment caused by the insured event. A contract has no recognizable impact to the Group's insurance subsidiaries or its counterparties are regarded as contract without commercial substance.

b) *Insurance business income*

Premium income is recognized when the following conditions are met:

(i) The insurance contract becomes effective and the related insurance responsibility has been assumed;

(ii) The economic benefits related to the insurance contract can be received by the Branch;

(iii) The income and expense related to the insurance contract can be reliably measured.

c) *Insurance business expense*

Insurance benefits and claims include the reserves for insurance obligations. Insurance business expense is separately recognized in the consolidated statement of comprehensive income.

d) *Insurance reserve adequacy test*

The Group's insurance subsidiaries use actuarial method to recalculate insurance reserves at the date of the insurance reserve adequacy test. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. If the recalculated insurance reserve amount is higher than the amount the Group's insurance subsidiaries have already provided for, the Group's insurance subsidiaries will provide additional reserve to cover the deficiency. If the recalculated insurance reserve is lower than the amount the Group's insurance subsidiaries have already provided for, no adjustment to insurance reserve will be made.

2 ACCOUNTING POLICIES *(Continued)*

2.27 Financial guarantee contracts

The Group has the following types of financial guarantee contracts: acceptances, letters of credit and letters of guarantee issued.

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of as the initial measurement, less amortisation calculated to recognise in profit or loss the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management.

Any increase in the liability relating to guarantees is recorded in profit or loss.

2.28 Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from the financial statements where the Group acts in a fiduciary capacity such as nominee, trustee, custodian or agent.

The Group grants entrusted loans on behalf of third-party lenders. The Group grants loans to borrowers, as agent, at the direction of the third-party lenders, who fund these loans. The Group has been contracted by these third-party lenders to manage the administration and collection of these loans on their behalf. The third-party lenders determine both the underwriting criteria for and all terms of the entrusted loans including their purposes, amounts, interest rates, and repayment schedule. The Group charges a commission related to its activities in connection with the entrusted loans which are recognised ratably over the period the service is provided. The risk of loss is borne by the third-party lenders.

2.29 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the senior management team as represented by the governor as its chief operating decision maker.

An operating segment is a component of the Group with all of the following conditions are satisfied: (1) that component can earn revenues and incur expenses from ordinary activities; (2) the component's operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (3) discrete financial information for the component is available to the Group. If two or more operating segments have similar economic characteristics, and certain conditions are satisfied, they may be aggregated into a single operating segment.

Intra-segment revenue and costs are eliminated. Income and expenses directly associated with each segment are included in determining segment performance.

The Group has the following segments: Northern China, North-eastern China, Eastern China, Central & Southern China, Western China, Head Office, and Overseas.

2.30 Offset financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legal enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the assets and settle the liability simultaneously.

3 FINANCIAL RISK MANAGEMENT

Overview

The Group's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of some degree of risks or combination of risks. Managing risks are core to the financial business, and operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

Overview *(Continued)*

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors provides strategy and risk preference for overall risk management and decides the risk tolerance. The senior management establishes related risk management policies and procedures under the strategy approved by the Board, including written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. The Chief Risk Officer assumes the overall risk management responsibility on behalf of the senior management. The Risk Management Department at head office, as the main Risk Management Department, undertakes the overall risk management function of the Group. The risk management division in each head office's department, the Risk Management Department of each domestic and overseas branch and subsidiary undertakes the specific risk management function. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The main types of financial risks are credit risk, liquidity risk and market risk which also includes currency risk, interest rate risk and other pricing risk.

3.1 Credit risk

The Group is exposed to credit risk, which is the risk that a customer or counterparty will be unable to or unwilling to meet its obligations under a contract. Significant changes in the economy, or those in credit quality of a particular industry segment or concentration in the Group's portfolio, could result in losses that are different from those provided for at the balance sheet date. Credit risk increases when the counterparties are in the similar geographical or industry segments. Credit exposures arise principally from loans and advances, debt securities, derivatives and due from banks and other financial institutions. There is also credit risk in off-statement financial arrangements such as loan commitments, financial guarantees, acceptances and letters of credit. The majority of the Group's operation is located within Mainland China, where different regions in China have their own unique characteristics in economic development. For example, the economic development in the eastern provinces is better than that in the western provinces. The risk management department at head office is responsible for the overall management of the Group's credit risk, and reported to the Bank's senior management and Board of Directors regularly. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower. Such limits are monitored on a regular basis and subject to an annual review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

3.1.1 Credit risk assessment

(a) Loans and advances and off statement exposures

In assessing credit risk of loan and advances to corporate customers at a counterparty level, the Group considers three factors (i) the "probability of default" by the client or counterparty on its contractual obligations; (ii) current exposure to the counterparty and its likely future development, from which the Group derive the "exposure at default"; and (iii) the likely recovery ratio on the defaulted obligations (the "loss given default").

Exposure at default is based on the amounts the Group expects to be owed at the time of default. For a commitment, the Group includes any amount already drawn plus any further amount that may have been drawn by the time of default, should it occur.

Loss given default or loss severity represents the Group's expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit mitigation.

These credit risk measurements, which reflect expected loss (the expected loss model) are according to the banking regulations and requirements of regulatory measures of the Basel Committee on Banking Regulations and Supervision (the "Basel Committee"), and are applied in the management of daily operations of the Group. In contrast, the provision for impairment of IAS 39 is based on the loss rather than the expected loss that have been incurred at the date of the consolidated statement of financial position.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk assessment (Continued)

(a) Loans and advances and off statement exposures (Continued)

(i) Corporate loans:

According to the Basel Capital Accord and requirements of Internal Rating system supervision guideline issued forwarded by China Banking Regulatory Commission ("CBRC"), a new internal rating system was implemented in the Group from October 2010. The Bank summarized a series of financial and other related factors to build the internal credit rating model, which is based on historical data collection, data statistics and data analysis on the characteristics of risks of the clients before the defaults happened. Internal rating model applies the principle of regression to forecast default probability in the future 12 months. And then matches the default probability with relevant rank of default risk which decides the borrower's credit rank within the Internal Rating System. In order to ensure the system's accuracy and stability, the system will be back tested against the actual default status of borrowers every six months.

In the new Internal Rating system, the credit rating of domestic corporate customers has been divided into 15 grades by the Group. The Group defines customers with grade under 12 as non-default customers and customers with grade between 13 and 15 as default customers. The criteria of the grade of non-default customers are assessed based on the probability of default in the future 12 months. Customers with grade 1–8 are considered as low default risk and grade 9–12 are considered as existing certain default risk. The expected loss is assessed for the default customers for their credit rating in the Internal Rating System. Discounted bills purchased from other Financial Institutions are considered as low risk, as these are guaranteed by domestic banks. Overseas branches and off-shore center evaluate credit risk and manage their classifications according to the guidance from their local supervisions, taking into account the market conditions. They report the quality of corporation loans to headquarter in accordance with Guidance on Loan Risk Classifications issued by the CBRC. In 2010, 99% of the loans in oversea or off-shore branches were classified as Pass loans, namely the borrowers have capability of repayment and no adequate evidence which suggests that the principle or interest will not be repaid when due.

In 2010, within the new Internal Rating system, the credit rating of the corporate customers of mainland China is as below:

Internal rating	**Description of the grade**
1	Borrower is a multinational corporate or international financial institution who has good public credit rating. It basically will not default.
2	Borrower is a large corporate, which is very unlikely to default as it has sufficient debt servicing capacity. Its management experience, operating ability and financial strength give the borrower a strong competitive advantage in its industry.
3	Borrower is a large corporate, which is unlikely to default as it has sufficient debt servicing capacity. Its management experience, operating ability and financial strength give the borrower a competitive advantage in its industry.
4	Borrower is a large enterprise with solid debt servicing capacity and risk resistance capacity.
5	The probability of default is very low. This is the highest grade for small-medium enterprises, real estate enterprises and project financing entities.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk assessment *(Continued)*

(a) Loans and advances and off statement exposures (Continued)

(i) Corporate loans: (Continued)

6 The probability of default is very low. Large enterprises with average performance, or small-medium enterprises and real estate enterprises with outstanding performance may be rated as this grade.

7 The probability of default is low. Large enterprises with average performance, or small-medium enterprises and real estate enterprises with good performance may be rated as this grade.

8 The probability of default is low. Large enterprises with below average performance, or small-medium enterprises and real estate enterprises with average performance may be rated as this grade.

9 Borrower may default. Large enterprises with poor performance, or small-medium enterprises and real estate enterprises with below average performance may be rated as this grade.

10 Borrower is likely to default with poor performance and a lot of uncertainties. It has poor risk resistance capacity.

11 Borrower is more likely to default with difficulties with its debt servicing capacity and risk resistance capacity. Management level, operating ability and financial strength of the borrower are poor.

12 Borrower is very likely to default with obvious difficulties with its debt servicing capacity and risk resistance capacity. Management level, operating ability and financial strength of the borrower are poor.

13 Borrower's default results in a loss of up to 25% of the loan (debt has been overdue for more than 90 days or have been determined that feasible actions and necessary legal procedures are required).

14 Borrower's default results in a loss of between 25% and 90% of the loan.

15 Borrower's default is severe and results in a loss of more than 90% of the loan.

The Group has issued credit related commitments, guarantees and letters of credit. The primary purpose of these instruments is to ensure that funds are available to customers as required. These instruments represent irrevocable assurances that the Group will make payments in the events that a customer cannot meet its obligations to third parties. These instruments carry similar credit risk as loans, so the Group manages such credit risk together with loan portfolio.

Before 2010, the Group assessed the default possibilities of individual corporate customers by using an internally developed 10-grade system. Customers with grade 1–5 are considered by the Group as unlikely to be risk-quality default and classified as high-quality customers, grade 6–7 are considered as probable to be default and classified as general quality customers and grade 8–10 are considered to be in default and classified as risky customers.

(ii) Retail loans:

The Group monitors the overdue status of its loans and advances to retail customers in managing credit risk. The Group identifies credit exposures by industry, geography and customer risk. This information is monitored regularly by senior management.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk assessment *(Continued)*

(b) *Debt securities*

For debt securities and other bills, external ratings (such as Standard and Poor's) are used by the Group when available for managing the credit risk. The investment in those securities and bills is to gain better credit quality while maintaining readily available funding sources.

(c) *Derivatives*

The Group maintains strict limits on net open derivative positions (i.e., the difference between purchase and sale contracts), by both amount and maturity. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e., assets where their fair value is positive), which, in relation to derivatives, is only a fraction of the contracted amount (or notional values used to express the amount outstanding). This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except when the Group requires margin deposits from counterparties. The Management has set limits of these contracts according to counterparty, and regularly monitor and control the actual credit risk when the group and other financial institutions make exchange and interest rate contracts with clients.

(d) *Loans to banks and other financial institutions*

The Group manages the credit quality of due from, placements with and loans to banks and other financial institutions considering the size, financial position and the external credit rating of banks and financial institutions. The head office monitors and reviews the credit risk of loans to banks and other financial institutions by counterparties periodically. Limits are placed on different counterparties.

3.1.2 Risk limit control and mitigation policies

The Group manages, limits and controls concentrations of credit risk wherever they are identified — in particular, to individual counterparties and groups, and to industries and regions.

The Group structures the levels of credit risk it undertakes by placing limits in relation to one borrower, or groups of borrowers. Such risks are monitored on a regular basis and subject to annual or more frequent review, whenever necessary.

The exposure to any single borrower including banks and brokers is further restricted by sub-limits covering on- and off-statement exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate.

Some other specific control and risk mitigation measures are outlined below.

(a) *Collateral*

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is taking collateral, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral. The principal types of collateral for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Risk limit control and mitigation policies *(Continued)*

(a) *Collateral (Continued)*

The value of collateral at the time of loan origination is determined by the credit authorization department and the amount of the loan granted is subject to loan-to-value ratio limits based on collateral type. The principal types of collateral corporate loans and retail loans are as follows:

Collateral	**Maximum loan-to-value ratio**
Cash deposits with the Group	90%
PRC treasury bond	90%
Financial institution bonds	90%
Publicly traded stocks	60%
Rights to collect fees or operate	60%
Properties	70%
Land use rights	70%
Vehicles	50%

Longer-term financing and lending to corporate entities and retail customers are generally secured; while revolving individual credit facilities are generally unsecured. In addition, in order to minimize the credit loss the Group will seek additional collateral from the counterparty as soon as impairment indicators are noted for the relevant individual loans and advances.

For loans guaranteed by a third party guarantor, the Group will assess the financial condition, credit history and ability to meet obligations of the guarantor.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

(b) *Master netting arrangements*

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of statement of financial position assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as each transaction subject to the arrangement is affected by credit risk.

3.1.3 Impairment and provisioning policies

The internal rating systems described in Note 3.1.1 focus more on credit-quality mapping from the inception of lending activities. In contrast, impairment allowances are recognised for financial reporting purposes are the losses that have been incurred at the balance sheet date based on objective evidence of impairment (see Note 2.5). Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 *Impairment and provisioning policies (Continued)*

The internal rating system assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Other observable data indicating that there is a measurable decrease in the estimated future cash flows from such debt securities.

The Group's policy requires the review of individual financial assets that have objective evidence of impairment at least quarterly or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance sheet date on a case-by-case basis, and are applied to all individually impaired financial assets. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipt for that individual account.

Collectively assessed impairment allowances are provided for: losses that have been incurred but have not yet been identified, by using the available historical experience, judgment and statistical techniques.

3.1.4 *Maximum exposure to credit risk before collateral held or other credit enhancements:*

Group

	As at 31 December 2010	2009
Assets		
Balances with central banks	573,256	423,199
Due from other banks and financial institutions	262,976	222,671
Held for trading — debt securities and derivative financial instruments	45,876	28,790
Loans and advances to customers		
— Loans to corporate entities	1,778,170	1,495,864
— Loans to individuals	412,320	305,674
Investment securities — loans and receivables	42,617	107,604
Investment securities — available-for-sale-debt securities	158,542	129,777
Investment securities — held-to-maturity	563,721	509,179
Other financial assets	51,267	32,449
	3,888,745	3,255,207
Off-statement exposures		
Financial guarantees, acceptances and letters of credit	596,443	448,680
Other credit related commitments	242,055	164,704
	838,498	613,384

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements: *(Continued)*

Bank

	As at 31 December	
	2010	2009
Assets		
Balances with central banks	573,178	423,193
Due from other banks and financial institutions	261,767	221,113
Held for trading — debt securities and derivative financial instruments	45,815	28,627
Loans and advances to customers		
— Loans to corporate entities	1,779,175	1,497,595
— Loans to individuals	409,979	304,401
Investment securities — loans and receivables	42,349	107,419
Investment securities — available-for-sale-debt securities	157,759	129,777
Investment securities — held-to-maturity	563,393	509,020
Other financial assets	20,267	16,316
	3,853,682	3,237,461
Off-statement exposures		
Financial guarantees, acceptances and letters of credit	596,443	448,680
Other credit related commitments	242,055	164,704
	838,498	613,384

The above table represents a worse case scenario of credit risk exposure to the Group at 31 December 2010 and 2009, without taking account of any related collateral or other credit enhancements. For on statement assets, the exposures above are based on net carrying amounts as reported in the statement of financial position.

As shown above, 56% of the total on statement exposure is derived from loans and advances to customers (2009: 62%).

Management is confident in its ability to continue to control and sustain minimal exposure to credit risk to the Group from its loan and advances based on the following:

- Mortgage loans, which represent the biggest group in the individual portfolio, are backed by collateral;
- 99% of the loans and advances portfolio are considered to be neither past due nor impaired (2009: 98%);
- The impaired loan and advances balance is 1.12% of loans and advances.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances

Loans and advances are summarised as follows:

Group

	31 December 2010		31 December 2009	
	Loans and advances to customers	Due from other banks and financial institutions	Loans and advances to customers	Due from other banks and financial institutions
Neither past due nor impaired	2,207,652	262,964	1,807,689	222,658
Past due but not impaired	4,287	12	6,616	13
Individually impaired	24,988	—	25,009	—
Gross	2,236,927	262,976	1,839,314	222,671
Less: Collective impairment allowances	(31,833)	—	(22,778)	—
Individual impairment allowances	(14,604)	—	(14,998)	—
Net	2,190,490	262,976	1,801,538	222,671

Bank

	31 December 2010		31 December 2009	
	Loans and advances to customers	Due from other banks and financial institutions	Loans and advances to customers	Due from other banks and financial institutions
Neither past due nor impaired	2,206,309	261,755	1,808,146	221,100
Past due but not impaired	4,287	12	6,616	13
Individually impaired	24,988	—	25,009	—
Gross	2,235,584	261,767	1,839,771	221,113
Less: Collective impairment allowances	(31,826)	—	(22,777)	—
Individual impairment allowances	(14,604)	—	(14,998)	—
Net	2,189,154	261,767	1,801,996	221,113

The total impairment allowances for loans and advances are RMB46,437 million (2009: RMB37,776 million) of which RMB14,604 million (2009: RMB14,998 million) represents those for individually impaired loans and the remaining amount of RMB31,833 million (2009: RMB22,778 million) represents the portfolio allowance. Further information about the impairment allowances for loans and advances to customers is provided in Note 20.

During the year ended 31 December 2010, the Group's total loans and advances increased by 21.62% as a result of the continuous increase of market demand in Mainland China. When entering into a new market or new industry, the Group targets at large corporate enterprises or other financial institutions with good credit ratings or retail customers with sufficient collateral in order to minimize the potential risk of increased credit risk exposure.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances *(Continued)*

(a) Loans and advances neither past due nor impaired

The Group monitors the credit risk of corporate loans and advances neither past due nor impaired by applying its grading system to customers.

Group

31 December 2010

Neither past due nor impaired

	Internal Rating System			
	Grade 1-8	Grade 9-12	Unrated	Total
Mainland loans and advances				
— Loans	1,433,531	112,745	—	1,546,276
— Discounted bills	23,848	2,766	28,528	55,142
— Trade finance	48,418	1,631	—	50,049
Total	1,505,797	117,142	28,528	1,651,467
Mainland individual				
— Mortgages				254,108
— Credit Cards				41,179
— Other				99,047
Total				394,334
Overseas branches, offshore center				161,851

Bank

31 December 2010

Neither past due nor impaired

	Internal Rating System			
	Grade 1-8	Grade 9-12	Unrated	Total
Mainland loans and advances				
— Loans	1,433,531	112,745	—	1,546,276
— Discounted bills	23,848	2,766	28,528	55,142
— Trade finance	48,418	1,631	—	50,049
Total	1,505,797	117,142	28,528	1,651,467
Mainland individual				
— Mortgages				254,108
— Credit Cards				41,179
— Other				99,047
Total				394,334
Overseas branches, offshore center				160,508

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances *(Continued)*

(a) *Loans and advances neither past due nor impaired (continued)*

Group

31 December 2009

	10 Grade			
	Grade 1–5	Grade 6–7	Grade 8–10	Total
Corporate entities				
— Commercial loans	1,286,269	56,799	744	1,343,812
— Trade finance	158,053	1,897	375	160,325
Total	1,444,322	58,696	1,119	1,504,137
Individual				
— Mortgages				195,558
— Credit Cards				28,508
— Other				79,486
Total				303,552

Bank

31 December 2009

	10 Grade			
	Grade 1–5	Grade 6–7	Grade 8–10	Total
Corporate entities				
— Commercial loans	1,287,999	56,799	744	1,345,542
— Trade finance	158,053	1,897	375	160,325
Total	1,446,052	58,696	1,119	1,505,867
Individual				
— Mortgages				194,285
— Credit Cards				28,508
— Other				79,486
Total				302,279

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances *(Continued)*

(b) *Loans and advances past due but not impaired*

Gross amount of loans and advances by types of customers that were past due but not impaired are as follows:

Group and Bank

31 December 2010

	Past due up to 30 days	Past due 30–60 days	Past due 60–90 days	Past due over 90 days	Total	Fair value of collateral
Corporate entities						
— Commercial loans	438	18	11	5	472	322
Individual						
— Mortgages	1,169	284	127	244	1,824	6,442
— Credit Cards	1,136	192	—	—	1,328	—
— Other	377	105	39	142	663	644
Total	3,120	599	177	391	4,287	7,408
Due from other banks and financial institutions	—	—	—	12	12	16

Group and Bank

31 December 2009

	Past due up to 30 days	Past due 30–60 days	Past due 60–90 days	Past due over 90 days	Total	Fair value of collateral
Corporate entities						
— Commercial loans	311	235	61	2,063	2,670	4,955
Individual						
— Mortgages	1,240	398	250	391	2,279	4,759
— Credit Cards	744	170	—	—	914	—
— Other	394	132	83	144	753	1,573
Total	2,689	935	394	2,598	6,616	11,287
Due from other banks and financial institutions	—	—	—	13	13	16

The fair value of collaterals was estimated by management based on the latest available external valuations, adjusted for the current market situation and management's experience in realization of collaterals.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances *(Continued)*

(c) *Loans and advances that are individually impaired*

Individually impaired loans and advances to customers before taking into consideration the collateral held is RMB24,988 million (2009: RMB25,009 million).

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Group as security, are as follows:

Group and Bank

As at 31 December

	2010	2009
Corporate entities	22,507	21,869
Individual	2,481	3,140
Individually impaired loans	24,988	25,009
Fair value of collaterals		
Corporate entities	6,771	4,935
Individual	2,403	2,437
Individually impaired loans	9,174	7,372

No individually-impaired amount due from other banks and financial institutions is held by the Group as at 31 December 2010 and 31 December 2009.

(d) *Loans and advances renegotiated*

Restructuring activities include approval of debtor repayment plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue to be made. These policies are under continuous review. Restructuring is most commonly applied to term loans, in particular mid-term and long-term loans. Renegotiated loans that would otherwise be past due or impaired totaled RMB2,502 million as at 31 December 2010 (2009: RMB3,396 million).

Group and Bank

	31 December 2010	31 December 2009
Corporate entities	2,502	3,396

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances *(Continued)*

(e) *Concentration risk analysis for loans and advances to customers (gross) by geographic sectors:*

Group

	31 December 2010	%	31 December 2009	%
Domestic regions				
— Jiangsu	280,703	13	241,030	12
— Beijing	265,844	12	201,128	11
— Shanghai	235,981	11	197,012	11
— Guangdong	183,342	8	157,044	8
— Zhejiang	178,264	8	152,968	8
— Shandong	98,335	5	85,074	5
— Hubei	77,042	3	64,817	4
— Henan	75,392	3	65,584	4
— Others	694,896	30	573,896	32
Total domestic regions	2,089,799	93	1,738,553	95
Hong Kong, Macao and overseas countries	147,128	7	100,761	5
Gross amount of loans and advances before allowance for impairment	2,236,927	100	1,839,314	100

Bank

	31 December 2010	%	31 December 2009	%
Domestic regions				
— Jiangsu	280,703	13	241,030	12
— Beijing	265,844	12	201,128	11
— Shanghai	235,978	11	197,012	11
— Guangdong	183,342	8	157,044	8
— Zhejiang	177,864	8	152,968	8
— Shandong	98,335	5	85,074	5
— Hubei	76,512	3	64,817	4
— Henan	75,392	3	65,504	4
— Others	694,633	30	573,786	32
Total domestic regions	2,088,603	93	1,738,363	95
Hong Kong, Macao and overseas countries	146,981	7	101,408	5
Gross amount of loans and advances before allowance for impairment	2,235,584	100	1,839,771	100

A geographical region is reported where it contributes 3% and more of the relevant disclosure items.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances *(Continued)*

(f) *Industry analysis*

Concentration risks analysis for loans and advances to customers (gross) by economic sectors:

Group

	31 December 2010	%	31 December 2009	%
Corporate loans				
Mining	40,223	2	31,230	2
Manufacturing				
— Petroleum and chemical	93,525	4	82,319	4
— Electronics	44,993	2	38,132	2
— Steel smelting and processing	45,568	2	40,109	2
— Machinery	68,911	3	56,766	3
— Textile and clothing	29,560	1	27,918	2
— Other manufacturing	155,663	7	133,450	7
Electricity,gas and water production and supply	138,707	6	141,628	8
Construction	68,337	3	55,387	3
Transportation,storage and postal service	307,422	14	226,757	12
IT and telecommunication service	9,618	—	8,213	—
Wholesale and retail	214,588	10	145,278	8
Accommodation and catering	15,746	1	13,163	1
Financial institutions	37,108	2	22,853	1
Real estate	142,868	6	106,089	6
Service	131,496	6	95,151	5
Water conservancy,environmental and other public services	163,992	7	147,976	8
Education	30,192	1	27,822	2
Others	23,411	1	26,563	1
Discounted bills	57,074	3	101,872	6
Total corporate loans	1,819,002	81	1,528,676	83
Individual loans				
Mortgage loans	268,240	12	198,695	11
Credit card advances	43,561	2	30,693	2
Medium-term and long-term working capital loans	31,616	2	27,573	2
Short-term working capital loans	28,740	1	21,482	1
Car loans	6,607	—	4,894	—
Others	39,161	2	27,301	1
Total individual loans	417,925	19	310,638	17
Gross amount of loans and advances before allowance for impairment	2,236,927	100	1,839,314	100

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances *(Continued)*

(f) Industry analysis (Continued)

Bank

	31 December 2010	%	31 December 2009	%
Corporate loans				
Mining	40,223	2	31,230	2
Manufacturing				
— Petroleum and chemical	93,525	4	82,319	4
— Electronics	44,993	2	38,132	2
— Steel smelting and processing	45,568	2	40,109	2
— Machinery	68,911	3	56,757	3
— Textile and clothing	29,560	1	27,918	2
— Other manufacturing	155,392	7	133,419	7
Electricity,gas and water production and supply	138,707	6	141,628	8
Construction	68,295	3	55,296	3
Transportation,storage and postal service	307,422	14	226,757	12
IT and telecommunication service	9,618	—	8,213	—
Wholesale and retail	214,537	10	144,992	8
Accommodation and catering	15,746	1	13,163	1
Financial institutions	38,471	2	24,186	1
Real estate	143,024	6	106,799	6
Service	131,496	6	95,120	5
Water conservancy,environmental and other public services	163,992	7	147,976	8
Education	30,189	1	27,822	2
Others	23,257	1	26,698	1
Discounted bills	57,074	3	101,872	6
Total corporate loans	1,820,000	81	1,530,406	83
Individual loans				
Mortgage loans	265,899	12	197,422	11
Credit card advances	43,561	2	30,693	2
Medium-term and long-term working capital loans	31,616	2	27,573	2
Short-term working capital loans	28,740	1	21,482	1
Car loans	6,607	—	4,894	—
Others	39,161	2	27,301	1
Total individual loans	415,584	19	309,365	17
Gross amount of loans and advances before allowance for impairment	2,235,584	100	1,839,771	100

The economic sector risk concentration analysis for loans and advances to customers is based on the type of industry of the borrowers.

To further improve its credit management processes, the Group has revised the borrowers' industry classification of loans and advances during the year. Accordingly the comparative figure has been adjusted.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances *(Continued)*

(g) *Loans and advances to customers analysed by customer types (gross):*

Group

	31 December 2010	31 December 2009
Domestic		
Corporate entities		
State owned entities	602,646	502,787
Collective owned entities	8,240	8,768
Private unlimited companies	105,219	79,766
Limited companies	588,914	461,671
Joint stock companies	144,844	130,738
Foreign invested enterprises	132,616	135,537
Other domestic entities	49,692	22,548
Discounted bills	56,891	101,872
	1,689,062	1,443,687
Individual	400,735	294,866
	2,089,797	1,738,553
Hong Kong, Macao and Overseas		
Corporate entities	129,940	84,989
Individual	17,190	15,772
	147,130	100,761
Gross amount of loans and advances before allowance for impairment	2,236,927	1,839,314

Bank

	31 December 2010	31 December 2009
Domestic		
Corporate entities		
State owned entities	602,646	502,787
Collective owned entities	8,240	8,768
Private unlimited companies	105,219	79,766
Limited companies	587,952	461,496
Joint stock companies	144,844	130,738
Foreign invested enterprises	132,616	135,537
Other domestic entities	49,692	22,548
Discounted bills	56,891	101,872
	1,688,100	1,443,512
Individual	400,501	294,851
	2,088,601	1,738,363
Hong Kong, Macao and Overseas		
Corporate entities	131,900	86,894
Individual	15,083	14,514
	146,983	101,408
Gross amount of loans and advances before allowance for impairment	2,235,584	1,839,771

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.6 Investment securities

The table below presents an analysis of investment securities, excluding derivatives, by independent rating agencies designation as at 31 December 2010 and 2009:

Group

2010

	Investment securities — loans and receivables	Investment securities — available-for-sale ('AFS')-debt securities	Investment securities — held-to-maturity ('HTM')	Held for trading — debt securities	Total
RMB securities					
AAA	25	30,986	130,303	17,007	178,321
AA- to AA+	400	4,060	12,630	2,316	19,406
A- to A+	—	79	250	—	329
BBB- to BBB+	—	—	—	—	—
Unrated[(a)]	42,060	90,545	418,078	13,598	564,281
Sub-total	42,485	125,670	561,261	32,921	762,337
Foreign currency securities					
AAA	—	7,552	884	4,135	12,571
AA- to AA+	—	9,896	199	2,266	12,361
A- to A+	—	8,299	123	1,343	9,765
BBB- to BBB+	—	289	—	268	557
Unrated[(a)]	132	6,836	1,254	212	8,434
Sub-total	132	32,872	2,460	8,224	43,688
Total	42,617	158,542	563,721	41,145	806,025

Bank

2010

	Investment securities — loans and receivables	Investment securities — available-for-sale ('AFS')-debt securities	Investment securities — held-to-maturity ('HTM')	Held for trading — debt securities	Total
RMB securities					
AAA	25	30,620	130,303	17,007	177,955
AA- to AA+	400	3,672	12,630	2,316	19,018
A- to A+	—	79	250	—	329
BBB- to BBB+	—	—	—	—	—
Unrated[(a)]	41,792	90,516	417,958	13,598	563,864
Sub-total	42,217	124,887	561,141	32,921	761,166
Foreign currency securities					
AAA	—	7,552	760	4,135	12,447
AA- to AA+	—	9,896	199	2,266	12,361
A- to A+	—	8,299	103	1,343	9,745
BBB- to BBB+	—	289	—	268	557
Unrated[(a)]	132	6,836	1,190	151	8,309
Sub-total	132	32,872	2,252	8,163	43,419
Total	42,349	157,759	563,393	41,084	804,585

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.6 Investment securities *(Continued)*

Group

2009

	Investment securities — loans and receivables	Investment securities — available-for-sale ('AFS')-debt securities	Investment securities — held-to-maturity ('HTM')	Held for trading — debt securities	Total
RMB securities					
AAA	25	52,886	109,731	7,086	169,728
AA- to AA+	400	4,493	11,672	693	17,258
A- to A+	—	—	458	1	459
BBB- to BBB+	—	—	20	2	22
Unrated[(a)]	106,734	37,156	384,568	8,860	537,318
Sub-total	107,159	94,535	506,449	16,642	724,785
Foreign currency securities					
AAA	—	11,048	814	3,482	15,344
AA- to AA+	—	4,937	180	1,044	6,161
A- to A+	—	9,581	369	3,998	13,948
BBB- to BBB+	—	210	36	202	448
Unrated[(a)]	445	9,466	1,331	1,052	12,294
Sub-total	445	35,242	2,730	9,778	48,195
Total	107,604	129,777	509,179	26,420	772,980

Bank

2009

	Investment securities — loans and receivables	Investment securities — available-for-sale ('AFS')-debt securities	Investment securities — held-to-maturity ('HTM')	Held for trading — debt securities	Total
RMB securities					
AAA	25	52,886	109,691	7,086	169,688
AA- to AA+	400	4,493	11,672	693	17,258
A- to A+	—	—	459	1	460
BBB- to BBB+	—	—	20	2	22
Unrated[(a)]	106,549	37,339	384,566	8,860	537,314
Sub-total	106,974	94,718	506,408	16,642	724,742
Foreign currency securities					
AAA	—	11,048	814	3,482	15,344
AA- to AA+	—	4,937	164	998	6,099
A- to A+	—	9,581	320	3,981	13,882
BBB- to BBB+	—	210	—	202	412
Unrated[(a)]	445	9,283	1,314	952	11,994
Sub-total	445	35,059	2,612	9,615	47,731
Total	107,419	129,777	509,020	26,257	772,473

(a) These mainly represent investment and trading securities issued by PRC Ministry of Finance, central bank, policy banks and other overseas financial institutions which are creditworthy issuers in the market, but are not rated by independent rating agencies.

There are no overdue debt securities held as at 31 December 2010 and 31 December 2009. The total gross amount of individually impaired debt securities as at 31 December 2010 is RMB1,340 million (2009: RMB1,274 million). No collateral is held by the Group in respect of these securities, and the impairment provision is RMB1,340 million as at 31 December 2010 (2009: RMB1,274 million).

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.7 *Derivatives*

The Group undertakes its transactions in foreign exchange and interest rate derivative contracts with other financial institutions and customers. Management has established limits for these contracts based on counterparty types, industry sectors and countries. Actual credit exposures and limits are regularly monitored and controlled by management.

Credit risk weighted amounts

Group and Bank

	As at 31 December 2010	2009
Derivatives		
— Exchange rate contracts	1,790	1,395
— Interest rate contracts	94	516
	1,884	1,911

The credit risk weighted amounts are the amounts calculated with reference to the guidelines issued by the China Banking Regulatory Commission ("CBRC") and are dependent on, amongst other factors, the creditworthiness of the counterparty and the maturity characteristics of each type of contract.

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

3.1.8 *Foreclosed assets*

Group and Bank

	As at 31 December 2010	2009
Residential properties	20	24
Business properties	82	455
Others	160	232
Total	262	711

Foreclosed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. The Group does not generally occupy repossessed properties for its business use. Repossessed assets are classified in the statement of financial position as other assets.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.9 Concentration risk analysis for financial assets with credit risk exposure:

Geographical sectors

Group

	Mainland China	Hong Kong	Others	Total
As at 31 December 2010				
Financial Assets				
Balances with central banks	565,799	4,502	2,955	573,256
Due from other banks and financial institutions	231,852	22,103	9,021	262,976
Held for trading — debt securities and derivative financial instruments	36,013	8,695	1,168	45,876
Loans and advances to customers	2,044,485	98,941	47,064	2,190,490
Investment securities — loans and receivables	42,617	—	—	42,617
Investment securities — available-for-sale-debt securities	136,011	14,293	8,238	158,542
Investment securities — held-to-maturity	561,458	601	1,662	563,721
Other financial assets	49,441	1,511	315	51,267
	3,667,676	150,646	70,423	3,888,745
Off-statement exposures				
Financial guarantees, acceptances and letters of credit	573,415	12,732	10,296	596,443
Other credit related commitments	204,870	29,773	7,412	242,055
	778,285	42,505	17,708	838,498

Bank

	Mainland China	Hong Kong	Others	Total
As at 31 December 2010				
Financial Assets				
Balances with central banks	565,721	4,502	2,955	573,178
Due from other banks and financial institutions	230,835	21,911	9,021	261,767
Held for trading — debt securities and derivative financial instruments	36,013	8,634	1,168	45,815
Loans and advances to customers	2,043,296	98,794	47,064	2,189,154
Investment securities — loans and receivables	42,349	—	—	42,349
Investment securities — available-for-sale-debt securities	135,228	14,293	8,238	157,759
Investment securities — held-to-maturity	561,339	392	1,662	563,393
Other financial assets	19,165	787	315	20,267
	3,633,946	149,313	70,423	3,853,682
Off-statement exposures				
Financial guarantees, acceptances and letters of credit	573,415	12,732	10,296	596,443
Other credit related commitments	204,870	29,773	7,412	242,055
	778,285	42,505	17,708	838,498

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.9 *Concentration risk analysis for financial assets with credit risk exposure:* *(Continued)*

Geographical sectors (Continued)

Group

	Mainland China	Hong Kong	Others	Total
As at 31 December 2009				
Financial Assets				
Balances with central banks	396,755	19,671	6,773	423,199
Due from other banks and financial institutions	202,250	15,362	5,059	222,671
Held for trading — debt securities and derivative financial instruments	18,299	9,599	892	28,790
Loans and advances to customers	1,701,863	64,196	35,479	1,801,538
Investment securities — loans and receivables	107,604	—	—	107,604
Investment securities — available-for-sale-debt instrument	110,242	11,212	8,323	129,777
Investment securities — held-to-maturity	506,654	447	2,078	509,179
Other financial assets	30,832	1,451	166	32,449
	3,074,499	121,938	58,770	3,255,207
Off-statement exposures				
Financial guarantees, acceptances and letters of credit	435,485	6,975	6,220	448,680
Other credit related commitments	131,877	27,083	5,744	164,704
	567,362	34,058	11,964	613,384

Bank

	Mainland China	Hong Kong	Others	Total
As at 31 December 2009				
Financial Assets				
Balances with central banks	385,219	31,201	6,773	423,193
Due from other banks and financial institutions	202,052	14,002	5,059	221,113
Held for trading — debt securities and derivative financial instruments	18,279	9,456	892	28,627
Loans and advances to customers	1,701,674	64,843	35,479	1,801,996
Investment securities — loans and receivables	107,419	—	—	107,419
Investment securities — available-for-sale-debt instrument	110,243	11,211	8,323	129,777
Investment securities — held-to-maturity	506,614	328	2,078	509,020
Other financial assets	15,319	831	166	16,316
	3,046,819	131,872	58,770	3,237,461
Off-statement exposures				
Financial guarantees, acceptances and letters of credit	435,485	6,975	6,220	448,680
Other credit related commitments	131,877	27,083	5,744	164,704
	567,362	34,058	11,964	613,384

The above analysis is based on the country/region in which the counterparties are located.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk

3.2.1 Overview

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates and prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group separates exposures to market risk into either trading or banking portfolios.

In accordance with the requirements of the China Banking Regulatory Commission (CBRC), the Group categorizes its business into either the trading book or the banking book. The trading book consists of positions in financial instruments held either with trading intent or in order to economically hedge other elements of the trading book or the banking book. The banking book consists of the investment book through which the Group purchases financial instruments with excess funds and other financial instruments that are not captured in trading book.

The Group's risk management committee under Board of Directors and senior management of the Bank approve the overall market risk policies and procedures. The Market Risk Management team within Risk Management Department monitors the Group's market risk exposure. It also reports the risk exposures and interest rate sensitivity to senior management on a quarterly basis. The senior management of the Group approves the limits for foreign currency exposures and the limits for the trading book.

As part of its management of market risk, the Group enters into interest rate swaps to match the interest rate risk associated with the structured deposits and fixed-rate long-term debt securities.

The major measurement techniques used to measure and control market risk are outlined below.

3.2.2 Sensitivity tests

Interest rate risk

The Group performs interest rate sensitivity analysis interest rates on net interest income and other comprehensive income for the Group by measuring the impact of a change in net interest income and other comprehensive income, not taking customer behavior and prepayment option into consideration. On an assumption of a parallel shift of 100 basis points in RMB, the Group calculates the change in net interest income for the year and other comprehensive income on a monthly basis.

The table below illustrates the potential impact of a parallel 100 basis point move in interest rates on the financial position of the Group at 31 December 2010 and 2009 on the net interest income of the coming year.

Group

	Expected change in net interest income	
	2010	2009
+100 basis point parallel move in all yield curves	8,258	5,387
- 100 basis point parallel move in all yield curves	(8,258)	(5,387)

The table below illustrates the potential impact of a 100 basis point move on the other comprehensive income of the Group.

Group

	Change of Other comprehensive income	
	31 December 2010	31 December 2009
+100 basis point parallel move in all yield curves	(2,400)	(1,951)
- 100 basis point parallel move in all yield curves	2,553	2,055

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.2 Sensitivity tests *(Continued)*

The result of the interest rate sensitivity tests set out in the table above are illustrative only and are based on simplified scenarios. The figures represent the effect on projected net interest income and reported equity of the pro forma movements of the yield curve on the Group's current interest rate risk profile. This effect, however, does not incorporate actions that would be taken by the Group to mitigate the impact of this interest rate change. The projections above also assume that interest rates of all maturities excluding demand deposits move by the same amount and, therefore, do not reflect the potential impact on net interest income due to changes in certain rates while others remain unchanged. The projections make other simplifying assumptions too, including that all positions run to maturity. There will be changes to the projection if not letting positions run to maturity but it is not expected the changes would be material.

Foreign exchange sensitivity test

The Group performs exchange rate sensitivity analysis on net profit and other comprehensive income for the Group by measuring the impact of a change in exchange rate on financial position. On an assumption of an appreciation of RMB against US dollar and HK dollar by 5%, the Group calculates the change in net profit and other comprehensive income for the year on a monthly basis.

The table below illustrates the potential impact of an appreciation of RMB against US dollar and HK dollar by 5% on the Group's net profit.

Group

	Expected change in net Profit/(Loss)	
	2010	2009
+5% appreciation of RMB	(896)	(747)
-5% appreciation of RMB	1,329	747

The table below illustrates the potential impact of an appreciation of RMB against US dollar and HK dollar by 5% on the Group's other comprehensive income.

Group

	Change of Other comprehensive income	
	31 December 2010	31 December 2009
+5% appreciation of RMB	(560)	(496)
-5% appreciation of RMB	560	496

3.2.3 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Group operates its business predominantly in Mainland China under the interest rate scheme regulated by the PBOC. According to the PBOC regulations, there is no ceiling for loan interest rates, whilst the floor for loan interest rates is 10% below the stipulated rates. It is normal practice for the interest rates of both interest-bearing assets and liabilities to move in the same direction. The Group conducts most of its domestic businesses including loans and deposits as well as the majority of financial guarantees and credit related commitments based upon PBOC basic interest rates. Consequently, the Group is less vulnerable to interest rate risk. However, there is no guarantee that the PBOC will continue this practice in the future.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 Interest rate risk *(Continued)*

The interest rate repricing risk for foreign currency denominated debt securities and the remaining part of financial guarantees and credit related commitments businesses which are not based upon these basic interest rates is not expected to be significant.

The interest rate for discounted bills is determined by reference to the PBOC/market re-discount interest rate. However, it is generally lower than the interest rate for a loan with same term.

The tables below summarise the Group's exposures to interest rate risks. The tables show the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

Group

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2010							
Assets							
Cash and balances with central banks	562,121	–	–	–	–	24,433	586,554
Due from other banks and financial institutions	195,582	32,150	34,592	640	–	12	262,976
Financial assets at fair value through profit or loss	1,139	2,776	12,965	20,629	3,636	4,898	46,043
Loans and advances to customers	962,362	282,115	900,422	30,487	15,104	–	2,190,490
Investment securities							
– loans and receivables	4,206	7,112	16,677	11,647	2,975	–	42,617
– available-for-sale	12,214	27,925	43,861	53,199	21,343	3,628	162,170
– held-to-maturity	22,153	32,817	100,144	270,319	138,288	–	563,721
Other assets, including deferred income tax assets	3,580	9,874	16,533	–	–	67,035	97,022
Total assets	1,763,357	394,769	1,125,194	386,921	181,346	100,006	3,951,593
Liabilities							
Due to other banks and financial institutions	(431,192)	(54,936)	(75,854)	(154,050)	(1,000)	–	(717,032)
Financial liabilities at fair value through profit or loss	(1,349)	(4,448)	(2,257)	(1,175)	–	(5,150)	(14,379)
Due to customers	(1,876,444)	(284,077)	(576,352)	(118,078)	–	(12,896)	(2,867,847)
Other liabilities, including deferred income tax liabilities	(319)	(96)	(225)	(24,113)	(31,143)	(72,782)	(128,678)
Total liabilities	(2,309,304)	(343,557)	(654,688)	(297,416)	(32,143)	(90,828)	(3,727,936)
Total interest sensitivity gap	(545,947)	51,212	470,506	89,505	149,203	9,178	223,657

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 Interest rate risk *(Continued)*

Bank

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2010							
Assets							
Cash and balances with central banks	562,043	–	–	–	–	24,423	586,466
Due from other banks and financial institutions	195,117	32,076	34,562	–	–	12	261,767
Financial assets at fair value through profit or loss	1,139	2,776	12,922	20,611	3,636	4,731	45,815
Loans and advances to customers	964,533	282,022	897,164	30,335	15,100	–	2,189,154
Investment securities							
– loans and receivables	4,119	7,112	16,643	11,500	2,975	–	42,349
– available-for-sale	12,214	27,925	43,861	53,050	20,709	1,661	159,420
– held-to-maturity	22,153	32,816	100,011	270,210	138,203	–	563,393
Investments in subsidiaries	–	–	–	–	–	8,089	8,089
Other assets, including deferred income tax assets	10	–	–	–	–	65,148	65,158
Total assets	1,761,328	384,727	1,105,163	385,706	180,623	104,064	3,921,611
Liabilities							
Due to other banks and financial institutions	(431,519)	(51,570)	(58,454)	(154,050)	(1,000)	–	(696,593)
Financial liabilities at fair value through profit or loss	(1,349)	(4,448)	(2,257)	(1,175)	–	(5,150)	(14,379)
Due to customers	(1,876,507)	(284,103)	(576,399)	(118,078)	–	(12,896)	(2,867,983)
Other liabilities, including deferred income tax liabilities	(118)	(3)	(13)	(20,723)	(31,143)	(69,159)	(121,159)
Total liabilities	(2,309,493)	(340,124)	(637,123)	(294,026)	(32,143)	(87,205)	(3,700,114)
Total interest sensitivity gap	(548,165)	44,603	468,040	91,680	148,480	16,859	221,497

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 Interest rate risk *(Continued)*

Group

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2009							
Assets							
Cash and balances with central banks	403,527	–	–	–	–	31,469	434,996
Due from other banks and financial institutions	126,424	27,095	69,139	–	–	13	222,671
Financial assets at fair value through profit or loss	827	2,836	3,535	16,210	3,012	2,834	29,254
Loans and advances to customers	627,070	259,547	841,820	53,392	19,709	–	1,801,538
Investment securities							
– loans and receivables	10,575	19,512	64,940	10,502	2,075	–	107,604
– available-for-sale	7,495	19,076	42,745	43,586	16,875	2,317	132,094
– held-to-maturity	17,663	23,509	94,913	242,682	130,412	–	509,179
Other assets, including deferred income tax assets	7,815	1,347	5,777	–	–	56,862	71,801
Total assets	1,201,396	352,922	1,122,869	366,372	172,083	93,495	3,309,137
Liabilities							
Due to other banks and financial institutions	(359,041)	(100,001)	(83,860)	(107,870)	(2,400)	–	(653,172)
Financial liabilities at fair value through profit or loss	(1,826)	(3,552)	(9)	(1,081)	–	(2,907)	(9,375)
Due to customers	(1,515,361)	(254,450)	(478,040)	(111,049)	–	(13,155)	(2,372,055)
Other liabilities, including deferred income tax liabilities	–	–	(3,056)	(20,689)	(31,410)	(54,955)	(110,110)
Total liabilities	(1,876,228)	(358,003)	(564,965)	(240,689)	(33,810)	(71,017)	(3,144,712)
Total interest sensitivity gap	(674,832)	(5,081)	557,904	125,683	138,273	22,478	164,425

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 Interest rate risk *(Continued)*

Bank

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2009							
Assets							
Cash and balances with central banks	403,521	–	–	–	–	31,468	434,989
Due from other banks and financial institutions	124,866	27,095	69,139	–	–	13	221,113
Financial assets at fair value through profit or loss	827	2,836	3,535	16,092	2,967	2,370	28,627
Loans and advances to customers	628,376	258,186	842,334	53,391	19,709	–	1,801,996
Investment securities							
– loans and receivables	10,575	19,512	64,871	10,386	2,075	–	107,419
– available-for-sale	7,495	19,076	42,745	43,586	16,875	1,391	131,168
– held-to-maturity	17,663	23,507	94,869	242,609	130,372	–	509,020
Investments in subsidiaries	–	–	–	–	–	5,660	5,660
Other assets, including deferred income tax assets	–	–	–	–	–	54,916	54,916
Total assets	1,193,323	350,212	1,117,493	366,064	171,998	95,818	3,294,908
Liabilities							
Due to other banks and financial institutions	(358,575)	(100,239)	(73,530)	(107,870)	(2,400)	–	(642,614)
Financial liabilities at fair value through profit or loss	(1,826)	(3,552)	(9)	(1,081)	–	(2,907)	(9,375)
Due to customers	(1,515,948)	(254,488)	(478,045)	(111,123)	–	(13,155)	(2,372,759)
Other liabilities, including deferred income tax liabilities	–	–	(3,056)	(20,689)	(31,410)	(51,718)	(106,873)
Total liabilities	(1,876,349)	(358,279)	(554,640)	(240,763)	(33,810)	(67,780)	(3,131,621)
Total interest sensitivity gap	(683,026)	(8,067)	562,853	125,301	138,188	28,038	163,287

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 Foreign exchange risk

The Group conducts the majority of its businesses in RMB, with certain foreign transactions in US dollar, Hong Kong dollar and other currencies. The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The senior management sets limits on the level of exposure by currencies, which is monitored regularly. The tables below summarize the Group's exposure to foreign currency exchange rate risk at the end of each year. The tables show the Group's total assets and liabilities at carrying amounts in RMB, categorized by the original currency.

Group

	RMB	US Dollar	HK Dollar	Others	Total
As at 31 December 2010					
Assets					
Cash and balances with central banks	574,385	3,788	5,157	3,224	586,554
Due from other banks and financial institutions	227,803	27,003	518	7,652	262,976
Financial assets at fair value through profit or loss	36,155	6,920	350	2,618	46,043
Loans and advances to customers	1,962,515	166,902	51,166	9,907	2,190,490
Investment securities-loans and receivables	42,485	132	—	—	42,617
Investment securities-available-for-sale	128,159	25,893	3,213	4,905	162,170
Investment securities-held-to-maturity	561,261	2,379	—	81	563,721
Other assets, including deferred income tax assets	93,227	1,452	1,527	816	97,022
Total assets	3,625,990	234,469	61,931	29,203	3,951,593
Liabilities					
Due to other banks and financial institutions	(633,705)	(66,869)	(3,537)	(12,921)	(717,032)
Financial liabilities at fair value through profit or loss	(967)	(7,445)	(5,614)	(353)	(14,379)
Due to customers	(2,687,208)	(85,339)	(75,767)	(19,533)	(2,867,847)
Other liabilities, including deferred income tax liabilities	(123,625)	(1,877)	(1,875)	(1,301)	(128,678)
Total liabilities	(3,445,505)	(161,530)	(86,793)	(34,108)	(3,727,936)
Net position	180,485	72,939	(24,862)	(4,905)	223,657
Financial guarantees and credit related commitments	660,074	126,255	19,391	32,778	838,498

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 Foreign exchange risk *(Continued)*

Bank

	RMB	US Dollar	HK Dollar	Others	Total
As at 31 December 2010					
Assets					
Cash and balances with central banks	574,297	3,788	5,157	3,224	586,466
Due from other banks and financial institutions	226,835	26,948	332	7,652	261,767
Financial assets at fair value through profit or loss	36,155	6,859	183	2,618	45,815
Loans and advances to customers	1,961,326	166,963	50,958	9,907	2,189,154
Investment securities-loans and receivables	42,217	132	–	–	42,349
Investment securities-available-for-sale	126,507	25,893	2,115	4,905	159,420
Investment securities-held-to-maturity	561,141	2,171	–	81	563,393
Investments in and due from subsidiaries	5,891	–	2,198	–	8,089
Other assets, including deferred income tax assets	62,634	1,452	256	816	65,158
Total assets	3,597,003	234,206	61,199	29,203	3,921,611
Liabilities					
Due to other banks and financial institutions	(613,098)	(66,892)	(3,682)	(12,921)	(696,593)
Financial liabilities at fair value through profit or loss	(967)	(7,445)	(5,614)	(353)	(14,379)
Due to customers	(2,686,625)	(85,449)	(76,376)	(19,533)	(2,867,983)
Other liabilities, including deferred income tax liabilities	(116,728)	(1,877)	(1,253)	(1,301)	(121,159)
Total liabilities	(3,417,418)	(161,663)	(86,925)	(34,108)	(3,700,114)
Net position	179,585	72,543	(25,726)	(4,905)	221,497
Financial guarantees and credit related commitments	660,074	126,255	19,391	32,778	838,498

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 *Foreign exchange risk* *(Continued)*

Group

	RMB	US Dollar	HK Dollar	Others	Total
As at 31 December 2009					
Assets					
Cash and balances with central banks	403,469	7,075	20,341	4,111	434,996
Due from other banks and financial institutions	185,675	22,120	6,206	8,670	222,671
Financial assets at fair value through profit or loss	18,054	7,667	576	2,957	29,254
Loans and advances to customers	1,640,191	103,635	47,981	9,731	1,801,538
Investment securities-loans and receivables	107,159	334	22	89	107,604
Investment securities-available-for-sale	96,507	28,650	2,386	4,551	132,094
Investment securities-held-to-maturity	506,449	2,452	–	278	509,179
Other assets, including deferred income tax assets	68,799	672	1,767	563	71,801
Total assets	3,026,303	172,605	79,279	30,950	3,309,137
Liabilities					
Due to other banks and financial institutions	(578,003)	(53,653)	(14,243)	(7,273)	(653,172)
Financial liabilities at fair value through profit or loss	(1,158)	(4,883)	(2,839)	(495)	(9,375)
Due to customers	(2,212,372)	(77,331)	(60,921)	(21,431)	(2,372,055)
Other liabilities, including deferred income tax liabilities	(103,149)	(3,869)	(1,596)	(1,496)	(110,110)
Total liabilities	(2,894,682)	(139,736)	(79,599)	(30,695)	(3,144,712)
Net position	131,621	32,869	(320)	255	164,425
Financial guarantees and credit related commitments	461,016	101,339	22,480	28,549	613,384

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 ***Foreign exchange risk*** *(Continued)*

Bank

	RMB	US Dollar	HK Dollar	Others	Total
As at 31 December 2009					
Assets					
Cash and balances with central banks	403,462	7,075	20,341	4,111	434,989
Due from other banks and financial institutions	185,477	22,113	4,860	8,663	221,113
Financial assets at fair value through profit or loss	17,854	7,504	312	2,957	28,627
Loans and advances to customers	1,640,002	103,635	48,628	9,731	1,801,996
Investment securities-loans and receivables	106,974	334	22	89	107,419
Investment securities-available-for-sale	96,085	28,650	1,882	4,551	131,168
Investment securities-held-to-maturity	506,408	2,334	–	278	509,020
Investments in and due from subsidiaries	3,386	–	2,274	–	5,660
Other assets, including deferred income tax assets	53,124	672	557	563	54,916
Total assets	3,012,772	172,317	78,876	30,943	3,294,908
Liabilities					
Due to other banks and financial institutions	(567,300)	(53,653)	(14,388)	(7,273)	(642,614)
Financial liabilities at fair value through profit or loss	(1,158)	(4,883)	(2,839)	(495)	(9,375)
Due to customers	(2,212,348)	(77,405)	(61,544)	(21,462)	(2,372,759)
Other liabilities, including deferred income tax liabilities	(100,597)	(3,869)	(911)	(1,496)	(106,873)
Total liabilities	(2,881,403)	(139,810)	(79,682)	(30,726)	(3,131,621)
Net position	131,369	32,507	(806)	217	163,287
Financial guarantees and credit related commitments	461,016	101,339	22,480	28,549	613,384

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk

3.3.1 *Overview*

Liquidity risk is the risk that the Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend. The Group's objective in liquidity management is to ensure the availability of adequate funding to meet its needs to fund deposit withdrawals and other liabilities as they fall due and to ensure that it is able to meet its obligations to fund loan originations and commitments and to take advantage of new investment opportunities.

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, matured deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. The Board of Directors set limits on the minimum proportion of funds to be made available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover different levels of unexpected withdrawals. In addition, the Bank limits its loan to deposit ratio at below 75% as required by the PBOC. As at 31 December 2010 19% (15.5% as at 31 December 2009) of the Bank's total RMB denominated customer deposits and 5% (5% as at 31 December 2009) of the total foreign currency denominated customer deposits must be deposited with the PBOC.

3.3.2 *Liquidity risk management process*

The Group's liquidity risk management process, as monitored by the Assets and Liabilities Management Department for RMB business and foreign exchange business, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers.
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities centrally at head office; and managing the centrally utilization of the Bank's liquid assets;
- Setting up contingency plan, regular monitoring and precaution mechanism; establish crisis management plan;
- Enhancing the liquidity management of overseas branches.

Monitoring and reporting of cash flow measurement and projections are made for the next day, week and month separately, as these are key time periods for liquidity risk management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities (Notes 3.3.3-3.3.4).

Sources of liquidity are regularly reviewed by the Assets and Liabilities Management Department respectively to maintain a wide diversification by currency, geography, customer, product and term.

3.3.3 *Non-derivative financial liabilities and assets held for managing liquidity risk*

The table below presents the undiscounted cash flows of the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the balance sheet date.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 Non-derivative financial liabilities and assets held for managing liquidity risk *(Continued)*

Group

	On Demand	Up to 1 month	1-3 months	3–12 months	1–5 years	Over 5 years	Overdue	Total
As at 31 December 2010								
Liabilities								
Due to other banks and financial institution	(207,410)	(83,814)	(59,395)	(81,065)	(289,765)	(61,335)	–	(782,784)
Non-derivative financial liabilities at fair value through profit or loss	–	–	(94)	(4,532)	(4,719)	–	–	(9,345)
Due to customers	(1,465,143)	(392,898)	(288,008)	(593,100)	(175,438)	(4,342)	–	(2,918,929)
Debts issued	–	–	(997)	(980)	(28,897)	(32,982)	–	(63,856)
Other financial liabilities	(23,560)	(1,333)	(22)	(889)	(813)	(2,056)	–	(28,673)
Total liabilities (contractual maturity dates)	(1,696,113)	(478,045)	(348,516)	(680,566)	(499,632)	(100,715)	–	(3,803,587)
Cash and balances with central banks	586,797	–	–	–	–	–	–	586,797
Due from other banks and financial institutions	20,966	174,776	32,319	35,279	787	–	12	264,139
Non-derivative financial assets at fair value through profit or loss	–	755	1,569	12,623	24,738	5,601	–	45,286
Loans and advances to customers	–	148,627	255,536	764,042	785,944	778,033	17,576	2,749,758
Investment securities – loans and receivables	–	5,090	7,182	17,005	13,576	3,571	–	46,424
Investment securities – available-for-sale ('AFS')	–	6,515	10,170	43,264	85,019	39,200	–	184,168
Investment securities – held-to-maturity ('HTM')	–	12,045	21,306	85,087	353,755	187,342	–	659,535
Other financial assets	4,813	1,896	2,007	5,725	18,673	8,817	841	42,772
Assets held for managing liquidity risk (contractual maturity dates)	612,576	349,704	330,089	963,025	1,282,492	1,022,564	18,429	4,578,879

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 Non-derivative financial liabilities and assets held for managing liquidity risk *(Continued)*

Bank

	On Demand	Up to 1 month	1–3 months	3–12 months	1-5 years	Over 5 years	Overdue	Total
As at 31 December 2010								
Liabilities								
Due to other banks and financial institution	(208,419)	(78,969)	(56,910)	(67,950)	(288,338)	(61,335)	–	(761,921)
Non-derivative financial liabilities at fair value through profit or loss	–	–	(94)	(4,532)	(4,719)	–	–	(9,345)
Due to customers	(1,465,205)	(392,898)	(288,033)	(593,148)	(175,438)	(4,342)	–	(2,919,064)
Debts issued	–	–	(997)	(917)	(26,771)	(32,982)	–	(61,667)
Other financial liabilities	(22,990)	–	(3)	(221)	(223)	(1,643)	–	(25,080)
Total liabilities (contractual maturity dates)	(1,696,614)	(471,867)	(346,037)	(666,768)	(495,489)	(100,302)	–	(3,777,077)
Cash and balances with central banks	586,709	–	–	–	–	–	–	586,709
Due from other banks and financial institutions	20,501	174,776	32,246	35,249	–	–	12	262,784
Non-derivative financial assets at fair value through profit or loss	–	755	1,569	12,623	24,712	5,399	–	45,058
Loans and advances to customers	–	148,593	255,439	762,902	785,781	778,028	17,576	2,748,319
Investment securities – loans and receivables	–	5,003	7,182	16,971	13,429	3,571	–	46,156
Investment securities – available-for-sale ('AFS')	–	6,515	10,165	43,204	84,759	36,682	–	181,325
Investment securities – held-to-maturity ('HTM')	–	12,045	21,306	84,967	353,631	187,258	–	659,207
Other financial assets	4,813	132	128	–	–	–	827	5,900
Assets held for managing liquidity risk (contractual maturity dates)	612,023	347,819	328,035	955,916	1,262,312	1,010,938	18,415	4,535,458

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 Non-derivative financial liabilities and assets held for managing liquidity risk *(Continued)*

Group

	On Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Total
As at 31 December 2009								
Liabilities								
Due to other banks and financial institution	(275,199)	(83,719)	(101,389)	(85,955)	(118,757)	(2,400)	–	(667,419)
Non-derivative financial liabilities at fair value through profit or loss	–	(3)	(6)	(3,010)	(3,521)	–	–	(6,540)
Due to customers	(1,157,321)	(372,225)	(257,751)	(493,552)	(138,206)	–	–	(2,419,055)
Debts issued	–	(49)	(997)	(3,966)	(27,483)	(34,182)	–	(66,677)
Other financial liabilities	(16,305)	(1,245)	(216)	(363)	(923)	(2,991)	–	(22,043)
Total liabilities (contractual maturity dates)	(1,448,825)	(457,241)	(360,359)	(586,846)	(288,890)	(39,573)	–	(3,181,734)
Cash and balances with central banks	435,175	–	–	–	–	–	–	435,175
Due from other banks and financial institutions	28,416	98,106	27,230	69,781	–	–	13	223,546
Non-derivative financial assets at fair value through profit or loss	–	479	1,258	3,736	20,280	4,503	–	30,256
Loans and advances to customers	–	109,363	226,624	619,595	652,772	502,940	21,756	2,133,050
Investment securities – loans and receivables	–	10,548	19,895	66,716	12,668	2,562	–	112,389
Investment securities – available-for-sale ('AFS')	–	2,537	4,403	45,838	69,991	25,380	–	148,149
Investment securities – held-to-maturity ('HTM')	–	5,539	14,128	77,073	328,472	179,976	–	605,188
Other financial assets	3,441	1,743	1,057	3,861	10,404	1,591	1,061	23,158
Assets held for managing liquidity risk (contractual maturity dates)	467,032	228,315	294,595	886,600	1,094,587	716,952	22,830	3,710,911

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 Non-derivative financial liabilities and assets held for managing liquidity risk *(Continued)*

Bank

	On Demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Overdue	Total
As at 31 December 2009								
Liabilities								
Due to other banks and financial institution	(276,314)	(82,539)	(101,627)	(75,625)	(118,357)	(2,400)	–	(656,862)
Non-derivative financial liabilities at fair value through profit or loss	–	(3)	(6)	(3,010)	(3,521)	–	–	(6,540)
Due to customers	(1,157,908)	(372,225)	(257,788)	(493,556)	(138,281)	–	–	(2,419,758)
Debts issued	–	(49)	(997)	(3,966)	(27,483)	(34,182)	–	(66,677)
Other financial liabilities	(15,697)	–	(30)	(333)	(273)	(2,845)	–	(19,178)
Total liabilities (contractual maturity dates)	(1,449,919)	(454,816)	(360,448)	(576,490)	(287,915)	(39,427)	–	(3,169,015)
Cash and balances with central banks	435,168	–	–	–	–	–	–	435,168
Due from other banks and financial institutions	26,860	98,103	27,230	69,781	–	–	13	221,987
Non-derivative financial assets at fair value through profit or loss	–	479	1,258	3,736	20,161	3,994	–	29,628
Loans and advances to customers	–	110,667	225,260	620,094	652,764	502,940	21,756	2,133,481
Investment securities – loans and receivables	–	10,548	19,895	66,646	12,552	2,562	–	112,203
Investment securities – available-for-sale ('AFS')	–	2,537	4,403	45,838	69,991	24,455	–	147,224
Investment securities – held-to-maturity ('HTM')	–	5,539	14,126	77,028	328,399	179,937	–	605,029
Other financial assets	3,440	121	102	–	–	135	1,048	4,846
Assets held for managing liquidity risk (contractual maturity dates)	465,468	227,994	292,274	883,123	1,083,867	714,023	22,817	3,689,566

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 *Non-derivative financial liabilities and assets held for managing liquidity risk (Continued)*

Assets available to meet all of the liabilities include cash, balances with central bank, items in the course of collection and treasury; due from other banks and financial institutions; and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. In addition, certain debt securities have been pledged for liabilities. The Group would also be able to meet unexpected net cash outflows by selling securities, using credit commitment from other financial institutions, early termination of borrowing from other financial institutions and repurchase agreement and using the mandatory reserve deposits upon PBOC's approval.

3.3.4 *Derivative cash flows*

The Group's derivatives are either settled on a net basis or a gross basis.

(a) *Derivatives settled on a net basis*

The Group's derivatives that will be settled on a net basis include:

- Foreign exchange derivatives: non-deliverable forward
- Interest rate derivatives: interest rate swaps, forward rate agreements and over the counter interest rate options.

The table below analyses the Group's derivative financial instruments which will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group and Bank

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2010						
Assets						
Derivatives held for trading:						
– Foreign exchange derivatives	28	153	355	75	–	611
– Interest rate derivatives	7	112	367	379	34	899
Total	35	265	722	454	34	1,510
Liabilities						
Derivatives held for trading:						
– Foreign exchange derivatives	(19)	(136)	(239)	(52)	–	(446)
– Interest rate derivatives	(80)	(98)	(477)	(713)	–	(1,368)
Total	(99)	(234)	(716)	(765)	–	(1,814)

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.4 Derivative cash flows *(Continued)*

(a) Derivatives settled on a net basis (Continued)

Group and Bank

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2009						
Assets						
Derivatives held for trading:						
– Foreign exchange derivatives	2	4	84	–	–	90
– Interest rate derivatives	29	73	260	631	398	1,391
Total	31	77	344	631	398	1,481
Liabilities						
Derivatives held for trading:						
– Foreign exchange derivatives	(2)	(3)	(65)	–	–	(70)
– Interest rate derivatives	(65)	(79)	(433)	(678)	(377)	(1,632)
Total	(67)	(82)	(498)	(678)	(377)	(1,702)

(b) Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis include:

- Foreign exchange derivatives: currency forward, currency swaps, cross currency interest rate swaps.

The table below analyses the Group's derivative financial instruments which will be settled on a gross basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group and Bank

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2010						
Derivatives held for trading:						
Foreign exchange derivatives						
– Outflow	(159,577)	(104,465)	(169,350)	(11,490)	–	(444,882)
– Inflow	159,714	104,413	169,229	11,429	–	444,785

Group and Bank

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2009						
Derivatives held for trading:						
Foreign exchange derivatives						
– Outflow	(149,347)	(47,231)	(123,732)	(12,562)	(406)	(333,278)
– Inflow	149,509	47,217	123,419	12,431	406	332,982

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.5 Maturity Analysis

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

Group

	On Demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Overdue	Total
As at 31 December 2010								
Assets								
Cash and balances with central banks	586,554	–	–	–	–	–	–	586,554
Due from other banks and financial institutions	20,965	174,617	32,149	34,593	640	–	12	262,976
Financial assets at fair value through profit or loss	–	1,492	2,506	13,029	23,766	5,250	–	46,043
Loans and advances to customers	–	144,879	221,852	685,487	609,464	519,955	8,853	2,190,490
Investment securities-loans and receivables	–	4,210	7,112	16,674	11,645	2,976	–	42,617
Investment securities-available-for-sale	–	6,325	9,638	39,293	73,673	33,241	–	162,170
Investment securities-held-to-maturity	–	11,460	18,565	69,556	305,703	158,437	–	563,721
Other assets, including deferred income tax assets	6,322	16,580	2,280	7,525	20,270	43,942	103	97,022
Total assets	613,841	359,563	294,102	866,157	1,045,161	763,801	8,968	3,951,593
Liabilities								
Due to other banks and financial institution	(207,271)	(83,404)	(54,835)	(73,905)	(248,742)	(48,875)	–	(717,032)
Financial liabilities at fair value through profit or loss	–	(667)	(1,167)	(6,094)	(5,910)	(541)	–	(14,379)
Due to customers	(1,464,798)	(390,483)	(283,667)	(576,360)	(149,038)	(3,501)	–	(2,867,847)
Other financial liabilities	(31,128)	(2,250)	(29,845)	(6,616)	(26,544)	(32,295)	–	(128,678)
Total liabilities	(1,703,197)	(476,804)	(369,514)	(662,975)	(430,234)	(85,212)	–	(3,727,936)
Net Assets	(1,089,356)	(117,241)	(75,412)	203,182	614,927	678,589	8,968	223,657

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

***3.3.5 Maturity Analysis** (Continued)*

	On Demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Overdue	Total
As at 31 December 2009								
Assets								
Cash and balances with central banks	434,996	–	–	–	–	–	–	434,996
Due from other banks and financial institutions	28,411	98,013	27,095	69,139	–	–	13	222,671
Financial assets at fair value through profit or loss	–	691	1,339	3,574	18,829	4,821	–	29,254
Loans and advances to customers	–	104,985	207,754	568,784	534,841	371,827	13,347	1,801,538
Investment securities-loans and receivables	–	10,575	19,512	64,940	10,502	2,075	–	107,604
Investment securities-available-for-sale	–	2,125	3,926	42,662	61,983	21,398	–	132,094
Investment securities-held-to-maturity	–	4,918	11,574	62,091	280,853	149,743	–	509,179
Other assets, including deferred income tax assets	2,845	14,018	1,272	5,430	13,178	33,786	1,272	71,801
Total assets	466,252	235,325	272,472	816,620	920,186	583,650	14,632	3,309,137
Liabilities								
Due to other banks and financial institution	(275,051)	(83,591)	(100,000)	(83,860)	(108,270)	(2,400)	–	(653,172)
Financial liabilities at fair value through profit or loss	–	(105)	(191)	(3,920)	(4,315)	(844)	–	(9,375)
Due to customers	(1,156,980)	(369,548)	(254,380)	(479,933)	(111,214)	–	–	(2,372,055)
Other financial liabilities	(21,702)	(176)	(26,113)	(7,683)	(22,433)	(32,003)	–	(110,110)
Total liabilities	(1,453,733)	(453,420)	(380,684)	(575,396)	(246,232)	(35,247)	–	(3,144,712)
Net Assets	(987,481)	(218,095)	(108,212)	241,224	673,954	548,403	14,632	164,425

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.6 Off-statement items

The table below lists the off-statement items of the Group and the Bank according to their remaining term to maturity, and also includes the future minimum lease payments under non-cancellable operating leases where the Group and the Bank are the lessees.

Group

	No later than 1 year	1-5 years	Over 5 years	Total
At 31 December 2010				
Loan commitments	213,686	24,847	3,522	242,055
Guarantees, Acceptances and letters of credit	477,858	95,835	22,750	596,443
Operating lease commitments	1,291	3,010	981	5,282
Capital commitments	1,496	1,326	24	2,846
Total	694,331	125,018	27,277	846,626
At 31 December 2009				
Loan commitments	138,956	25,520	228	164,704
Guarantees, Acceptances and letters of credit	346,158	76,215	26,307	448,680
Operating lease commitments	1,086	2,738	1,118	4,942
Capital commitments	394	—	—	394
Total	486,594	104,473	27,653	618,720

Bank

	No later than 1 year	1-5 years	Over 5 years	Total
At 31 December 2010				
Loan commitments	213,686	24,847	3,522	242,055
Guarantees, Acceptances and letters of credit	477,858	95,835	22,750	596,443
Operating lease commitments	1,279	3,008	981	5,268
Capital commitments	1,496	1,326	24	2,846
Total	694,319	125,016	27,277	846,612
At 31 December 2009				
Loan commitments	138,956	25,520	228	164,704
Guarantees, Acceptances and letters of credit	346,158	76,215	26,307	448,680
Operating lease commitments	1,074	2,731	1,118	4,923
Capital commitments	393	—	—	393
Total	486,581	104,466	27,653	618,700

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities

(a) Financial instruments not measured at fair value

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's consolidated statement of financial position at their fair value.

Group

	31 December 2010		31 December 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Due from other banks and financial institutions	262,976	263,016	222,671	222,671
Loans and advances to customers	2,190,490	2,189,377	1,801,538	1,802,244
Investment securities				
— loans and receivables	42,617	42,471	107,604	107,823
— held-to-maturity	563,721	556,508	509,179	510,464
Financial liabilities				
Due to other banks and financial institutions	(717,032)	(712,149)	(653,172)	(655,403)
Due to customers	(2,867,847)	(2,868,005)	(2,372,055)	(2,374,416)
Subordinated term debt	(52,000)	(50,896)	(53,000)	(50,790)

Bank

	31 December 2010		31 December 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Due from other banks and financial institutions	261,767	261,767	221,113	221,113
Loans and advances to customers	2,189,154	2,188,041	1,801,996	1,802,702
Investment securities				
— loans and receivables	42,349	42,203	107,419	107,638
— held-to-maturity	563,393	556,180	509,020	510,305
Financial liabilities				
Due to other banks and financial institutions	(696,593)	(691,710)	(642,614)	(644,846)
Due to customers	(2,867,983)	(2,868,141)	(2,372,759)	(2,375,120)
Subordinated term debt	(50,000)	(48,922)	(53,000)	(50,790)

The fair value of those financial assets and liabilities such as amounts due from/to other banks and financial institutions, loans and advances to customers and customer deposits approximate to the carrying value as the interest rates of most of these assets and liabilities are instantaneously adjusted to changes in interest rates set by the PBOC and other regulatory bodies. The Group only has an insignificant amount of fixed rate deposits with banks, financial institutions and customers and fixed rate loans.

Due from other banks and financial institutions

Due from other banks and financial institutions includes inter-bank placements and items in the course of collection. The fair values of floating rate placements and overnight deposits are their carrying amounts. The estimated fair value of fixed interest bearing deposits, which are normally less than one year, is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturities. The fair value of due from other banks and financial institutions approximate its carrying value.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

(a) ***Financial instruments not measured at fair value*** *(Continued)*

Loans and advances to customers

Loans and advances to customers are stated net of impairment allowances. All except a very insignificant portion of loans and advances to customers bear interest at a floating rate. Therefore, the carrying value of loans and advances to customers is a reasonable estimate of fair value.

Investment securities

The fair value for loans and receivables and held-to-maturity assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Due to other banks and financial institutions and customers

The estimated fair value of liabilities due to other banks and financial institutions and customers with no stated maturity, which includes non-interest-bearing liabilities due to other banks and financial institutions and customers, is the amount repayable on demand. The fair value of floating rate liabilities due to other banks and customers is their carrying amount. The estimated fair value of fixed interest bearing liabilities due to other banks and financial institutions and customers without quoted market price, which are normally less than one year, is based on discounted cash flows using interest rates for new debts with similar remaining maturities. The fair value of due to other banks and financial institutions and customers is approximately equal to its carrying value.

Subordinated term debt

The fair value of floating rate subordinated term debts is approximately equal to its carrying amount. The fair value of fixed interest bearing subordinated term debts is calculated using a discounted cash flow model which is based on a current yield curve appropriate for the remaining term to maturity.

(b) ***Fair value hierarchy***

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Hong Kong Stock Exchange).

- Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the over-the-counter derivative contracts, and debt instruments traded in interbank market. The sources of input parameters like LIBOR yield curve or counterparty credit risk are China Bond and Bloomberg.

- Level 3 — Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and structured financial instruments.

The Group uses valuation techniques to determine the fair value of financial instruments when unable to obtain the open market quotation in active markets.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

(b) ***Fair value hierarchy*** *(Continued)*

The main parameters used in valuation techniques for financial instruments held by the Group include bond prices, interest rates, foreign exchange rates, equity and stock prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are all observable and obtainable from open market.

For asset-backed securities and unlisted equity (private equity) held by the Group, the fair value of these financial instruments may be based on unobservable inputs which may have significant impact on the valuation of these financial instruments. Instruments which have been valued using unobservable inputs have been classified by the Group as level 3. Management determines the fair value of the Group's level 3 financial instruments using a variety of techniques, including examing correlations of these fair values with macro-economic factors, engaging external values, and using valuation models that incorporate unobservable inputs such as loss coverage ratios. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

Assets and liabilities measured at fair value:

Group

31 December 2010

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
— Debt securities	1,738	39,407	—	41,145
— Equity investment	167	—	—	167
— Derivatives	—	4,731	—	4,731
	1,905	44,138	—	46,043
Investment securities-available-for-sale				
— Debt securities	19,945	138,448	149	158,542
— Equity investment	2,884	—	744	3,628
	22,829	138,448	893	162,170
Total Assets	24,734	182,586	893	208,213
Financial liabilities at fair value through profit or loss				
— Debt securities in issue and others	(1)	(9,228)	—	(9,229)
— Derivatives	—	(5,150)	—	(5,150)
	(1)	(14,378)	—	(14,379)
Total Liabilities	(1)	(14,378)	—	(14,379)

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

(b) ***Fair value hierarchy*** *(Continued)*

Assets and liabilities measured at fair value: (Continued)

Bank

31 December 2010

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
— Debt securities	1,677	39,407	—	41,084
— Derivatives	—	4,731	—	4,731
	1,677	44,138	—	45,815
Investment securities-available-for-sale				
— Debt securities	19,162	138,448	149	157,759
— Equity investment	917	—	744	1,661
	20,079	138,448	893	159,420
Total Assets	21,756	182,586	893	205,235
Financial liabilities at fair value through profit or loss				
— Debt securities in issue and others	(1)	(9,228)	—	(9,229)
— Derivatives	—	(5,150)	—	(5,150)
	(1)	(14,378)	—	(14,379)
Total Liabilities	(1)	(14,378)	—	(14,379)

Group

31 December 2009

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
— Debt securities	895	25,525	—	26,420
— Equity investment	464	—	—	464
— Derivatives	—	1,384	986	2,370
	1,359	26,909	986	29,254
Investment securities-available-for-sale				
— Debt securities	16,633	112,900	244	129,777
— Equity investment	1,670	—	647	2,317
	18,303	112,900	891	132,094
Total Assets	19,662	139,809	1,877	161,348
Financial liabilities at fair value through profit or loss				
— Debt securities in issue and others	(113)	(6,355)	—	(6,468)
— Derivatives	—	(1,908)	(999)	(2,907)
	(113)	(8,263)	(999)	(9,375)
Total Liabilities	(113)	(8,263)	(999)	(9,375)

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

(b) Fair value hierarchy *(Continued)*

Assets and liabilities measured at fair value: (Continued)

Bank

31 December 2009

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
— Debt securities	732	25,525	—	26,257
— Derivatives	—	1,384	986	2,370
	732	26,909	986	28,627
Investment securities-available-for-sale				
— Debt securities	16,633	112,900	244	129,777
— Equity investment	744	—	647	1,391
	17,377	112,900	891	131,168
Total Assets	18,109	139,809	1,877	159,795
Financial liabilities at fair value through profit or loss				
— Debt securities in issue and others	(113)	(6,355)	—	(6,468)
— Derivatives	—	(1,908)	(999)	(2,907)
	(113)	(8,263)	(999)	(9,375)
Total Liabilities	(113)	(8,263)	(999)	(9,375)

Reconciliation of beginning and ending balances for level 3 financial assets and liabilities

Group and Bank

	Financial assets at fair value through profit or loss	Investment securities-AFS	Total assets	Financial liabilities at fair value through profit or loss	Total liabilities
As at 1 January 2010	986	891	1,877	(999)	(999)
Total gains or losses					
– (Loss)/profit	(269)	(6)	(275)	231	231
– Other comprehensive income	–	–	–	–	–
Additions	–	120	120	–	–
Disposals	(88)	(112)	(200)	100	100
Transfers (out of)/into Level 3, net(1)	(629)	–	(629)	668	668
As at 31 December 2010	–	893	893	–	–
Total (losses)/gains for the year included in statement of comprehensive income for assets/liabilities held at 31 December 2010	(269)	(6)	(275)	231	231

(1) For complex derivative financial instruments, the Group began to adopt the valuation models generally accepted by the market to determine the fair value in 2010, instead of counter-party quotations. The main parameters used in valuation techniques for derivative instruments held by the group include foreign exchange rate, market yield curve, quotation of option volatility, etc., which are all available from open market. Therefore, the Group has reclassified these instruments as level 2 financial instruments.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

(b) Fair value hierarchy *(Continued)*

Reconciliation of beginning and ending balances for level 3 financial assets and liabilities (Continued)

Group and Bank

	Financial assets at fair value through profit or loss	Investment securities-AFS	Total assets	Financial liabilities at fair value through profit or loss	Total liabilities
As at 1 January 2009	1,882	1,369	3,251	(1,922)	(1,922)
Total gains or losses					
– (Loss)/profit	(376)	(7)	(383)	399	399
– Other comprehensive income	–	(54)	(54)	–	–
Additions	4	117	121	(8)	(8)
Disposals	(524)	(534)	(1,058)	532	532
As at 31 December 2009	986	891	1,877	(999)	(999)
Total (losses)/gains for the year included in statement of comprehensive income for assets/liabilities held at 31 December 2009	(364)	(7)	(371)	387	387

3.5 Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;
- 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; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored quarterly by the Group's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBRC, for supervisory purposes. The required information is filed with the CBRC on a quarterly basis.

The CBRC requires each bank or banking group to maintain a ratio of total regulatory capital to the risk-weighted asset at or above the agreed minimum of 8%, and a core capital ratio of above 4%. The Group's capital as monitored by its Planning and Finance Department is divided into two tiers:

- Core capital: Paid up ordinary share capital, capital surplus, statutory reserve, statutory general reserve, discretionary reserve, retained earnings and non-controlling interest; and
- Supplementary capital: Revaluation reserve for properties and AFS securities, collectively assessed impairment allowances for impaired assets and regulatory reserve, qualified portion of subordinated term debts.

Goodwill, unconsolidated investment in financial associates and investments in non-financial related entities are deducted from Core and Supplementary capital to arrive at the capital.

The on-statement risk-weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of, and reflecting an estimate of, credit and other risks associated with each asset and customer, and taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-statement exposure with adjustments to reflect the contingent nature of the potential losses. The market risk capital adjustment is measured by means of a standardized approach.

The table below summarises the composition of regulatory capital and the ratios of the Group at year end.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.5 Capital management *(Continued)*

	31 December 2010	31 December 2009
Core capital:		
Paid up ordinary share capital	56,260	48,994
Capital surplus	63,393	37,374
Reserves	66,304	42,486
Retained earnings	40,613	25,057
Non-controlling interest	726	578
	227,296	154,489
Supplementary capital:		
Impairment allowances for impaired assets and regulatory reserves	22,505	24,005
Subordinated term debt	50,000	50,000
Others	4,808	3,818
Gross value of supplementary capital	77,313	77,823
Eligible value of supplementary capital	77,313	77,823
Total capital base before deductions	304,609	232,312
Deductions:		
Goodwill	(200)	(200)
Unconsolidated investments in financial institutions	(964)	(727)
Investments in enterprises	(362)	(422)
Subordinated debts issued by other banks	(4,530)	(4,530)
	(6,056)	(5,879)
Total capital base after deductions	298,553	226,433
Risk-weighted assets:		
On-statement risk-weighted assets	2,113,491	1,653,589
Off-statement risk-weighted assets	257,157	195,763
Total risk-weighted assets	2,370,648	1,849,352
Market risk capital	3,649	3,014
Capital adequacy ratio	12.36%	12.00%
Core capital adequacy ratio	9.37%	8.15%

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.6 Fiduciary activities

The Group provides custody and trustee services to third parties. Those assets that are held in a fiduciary capacity are not included in the financial statements. The Group also grants entrusted loans on behalf of third-party lenders, which are not included in the financial statements.

Group and Bank

	As at 31 December	
	2010	2009
Assets held in investment custody accounts	705,754	623,158
Wealth Management	107,062	46,348
Entrusted loans	124,254	117,312

4 NET INTEREST INCOME

Group

	Year ended 31 December	
	2010	2009
Interest income		
Balances with central banks	6,855	5,501
Due from other banks and financial institutions	4,424	4,895
Loans and advances to customers	106,056	83,027
Investment securities	24,570	23,320
	141,905	116,743
Interest expense		
Due to other banks and financial institutions	(20,210)	(16,005)
Due to customers	(36,700)	(34,070)
	(56,910)	(50,075)
Net interest income	84,995	66,668

	Year ended 31 December	
	2010	2009
Interest income on listed investments	6,514	6,346
Interest income on unlisted investments	18,056	16,974
Interest income accrued on loans and advances to customers individually impaired	626	545

(All amounts expressed in millions of RMB unless otherwise stated)

5 FEE AND COMMISSION INCOME

Group

	Year ended 31 December 2010	2009
Commission income on settlement and agent service	3,320	2,384
Bank card related fee income	5,180	3,992
Investment banking income	3,244	2,353
Guarantee and commitment commission income	1,238	1,133
Commission income on custodian service	707	655
Commission income on sale of investment funds	741	984
Funds management income	736	761
Other commission income	1,910	1,152
	17,076	13,414

	Year ended 31 December 2010	2009
Fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value	142	119
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	707	655

6 FEE AND COMMISSION EXPENSE

Group

	Year ended 31 December 2010	2009
Commission expense on settlement and agent service	506	332
Syndicated loan commission expense	87	67
Bank card related fee expense	1,674	1,155
Other commission expense	330	461
	2,597	2,015

	Year ended 31 December 2010	2009
Fee expense, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value	87	67

(All amounts expressed in millions of RMB unless otherwise stated)

7 DIVIDEND INCOME

Group

	Year ended 31 December 2010	2009
Available-for-sale investments — listed	—	1
Available-for-sale investments — unlisted	60	64
	60	65

8 GAINS LESS LOSSES ARISING FROM TRADING ACTIVITIES

Group

	Year ended 31 December 2010	2009
Foreign exchange	767	1,105
Interest rate instruments	(90)	230
	677	1,335

Net income on foreign exchange includes gains or losses from spot and forward contracts, currency swaps, currency options, currency futures and from the translation of foreign currency monetary assets and liabilities into RMB.

Net income on interest rate instruments includes the results of marking securities held for trading, interest rate swaps, cross currency interest rate swaps, interest rate options and other interest rate derivatives to market.

9 OTHER OPERATING INCOME

Group

	Year ended 31 December 2010	2009
Profit on sale of land use rights and buildings	105	86
Profit on sale of foreclosed assets and other assets	22	69
Revaluation of investment property	21	18
Income from sales of franchised precious metal merchandise	2,576	632
Other miscellaneous income	551	515
	3,275	1,320

Other miscellaneous income includes income arising from miscellaneous banking services provided to the Group's customers.

(All amounts expressed in millions of RMB unless otherwise stated)

10 IMPAIRMENT LOSSES

Group

	Year ended 31 December 2010	2009
Due from other banks and financial institutions and securities purchased under resale agreements (Note 17(b))	—	(3)
Loans and advances to customers (Note 20(b))		
— Collectively assessed	9,100	9,318
— Individually assessed	3,384	1,962
	12,484	11,280
Less: recovery of loans previously written off	(238)	(22)
	12,246	11,255

11 OTHER OPERATING EXPENSES

Group

	Year ended 31 December 2010	2009
Staff costs (Note 12)	15,749	12,457
General and administrative expenses	8,394	6,663
Business tax and surcharges	6,431	5,147
Depreciation (Note 22)	3,307	2,880
Cost of sales of franchised precious metal	2,311	571
Operating lease rentals	1,611	1,394
Regulator's supervision fee	234	345
Amortization of intangible assets	258	230
Impairment of finance lease receivable (Note 23(c))	175	76
Provision for impairment loss (reversal of provision)/of investment securities ((a), Note 21)	150	(157)
Professional fees	36	49
Amortization of land use rights	32	31
Provision for outstanding litigation	26	115
Impairment of other receivables	4	55
Others	3,226	2,166
	41,944	32,022

(a) Impairment losses on investment securities

Group

	Year ended 31 December 2010	2009
Loans and receivables (Note 21)	—	(3)
Held-to-maturity (Note 21)	—	(5)
Available-for-sale (Note 21)	150	(149)
Charge/(Net reversal) of impairment losses	150	(157)

12 STAFF COSTS

Group

	Year ended 31 December 2010	2009
Salaries and bonuses	11,277	8,721
Pension costs (Note 29)	1,351	1,119
Housing benefits and subsidies	555	616
Other social security and benefit costs	2,566	2,001
	15,749	12,457

Note : The staff costs of domestic branches, excluded the influences of uncomparable factors such as annuity ect., increase by 17.48%.

13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(a) Directors' and supervisors' taxable emoluments (In thousands of RMB)

	Year ended 31 December				
	2010				2009
Name	Emoluments	Remuneration	Other benefits	Total	Total
Executive directors					
Mr. Hu, Huaibang(1)	–	788	201	989	1,577
Mr. Niu, Ximing(1)	–	709	201	910	–
Mr. Peng, Chun(1)	–	223	57	280	1,336
Mr. Qian, Wenhui(1)	–	670	167	837	1,336
Mr. Wang,Bin(1)	–	670	166	836	1,295
Non-executive directors					
Mr. Zhang, Jixiang(1)	–	630	149	779	1,249
Mr. Hu, Huating(1)	–	630	149	779	1,249
Mr. Qian, Hongyi	–	–	–	–	–
Mr. Wang, Dongsheng	10	–	–	10	15
Ms. Shi, Meilun	10	–	–	10	5
Mr. Ji, Guoqiang	20	–	–	20	15
Mr. Lei, Jun	20	–	–	20	15
Mr. Yang, Fenglin	–	–	–	–	–
Mr. Xie, Qingjian	–	–	–	–	–
Mr. Ian Ramsay Wilson	–	158	–	158	250
Mr. Thomas Joseph Manning	–	158	–	158	250
Mr. Chen, Qingtai	–	–	–	–	–
Mr. Li, Jiaxiang	–	250	–	250	250
Mr. Gu, Mingchao	–	–	–	–	–
Ms. Feng,Wanmei	–	–	–	–	NA
Mr. Wang, Weiqiang	–	–	–	–	NA
Mr. Peter Hugh Nolan	–	30	–	30	NA
Mr. Chen, Zhiwu	–	30	–	30	NA

13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(Continued)

(a) Directors' and supervisors' taxable emoluments (In thousands of RMB)

(Continued)

	Year ended 31 December				
	2010				2009
Name	Emoluments	Remuneration	Other benefits	Total	Total
Supervisors					
Mr. Hua, Qingshan(1)	–	694	201	895	1,412
Mr. Zheng, Li	–	–	–	–	–
Mr. Jiang, Zuqi	–	–	–	–	–
Mr. Guan, Zhenyi	20	–	–	20	15
Mr. Yang, Fajia	25	–	–	25	15
Ms. Wang, Lisheng	30	–	–	30	15
Mr. Li, Jin	30	–	–	30	15
Mr. Yan, Hong	25	–	–	25	20
Ms. Liu, Sha(1)	–	490	119	609	1,194
Ms. Chen, Qing(1)	–	491	120	611	1,295
Mr. Shuai, Shi(1)	–	453	111	564	1,173
Mr. Guo, Yu	5	–	–	5	NA
Mr. Gu, Huizhong	10	–	–	10	NA
Mr. Chu, Hongjun	10	–	–	10	NA
Mr. Du, Yarong(1)	–	196	46	242	NA
Total	215	7,270	1,687	9,172	13,996

(1) The total compensation package for these Directors and Supervisors for the year ended 31 December 2010 has not yet been finalized in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact to the Group's and the Bank's 2010 financial statements. The final compensation will be disclosed in a separate announcement when determined.

Amounts listed above only include emoluments of the Directors or Supervisors during their tenure of Director or Supervisor. Mr. Peng Chun resigned from the position of the Executive Director and Deputy Governor of the Bank on 21 April 2010, and Mr. Wang Bin was appointed as the Executive Director on 29 April 2010.

Ms. Shi Meilun, Mr. Yang Fenglin, Mr. Xie Qingjian, Mr. Ian Ramsay Wilson, Mr. Thomas Joseph Manning were not in the board any more; Meanwhile, Ms. Feng Wanmei was appointed as Non-executive Director, Mr. Wang Weiqiang, Mr. Peter Hugh Nolan and Mr. Chen Zhiwu were appointed as the Independent Non-executive Directors on 19 August 2010. From 19 August 2010, Mr. Guan Zhenyi and Ms. Wang Lisheng were not Supervisors of the Bank any more and Mr. Guo Yu, Mr. Gu Huizhong, Mr. Chu Hongjun and Mr. Du Yarong were appointed as the Supervisors from 19 August 2010.

(All amounts expressed in millions of RMB unless otherwise stated)

13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(Continued)

(b) Five Highest Paid Individuals

The five highest paid individuals in the Bank for the related years are as follows

	Year ended 31 December 2010	2009
Salary	6	6
Discretionary bonuses	5	3
Employer's contribution to pension scheme and other benefits	1	1
	12	10

Emoluments of above five highest paid individuals in the Bank are within the following bands

	Number of employees 2010	2009
RMB1,500,000 – RMB2,000,000	1	—
RMB2,000,000 – RMB2,500,000	3	4
RMB2,500,000 and above	1	1
	5	5

During the year, no emolument was paid by the Bank to any of the directors, supervisors and five highest paid individuals as an inducement to join or upon joining the Bank or as compensation for loss of office.

13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(Continued)

(c) Share-based compensation

On 18 November 2005, the Board resolved to grant certain cash settled share appreciation rights ('SARs') to several senior executives of the Bank under a long term incentive plan. According to the resolution, the initial grant of SARs was targeted at senior executives of the Bank as at 23 June 2005. The exercise price of each SAR is HK$2.50, which was the issue price of the H share at the time of its initial public offering. The amount of the initial grant of the SARs was 7.558 million shares. The SARs was valid for a period of ten years from 23 June 2005, with a two-year vesting period.

On 3 November 2006, the Board resolved to grant certain cash settled SARs to several senior executives of the Bank under its long term incentive plan. According to the resolution, the grant of SARs was targeted at senior executives of the Bank as at 3 November 2006. The exercise price of each SAR is HK$6.13, which was the closing price of the Group's H Share on the granting date. The amount of the grant of the SARs was 2.724 million shares. The SARs was valid for a period of ten years from 3 November 2006, with a two-year vesting period.

During the year of 2010, no cash settled share appreciation rights ("SARs") were granted and exercised. Changes in fair value of these SARs (RMB0.07 million) were recognized in other operating expenses but not included in the directors' emoluments disclosed above.

Movements in the number of SARs outstanding are as follows

Group and Bank

	Year ended at 31 December	
	2010	2009
	Number of shares (In millions)	Number of shares (In millions)
Outstanding at beginning of the period	11	11
Granted	—	—
Outstanding at end of the period	11	11

The fair value of SARs using the Binomial Option Pricing model at 31 December 2010 is RMB30.22 million (31 December 2009: RMB30.15 million) and is recorded in other liabilities.

14 INCOME TAX EXPENSE

Group

	Year ended 31 December	
	2010	2009
Current tax		
— Mainland China income tax	11,333	8,756
— Hong Kong profits tax	289	300
— Overseas taxation	130	93
	11,752	9,149
Deferred income tax (Note 28)	(970)	(1,102)
	10,782	8,047

(All amounts expressed in millions of RMB unless otherwise stated)

14 INCOME TAX EXPENSE *(Continued)*

The provision for income tax in Mainland China is calculated based on the statutory rate of 25% of the assessable income of the Bank and each of the subsidiaries established in Mainland China.

Profits earned by the Hong Kong branch or subsidiaries in Hong Kong are subject to Hong Kong profits tax at the rate of 16.5 % (2009: 16.5%), on the estimated assessable profit for the year ended 31 December 2010. Taxation on other overseas profits has been calculated on the estimated assessable profit at the rates of taxation prevailing in the countries in which the Group operates during the year ended 31 December 2010.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Group at 25% (2009: 25%). The major reconciliation items are as follows:

	Year ended 31 December	
	2010	2009
Profit before tax	49,954	38,301
Tax calculated at a tax rate of 25% (2009: 25%)	12,489	9,575
Effect of different tax rates in other countries (region)	10	5
Tax effect arising from income not subject to tax (a)	(1,916)	(1,725)
Tax effect of expenses that are not deductible for tax purposes (b)	199	192
Income tax expense	10,782	8,047

(a) The income not subject to tax mainly represents interest income arising from treasury bonds, which is income tax free in accordance with the PRC tax regulation.

(b) The expenses that are not tax deductible mainly represents a portion of expenditure, such as payroll, entertainment expenses etc, which exceeds the tax deduction limits in accordance with PRC tax regulation.

15 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the net profit attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2010	2009
Profit attributable to shareholders of the Bank	39,042	30,118
Weighted average number of ordinary shares in issue	53,571	51,252
Basic and diluted earnings per share (expressed in RMB per share)	0.73	0.59[1]

Note 1:

On 22 June 2010, a total of 3,806 million RMB ordinary shares ('A shares') were subscribed by various third parties at a price of RMB4.50 per share and on 16 July 2010, a total of 3,459 million HKD ordinary shares ('H shares') were subscribed by various third parties at a price of HKD5.14 per share. After this completion of rights issues in 2010, the total shares of the Bank are 56,260 million. As a result of this rights issue, the Bank adjusted the basic and diluted earnings per share of 2009 to RMB0.59 per share.

(All amounts expressed in millions of RMB unless otherwise stated)

16 CASH AND BALANCES WITH CENTRAL BANKS

Group

	As at 31 December 2010	2009
Cash	13,298	11,797
Balances with central banks other than mandatory reserve deposits	107,098	88,664
Included in cash and cash equivalents (Note 38(b))	120,396	100,461
Mandatory reserve deposits	466,158	334,535
	586,554	434,996

Bank

	As at 31 December 2010	2009
Cash	13,288	11,796
Balances with central banks other than mandatory reserve deposits	107,083	88,663
Included in cash and cash equivalents	120,371	100,459
Mandatory reserve deposits	466,095	334,530
	586,466	434,989

The Group is required to place mandatory deposits with central banks. The deposits are calculated based on the amount of deposits placed with the Group by its customers.

	As at 31 December 2010	2009
Mandatory reserve rate for deposits denominated in RMB	19%	15.5%
PBOC reserve rate for deposits denominated in foreign currencies	5%	5%

Mandatory reserve deposits with central banks are not available for use by the Group in its day to day operations.

(All amounts expressed in millions of RMB unless otherwise stated)

17 DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

(a) Due from other banks and financial institutions

Group

	As at 31 December 2010	2009
Placement with other banks	37,223	68,037
Included in cash and cash equivalents (Note 38(b))	36,503	68,037
Securities purchased under resale agreement	84,319	49,352
Loans purchased under resale agreement	61,824	61,985
Loans and advances to other banks	58,725	29,747
Loans to other financial institutions	20,885	13,550
	79,610	43,297
Less: Individual impairment allowances on amounts due from other banks and financial institutions	—	—
	79,610	43,297
	262,976	222,671

Bank

	As at 31 December 2010	2009
Placement with other banks	36,014	66,479
Included in cash and cash equivalents	36,014	66,479
Securities purchased under resale agreement	84,319	49,352
Loans purchased under resale agreement	61,824	61,985
Loans and advances to other banks	58,725	29,747
Loans to other financial institutions	20,885	13,550
	79,610	43,297
Less: Individual impairment allowances on amounts due from other banks and financial institutions	—	—
	79,610	43,297
	261,767	221,113

(All amounts expressed in millions of RMB unless otherwise stated)

17 DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS *(Continued)*

(b) Movements in allowance for impairment losses on amounts due from other banks and financial institutions.

Group and Bank

	Year ended 31 December 2010	2009
Balance at beginning of the year	—	213
Reversal of Impairment allowances (Note 10)	—	(3)
Transfer to other receivables	—	(197)
Amount written off during the year as uncollectible	—	(13)
Balance at end of the year	—	—

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Group

	As at 31 December 2010	2009
Derivative financial instruments (Note 19)	4,731	2,370
Government bonds		
— Listed in Hong Kong	755	805
— Listed outside Hong Kong	1,865	1,332
— Unlisted	4,909	1,345
Other debt securities		
— Listed in Hong Kong	2,269	2,401
— Listed outside Hong Kong	3,959	4,643
— Unlisted — corporate bonds	17,632	7,003
— Unlisted — public sector	1,371	861
— Unlisted — banking sector	8,385	8,030
Equity securities		
— Listed in Hong Kong	166	264
— Listed outside Hong Kong	1	200
	46,043	29,254

Majority of the Group's unlisted bonds are traded in the inter-bank market in Mainland China.

As at 31 December 2010, no trading securities of the Group were pledged to third parties under repurchase agreements (2009: none).

(All amounts expressed in millions of RMB unless otherwise stated)

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

Bank

	As at 31 December 2010	As at 31 December 2009
Derivative financial instruments (Note 19)	4,731	2,370
Government bonds		
— Listed in Hong Kong	755	805
— Listed outside Hong Kong	1,865	1,332
— Unlisted	4,909	1,345
Other debt securities		
— Listed in Hong Kong	2,226	2,273
— Listed outside Hong Kong	3,959	4,643
— Unlisted — corporate bonds	17,632	7,003
— Unlisted — public sector	1,371	861
— Unlisted — banking sector	8,367	7,995
	45,815	28,627

Securities — Financial assets at fair value through profit or loss (by issuer)

Group

	As at 31 December 2010	As at 31 December 2009
Securities — Financial assets at fair value through profit or loss		
— Central governments and central banks	7,529	3,482
— Public sector entities	2,961	2,590
— Banks and other financial institutions	11,818	12,636
— Corporate entities	19,004	8,176
	41,312	26,884

Bank

	As at 31 December 2010	As at 31 December 2009
Securities — Financial assets at fair value through profit or loss		
— Central governments and central banks	7,529	3,482
— Public sector entities	2,961	2,590
— Banks and other financial institutions	11,750	12,217
— Corporate entities	18,844	7,968
	41,084	26,257

(All amounts expressed in millions of RMB unless otherwise stated)

19 DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative instruments are utilized by the Group for trading purpose:

Currency forwards represent commitments to purchase/sell foreign currencies including unsettled spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures contract value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer (over the counter market).

The notional amounts of certain types of financial instruments provide a reference of the amounts recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following tables.

Group and Bank

	Contract/notional	Fair values	
	Amount	Assets	Liabilities
As at 31 December 2010			
Foreign exchange contracts	549,996	3,450	(3,397)
Interest rate contracts	235,596	1,281	(1,753)
Total derivatives	785,592	4,731	(5,150)

Group and Bank

	Contract/notional	Fair values	
	Amount	Assets	Liabilities
As at 31 December 2009			
Foreign exchange contracts	357,328	1,031	(1,319)
Interest rate contracts	153,032	1,339	(1,588)
Total derivatives	510,360	2,370	(2,907)

The tables above provide a detailed breakdown of the contractual or notional amounts and the fair values of the Group's derivative financial instruments outstanding at year end. These instruments, comprising foreign exchange and interest rate derivatives allow the Group and its customers to transfer, modify or reduce their foreign exchange and interest rate risks.

(All amounts expressed in millions of RMB unless otherwise stated)

19 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Replacement costs

Group and Bank

	As at 31 December 2010	2009
Derivatives		
— Exchange rate contracts	3,450	1,031
— Interest rate contracts	1,281	1,339
	4,731	2,370

Replacement cost is the cost of replacing all contracts which have a positive value when marked to market (should the counterparty default on its obligations) and is obtained by marking contracts to market.

The replacement costs stated above have not taken the effects of netting arrangements into account.

Notional amounts of derivative financial instruments by original currency

Group and Bank

	As at 31 December 2010	2009
RMB	386,299	260,649
US Dollars	326,146	202,292
HK Dollars	40,076	19,811
Others	33,071	27,608
Total	785,592	510,360

20 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers

Group

	As at 31 December 2010	2009
Loans and advances to customers	2,236,927	1,839,314
Less: collective impairment allowances	(31,833)	(22,778)
individual impairment allowances	(14,604)	(14,998)
	2,190,490	1,801,538

Bank

	As at 31 December 2010	2009
Loans and advances to customers	2,235,584	1,839,771
Less: collective impairment allowances	(31,826)	(22,777)
individual impairment allowances	(14,604)	(14,998)
	2,189,154	1,801,996

(All amounts expressed in millions of RMB unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(b) Movements in allowance for losses on loans and advances:

Group

	As at 31 December			
	2010		2009	
	Collective impairment	Individual impairment	Collective impairment	Individual impairment
Balance at beginning of the year	22,778	14,998	13,431	16,383
Impairment allowances for loans charged to profit or loss	9,100	7,695	9,318	5,415
Reversal of impairment allowances for loans	—	(4,311)	—	(3,453)
Net impairment allowances for loans charged to profit or loss (Note 10)	9,100	3,384	9,318	1,962
Unwind of discount on allowances	—	(626)	—	(545)
Loans written off during the year as uncollectible	—	(3,142)	—	(2,804)
Exchange difference	(45)	(10)	29	2
Balance at end of the year	31,833	14,604	22,778	14,998

Bank

	As at 31 December			
	2010		2009	
	Collectively accessed	Individually impaired	Collectively accessed	Individually impaired
Balance at beginning of the year	22,777	14,998	13,431	16,383
Impairment allowances for loans charged to profit or loss	9,094	7,695	9,317	5,415
Reversal of impairment allowances for loans	—	(4,311)	—	(3,453)
Net impairment allowances for loans charged to profit or loss	9,094	3,384	9,317	1,962
Unwind of discount on allowances	—	(626)	—	(545)
Loans written off during the year as uncollectible	—	(3,142)	—	(2,804)
Exchange difference	(45)	(10)	29	2
Balance at end of the year	31,826	14,604	22,777	14,998

(All amounts expressed in millions of RMB unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(b) Movements in allowance for losses on loans and advances: *(Continued)*

Group

	As at 31 December			
	2010		2009	
	Corporate	Individual	Corporate	Individual
Balance at beginning of the year	32,812	4,964	26,341	3,473
Impairment allowances for loans charged to profit or loss	14,770	2,025	13,003	1,730
Reversal of impairment allowances for loans	(3,883)	(428)	(3,301)	(152)
Net impairment allowances for loans charged to profit or loss	10,887	1,597	9,702	1,578
Unwind of discount on allowances	(563)	(63)	(456)	(89)
Loans written off during the year as uncollectible	(2,255)	(887)	(2,802)	(2)
Exchange difference	(50)	(5)	27	4
Balance at end of the year	40,831	5,606	32,812	4,964

Bank

	As at 31 December			
	2010		2009	
	Corporate	Individual	Corporate	Individual
Balance at beginning of the year	32,811	4,964	26,341	3,473
Impairment allowances for loans charged to profit or loss	14,764	2,025	13,002	1,730
Reversal of impairment allowances for loans	(3,883)	(428)	(3,301)	(152)
Net impairment allowances for loans charged to profit or loss	10,881	1,597	9,701	1,578
Unwind of discount on allowances	(563)	(63)	(456)	(89)
Loans written off during the year as uncollectible	(2,255)	(887)	(2,802)	(2)
Exchange difference	(50)	(5)	27	4
Balance at end of the year	40,824	5,606	32,811	4,964

(c) Individually identified loans with impairment:

Group and Bank

	31 December 2010		31 December 2009	
	Impaired loan	Individual impairment allowances	Impaired loan	Individual impairment allowances
Corporate	22,507	(13,079)	21,869	(13,027)
Individual	2,481	(1,525)	3,140	(1,971)
	24,988	(14,604)	25,009	(14,998)

(All amounts expressed in millions of RMB unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(c) Individually identified loans with impairment: *(Continued)*

Group and Bank

	As at 31 December 2010	2009
Individually impaired loans to loans and advances to customers (percentage)	1.12%	1.36%

21 INVESTMENT SECURITIES

Group

	As at 31 December 2010	2009
Securities — loans and receivables		
Debt securities — at amortised cost		
— Unlisted	42,617	107,604
Loans and receivables securities	42,617	107,604
Securities — available-for-sale		
Debt securities — at fair value		
— Listed in Hong Kong	649	821
— Listed outside Hong Kong	27,104	14,514
— Unlisted	130,789	114,442
Debt securities	158,542	129,777
Equity securities — at fair value		
— Listed in Hong Kong	1,108	515
— Listed outside Hong Kong	1,502	1,100
— Unlisted	1,018	702
Equity securities	3,628	2,317
Securities — available-for-sale Total	162,170	132,094
Include: Market value of listed securities — available-for-sale	30,363	16,950

(All amounts expressed in millions of RMB unless otherwise stated)

21 INVESTMENT SECURITIES *(Continued)*

Group

	As at 31 December 2010	2009
Securities — held-to-maturity		
Debt securities-at amortized cost		
— Listed inside Hong Kong	174	—
— Listed outside Hong Kong	223,017	150,313
— Unlisted	340,530	358,866
Held-to-maturity securities	563,721	509,179
Include: Market value of listed held-to-maturity securities	222,505	153,729

Debt securities at fair value of RMB16,900 million (2009: RMB18,188 million) were pledged to third parties under repurchase agreements.

Bank

	As at 31 December 2010	2009
Securities — loans and receivables		
Debt securities — at amortised cost		
— Unlisted	42,349	107,419
Loans and receivables securities	42,349	107,419

(All amounts expressed in millions of RMB unless otherwise stated)

21 INVESTMENT SECURITIES *(Continued)*

Bank

	As at 31 December 2010	2009
Securities — available-for-sale		
Debt securities — at fair value		
— Listed in Hong Kong	649	821
— Listed outside Hong Kong	27,037	14,514
— Unlisted	130,073	114,442
Debt securities	157,759	129,777
Equity securities — at fair value		
— Listed in Hong Kong	11	11
— Listed outside Hong Kong	906	734
— Unlisted	744	646
Equity securities	1,661	1,391
Securities — available-for-sale total	159,420	131,168
Include: Market value of listed securities — available-for-sale	28,604	16,080
Securities — held-to-maturity		
Debt securities-at amortized cost		
— Listed outside Hong Kong	222,897	150,189
— Unlisted	340,496	358,831
Held-to-maturity securities	563,393	509,020
Include: Market value of listed held-to-maturity securities	222,297	153,729

The Group holds bonds issued by the PBOC as at 31 December 2010 amounting to RMB37,023 million (2009: RMB61,337 million). The related interest rates on such bonds for the year ended 31 December 2010 ranged between 2.65%-4.56% (2009: 3.02%-4.56%).

Gains less losses arising from investment securities comprise:

Group and Bank

	As at 31 December 2010	2009
Gains less losses arising from de-recognition of investment securities	568	791

(All amounts expressed in millions of RMB unless otherwise stated)

21 INVESTMENT SECURITIES *(Continued)*

The movement in investment securities may be summarized as follows:

Group

	Loans and receivables	Available-for-sale	Held-to-maturity	Total
Before provision				
Balance at 1 January 2010	107,604	133,502	509,179	750,285
Additions	47,484	152,468	159,549	359,501
Disposals (sale or redemption)	(112,467)	(119,786)	(104,939)	(337,192)
Gains from changes in fair value	—	(1,515)	—	(1,515)
Exchange differences	(4)	(1,019)	(68)	(1,091)
At 31 December 2010	42,617	163,650	563,721	769,988
Provision for impairment loss				
Balance at 1 January 2010	—	(1,408)	—	(1,408)
Provision for impairment	—	(150)	—	(150)
Impairment reversed during the year	—	—	—	—
Amounts transferred out during the year	—	—	—	—
Amounts written off during the year as Uncollectible	—	36	—	36
Exchange differences	—	42	—	42
At 31 December 2010	—	(1,480)	—	(1,480)
Net book value				
At 31 December 2010	42,617	162,170	563,721	768,508

Bank

	Loans and receivables	Available-for-sale	Held-to-maturity	Total
Before provision				
Balance at 1 January 2010	107,419	132,568	509,020	749,007
Additions	46,860	150,613	159,199	356,672
Disposals (sale or redemption)	(111,926)	(119,744)	(104,758)	(336,428)
Gains from changes in fair value	—	(1,560)	—	(1,560)
Exchange differences	(4)	(1,019)	(68)	(1,091)
At 31 December 2010	42,349	160,858	563,393	766,600
Provision for impairment loss				
Balance at 1 January 2010	—	(1,400)	—	(1,400)
Provision for impairment	—	(107)	—	(107)
Impairment reversed during the year	—	—	—	—
Amounts transferred out during the year	—	—	—	—
Amounts written off during the year as uncollectible	—	27	—	27
Exchange differences	—	42	—	42
At 31 December 2010	—	(1,438)	—	(1,438)
Net book value				
At 31 December 2010	42,349	159,420	563,393	765,162

(All amounts expressed in millions of RMB unless otherwise stated)

21 INVESTMENT SECURITIES *(Continued)*

Group

	Loans and receivables	Available-for-sale	Held-to-maturity	Total
Before provision				
Balance at 1 January 2009	90,974	143,678	367,883	602,535
Additions	108,530	280,914	286,426	675,870
Disposals (sale or redemption)	(91,900)	(290,828)	(145,165)	(527,893)
Gains from changes in fair value	—	(1,052)	—	(1,052)
Exchange differences	—	790	35	825
At 31 December 2009	107,604	133,502	509,179	750,285
Provision for impairment loss				
Balance at 1 January 2009	(71)	(1,668)	(5)	(1,744)
Provision for impairment	—	(80)	—	(80)
Amounts reversal during the year	3	229	5	237
Amounts transferred out during the year	45	—	—	45
Amounts written off during the year as uncollectible	23	110	—	133
Exchange differences	—	1	—	1
At 31 December 2009	—	(1,408)	—	(1,408)
Net book value				
At 31 December 2009	107,604	132,094	509,179	748,877

Bank

	Loans and receivables	Available-for-sale	Held-to-maturity	Total
Before provision				
Balance at 1 January 2009	90,538	143,269	367,804	601,611
Additions	108,323	280,674	286,314	675,311
Disposals (sale or redemption)	(91,442)	(291,141)	(145,133)	(527,716)
Gains from changes in fair value	—	(1,024)	—	(1,024)
Exchange differences	—	790	35	825
At 31 December 2009	107,419	132,568	509,020	749,007
Provision for impairment loss				
Balance at 1 January 2009	(71)	(1,668)	(5)	(1,744)
Provision for impairment	—	(72)	—	(72)
Amounts reversal during the year	3	229	5	237
Amounts transferred out during the year	45	—	—	45
Amounts written off during the year as uncollectible	23	110	—	133
Exchange differences	—	1	—	1
At 31 December 2009	—	(1,400)	—	(1,400)
Net book value				
At 31 December 2009	107,419	131,168	509,020	747,607

(All amounts expressed in millions of RMB unless otherwise stated)

21 INVESTMENT SECURITIES *(Continued)*

Investment securities are analysed by issuer as follows:

Group

	As at 31 December 2010	2009
Securities — loans and receivables		
— Central governments and central banks	3,109	55,347
— Banks and other financial institutions	3,107	2,212
— Corporate entities	36,401	50,045
	42,617	107,604
Securities — available-for-sale		
— Central governments and central banks	45,620	15,674
— Public sector entities	2,085	862
— Banks and other financial institutions	71,817	56,225
— Corporate entities	42,648	59,333
	162,170	132,094
Securities — held-to-maturity		
— Central governments and central banks	252,940	226,633
— Public sector entities	12,085	8,191
— Banks and other financial institutions	180,063	179,787
— Corporate entities	118,633	94,568
	563,721	509,179

Bank

	As at 31 December 2010	2009
Securities — loans and receivables		
— Central governments and central banks	3,109	55,347
— Banks and other financial institutions	3,107	2,212
— Corporate entities	36,133	49,860
	42,349	107,419
Securities — available-for-sale		
— Central governments and central banks	45,603	15,674
— Public sector entities	2,085	862
— Banks and other financial institutions	70,655	55,792
— Corporate entities	41,077	58,840
	159,420	131,168
Securities — held-to-maturity		
— Central governments and central banks	252,940	226,633
— Public sector entities	12,081	8,188
— Banks and other financial institutions	179,925	179,716
— Corporate entities	118,447	94,483
	563,393	509,020

(All amounts expressed in millions of RMB unless otherwise stated)

21 INVESTMENT SECURITIES *(Continued)*

The certificates of deposit held and included in investment securities are analysed as follows:

Group and Bank

	As at 31 December	
	2010	2009
Available-for-sale, at fair value		
— Unlisted	528	479

The maturity profile of certificates of deposit held analysed by the remaining period as at year end to the contractual maturity dates is as follows:

Group and Bank

	As at 31 December	
	2010	2009
Up to 3 months	—	70
3 to 12 months	397	137
1 to 5 years	131	272
	528	479

(All amounts expressed in millions of RMB unless otherwise stated)

22 PROPERTY AND EQUIPMENT

Group

	Land and Buildings	Construction in Progress	Equipment	Motor Vehicles	Property Improvement	Total
At 1 January 2010	23,086	6,150	13,263	574	1,602	44,675
Additions	582	4,658	2,141	66	249	7,696
Disposals	(296)	(3)	(949)	(54)	(295)	(1,597)
Transfers	1,817	(2,729)	—	—	912	—
At 31 December 2010	25,189	8,076	14,455	586	2,468	50,774
Accumulated depreciation						
At 1 January 2010	(5,046)	—	(8,917)	(393)	(441)	(14,797)
Charge for the period	(1,083)	—	(1,924)	(53)	(247)	(3,307)
Disposals	97	—	907	51	188	1,243
Transferred from newly acquired subsidiaries	—	—	(2)	—	—	(2)
At 31 December 2010	(6,032)	—	(9,936)	(395)	(500)	(16,863)
Net book value						
At 31 December 2010	19,157	8,076	4,519	191	1,968	33,911
At 1 January 2009	21,810	5,652	12,277	557	1,235	41,531
Additions	235	2,098	2,044	55	247	4,679
Disposals	(251)	(14)	(1,058)	(38)	(177)	(1,538)
Transfers	1,292	(1,586)	—	—	297	3
At 31 December 2009	23,086	6,150	13,263	574	1,602	44,675
Accumulated depreciation						
At 1 January 2009	(4,302)	—	(8,103)	(373)	(357)	(13,135)
Charge for the period	(913)	—	(1,711)	(55)	(201)	(2,880)
Disposals	169	—	897	35	117	1,218
At 31 December 2009	(5,046)	—	(8,917)	(393)	(441)	(14,797)
Net book value						
At 31 December 2009	18,040	6,150	4,346	181	1,161	29,878

(All amounts expressed in millions of RMB unless otherwise stated)

22. PROPERTY AND EQUIPMENT *(Continued)*

Bank

	Land and Buildings	Construction in Progress	Equipment	Motor Vehicles	Property Improvement	Total
At 1 January 2010	22,453	6,150	13,173	562	1,598	43,936
Additions	580	4,658	2,115	64	249	7,666
Disposals	(276)	(3)	(947)	(54)	(291)	(1,571)
Transfers	1,817	(2,729)	–	–	912	–
At 31 December 2010	24,574	8,076	14,341	572	2,468	50,031
Accumulated depreciation						
At 1 January 2010	(4,949)	–	(8,862)	(389)	(441)	(14,641)
Charge for the period	(1,064)	–	(1,905)	(51)	(247)	(3,267)
Disposals	93	–	905	51	188	1,237
At 31 December 2010	(5,920)	–	(9,862)	(389)	(500)	(16,671)
Net book value						
At 31 December 2010	18,654	8,076	4,479	183	1,968	33,360
At 1 January 2009	21,181	5,652	12,199	545	1,231	40,808
Additions	231	2,098	2,031	55	247	4,662
Disposals	(251)	(14)	(1,057)	(38)	(177)	(1,537)
Transfers	1,292	(1,586)	–	–	297	3
At 31 December 2009	22,453	6,150	13,173	562	1,598	43,936
Accumulated depreciation						
At 1 January 2009	(4,224)	–	(8,063)	(371)	(357)	(13,015)
Charge for the period	(894)	–	(1,696)	(53)	(201)	(2,844)
Disposals	169	–	897	35	117	1,218
At 31 December 2009	(4,949)	–	(8,862)	(389)	(441)	(14,641)
Net book value						
At 31 December 2009	17,504	6,150	4,311	173	1,157	29,295

All land and buildings of the Group are located outside Hong Kong, except for those of Hong Kong branch.

	As at 31 December 2010	2009
Net book value of land and buildings of Hong Kong Branch	196	212

The Group recognised the leasehold land in Hong Kong as finance lease and accounted for it as "land and buildings" and is depreciated over the shorter of the useful life of the buildings and the land's lease term.

As at 31 December 2010, property and equipment for which registration was not completed amounted to RMB528 million (2009: RMB1,716 million). However, this registration process does not affect the rights of the Bank to these assets.

(All amounts expressed in millions of RMB unless otherwise stated)

22. PROPERTY AND EQUIPMENT *(Continued)*

The carrying value of land and buildings is analysed based on the remaining lease terms of the land as follows:

Group

	As at 31 December 2010	2009
Held in Hong Kong		
on long-term lease (over 50 years)	184	198
on medium-term lease (10-50 years)	12	14
on short-term lease (less than 10 years)	—	—
	196	212
Held outside Hong Kong		
on long-term lease (over 50 years)	23	21
on medium-term lease (10-50 years)	17,664	16,558
on short-term lease (less than 10 years)	1,274	1,249
	18,961	17,828
	19,157	18,040

Bank

	As at 31 December 2010	2009
Held in Hong Kong		
on long-term lease (over 50 years)	184	198
on medium-term lease (10-50 years)	12	14
on short-term lease (less than 10 years)	—	—
	196	212
Held outside Hong Kong		
on long-term lease (over 50 years)	23	21
on medium-term lease (10-50 years)	17,161	16,022
on short-term lease (less than 10 years)	1,274	1,249
	18,458	17,292
	18,654	17,504

(All amounts expressed in millions of RMB unless otherwise stated)

23 OTHER ASSETS

Group

	As at 31 December 2010	2009
Interest receivable	15,149	12,887
Settlement accounts	5,616	2,924
Other receivables	1,815	2,643
Less: impairment allowances	(743)	(1,044)
Land use rights (a)	693	746
Foreclosed assets	262	711
Leasehold improvement	647	613
Intangible assets	528	405
Prepaid rental expenses	222	233
Goodwill	322	200
Investment property (b)	141	124
Finance lease receivables (c)	30,303	15,052
Less: impairment allowances	(327)	(152)
Others	1,142	760
	55,770	36,102

Bank

	As at 31 December 2010	2009
Interest receivable	15,102	12,887
Settlement accounts	4,776	2,202
Other receivables	1,772	2,229
Less: impairment allowances	(743)	(1,044)
Land use rights (a)	693	746
Leasehold improvement	647	613
Intangible assets	510	393
Foreclosed assets	262	711
Prepaid rental expenses	219	233
Investment property (b)	141	124
Others	1,047	663
	24,426	19,757

(a) The net book value of land use rights are analysed based on the remaining terms of the leases as follows:

Group and Bank

	For the year ended 2010	2009
Held outside Hong Kong		
on medium-term lease (10-50 years)	602	619
on short-term lease (less than 10 years)	91	127
	693	746

(All amounts expressed in millions of RMB unless otherwise stated)

23 OTHER ASSETS *(Continued)*

(b) The fair value of the investment properties is analysed based on the remaining terms of the leases as follows:

Group and Bank

	For the year ended 2010	2009
Held in Hong Kong		
on long-term lease (over 50 years)	56	49
on medium-term lease (10–50 years)	85	75
	141	124

(c) The finance lease receivables is analysed as follows:

Group

	As at 31 December 2010	2009
Minimum finance lease receivable		
No later than 1 year	8,422	5,219
Later than 1 year and no later than 5 years	18,657	10,404
Later than 5 years	8,817	1,455
Total	35,896	17,078
Gross investment in finance leases	35,896	17,078
Unearned finance income	(5,593)	(2,026)
Net investment in finance leases	30,303	15,052
The net investment in finance leases is analyzed as follows:		
No later than 1 year	7,279	4,638
Later than 1 year and no later than 5 years	15,413	9,165
Later than 5 years	7,611	1,249
	30,303	15,052
The allowance for uncollectible finance lease receivable	(327)	(152)
Net finance lease receivable	29,976	14,900

(All amounts expressed in millions of RMB unless otherwise stated)

24 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

Group

	As at 31 December	
	2010	2009
Loans from PBOC	20	11
Deposits from other banks	198,721	74,681
Deposits from other financial institutions	401,544	471,158
Loans from other banks and financial institutions	98,251	85,729
Securities sold under repurchase agreements	15,231	17,430
Credit assets sold under repurchase agreements	3,265	4,163
	717,032	653,172

Bank

	As at 31 December	
	2010	2009
Loans from PBOC	20	11
Deposits from other banks	198,898	74,878
Deposits from other financial institutions	403,328	472,413
Loans from other banks and financial institutions	75,851	73,719
Securities sold under repurchase agreements	15,231	17,430
Credit assets sold under repurchase agreements	3,265	4,163
	696,593	642,614

25 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Group

	As at 31 December	
	2010	2009
Derivative financial instruments (Note 19)	5,150	2,907
Short position of securities held for trading	1	113
Debt securities in issue	9,228	6,355
	14,379	9,375

Bank

	As at 31 December	
	2010	2009
Derivative financial instruments (Note 19)	5,150	2,907
Short position of securities held for trading	1	113
Debt securities in issue	9,228	6,355
	14,379	9,375

(All amounts expressed in millions of RMB unless otherwise stated)

25 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

Debt securities in issue are:

	31 December 2010		31 December 2009	
	Amount	Interest rate per annum (%)	Amount	Interest rate per annum (%)
USD floating rate Certificate of deposit (maturing in Aug. 2010)	–	–	260	3-mth LIBOR+0.70%
USD floating rate Certificate of deposit (maturing in 22 Apr. 2010)	–	–	1,024	3-mth LIBOR+0.30%
HKD floating rate Certificate of deposit (maturing in 6 Aug. 2010)	–	–	238	3-mth HIBOR+0.20%
HKD floating rate Certificate of deposit (maturing in 12 Aug. 2010)	–	–	203	3-mth HIBOR+0.24%
USD floating rate Certificate of deposit (maturing in 8 Sep. 2010)	–	–	547	3-mth LIBOR+0.30%
USD floating rate Certificate of deposit (maturing in 21 Dec. 2011)	291	3-mth LIBOR+0.50%	301	3-mth LIBOR+0.50%
USD floating rate Certificate of deposit (maturing in 21 Dec. 2012)	265	3-mth LIBOR+0.55%	274	3-mth LIBOR+0.55%
USD floating rate Certificate of deposit (maturing in 23 Dec. 2011)	496	3-mth LIBOR+0.43%	513	3-mth LIBOR+0.43%
USD floating rate Certificate of deposit (maturing in 28 Dec. 2011)	331	3-mth LIBOR+0.43%	342	3-mth LIBOR+0.43%
HKD floating rate Certificate of d eposit (maturing in 05 Mar. 2012)	234	3-mth HIBOR+0.37%	–	–
USD fixed rate Certificate of deposit (maturing in 30 Dec. 2013)	258	2.70%	–	–
HKD floating rate Certificate of deposit (maturing in 23 Mar. 2012)	230	3-mth HIBOR+0.41%	–	–
HKD fixed rate Certificate of deposit (maturing in 26 Apr. 2013)	338	2.00%	–	–
USD floating rate Certificate of deposit (maturing in 29 Apr. 2011)	331	3-mth LIBOR+0.40%	–	–
HKD floating rate Certificate of deposit (maturing in 05 May 2012)	256	3-mth HIBOR+0.43%	–	–
HKD floating rate Certificate of deposit (maturing in 09 Sep 2013)	308	3-mth HIBOR+0.60%	–	–
USD floating rate Certificate of deposit (maturing in 09 Sep 2013)	265	3-mth LIBOR+0.65%	–	–
USD floating rate Certificate of deposit (maturing in 16 Sep 2013)	265	3-mth LIBOR+0.65%	–	–
HKD floating rate Certificate of deposit (maturing in 21 Oct 2013)	386	3-mth HIBOR+0.60%	–	–
USD floating rate Certificate of deposit (maturing in 12 Nov 2013)	664	3-mth LIBOR+0.65%	–	–
HKD fixed rate Certificate of deposit (maturing in 25 Nov. 2011)	980	0.70%	–	–
HKD fixed rate Certificate of deposit (maturing in 22 Dec. 2011)	329	0.85%	–	–
Others (amount below RMB200 million)	3,001	–	2,653	–
Total	9,228		6,355	

(All amounts expressed in millions of RMB unless otherwise stated)

26 DUE TO CUSTOMERS

Group

	As at 31 December 2010	2009
Corporate current deposits	1,064,528	865,097
Corporate time deposits	890,408	693,745
Individual current deposits	385,449	313,835
Individual time deposits	520,852	492,355
Other deposits	6,610	7,023
	2,867,847	2,372,055
Including:		
Pledged deposits held as collateral	279,443	235,060

Bank

	As at 31 December 2010	2009
Corporate current deposits	1,064,884	865,696
Corporate time deposits	890,481	693,862
Individual current deposits	385,156	313,823
Individual time deposits	520,852	492,355
Other deposits	6,610	7,023
	2,867,983	2,372,759
Including:		
Pledged deposits held as collateral	279,443	235,060

27 OTHER LIABILITIES

Group

	As at 31 December 2010	2009
Interest payable	32,715	25,156
Settlement accounts	20,166	13,660
Staff benefits payable	6,269	4,744
Business and other tax payable	2,294	1,807
Insurance reserve	1,414	32
Deposits received for finance lease	1,204	800
Provision for outstanding litigation(a)	477	451
Provision for unsettled obligation(a)	158	202
Dividends payable	64	67
Others	7,236	6,430
	71,997	53,349

(All amounts expressed in millions of RMB unless otherwise stated)

27 OTHER LIABILITIES *(Continued)*

Bank

	As at 31 December 2010	2009
Interest payable	32,614	25,124
Settlement accounts	19,767	13,034
Dividends payable	64	67
Staff benefits payable	6,072	4,581
Business and other tax payable	2,263	1,789
Provision for outstanding litigation(a)	477	202
Provision for unsettled obligation(a)	158	451
Others	5,249	5,024
	66,664	50,272

(a) Table below lists the movement of provision for outstanding litigation and unsettled obligation.

Group and Bank

	As at 31 December 2009	Addition	Reversal	As at 31 December 2010
Provision for outstanding litigation	451	64	(38)	477
Provision for unsettled obligation	202	—	(44)	158
Total	653	64	(82)	635

28 DEFERRED INCOME TAXES

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 25% for the year ended 31 December 2010 (Year 2009: 25%) for transactions in Mainland China. Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 16.5% for the period ended 31 December 2010 (Year 2009: 16.5%) for transactions in Hong Kong.

The movement in the deferred income tax account is as follows:

Group

	Year ended 31 December 2010	2009
Balance at beginning of the year	5,786	4,131
Credited to profit or loss	970	1,102
Available-for-sale securities — fair value remeasurement	519	553
At end of the year	7,275	5,786

(All amounts expressed in millions of RMB unless otherwise stated)

28 DEFERRED INCOME TAXES *(Continued)*

Bank

	Year ended 31 December 2010	2009
Balance at beginning of the year	5,855	4,172
Credited to profit or loss	969	1,056
Available-for-sale securities — fair value remeasurement	535	627
At end of the year	7,359	5,855

Deferred income tax assets and liabilities are attributable to the following items:

Group

	As at 31 December 2010	2009
Deferred income tax liabilities		
Available-for-sale securities	(143)	(354)
Other temporary differences	(1,601)	(989)
	(1,744)	(1,343)
Deferred income tax assets		
Impairment allowances for loans	6,216	5,092
Impairment allowances for investments	359	327
Impairment of other assets	386	518
Unpaid salaries and bonuses	1,101	721
Retirement sub-pension payable	148	143
Outstanding litigation and compensation	159	163
Available-for-sale securities	311	3
Other temporary differences	339	162
	9,019	7,129
Net deferred income tax assets	7,275	5,786

(All amounts expressed in millions of RMB unless otherwise stated)

28 DEFERRED INCOME TAXES *(Continued)*

Bank

	As at 31 December 2010	2009
Deferred income tax liabilities		
Available-for-sale securities	(59)	(289)
Other temporary differences	(1,601)	(991)
	(1,660)	(1,280)
Deferred income tax assets		
Impairment allowances for loans	6,213	5,092
Impairment allowances for investments	359	327
Impairment of other assets	437	569
Unpaid salaries and bonuses	1,056	675
Retirement sub-pension payable	148	143
Outstanding litigation and compensation	159	163
Available-for-sale securities	308	3
Other temporary differences	339	163
	9,019	7,135
Net deferred income tax assets	7,359	5,855

The above net deferred income tax assets are disclosed separately on the statement of financial position based on different responsible taxation authorities:

Group

	As at 31 December 2010	2009
Deferred income tax assets	7,341	5,821
Deferred income tax liabilities	(66)	(35)

Bank

	As at 31 December 2010	2009
Deferred income tax assets	7,372	5,864
Deferred income tax liabilities	(13)	(9)

(All amounts expressed in millions of RMB unless otherwise stated)

28 DEFERRED INCOME TAXES *(Continued)*

Deferred income tax in the statement of comprehensive income comprise the following temporary differences:

Group

	As at 31 December	
	2010	2009
Impairment allowances for loans:		
Additional impairment allowances for loans	1,826	1,936
Utilization	(702)	(574)
Sub-total	1,124	1,362
Impairment allowances for investments	32	(71)
Impairment of other assets	(132)	(185)
Outstanding litigation and compensation	(4)	(14)
Unpaid salaries and bonuses	380	101
Retirement sub-pension payable	5	(16)
Other temporary differences	(435)	(75)
	970	1,102

29 RETIREMENT BENEFIT OBLIGATIONS

The Group participates in various defined contribution retirement benefit plans organised by municipal and provincial governments in Mainland China under which it is required to make monthly contributions to these plans at rates ranging from 10% to 27% of the employees' basic salary for the period. The Group currently has no additional significant cost for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above. The Group's contributions to these pension plans are charged to profit or loss in the period to which they relate.

The Group pays supplementary retirement benefits to employees in Mainland China, who retired before 31 December 2008. The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. Such benefits are discounted to determine their present values. The discount rate is the yield on government bonds at the balance sheet date, the maturity dates of which approximate to the terms of the Group's obligations. Actuarial gains and losses, changes in actuarial assumptions and amendments to pension plan are charged or credited to the statement of comprehensive income as they occur. The amounts recognised in the statement of financial position represent the present value of unfunded obligations plus any unrecognised actuarial gains and losses minus any unrecognised past service cost.

Employees who retire after 1 January 2009 can voluntarily participate in an Annuity Plan. The Bank contributes to the Annuity Plan based on certain percentage of the employees' gross salary and recognised in profit or loss as incurred.

(All amounts expressed in millions of RMB unless otherwise stated)

29 RETIREMENT BENEFIT OBLIGATIONS

Retirement benefit obligations of the Group in locations other than Mainland China, which are immaterial to the Group, are made in accordance with the relevant local policies and regulations.

	As at 31 December 2010	As at 31 December 2009
Expenses incurred for retirement benefit plans	1,033	897
Gains/(expenses) incurred for supplementary retirement benefits	59	(24)
Expenses incurred for corporate annuity plan	259	246
Total	1,351	1,119

	As at 31 December 2010	As at 31 December 2009
Statement of financial position obligations for:		
— Pension benefits	593	572

	Year ended 31 December 2010	Year ended 31 December 2009
Statement of comprehensive income charge for:		
— Pension benefits	59	(24)

The amounts recognised in the statement of financial position are determined as follows:

	As at 31 December 2010	As at 31 December 2009
Present value of unfunded obligations	593	572
Unrecognised actuarial losses	—	—
Unrecognised past service cost	—	—
Liability in the statement of financial position	593	572

(All amounts expressed in millions of RMB unless otherwise stated)

29 RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

Movements in the defined obligation over the year are as follows:

	Year ended 31 December 2010	2009
Beginning of the year	572	636
Retirement benefits paid	(38)	(40)
Current service cost	—	—
Interest cost	23	21
Net actuarial losses/(gains)	36	(45)
Past service cost	—	—
End of the year	593	572

The amounts recognised in the statement of comprehensive income are as follows:

	As at 31 December 2010	2009
Current service cost	—	—
Interest cost	23	21
Net actuarial losses/(gains) recognised during the period	36	(45)
Past service cost	—	—
Total, included in staff costs	59	(24)

The principal actuarial assumptions used are as follows:

	As at 31 December 2010	2009
Discount rate	4.15%	4.08%
Pension plan inflation rate	4.00%	4.00%

Mortality rate

Assumptions regarding future mortality experience are set based on published statistics by China Insurance Regulatory Commission.

The following table lists an average life expectancy in years of a pensioner retiring at age 60 for male and 55 for female:

	As at 31 December 2010	2009
Male	22.20	22.20
Female	29.52	29.52

(All amounts expressed in millions of RMB unless otherwise stated)

30 DEBTS ISSUED

Group

	As at 31 December 2010	As at 31 December 2009
Subordinated debts		
Fixed rate subordinated debt — 2022[a]	16,000	16,000
Fixed rate subordinated debt — 2017[a]	9,000	9,000
Fixed rate debt[b]	—	3,000
Fixed rate subordinated debt — 2019[c]	11,500	11,500
Fixed rate subordinated debt — 2024[c]	13,500	13,500
Fixed rate debt[d]	2,000	—
	52,000	53,000

Bank

	As at 31 December 2010	As at 31 December 2009
Subordinated debts		
Fixed rate subordinated debt — 2022[a]	16,000	16,000
Fixed rate subordinated debt — 2017[a]	9,000	9,000
Fixed rate debt[b]	—	3,000
Fixed rate subordinated debt — 2019[c]	11,500	11,500
Fixed rate subordinated debt — 2024[c]	13,500	13,500
	50,000	53,000

(a) The Group issued the following subordinated debts on 6 March 2007 in the inter-bank market of Mainland China:
The first tranche of the subordinated debt amounting to RMB16 Billion issued on 6 March 2007 has a fixed coupon rate of 4.13% for the first ten years, paid annually. The Group has the option to extend all of the bonds at face value for another five years on 8 March 2017 at a fixed rate of original coupon rate plus 3%.
The second tranche of the subordinated debt amounting to RMB9 Billion issued on 6 March 2007 has a fixed coupon rate of 3.73% for the first 5 years, paid annually. The Group has the option to extend all of the bonds at face value for another five years on 8 March 2012 at a fixed rate of original coupon rate plus 3%.

(b) According to the resolution of the Annual General Meeting on 6 June 2008 and the approval from the PBOC, the Group issued a RMB3 billion term debt, which has a maturity of two years and bears interest at the annual rate of 3.25%, in Hong Kong on 29 July 2008. The debt was repaid by the Group on 29 July, 2010.

(c) The Group issued the first tranche of a subordinated debt amounting to RMB25 billion between 1 July and 3 July 2009 in the inter-bank market of Mainland China:
Type I subordinated debt amounting to RMB11.5 billion issued between 1 July and 3 July 2009 has a fixed coupon rate of 3.28% for the first five years, paid annually. The Group has the option to extend all of the bonds at face value for another five years on 3 July 2014 at a fixed rate of original coupon rate plus 3%.
Type II subordinated debt amounting to RMB13.5 billion issued between 1 July and 3 July 2009 has a fixed coupon rate of 4.00% for the first ten years, paid annually. The Group has the option to extend all of the bonds at face value for another five years on 3 July 2019 at a fixed rate of original coupon rate plus 3%.

(d) On July 26, 2010, Bank of Communications Financial Leasing Co.,Ltd, the subsidiary of the Group issued a RMB2 billion term debt in the inter-bank market of the PRC, which has maturity of three years and bears interest at the annual rate of 3.15%.

31 SHARE CAPITAL AND CAPITAL SURPLUS

Group

	Number of shares (in millions)	Ordinary shares of RMB 1 each (RMB million)	Capital surplus (RMB million)	Total (RMB million)
At 1 January 2010	48,994	48,994	44,404	93,398
Issue of shares(1)	7,266	7,266	25,357	32,623
Issuance cost	—	—	(267)	(267)
Acquisition of non-controlling Interest	—	—	(29)	(29)
At 31 December 2010	56,260	56,260	69,465	125,725

1: On 22 June 2010, a total of 3,806 million RMB ordinary shares ('A shares') were subscribed by various third parties at a price of RMB4.50 per share with a total consideration of RMB17.125 billion. The excess over par value of RMB13.194 billion was included in capital surplus after the issuance cost of RMB125 million was netted off against capital surplus.
On 16 July 2010, a total of 3,459 million HKD ordinary shares ('H shares') were subscribed by various third parties at a price of HKD5.14 per share with a total consideration of HKD17.783 billion (RMB15.498 billion). The excess over par value of RMB11.896 billion was included in capital surplus after the issuance cost of HKD163 million (RMB142 million) was netted off against capital surplus.

The shareholding structures of the Bank as at 31 December 2010 are as follow:

Bank

	Number of shares (in millions)	Approximated percentage of the Bank's issued share capital
Domestic Shares in issue	29,736	52.85%
H shares offered under the Global Offering and converted from Domestic Shares	26,524	47.15%
Total number of shares	56,260	100%

The shareholding structures of the Bank as at 31 December 2009 are as follow:

Bank

	Number of shares (in millions)	Approximated percentage of the Bank's issued share capital
Domestic Shares in issue	25,930	52.92%
H shares offered under the Global Offering and converted from Domestic Shares	23,064	47.08%
Total number of shares	48,994	100.00%

Generally, transactions of the following nature are recorded in the capital surplus:

(a) share premium arising from the issue of shares at prices in excess of their par value;
(b) donations received from shareholders; and
(c) any other items required by the PRC regulations to be so treated.

Capital surplus can be utilized to offset prior years' accumulated losses, for the issue of bonus shares or for increasing paid-up capital as approved by the Shareholders.

(All amounts expressed in millions of RMB unless otherwise stated)

31 SHARE CAPITAL AND CAPITAL SURPLUS *(Continued)*

As at 31 December 2010 and 2009 the Group's capital surplus is listed as follow:

Group

	As at 1 January 2010	Addition	Disposal	As at 31 December 2010
Share premium	43,761	25,090	—	68,851
Property revaluation gain designated by MOF	472	—	—	472
Donation of non-cash assets	145	—	—	145
Acquisition of non-controlling interest	—	—	(29)	(29)
Others	26	—	—	26
Total	44,404	25,090	(29)	69,465

Group

	As at 1 January 2009	Addition	Disposal	As at 31 December 2009
Share premium	43,761	—	—	43,761
Property revaluation gain designated by MOF	472	—	—	472
Donation of non-cash assets	145	—	—	145
Others	29	—	(3)	26
Total	44,407	—	(3)	44,404

32 RESERVES AND RETAINED EARNINGS

Pursuant to the PRC regulations, the appropriation of profits to the statutory general reserve, the discretionary reserve and the distribution of dividends in each year are based on the recommendations of the Directors and are subject to the passing of resolutions to be considered at the Bank's General Meeting.

In accordance with the PRC legislation, 10% of the net distributable profit of the Bank (Note33), as determined under the PRC accounting regulations, is required to be transferred to a non-distributable statutory reserve until such time when this reserve represents 50% of the share capital of the Bank.

Pursuant to the PRC banking regulations, the Bank is required to transfer a certain amount of its net income to the statutory general reserve through its profit appropriation. It is determined based on the degree of overall unidentified loss exposure, normally no lower than 1% of the ending balance of risk assets. The statutory general reserve is an integral part of equity interest but not subject to dividend distribution. Such statutory general reserve is recognised in the statement of financial position upon approval by the shareholders at the General Meeting. Regulatory reserve of the Hong Kong branch required by the Hong Kong Monetary Authority ('HKMA') is also included in above statutory general reserve.

In accordance with the PRC legislation, after the statutory reserve has been transferred from the net distributable profit of the Bank, discretionary reserve is recognised in the statement of financial position upon approval by the shareholders at the General Meeting.

Based on the 2009 financial results, the Directors proposed the following profit appropriation on 30 March 2010, which was approved by the shareholders at the Annual General Meeting on 20 April 2010:

	Amount arising from the prior year, approved and processed in 2009
Statutory reserve	2,956
Statutory general reserve	5,506
Discretionary reserve	15,285
	23,747

(All amounts expressed in millions of RMB unless otherwise stated)

32 RESERVES AND RETAINED EARNINGS *(Continued)*

On 30 March 2011, the Directors proposed the following profit appropriation, which is still subject to the approval by the shareholders at the General Meeting:

	2010
Statutory reserve	3,831
Statutory general reserve	5,132
Discretionary reserve	16,968
	25,931

33 DIVIDENDS

	Year ended 31 December	
	2010	2009
Paid to shareholders of the Bank in the period	10,528	9,862

Under PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

(a) Making up cumulative losses from prior years, if any;
(b) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank as determined under PRC accounting regulations;
(c) Allocations to statutory general reserve;
(d) Allocations to the discretionary revenue reserve fund if approved by the Bank's General Meeting. These funds form part of the shareholders' equity.

In accordance with the relevant regulations, the distributable profit is deemed to be the lesser of (i) the distributable profit determined in accordance with PRC GAAP and (ii) the distributable profit determined based on net profit under IFRS.

The dividends are recognized in the statement of financial position upon approval by the shareholders at the Annual General Meeting.

On 30 March 2010, the directors proposed a cash dividend of RMB0.10 per share, amounting to RMB4,899 million, which was approved by shareholders on 20 April 2010. In addition, in accordance with the Articles of Association for the Bank, the Board of Directors was authorized to approve the profit appropriation plan within 40% of the distributable profit in the current half year. On 18 August 2010, the directors approved a cash dividend of RMB0.10 per share to 56,260 million shares (face value 1.00 RMB per share) after the completion of rights issue in 2010, amounting to RMB5,626 million.

At 31 December 2010, the aggregate amount of distributable profit was RMB32,682 million, being the distributable profit determined in accordance with PRC GAAP and IFRS. On 30 March 2011, the directors proposed to distribute a stock dividend of 1 share per every 10 shares, amounting to RMB5,626 million; a cash dividend RMB0.20 yuan (before tax) per every 10 shares amounting to 1,125 million (2009: cash dividend RMB0.10 yuan per share), which has not been approved by shareholders.

(All amounts expressed in millions of RMB unless otherwise stated)

34 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

Financial guarantees and credit related commitments

The following tables indicate the contractual amounts of the Group's financial guarantees and credit related commitments which the Group commits to extend to customers:

Group and Bank

	As at 31 December 2010	2009
Guarantees	198,573	177,357
Letters of credit	51,224	37,452
Acceptances	346,646	233,871
Other commitments with an original maturity of		
— Under 1 year	210,037	137,773
— 1 year and over	32,018	26,931
	838,498	613,384

Capital expenditure commitments

Group

	As at 31 December 2010	2009
Capital expenditure commitments for buildings	2,846	394

Bank

	As at 31 December 2010	2009
Capital expenditure commitments for buildings	2,846	393

Operating lease commitments

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases in respect of buildings are as follows:

Group

	As at 31 December 2010	2009
Not later than 1 year	1,291	1,086
Later than 1 year and not later than 5 years	3,010	2,738
Later than 5 years	981	1,118
	5,282	4,942

(All amounts expressed in millions of RMB unless otherwise stated)

34 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

Operating lease commitments *(Continued)*

Bank

	As at 31 December 2010	2009
Not later than 1 year	1,279	1,074
Later than 1 year and not later than 5 years	3,008	2,731
Later than 5 years	981	1,118
	5,268	4,923

Commitments on security underwriting and bond acceptance

Group and Bank

	As at 31 December 2010	2009
Outstanding balance on security underwriting	56,810	49,317
Outstanding balance on bond acceptance[(a)]	27,094	23,622

(a) The Bank is entrusted by the MOF to underwrite certain Certificates of Treasury Bonds. The investors of Certificates of Treasury Bond have a right to redeem the bonds at par any time prior to maturity and the Bank is committed to redeem those bonds. The redemption price is the principal value of the Certificates of Treasury Bond plus unpaid interest.
The original maturities of these bonds vary from 1 to 5 years.
The MOF will not provide funding for the early redemption of these Certificates of Treasury Bond on a back-to-back basis but will pay interest through maturity and repay the principal at maturity.

Legal proceedings

A number of legal proceedings are initiated by third parties against the Group as defendant. The total outstanding claims at end of the year are as follows:

Group and Bank

	As at 31 December 2010	2009
Outstanding claims	1,384	1,379
Provision for outstanding litigation	477	451

(All amounts expressed in millions of RMB unless otherwise stated)

35 ASSETS PLEDGED

Assets are pledged as collateral under repurchase agreements with other banks and financial institutions and for security deposits relating to local futures, options and stock exchange memberships.

Group and Bank

	Pledged Assets As at 31 December		Related Liabilities As at 31 December	
	2010	2009	2010	2009
Trading securities	9	19	1	—
Investment securities	17,037	18,722	15,231	17,430
Loans	3,265	4,163	3,265	4,471
	20,311	22,904	18,497	21,901

The Group and the Bank accept collateral that it is permitted to sell or repledge in the absence of default in connection with its reverse repurchase agreements.

As at 31 December 2010, the fair value of such collateral accepted by the Group and the Bank amounted to RMB1,023 million (2009: RMB700 million). As at 31 December 2010 and 31 December 2009, neither the Group nor the Bank sold or re-pledged such collateral received. These transactions are conducted under standard and normal business terms.

36 CREDIT RISK WEIGHTED AMOUNT OF FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS

Group and Bank

	As at 31 December	
	2010	2009
Financial guarantees and credit related commitments	257,157	195,763

The credit risk weighted amount refers to the amount as computed in accordance with the formula promulgated by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments.

37 OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR

Group

	As at 31 December 2010		
	Before tax amount	Tax expense (benefit)	Net of tax amount
Other comprehensive (loss)/income			
Available-for-sale securities	(2,121)	519	(1,602)
Changes in fair value taken to other comprehensive income,	(1,515)	365	(1,150)
Changes in fair value transferred to net profit	(606)	154	(452)
Translation difference on foreign operations	(329)	—	(329)
Other comprehensive (loss)/income for the year	(2,450)	519	(1,931)

(All amounts expressed in millions of RMB unless otherwise stated)

37 OTHER COMPREHENSIVE (LOSS)/income FOR THE YEAR *(Continued)*

Group *(Continued)*

	As at 31 December 2009		
	Before tax amount	Tax expense (benefit)	Net of tax amount
Other comprehensive (loss)/income			
Available-for-sale securities	(2,250)	553	(1,697)
Changes in fair value taken to other comprehensive income	(1,052)	257	(795)
Changes in fair value transferred to net profit	(1,198)	296	(902)
Translation difference on foreign operations	105	—	105
Transfer out of investment property revaluation gain	(3)	—	(3)
Other comprehensive (loss)/income for the year	(2,148)	553	(1,595)

38 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Analysis of changes in financing during the year

	Dividends	Share capital	Capital surplus	Non-controlling interest	Term debt (including interest payable)
At 1 January 2010	67	48,994	44,404	577	54,316
Non-controlling interest comprehensive income	—	—	—	118	—
Interest expense on debt issued	—	—	—	—	1,990
Fee on debt issue	—	—	—	—	6
Dividends	10,578	—	—	(53)	—
Dividends paid to shareholders of the Bank/Payment of interest	(10,528)	—	—	—	(2,012)
Dividends paid to non-controlling interest	(53)	—	—	—	—
Capital contribution by non-controlling interest	—	—	—	186	—
Non-controlling interest in subsidiaries acquired	—	—	—	72	—
Acquisition of non-controlling interest in a subsidiary	—	—	(29)	(16)	—
A+H share rights issue	—	7,266	25,357	—	—
Issue debt	—	—	—	—	2,000
Issuance cost paid	—	—	(267)	—	(6)
Repayment of debt	—	—	—	—	(3,000)
At 31 December 2010	64	56,260	69,465	884	53,294
At 1 January 2009	130	48,994	44,407	433	41,265
Non-controlling interest comprehensive income	—	—	—	179	—
Interest expense on debt issued	—	—	—	—	2,011
Fee on debt issue	—	—	—	—	45
Dividends	9,834	—	—	(35)	—
Dividends paid to shareholders of the Bank/Payment of interest	(9,862)	—	—	—	(1,960)
Dividends paid to non-controlling interest	(35)	—	—	—	—
Issue debt	—	—	—	—	25,000
Issuance cost paid	—	—	—	—	(45)
Repayment of debt	—	—	—	—	(12,000)
Transfer out of investment property revaluation gain	—	—	(3)	—	—
At 31 December 2009	67	48,994	44,404	577	54,316

(All amounts expressed in millions of RMB unless otherwise stated)

38 NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Analysis of the balance of cash and cash equivalents

For the purposes of the statement of cash flow, cash and cash equivalents comprise the following balances with original maturities of less than 90 days used for the purpose of meeting short-term cash commitments:

	As at 31 December 2010	2009
Cash and balances with central banks (Note 16)	120,396	100,461
Due from other banks and financial institutions (Note 17(a))	36,503	68,037
	156,899	168,498

39 BUSINESS COMBINATION

BoComm Life Insurance Company Limited

On 27 January 2010, the Bank acquired 51% interest of China Life-CMG Life Assurance Company Ltd. (the "Acquired Company") amounting to RMB196 million from China Life Insurance Company Limited. China Life-CMG Life Assurance Company Ltd. was an insurance company operating life insurance, health insurance and accident insurance business in Shanghai. After the business combination, the Acquired Company was renamed BoComm Life Insurance Company Limited.

The details of the fair value of the assets and liabilities acquired and goodwill arising as at 27 January 2010 are as follows:

	Fair value	Acquiree's carrying amount
Due from other banks and financial institutions	520	520
Investment securities — available-for-sale	543	543
Other assets	36	36
Insurance reserve	(788)	(788)
Other payables	(165)	(165)
Net assets	146	146
Fair value of net assets acquired (51%)	74	74
Goodwill	122	
Total purchase consideration paid by cash	196	
Less: cash and cash equivalents in subsidiary acquired	23	
Net cash outflow on acquisition	173	

The primary reason for the business combination is the Bank's strategy of universal operational integration. The goodwill is attributable to the significant synergies expected to arise after the Bank's acquisition. Fair value of assets and liabilities acquired were based on discounted cash flow models. The non-controlling interest is RMB72 million which is based on proportionate method.

There was no provision required in connection with this acquisition.

The revenue included in the consolidated statement of comprehensive income since 27 January 2010 contributed by the "Acquired Company" was RMB756 million. The "Acquired Company" also contributed a loss of RMB20 million over the same period. The consolidated revenue and profit would not be materially different if the acquiree had been consolidated on 1 January, 2010.

The Bank signed the agreement to acquire an additional 11.5% interest of BoComm Life Insurance Company Limited amounting to RMB44.6085 million from Colonial Mutual Life Assurance Society Limited on 11 June 2010. In the consolidated financial statements, the difference between acquisition price and the fair value of identifiable net assets was recognized in capital surplus.

On 21 June 2010, BoComm Life Insurance Company Limited increased its share capital by RMB300 million. The Bank contributed RMB187.5 million which accounted for 62.5% of the increased capital.

(All amounts expressed in millions of RMB unless otherwise stated)

40 PRINCIPAL SUBSIDIARIES

(a) Particulars of the principal subsidiaries are as follows:

Name of subsidiaries	Place of incorporation and operation	Date of incorporation	Issued and fully paid up share capital	Bank equity interest %	Principal activities
Kiu Fai Company Limited	Hong Kong	18 Mar 1967	HKD3,000,000	100	Property holding and investment holding
BCOM Finance (Hong Kong) Limited	Hong Kong	13 Mar 1979	HKD90,000,000	100	Deposit taking
Amiwell Company Limited	Hong Kong	18 Mar 1980	HKD2	100	Property holding and investment
Bank of Communications (Nominee) Company Limited	Hong Kong	21 Aug 1981	HKD200,000	100	Investment holding
Bank of Communications Trustee Limited	Hong Kong	13 Oct 1981	HKD50,000,000	100	Trustee Service
Chiao Tung Developments Limited	Hong Kong	5 Feb 1985	HKD50,000,000	100	Investment holding
Expectation Investment Limited	Hong Kong	29 Jan 1997	HKD2	100	Investment holding
BOCOM International Holdings Company Limited (former known as BOCOM Securities Company Limited)	Hong Kong	3 Jun 1998	HKD2,000,000,000	100	Securities dealing
Unique Profit Limited	Hong Kong	12 Jun 1998	HKD10,000	100	Property holding
Creative Mart Limited	Hong Kong	12 May 1999	HKD100	100	Property development
Star Wealthy Secretarial Company Limited	Hong Kong	23 Aug 1999	HKD2,000,000	100	Investment holding
City Wisdom Limited	Hong Kong	19 Jul 2000	HKD10,000	100	Property holding
Eastern Sky Limited	Hong Kong	21 Aug 2000	HKD10,000	100	Property development
China BOCOM Insurance Company Limited (former known as China Communications Insurance Company Limited)	Hong Kong	1 Nov 2000	HKD400,000,000	100	General insurance and reinsurance
Bank of Communications Charitable Foundation Limited	Hong Kong	19 Jun 2002	–	100	Charity fund
BOCOM International Asset Management Limited[1]	Hong Kong	18 May 2007	HKD5,000,000	100	Asset Management
BOCOM International Securities Limited[1]	Hong Kong	18 May 2007	HKD510,000,000	100	Securities dealing
BOCOM International (Asia) Limited[1]	Hong Kong	18 May 2007	HKD10,000,000	100	Securities dealing
BOCOM International (Shanghai) Equity Investment Management Limited[1]	PRC	25 Oct 2010	USD10,000,000	100	Investment management and consulting
Career Computer (Shenzhen) Company Limited[2]	PRC	22 Dec 1997	USD3,000,000	100	Development of computer software and hardware, electronic equipments and communication network
Bank of Communications Schroder Fund Management Co., Ltd. [2]	PRC	4 Aug 2005	RMB200,000,000	65	Fund Management
Bank of Communications International Trust Co., LTD. [2]	PRC	18 Oct 2007	RMB1,200,000,000	85	Trust investment
Bank of Communications Financial Leasing Co., Ltd. [2]	PRC	20 Dec 2007	RMB4,000,000,000	100	Financial leasing
Bankcomm Golden Phoenix (Shanghai) Aircraft Leasing Company[1]	PRC	28 May 2010	RMB5,000,000	100	Leasing
Bankcomm Pacific (Shanghai) Shipping Leasing Company[1]	PRC	1 June 2010	RMB5,000,000	100	Leasing
Dayi Bocom Xingmin Rural Bank Co.,Ltd.[2]	PRC	15 Aug 2008	RMB60,000,000	61	Commercial banking
BoComm Life Insurance Company Limited[2]	PRC	27 Jan 2010	RMB500,000,000	62.5	Life insurance
Anji Bocom Xingmin Rural Bank Co.,Ltd.[2]	PRC	18 Mar 2010	RMB150,000,000	51	Commercial banking

(All amounts expressed in millions of RMB unless otherwise stated)

40 PRINCIPAL SUBSIDIARIES *(Continued)*

(a) Particulars of the principal subsidiaries are as follows: *(Continued)*

Note1: These companies are the indirect subsidiaries of the Bank. BOCOM International Asset Management Limited, BOCOM International Securities Limited, BOCOM International (Asia) Limited and BOCOM International (Shanghai) Equity Investment Management Limited are all subsidiaries of BOCOM International Holdings Company Limited. Bankcomm Golden Phoenix (Shanghai) Aircraft Leasing Company and Bankcomm Pacific (Shanghai) Shipping Leasing Company are subsidiaries of Bank of Communications Financial Leasing Co., Ltd.

Note 2: These subsidiaries incorporated in PRC are all limited liability companies.

(1) Changes of subsidiaries

On 18 March 2010, the Bank set up Zhejiang Anji Bocom Rural Bank Co., Ltd. The registered capital is RMB150 million and the Bank owns 51% of its shares.

Bank of Communications Financial Leasing Co.,Ltd, the subsidiary of the Bank, set up two wholly-owned subsidiaries namely Bankcomm Golden Phoenix (Shanghai) Aircraft Leasing Company and Bankcomm Pacific (Shanghai) Shipping Leasing Company on 28 May 2010 and 1 June 2010. For each of the subsidiaries, the registered capital is RMB5 million, and both of the subsidiaries are wholly-owned by Bank of Communications Financial Leasing Co., Ltd.

BOCOM International Holdings Company Limited, the subsidiary of the Bank, set up BOCOM International (Shanghai) Equity Investment Management Limited on 25 Oct. 2010 and the registered capital is USD10 million.

BOCOM International (Shanghai) Equity Investment Management Limited is wholly-owned by BOCOM International Holdings Company Limited.

(2) Auditors of subsidiaries

For the year ended 31 December 2009 and 2010, PricewaterhouseCoopers Hong Kong CPAs are the auditors of all principal subsidiaries incorporated in Hong Kong.

For the years ended 31 December 2009 and 2010, Career Computer (Shenzhen) Company Limited was audited by Shenzhen Peng Cheng CPAs Limited

For the years ended 31 December 2009 and 2010, The Bank of Communications Schroder Fund Management Co., Ltd. and Bank of Communications Financial Leasing Co., Ltd. are audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Co.

For the years ended 31 December 2009 and 2010, Bank of Communications International Trust Co., LTD. is audited by Deloitte Touche Tohmatsu CPA Ltd.

For the years ended 31 December 2009 and 2010, Dayi Bocom Xingmin Rural Bank Co.,Ltd. is audited by Sichuan Zhong Fu CPAs Limited.

For the years ended 31 December 2010, BoComm Life Insurance Company Limited is audited by Ernst & Young Hua Ming CPAs Limited.

(b) Investment costs and balances with subsidiaries:

	Year ended 31 December 2010	2009
Due from other banks and financial institutions	50	50
Investment cost	8,089	5,660
Loans and advances to customers	2,203	2,281
Other assets	32	16
Due to other banks and financial institutions	(1,961)	(1,452)
Due to customers	(813)	(770)
Other liabilities	(32)	(35)
Total	7,568	5,750

(All amounts expressed in millions of RMB unless otherwise stated)

41 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

(a) Transactions with the MOF

The MOF, as the largest shareholder of the Group, holds 14,921 million shares of the Bank which represents 26.52% of total share capital as at 31 December 2010. The Group enters into banking transactions with the MOF in the normal course of business. These include the purchase and redemption of investment securities issued by the MOF. The volumes of related party transactions, outstanding balances at the period end, and related income for the year are as follows:

(i) Treasury bonds

	Year ended 31 December	
	2010	2009
Purchase from MOF during the year	52,010	65,992
Redemption to MOF during the year	(384,214)	(63,617)
Interest income	7,364	6,720

	Year ended 31 December	
	2010	2009
Outstanding balance of treasury bonds at beginning of the year	197,976	173,825
Outstanding balance of treasury bonds at end of the year	230,309	197,976
Period range of the bonds	3 months–30 years	3 months–30 years
Interest rate range of the bonds	1.44%–6.34%	0.89%–2.16%

(ii) Deposits

	As at 31 December	
	2010	2009
Time Deposits	29,910	16,340
Period range of the deposits	6 months–9 months	3 months–12 months
Interest rate range of the deposits	4%–4.93%	1.98%–2.16%

(iii) Interest expense

	Year ended 31 December	
	2010	2009
Interest expense	858	216

(All amounts expressed in millions of RMB unless otherwise stated)

41 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with National Council for Social Security Fund

As at 31 December 2010, National Council for Social Security Fund holds the Bank 6,389 million shares of the Bank which represents 11.36% of total shares of the Bank. The Group enters into banking transactions with National Council for Social Security Fund in the normal course of business. The main business is deposits, which are carried out under commercial terms and at market rates.

The volumes of related party transactions, outstanding balances at the period end, and related expenses for the year are as follows:

Due to customers

	Year ended 31 December 2010	2009
Outstanding balance at beginning of the year	13,350	13,033
Deposited during the year	17,717	154,136
Repaid during the year	(6,034)	(153,819)
Outstanding balance at end of the year	25,033	13,350
Interest expense	826	751

(c) Transactions with HSBC

As at 31 December 2010, The Hong Kong and Shanghai Banking Corporation Limited ('HSBC') holds 10,482 million shares of the Bank which represents 18.63% of total share capital of the Bank. Transactions between the Group and HSBC are mainly banking activities under commercial terms and at market rates. Details of transaction volumes since the above share acquisition are set out below:

(i) Due from HSBC

	Year ended 31 December 2010	2009
Outstanding at beginning of the year	238	799
Granted during the year	471,647	372,758
Repaid during the year	(471,283)	(373,319)
Outstanding at end of the year	602	238
Interest income	13	20

(ii) Due to HSBC

	Year ended 31 December 2010	2009
Outstanding at beginning of the year	3,214	389
Deposited during the year	73,039	119,588
Repaid during the year	(65,885)	(116,763)
Outstanding at end of the year	10,368	3,214
Interest expense	38	9

(All amounts expressed in millions of RMB unless otherwise stated)

41 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Transactions with HSBC *(Continued)*

(iii) Investment securities issued by HSBC

	Year ended 31 December 2010	Year ended 31 December 2009
Interest income	19	16

	As at 31 December 2010	As at 31 December 2009
Outstanding balance	2,482	1,088

(iv) Unsettled derivative transactions

	As at 31 December 2010	As at 31 December 2009
Unsettled derivative transactions notional amount	45,196	34,775
Fair value	(222)	(68)

(d) Transactions with directors and senior management

The Group enters into banking transactions with directors and senior management in the normal course of business. These include loans and deposits, which are carried out under commercial terms and at market rates. The volumes of related party transactions during each of the years ended 31 December 2010 and 2009, outstanding balances at the balance sheet date are as follows:

(i) Loans

	Year ended 31 December 2010	Year ended 31 December 2009
Outstanding at beginning of the year	126	187
Granted during the year	284	2
Repayment during the year	(408)	(63)
Outstanding at end of the year	2	126

No allowance for impairment has been recognised in respect of loans granted to directors and senior management.

(ii) Deposits

	Year ended 31 December 2010	Year ended 31 December 2009 Restated
Outstanding at beginning of the year	5	5
Deposited during the year	75	7
Repaid during the year	(74)	(7)
Outstanding at end of the year	6	5

42 SEGMENT ANALYSIS

The Bank's senior management as represented by the governor reviewed the Bank's operation by the particular economic areas in which the Bank's branches and subsidiaries providing products or services. The Bank's operating segments are decided upon location of the assets, as the Bank's branches mainly serve local customers with only a few customers from other regions.

The reportable operating segments derive their revenue primarily from the commercial banking services provided to customers and the investing activities, including deposits/loans, bills, trade finance, money market placements and takings and securities investments. The operating segments are:

(i) Northern China — Including the following provinces: Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia;

(ii) North-eastern China — Including the following provinces: Liaoning, Jilin, Heilongjiang;

(iii) Eastern China — Including the following provinces: Shanghai (excluding head office), Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong;

(iv) Central and Southern China — Including the following provinces: Henan, Hunan, Hubei, Guangdong, Guangxi, Hainan;

(v) Western China — Including the following provinces: Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shannxi, Gansu, Qinghai, Ningxia and Xinjiang;

(vi) Head office;

(vii) Overseas — Including overseas subsidiaries and the following branches: Hong Kong, New York, Singapore, Seoul, Tokyo, Frankfurt and Macao.

There were no changes in the reportable segments during the year.

The revenue from external parties reported to the senior management is measured in a manner consistent with that in the consolidated statement of comprehensive income.

As the Group's major revenue is derived from interest and the senior management relies primarily on net interest revenue to assess the performance of the segment, the total interest income and expense for all reportable segments will be presented on a net basis.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense between the segments.

(All amounts expressed in millions of RMB unless otherwise stated)

42 SEGMENTAL ANALYSIS *(Continued)*

(a) Operating segment information

Group

	Northern China	North-eastern China	Eastern China	Central and Southern China	Western	China Head Office	Overseas	Eliminations and Consolidated	Group Total
As at 31 December 2010									
Assets									
Cash and balances with central banks	11,359	4,253	26,619	12,528	9,534	514,532	7,729	–	586,554
Due from other banks and financial institutions	16,094	3,744	40,842	12,580	2,679	155,913	31,124	–	262,976
Financial assets at fair value through profit or loss	–	–	–	–	–	36,013	10,030	–	46,043
Loans and advances to customers	415,245	106,752	862,313	412,956	201,467	45,752	146,005	–	2,190,490
Investment securities									
– loans and receivables	437	296	702	728	266	40,188	–	–	42,617
– available-for-sale	10	–	1,831	712	33	135,936	23,648	–	162,170
– held-to-maturity	–	–	–	120	–	561,339	2,262	–	563,721
Other assets	349,701	108,793	493,816	253,899	103,876	83,573	22,096	(1,318,732)	97,022
Segment assets	792,846	223,838	1,426,123	693,523	317,855	1,573,246	242,894	(1,318,732)	3,951,593
Liabilities									
Due to other banks and financial institutions	(224,500)	(20,267)	(262,683)	(86,710)	(29,819)	(32,987)	(60,066)	–	(717,032)
Financial liabilities at fair value through profit or loss	–	–	–	–	–	(3,495)	(10,884)	–	(14,379)
Due to customers	(549,157)	(199,400)	(1,108,096)	(587,970)	(267,576)	(30,461)	(125,187)	–	(2,867,847)
Debts issued	–	–	(2,000)	–	–	(50,000)	–	–	(52,000)
Other liabilities	(16,866)	(6,428)	(35,705)	(15,928)	(18,849)	(1,260,875)	(40,759)	1,318,732	(76,678)
Segment liabilities	(790,523)	(226,095)	(1,408,484)	(690,608)	(316,244)	(1,377,818)	(236,896)	1,318,732	(3,727,936)
Net on statement position	2,323	(2,257)	17,639	2,915	1,611	195,428	5,998	–	223,657
Acquisition cost of property and equipment and intangible assets	*(1,537)*	*(827)*	*(2,145)*	*(2,030)*	*(726)*	*(1,282)*	*(58)*	–	*(8,605)*

(All amounts expressed in millions of RMB unless otherwise stated)

42 SEGMENTAL ANALYSIS *(Continued)*

(a) Operating segment information *(Continued)*

***Group** (Continued)*

	Northern China	North-eastern China	Eastern China	Central and Southern China	Western	China Head Office	Overseas	Eliminations and Consolidated	Group Total
For the year ended 31 December 2010									
Interest income[1]	25,980	7,397	53,047	26,267	11,902	36,391	3,760	(22,839)	141,905
Interest expense[2]	(15,345)	(3,597)	(21,510)	(10,192)	(4,089)	(23,549)	(1,467)	22,839	(56,910)
Net interest income[3]	10,635	3,800	31,537	16,075	7,813	12,842	2,293	–	84,995
Fee and commission income	2,390	412	5,209	2,327	729	4,878	1,131	–	17,076
Fee and commission expense	(659)	(57)	(904)	(395)	(112)	(208)	(262)	–	(2,597)
Net fee and commission income	1,731	355	4,305	1,932	617	4,670	869	–	14,479
Dividend income	–	–	22	–	–	23	15	–	60
Gains less losses arising from trading activities	423	81	511	233	52	(949)	326	–	677
Gains less losses arising from de-recognition investment securities	3	–	78	53	13	388	33	–	568
Insurance income	–	–	689	–	–	–	–	–	689
Other operating income	208	224	1,495	805	276	76	191	–	3,275
Total operating revenue	13,000	4,460	38,637	19,098	8,771	17,050	3,727	–	104,743
Reversal/(Impairment losses) on loans and advances	(1,746)	(547)	(4,945)	(3,935)	(952)	3	(124)	–	(12,246)
Insurance expenses	–	–	(599)	–	–	–	–	–	(599)
Other operating expenses	(5,646)	(2,593)	(14,665)	(7,562)	(3,344)	(6,528)	(1,606)	–	(41,944)
Profit before tax	5,608	1,320	18,428	7,601	4,475	10,525	1,997	–	49,954
Income tax	(1,393)	(331)	(4,796)	(1,935)	(1,116)	(806)	(405)	–	(10,782)
Net profit for the year	4,215	989	13,632	5,666	3,359	9,719	1,592	–	39,172
Depreciation and amortization of property and equipment and intangible assets	(524)	(306)	(1,255)	(687)	(373)	(799)	(124)	–	(4,068)
[1]Include									
External interest income	20,498	5,596	45,803	21,349	10,273	34,865	3,521	–	141,905
Inter-segment interest income	5,482	1,801	7,244	4,918	1,629	1,526	239	(22,839)	–
[2]Include									
External interest expense	(15,193)	(3,415)	(20,748)	(9,805)	(3,948)	(2,573)	(1,228)	–	(56,910)
Inter-segment interest expense	(152)	(182)	(762)	(387)	(141)	(20,976)	(239)	22,839	–
[3]Include									
External net interest income	5,305	2,181	25,055	11,544	6,325	32,292	2,293	–	84,995
Inter-segment net interest income	5,330	1,619	6,482	4,531	1,488	(19,450)	–	–	–

(All amounts expressed in millions of RMB unless otherwise stated)

42 SEGMENTAL ANALYSIS *(Continued)*

(a) Operating segment information *(Continued)*

***Group** (Continued)*

	Northern China	North-eastern China	Eastern China	Central and Southern China	Western China	Head Office	Overseas	Eliminations and Consolidated	Group Total
As at 31 December 2009									
Assets									
Cash and balances with central banks	6,470	3,228	19,829	10,732	6,521	361,505	26,711	–	434,996
Due from other banks and financial institutions	21,165	333	95,228	7,526	2,314	75,684	20,421	–	222,671
Financial assets at fair value through profit or loss	–	–	–	200	–	18,279	10,775	–	29,254
Loans and advances to customers	326,345	87,949	735,589	351,878	168,314	31,788	99,675	–	1,801,538
Investment securities									
– loans and receivables	708	553	1,449	966	609	103,319	–	–	107,604
– available-for-sale	25	–	621	516	29	110,852	20,051	–	132,094
– held-to-maturity	–	–	–	40	–	506,614	2,525	–	509,179
Other assets	305,385	98,613	371,541	188,107	78,030	76,948	22,605	(1,069,428)	71,801
Segment assets	660,098	190,676	1,224,257	559,965	255,817	1,284,989	202,763	(1,069,428)	3,309,137
Liabilities									
Due to other banks and financial institutions	(197,081)	(13,441)	(264,695)	(62,161)	(27,762)	(43,513)	(44,519)	–	(653,172)
Financial liabilities at fair value through profit or loss	–	–	–	–	–	(2,209)	(7,166)	–	(9,375)
Due to customers	(446,405)	(175,077)	(920,550)	(482,137)	(222,223)	(31,745)	(93,918)	–	(2,372,055)
Debts issued	–	–	–	–	–	(53,000)	–	–	(53,000)
Other liabilities	(13,825)	(5,666)	(28,425)	(13,637)	(6,122)	(1,007,273)	(51,590)	1,069,428	(57,110)
Segment liabilities	(657,311)	(194,184)	(1,213,670)	(557,935)	(256,107)	(1,137,740)	(197,193)	1,069,428	(3,144,712)
Net on statement position	2,787	(3,508)	10,587	2,030	(290)	147,249	5,570	–	164,425
Acquisition cost of property and equipment and intangible assets	(650)	(281)	(2,078)	(894)	(466)	(845)	(70)	–	(5,284)

(All amounts expressed in millions of RMB unless otherwise stated)

42 SEGMENTAL ANALYSIS *(Continued)*

(a) Operating segment information *(Continued)*

***Group** (Continued)*

	Northern China	North-eastern China	Eastern China	Central and Southern China	Western China	Head Office	Overseas	Eliminations and Consolidated	Group Total
For the year ended 31 December 2009									
Interest income[1]	24,095	6,469	43,918	21,585	9,248	29,722	3,106	(21,400)	116,743
Interest expense[2]	(13,534)	(3,658)	(18,931)	(9,215)	(3,742)	(21,312)	(1,083)	21,400	(50,075)
Net interest income[3]	10,561	2,811	24,987	12,370	5,506	8,410	2,023	–	66,668
Fee and commission income	1,770	362	4,165	1,717	523	4,007	870	–	13,414
Fee and commission expense	(490)	(48)	(875)	(272)	(65)	(147)	(118)	–	(2,015)
Net fee and commission income	1,280	314	3,290	1,445	458	3,860	752	–	11,399
Dividend income	–	–	20	–	–	21	24	–	65
Gains less losses arising from trading activities	332	21	580	209	51	(424)	566	–	1,335
Gains less losses arising from de-recognition investment securities	20	56	153	164	6	351	41	–	791
Other operating income	59	36	715	277	50	40	143	–	1,320
Total operating revenue	12,252	3,238	29,745	14,465	6,071	12,258	3,549	–	81,578
Reversal/(Impairment losses) on loans and advances	(1,814)	(504)	(4,291)	(3,535)	(1,082)	38	(67)	–	(11,255)
Other operating expenses	(4,616)	(2,107)	(10,857)	(5,566)	(2,630)	(4,661)	(1,585)	–	(32,022)
Profit before tax	5,822	627	14,597	5,364	2,359	7,635	1,897	–	38,301
Income tax	(1,450)	(126)	(3,595)	(1,329)	(570)	(652)	(325)	–	(8,047)
Net profit for the year	4,372	501	11,002	4,035	1,789	6,983	1,572	–	30,254
Depreciation and amortization of property and equipment and intangible assets	(403)	(277)	(1,014)	(571)	(314)	(713)	(213)	–	(3,505)
[1]Include									
External interest income	18,372	4,696	38,179	17,484	7,816	27,231	2,965	–	116,743
Inter-segment interest income	5,723	1,773	5,739	4,101	1,432	2,491	141	(21,400)	–
[2]Include									
External interest expense	(13,115)	(3,399)	(17,762)	(8,594)	(3,527)	(2,749)	(929)	–	(50,075)
Inter-segment interest expense	(419)	(259)	(1,169)	(621)	(215)	(18,563)	(154)	21,400	–
[3]Include									
External net interest income	5,257	1,297	20,417	8,890	4,289	24,482	2,036	–	66,668
Inter-segment net interest income	5,304	1,514	4,570	3,480	1,217	(16,072)	(13)	–	–

(All amounts expressed in millions of RMB unless otherwise stated)

42 SEGMENTAL ANALYSIS *(Continued)*

Geographical information

	2010		2009	
	Revenue	Non-current assets[1]	Revenue	Non-current assets[1]
PRC	163,127	36,928	132,732	33,053
Other countries	1,123	84	936	79
Total	164,250	37,012	133,668	33,132

1. Non-current assets include property and equipment, land use rights, intangible assets, prepaid rental expenses, leasehold improvement, foreclosed assets, investment property and goodwill etc. It excludes financial assets, deferred tax assets and rights arising under insurance contracts.

Business Information

The Group is engaged predominantly in banking and related financial activities. It comprises corporate banking, retail banking, treasury and other classes of business. Corporate banking mainly comprises corporate loans, bills, trade finance, corporate deposits and remittance. Retail banking mainly comprises retail loans, retail deposits, credit card and remittance. Treasury mainly comprises money market placements and takings, investment in securities, and securities sold subject to linked repurchase agreements ("repos"). The 'Others' business segment mainly comprises items which cannot be categorized in the above business segments. The Group optimized its management model of operating segments in 2010. Comparative figures for 2009 have been reclassified. The Group's information of business lines is listed as follows.

Group

	Year ended 31 December 2010				
	Corporate	Retail	Treasury	Others and unallocated	Total
External net interest income/(expense)	44,765	7,538	32,458	234	84,995
Internal net interest income/(expense)	10,510	11,543	(22,053)	—	—
Net interest income	55,275	19,081	10,405	234	84,995
Net fee and commission income	6,072	7,165	(20)	1,262	14,479
Dividend income	—	—	15	45	60
Gains less losses arising from trading activities	330	10	337	—	677
Gains less losses arising from de-recognition of investment securities	—	—	513	55	568
Insurance business income	—	—	—	689	689
Other operating income	1,246	1,342	16	671	3,275
Impairment losses on loans and advances	(10,671)	(1,575)	—	—	(12,246)
Insurance business expenses	—	—	—	(599)	(599)
Other operating expenses					
— depreciation and amortisation	(1,308)	(1,974)	(24)	(762)	(4,068)
— others	(17,745)	(17,546)	(1,427)	(1,158)	(37,876)
Profit before tax	33,199	6,503	9,815	437	49,954
Capital expenditure	2,771	4,219	42	1,573	8,605
Segment assets	1,841,104	433,832	1,660,526	16,131	3,951,593
Segment liabilities	(2,041,397)	(917,319)	(762,398)	(6,822)	(3,727,936)

(All amounts expressed in millions of RMB unless otherwise stated)

42 SEGMENTAL ANALYSIS *(Continued)*

Business Information *(Continued)*

Group

	Year ended 31 December 2009				
	Corporate	Retail	Treasury	Others and unallocated	Total
External net interest income/(expense)	34,476	1,104	31,013	75	66,668
Internal net interest income/(expense)	6,975	14,394	(21,369)	—	—
Net interest income	41,451	15,498	9,644	75	66,668
Net fee and commission income	5,135	5,303	(7)	968	11,399
Dividend income	—	—	2	63	65
Gains less losses arising from trading activities	484	17	700	134	1,335
Gains less losses arising from de-recognition of investment securities	—	—	221	570	791
Other operating income	457	204	7	652	1,320
Impairment losses on loans and advances	(9,681)	(1,577)	3	—	(11,255)
Other operating expenses					
— *depreciation and amortisation*	(1,159)	(1,654)	(14)	(678)	(3,505)
— *others*	(13,720)	(12,647)	(698)	(1,452)	(28,517)
Operating profit	22,967	5,144	9,858	332	38,301
Capital expenditure	1,767	2,521	21	975	5,284
Segment assets	1,537,350	324,554	1,433,493	13,740	3,309,137
Segment liabilities	(1,619,759)	(815,473)	(704,940)	(4,540)	(3,144,712)

There were no large transactions with a single external customer that the Group mainly relying on.

Supplementary Unaudited Financial Information

(All amounts expressed in millions of RMB unless otherwise stated)

(All amounts expressed in millions of RMB unless otherwise stated)

1 LIQUIDITY RATIOS

Group

	As at 31 December 2010	2009
Liquidity Ratios:	32.37%	28.02%

Bank

	As at 31 December 2010	2009
Liquidity Ratios:	32.23%	27.83%

The liquidity ratios are calculated in accordance with the relevant provisions of the PBOC and CBRC.

2 CURRENCY CONCENTRATIONS

Group

	US Dollars	HK Dollars	Others	Total
As at 31 December 2010				
Spot assets	229,761	57,784	27,550	315,095
Spot liabilities	(159,136)	(86,586)	(34,022)	(279,744)
Forward purchases	245,324	34,291	25,266	304,881
Forward sales	(271,705)	(8,277)	(19,734)	(299,716)
Net option position	(6,723)	—	—	(6,723)
Net long/(short) position	37,521	(2,788)	(940)	33,793
Net structural position	5,288	3,979	1,241	10,508

Group

	US Dollars	HK Dollars	Others	Total
As at 31 December 2009				
Spot assets	167,336	75,058	29,395	271,789
Spot liabilities	(139,495)	(79,390)	(30,338)	(249,223)
Forward purchases	168,778	17,043	22,131	207,952
Forward sales	(176,634)	(15,474)	(16,809)	(208,917)
Net long/(short) position	19,985	(2,763)	4,379	21,601
Net structural position	5,465	4,053	1,312	10,830

(All amounts expressed in millions of RMB unless otherwise stated)

2 CURRENCY CONCENTRATIONS *(Continued)*

The net options position is calculated using the model user approach as set out in the banking return of the HKMA. The net structural position of the Group includes the structural positions of the Bank's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

- Investments in fixed assets and premises, net of depreciation charges;
- Capital and statutory reserves of overseas branches;
- Investments in overseas subsidiaries and related companies; and
- Loan capital.

3 CROSS-BORDER CLAIMS

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

Cross-border claims include loans and advances, balances and placements with banks and other financial institutions, holdings of trade bills and certificates of deposit and investment securities.

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.

	Bank and other financial institutions	Public sector entities	Others	Total
As at 31 December 2010				
Asia Pacific excluding Mainland China	22,011	5,267	55,021	82,299
— of which attributed to Hong Kong	5,198	2,817	44,494	52,509
North and South America	12,426	366	7,685	20,477
Africa	524	—	—	524
Europe	17,846	1,178	2,471	21,495
	52,807	6,811	65,177	124,795

	Bank and other financial institutions	Public sector entities	Others	Total
As at 31 December 2009				
Asia Pacific excluding Mainland China	38,216	4,802	44,948	87,966
— of which attributed to Hong Kong	19,976	2,578	36,390	58,944
North and South America	12,609	275	11,424	24,308
Africa	596	—	—	596
Europe	25,542	1,216	916	27,674
	76,963	6,293	57,288	140,544

(All amounts expressed in millions of RMB unless otherwise stated)

4 OVERDUE AND RESCHEDULED ASSETS

(a) Gross amount of overdue loans

Group and Bank

	As at 31 December 2010	2009
Gross advances to customers which have been overdue for:		
— within 3 months	4,614	4,753
— between 3 and 6 months	1,344	2,605
— between 6 and 12 months	2,030	3,910
— over 12 months	12,923	14,675
	20,911	25,943
Percentage:		
— within 3 months	0.20%	0.26%
— between 3 and 6 months	0.06%	0.14%
— between 6 and 12 months	0.09%	0.21%
— over 12 months	0.58%	0.80%
	0.93%	1.41%

Group and Bank

	As at 31 December 2010	2009
Gross advances to banks and other financial institutions which have been overdue for:		
— within 3 months	—	—
— between 3 and 6 months	—	—
— between 6 and 12 months	—	—
— over 12 months	12	13
	12	13
Percentage:		
— within 3 months	—	—
— between 3 and 6 months	—	—
— between 6 and 12 months	—	—
— over 12 months	0.01%	0.01%
	0.01%	0.01%

* Included in the gross overdue advances to customers as at 31 December 2010, there are trade bills which have been overdue for:

	31 December 2010
— within 3 months	—
— between 3 and 6 months	—
— between 6 and 12 months	—
— over 12 months	162
	162

(All amounts expressed in millions of RMB unless otherwise stated)

4 OVERDUE AND RESCHEDULED ASSETS *(Continued)*

(b) Overdue and rescheduled loans

Group and Bank

	31 December 2010	31 December 2009
Total rescheduled loans and advances to customers	2,479	3,396
Including: rescheduled loans and advances to customers overdue above 3 months	753	1,951
Percentage of rescheduled loans and advances to customers overdue above 3 months in total loans	0.03%	0.11%

5 SEGMENTAL INFORMATION OF LOANS

(a) Impaired loans by geographical area

Group and Bank

	31 December 2010		31 December 2009	
	Impaired loan	Specific Provision	Impaired loan	Specific Provision
Domestic regions				
— Northern China	3,860	(2,371)	3,692	(2,325)
— North-eastern China	2,572	(1,602)	2,711	(1,718)
— Eastern China	7,663	(5,067)	8,888	(5,274)
— Central and Southern China	8,390	(4,015)	6,800	(3,764)
— Western China	2,175	(1,288)	2,383	(1,562)
	24,660	(14,343)	24,474	(14,643)
Hong Kong, Macao and overseas countries	328	(261)	535	(355)
	24,988	(14,604)	25,009	(14,998)

(b) Overdue loans and advances to customers by geographical area

Group and Bank

	31 December 2010			31 December 2009		
	Overdue loan	Specific Provision	Collective provision	Overdue loan	Specific Provision	Collective provision
Domestic regions						
— Northern China	3,890	(2,171)	(14)	4,822	(2,218)	(20)
— North-eastern China	2,466	(1,438)	(6)	2,746	(1,474)	(2)
— Eastern China	7,421	(4,395)	(25)	8,914	(4,566)	(10)
— Central and Southern China	4,636	(2,446)	(22)	5,861	(2,716)	(4)
— Western China	1,952	(1,051)	(6)	2,775	(1,376)	(8)
	20,365	(11,501)	(73)	25,118	(12,350)	(44)
Hong Kong, Macao and overseas countries	546	(190)	(1)	825	(191)	(11)
	20,911	(11,691)	(74)	25,943	(12,541)	(55)
Fair value of collateral	11,013			16,057		

(All amounts expressed in millions of RMB unless otherwise stated)

6 LOANS AND ADVANCES TO CUSTOMERS

(a) The Group economic sector risk concentration analysis for loans and advances to customers (gross):

	31 December 2010			31 December 2009 (Restated)		
		%	Amount covered by collaterals		%	Amount covered by collaterals
HK:						
Corporate loans						
Mining	—	—	—	146	—	—
Manufacturing						
— Petroleum and chemical	1,686	2	—	2,261	3	53
— Electronics	1,835	2	13	574	1	32
— Steel smelting and processing	—	—	—	—	—	—
— Machinery	—	—	—	432	1	—
— Textile and clothing	403	—	57	160	—	70
— Other manufacturing	3,913	4	210	2,787	4	127
Electricity, gas and water production and supply	170	—	—	515	1	—
Construction	5,194	5	496	4,881	7	1,145
Transportation,storage and postal service	5,554	6	1,721	3,830	6	689
IT and telecommunication service	1,109	1	—	245	—	—
Wholesale and retail	34,739	34	1,670	10,842	17	1,146
Accommodation and catering	817	1	556	300	—	44
Financial institutions	8,561	9	805	9,422	14	496
Real estate	10,227	10	7,710	9,536	15	7,832
Services	2,918	3	—	450	1	450
Water conservancy, environmental and other public services	—	—	—	144	—	—
Education	2	—	—	—	—	—
Others	5,503	6	520	4,626	8	319
Discounted bills	—	—	—	—	—	—
Total corporate loans	82,631	83	13,758	51,151	78	12,403
Individual loans						
Mortgage loans	11,266	11	10,665	9,517	15	9,511
Medium-term and long-term working capital loans	—	—	—	—	—	—
Short-term working capital loans	93	—	87	107	—	79
Car loans	—	—	—	—	—	—
Credit card advances	137	—	—	154	—	—
Loans secured by deposits	—	—	—	—	—	—
Others	5,493	6	6,341	4,656	7	4,569
Total individual loans	16,989	17	17,093	14,434	22	14,159
Gross amount of loans and advances before allowance for impairment	99,620	100	30,851	65,585	100	26,562
Outside HK:	2,137,307			1,773,729		

(All amounts expressed in millions of RMB unless otherwise stated)

6 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(a) The Group economic sector risk concentration analysis for loans and advances to customers (gross): *(Continued)*

The economic sector concentration risk analysis for loans and advances to customers is based on the Group's internal classification system.

The ratio of collateral loan to the total loan of the Group is 44% as the year ended 31 December 2010 (2009: 39%).

(b) Provision on loans and advances by loan usage

Group and Bank

	Individually impaired loan	Individual impairment allowances
31 December 2010		
Corporate	22,507	(13,079)
Individual	2,481	(1,525)
	24,988	(14,604)
Fair value of collateral	9,174	N/A

Group and Bank

	Individually impaired loan	Individual impairment allowances
31 December 2009		
Corporate	21,869	(13,027)
Individual	3,140	(1,971)
	25,009	(14,998)
Fair value of collateral	7,372	N/A

Collateral held against such loans mainly include cash deposits and mortgages over properties.

(All amounts expressed in millions of RMB unless otherwise stated)

6 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(b) Provision on loans and advances by loan usage *(Continued)*

The amount of new provisions charged to statement of comprehensive income, and the amount of impaired loans and advances written off during the year are disclosed in the below tables:

Group

	New provisions	Loans written off as uncollectible	Recoveries of advances written off in previous years
2010			
Corporate	10,887	2,255	(216)
Individual	1,597	887	(22)
	12,484	3,142	(238)

Bank

	New provisions	Loans written off as uncollectible	Recoveries of advances written off in previous years
2010			
Corporate	10,881	2,255	(216)
Individual	1,597	887	(22)
	12,478	3,142	(238)

Group

	New provisions	Loans written off as uncollectible	Recoveries of advances written off in previous years
2009			
Corporate	9,702	2,802	(21)
Individual	1,578	2	(1)
	11,280	2,804	(22)

Bank

	New provisions	Loans written off as uncollectible	Recoveries of advances written off in previous years
2009			
Corporate	9,701	2,802	(21)
Individual	1,578	2	(1)
	11,279	2,804	(22)

List of Branches

- **BEIJING MUNICIPAL BRANCH**
  33 Jin Rong Street,
  Xicheng District, Beijing
  TEL: (010) 66101616
  SWIFT: COMMCNSHBJG
  P.C.: 100033
  FAX: (010) 88086008

- **TIANJIN MUNICIPAL BRANCH**
  35 Nanjing Road,
  He Xi District, Tianjin
  TEL: (022) 23403701
  SWIFT: COMMCNSHTJN
  P.C.: 300200
  FAX: (022) 23302004

- **HEBEI PROVINCIAL BRANCH**
  22 Zi Qiang Road,
  Shijiazhuang
  TEL: (0311) 87026358
  SWIFT: COMMCNSHSJZ
  P.C.: 050000
  FAX: (0311) 87016376

- **TANGSHAN BRANCH**
  103 East Xin Hua Avenue,
  Tangshan
  TEL: (0315) 3720100
  SWIFT: COMMCNSHTSN
  P.C.: 063000
  FAX: (0315) 2849299

- **QINHUANGDAO BRANCH**
  174 Wen Hua Road,
  Hai Gang District,
  Qinhuangdao
  TEL: (0335) 3038260
  SWIFT: COMMCNSHQHD
  P.C.: 066000
  FAX: (0335) 3028046

- **HANDAN BRANCH**
  340 East Renmin Dong
  Road, Handan
  TEL: (0310) 6268323
  SWIFT: COMMCNSHSJZ
  P.C: 056008
  FAX: (0310) 6268303

- **SHANXI PROVINCIAL BRANCH**
  35 Jie Fang Road, Taiyuan
  TEL: (0351) 4071477
  4072062
  SWIFT: COMMCNSHTYN
  P.C.: 030002
  FAX : (0351) 4071457

- **JINCHENG BRANCH**
  878 Huang Hua Street,
  Jincheng
  TEL: (0356) 2026882
  SWIFT: COMMCNSHJCG
  P.C: 048026
  FAX: (0356) 2029840

- **LINFEN BRANCH**
  34 East Jiefang Road,
  Linfen
  TEL: (0357) 2036160
  SWIFT: COMMCNSHTYN
  P.C: 041000
  FAX: (0357) 2036160

- **DATONG BRANCH**
  452 South Xin Jian Road,
  Datong
  TEL: (0352) 5129988
  SWIFT: COMMCNSHTYN
  P.C: 037008
  FAX: (0352) 5129982

- **INNER MONGOLIA AUTONOMOUS REGION BRANCH**
  110 West Daxue Street,
  Sai Han District, Huhhot
  TEL: (0471) 3396646
  SWIFT: COMMCNSHHHH
  P.C.: 010020
  FAX: (0471) 3396580

- **BAOTOU BRANCH**
  24 Gang Tie Avenue, Qing
  Shan District, Baotou
  TEL: (0472) 5185114
  SWIFT: COMMCNSHBTU
  P.C.: 014030
  FAX: (0472) 5144698

- **LIAONING PROVINCIAL BRANCH**
  100 Shi Yi Wei Road,
  Shen He District,
  Shenyang
  TEL: (024) 22828080
  SWIFT: COMMCNSHSYG
  P.C.: 110014
  FAX: (024) 22825238

- **ANSHAN BRANCH**
  38 Er Yi Jiu Road,
  Tie Dong District,
  Anshan
  TEL: (0412) 5554790
  SWIFT: COMMCNSHASN
  P.C.: 114001
  FAX: (0412) 5554785

- **FUSHUN BRANCH**
  2-1 Xi Yi Road,
  Xin Fu District, Fushun
  TEL: (0413) 2861800
  SWIFT: COMMCNSHFSN
  P.C.: 113008
  FAX: (0413) 2648493

- **DANDONG BRANCH**
  68 Jin Shan Avenue,
  Dandong
  TEL: (0415) 2125736
  SWIFT: COMMCNSHDDG
  P.C.: 118000
  FAX: (0415) 2131250

- **JINZHOU BRANCH**
  42 Yun Fei Street, Er Duan,
  Jinzhou
  TEL: (0416) 3124258
  SWIFT: COMMCNSHJIN
  P.C.: 121000
  FAX: (0416) 3125832

- **YINGKOU BRANCH**
  21 West Bo Hai Avenue,
  Yingkou
  TEL: (0417) 2881234
  SWIFT: COMMCNSHYKU
  P.C.: 115003
  FAX: (0417) 2837764

- **LIAOYANG BRANCH**
  114 Xin Yun Avenue,
  Liaoyang
  TEL: (0419) 2127571
  P.C.: 111000
  FAX: (0419) 2151178

- **DALIAN BRANCH**
  6 Zhong Shan Square,
  Zhong Shan District,
  Dalian
  TEL: (0411) 82639911
  SWIFT: COMMCNSHDLN
  P.C.: 116001
  FAX: (0411) 82656612

- **JILIN PROVINCIAL BRANCH**
  3515 ren min Avenue,
  Changchun
  TEL: (0431) 85570020
  SWIFT: COMMCNSHCCN
  P.C.: 130021
  FAX: (0431) 85570100

- **JILIN BRANCH**
  4 East Song Jiang Road,
  Jilin
  TEL: (0432) 62102994
  SWIFT: COMMCNSHJLN
  P.C.: 132001
  FAX: (0432) 62102996

- **YANBIAN BRANCH**
  172 Guang Ming Street,
  Yanji
  TEL: (0433) 2910523
  SWIFT: COMMCNSHYBN
  P.C.: 133000
  FAX: (0433) 2520418

- **HEILONGJIANG PROVINCIAL BRANCH**
  428 You Yi Road, Dao Li
  District, Harbin
  TEL: (0451) 83085649
  SWIFT: COMMCNSHHEB
  P.C.: 150010
  FAX: (0451) 82644448

- **QIQIHAR BRANCH**
  199 Bu Kui Avenue,
  Jian Hua District, Qiqihar
  TEL: (0452) 2559780
  SWIFT: COMMCNSHQQH
  P.C.: 161006
  FAX: (0452) 2559777

- **DAQING BRANCH**
  2 Re Yuan Street Dong
  Feng Road, Dong Feng
  Xin Cun, Daqing
  TEL: (0459) 6688863
  SWIFT: COMMCNSHDQG
  P.C.: 163311
  FAX: (0459) 6688860

- **SHANGHAI MUNICIPAL BRANCH**
  99 South Zhong Shan
  Road, Shanghai
  TEL: (021) 63111000
  SWIFT: COMMCNSHSHI
  P.C.: 200010
  FAX: (021) 63744799

- **JIANGSU PROVINCIAL BRANCH**
  124 North Zhong Shan
  Road, Nanjing
  TEL: (025) 83278888
  SWIFT: COMMCNSHNJG
  P.C.: 210009
  FAX: (025) 83322050

- **XUZHOU BRANCH**
  56 South Zhong Shan
  Road, Xuzhou
  TEL: (0516) 85608204
  SWIFT: COMMCNSHIUZ
  P.C.: 221006
  FAX: (0516) 85608186

- **LIANYUNGANG BRANCH**
  141 Middle Hai Lian
  Road, Xin Pu District,
  Lianyungang
  TEL: (0518) 85414580
  SWIFT: COMMCNSHLYG
  P.C.: 222003
  FAX: (0518) 85411387

- **YANGZHOU BRANCH**
  2 North Wen He Road,
  Yangzhou
  TEL: (0514) 87344635
  SWIFT: COMMCNSHYAN
  P.C.: 225002
  FAX : (0514) 87348552

- **TAIZHOU BRANCH**
  151 North Qing Nian Road,
  Taizhou
  TEL: (0523) 86242741
  SWIFT: COMMCNSHTAI
  P.C.: 225300
  FAX: (0523) 86210456

- **NANTONG BRANCH**
  27 Middle Ren Min Road,
  Nantong
  TEL: (0513) 85058018
  SWIFT: COMMCNSHNTG
  P.C.: 226001
  FAX: (0513) 85058028

- **ZHENJIANG BRANCH**
  229 Jie Fang Road,
  Zhenjiang
  TEL: (0511) 85021069
  SWIFT: COMMCNSHZJG
  P.C.: 212001
  FAX: (0511) 85021124

- **CHANGZHOU BRANCH**
  171 West Yan Ling Road,
  Changzhou
  TEL: (0519) 86607696
  SWIFT: COMMCNSHCHA
  P.C.: 213003
  FAX : (0519) 86607630

- **YANCHENG BRANCH**
  68 East Jian Jun Road,
  Yancheng
  TEL: (0515) 88258200
  SWIFT: COMMCNSHYCA
  P.C.: 224002
  FAX : (0515) 88299730

- **HUAIAN BRANCH**
  126 East Huaihai Road,
  Huaian
  TEL: (0517) 83788035
  SWIFT: COMMCNSHNJG
  P.C.: 223001
  FAX : (0515) 83788013

- **SUQIAN BRANCH**
  139 Xihu Road, Suqian
  TEL: (0527) 81668991
  SWIFT: COMMCNSHNJG
  P.C.: 223800
  FAX : (0527) 81668918

- **SUZHOU BRANCH**
  77 North Nan Yuan Road,
  Suzhou
  TEL: (0512) 65188666
  SWIFT: COMMCNSHSUZ
  P.C.: 215006
  FAX : (0512) 65186051

- **WUXI BRANCH**
  198 Middle Ren Min Road,
  Wuxi
  TEL: (0510) 82705226
  SWIFT: COMMCNSHWXI
  P.C.: 214001
  FAX : (0510) 82701640

- **ZHEJIANG PROVINCIAL BRANCH**
  1–39 Ju Yuan Road,
  Hangzhou
  TEL: (0571) 87216012
  87216232
  TLX: 351123 BOCOM CN
  SWIFT: COMMCNSHHAN
  P.C.: 310020
  FAX: (0571) 87082330

- **WENZHOU BRANCH**
  JiaoHang Plaza,
  Chezhandadao,
  Wenzhou
  TEL: (0577) 88068797
  SWIFT: COMMCNSHWEN
  P.C.: 325000
  FAX : (0577) 88068567

- **JIAXING BRANCH**
  1086 East Zhong Shan
  Road, Jiaxing
  TEL: (0573) 82052112
  SWIFT: COMMCNSHJXG
  P.C.: 314001
  FAX: (0573) 82052110

- **HUZHOU BRANCH**
  299 Ren Min Road,
  Huzhou
  TEL: (0572) 2032602
  SWIFT: COMMCNSHHUZ
  P.C.: 313000
  FAX: (0572) 2214738

- **SHAOXING BRANCH**
  283 Middle Ren Min Road,
  Shaoxing
  TEL: (0575) 85115890
  SWIFT: COMMCNSHSXG
  P.C.: 312000
  FAX: (0575) 85137247

- **TAIZHOU BRANCH**
  298 Donghuan
  Avenue, Jiaojiang
  District, Taizhou
  TEL: (0576) 88599311
  SWIFT: COMMCNSHTAA
  P.C.: 318000
  FAX: (0576) 88319000

- **JINHUA BRANCH**
  191 West Shuangxi Road,
  Jinhua
  TEL: (0579) 82139999
  SWIFT: COMMCNSHJHA
  P.C.: 321017
  FAX: (0579) 82139998

- **QUZHOU BRANCH**
  17 Xinqiao Street, Kecheng
  District, Quzhou
  TEL: (0570) 8519012
  P.C.: 324000
  FAX: (0570) 8519999

- ZHOUSHAN BRANCH
  177 North Huancheng Road, Zhoushan
  TEL: (0580) 2260750
  SWIFT: COMMCNSHHAN
  P.C.: 316000
  FAX: (0580) 2260710

- NINGBO BRANCH
  55 East Zhong Shan Road, Ningbo
  TEL: (0574) 87363954
  SWIFT: COMMCNSHNBO
  P.C.: 315000
  FAX: (0574) 87262365

- ANHUI PROVINCIAL BRANCH
  38 Hua Yuan Street, Hefei
  TEL: (0551) 2637049
  SWIFT: COMMCNSHHFI
  P.C.: 230001
  FAX : (0551) 2637010

- WUHU BRANCH
  BoCom Tower, West Beijing Road, Wuhu
  TEL: (0553) 3839500
  SWIFT: COMMCNSHWHU
  P.C.: 241000
  FAX: (0553) 3839531

- BENGBU BRANCH
  88 Nan Shan Road, Bengbu
  TEL: (0552) 2040377
  SWIFT: COMMCNSHBBU
  P.C.: 233000
  FAX: (0552) 2040376

- HUAINAN BRANCH
  95 Middle Chao Yang Road, Huainan
  TEL: (0554) 6645215
  P.C.: 232001
  FAX: (0554) 6651788

- ANQING BRANCH
  99 Long Shan Road, Anqing
  TEL: (0556) 5509699
  SWIFT: COMMCNSHAQG
  P.C.: 246004
  FAX: (0556) 5509641

- MAANSHAN BRANCH
  156 South Hu Dong Road, Maansan
  TEL: (0555) 2389158
  SWIFT: COMMCNSHMAS
  P.C.: 243000
  FAX: (0555) 2389157

- TONGLING BRANCH
  990 Middle Changjiang Road, Tongling
  TEL: (0562) 2186658
  SWIFT: COMMCNSHHFI
  P.C.: 244000
  FAX: (0562) 2186656

- LIUAN BRANCH
  53 South Jiefang Road, Luan
  TEL: (0564) 3233535
  SWIFT: COMMCNSHHFI
  P.C.: 237005
  FAX: (0564) 3233535

- CHAOHU BRANCH
  Lijing International View Community Building, Jian Kang West Road, Chaohu
  TEL: (0565) 2390005
  SWIFT: COMMCNSHHFI
  P.C.: 238000
  FAX: (0565) 2390005

- CHUZHOU BRANCH
  81 West Langya Road, Chuzhou
  TEL: (0550) 3078005
  SWIFT: COMMCNSHHFI
  P.C.: 239000
  FAX: (0550) 3078005

- FUJIAN PROVINCIAL BRANCH
  116 Hu Dong Road, Fuzhou
  TEL: (0591) 87874839
  87874850
  SWIFT: COMMCNSHFUZ
  P.C.: 350003
  FAX : (0591) 87874837

- QUANZHOU BRANCH
  550 Feng Ze Street, Quanzhou
  TEL: (0595) 22695559
  SWIFT: COMMCNSHQUA
  P.C.: 362000
  FAX : (0595) 22132988

- XIAMEN BRANCH
  9 Hu Bin Zhong Lu, Xiamen
  TEL: (0592) 2295012
  SWIFT: COMMCNSHIMN
  P.C.: 361004
  FAX: (0592) 2295013

- JIANGXI PROVINCIAL BRANCH
  199 Huizhan Road, Honggutan, Nanchang
  TEL: (0791) 8537722
  8533022
  SWIFT: COMMCNSHNCG
  P.C.: 330038
  FAX: (0791) 6214486

- JINGDEZHEN BRANCH
  1 Chang Nan Avenue, Jingdezhen
  TEL: (0798) 8570699
  P.C.: 333000
  FAX: (0798) 8570660

- XINYU BRANCH
  98 West Bei Hu Road, Xinyu
  TEL: (0790) 6441577
  SWIFT: COMMCNSHIYU
  P.C.: 338000
  FAX: (0790) 6441943

- JIUJIANG BRANCH
  139 Xun Yang Road, Jiujiang
  TEL: (0792) 8231117
  P.C.: 332000
  FAX: (0792) 8118426

- GANZHOU BRANCH
  South Gate Cultural Square Dongyuan, Zhanggong District, Ganzhou
  TEL: (0797) 8200272
  P.C.: 341000
  FAX: (0797) 8200355

- SHANDONG PROVINCIAL BRANCH
  98 Gong Qing Tuan Road, Jinan
  TEL: (0531) 86106389
  SWIFT: COMMCNSHJNN
  P.C.: 250012
  FAX : (0531) 86106390

- ZIBO BRANCH
  100 Jin Jing Avenue, Zhang Dian District, Zibo
  TEL: (0533) 2285517
  SWIFT: COMMCNSHZBO
  P.C.: 255040
  FAX: (0533) 2285517

- WEIFANG BRANCH
  358 East Dong Feng Street, Weifang
  TEL: (0536) 8190228
  SWIFT: COMMCNSHWFG
  P.C.: 261041
  FAX: (0536) 8190228

- YANTAI BRANCH
  5 Da Ma Road, Yantai
  TEL: (0535) 6677001
  SWIFT: COMMCNSHYTI
  P.C.: 264001
  FAX: (0535) 6677086

■ WEIHAI BRANCH
34 North Hai Bin Road,
Weihai
TEL: (0631) 5201144
SWIFT: COMMCNSHWHI
P.C.: 264200
FAX: (0631) 5230127

■ JINING BRANCH
36 Middle Hong Xing Road,
Jining
TEL: (0537) 2883615
SWIFT: COMMCNSHJNG
P.C.: 272045
FAX: (0537) 2883615
2883659

■ TAIAN BRANCH
55 Dong Yue Avenue,
Taian
TEL: (0538) 8220402
SWIFT: COMMCNSHTAN
P.C.: 271000
FAX: (0538) 8220402

■ DONGYING BRANCH
213 East Er Road,
Dongying
TEL: (0546) 8831800
SWIFT: COMMCNSHDYG
P.C.: 257000
FAX: (0546) 8831800

■ QINGDAO BRANCH
6 Zhong Shan Road,
Qingdao
TEL: (0532) 82959000
SWIFT: COMMCNSHQDO
P.C.: 266001
FAX: (0532) 82897062

■ HENAN PROVINCIAL BRANCH
11 Zheng Hua Road,
Zhengzhou
TEL: (0371) 69395440
SWIFT: COMMCNSHZHE
P.C.: 450008
FAX : (0371) 69395555

■ LUOYANG BRANCH
226 Kai Yuan Avenue,
Luoyang
TEL: (0379) 63272668
SWIFT: COMMCNSHLYA
P.C.: 471000
FAX : (0379) 63938888

■ NANYANG BRANCH
25 Zhong Zhou Road,
Nanyang
TEL: (0377) 63322979
SWIFT: COMMCNSHZHE
P.C.: 473000
FAX : (0377) 63322900

■ ANYANG BRANCH
1 You Yi Road, Anyang
TEL: (0372) 5016359
SWIFT: COMMCNSHZHE
P.C.: 455000
FAX : (0372) 5016331

■ JIAOZUO BRANCH
1159 Ren Min Road,
Jiaozuo
TEL: (0391) 3379379
SWIFT: COMMCNSHZHE
P.C.: 454000
FAX : (0391) 3379371

■ PINGDINGSHAN BRANCH
895 Jian She Road,
Pingdingshan
TEL: (0375) 3799862
SWIFT: COMMCNSHZHE
P.C.: 467000
FAX : (0375) 3799868

■ HUBEI PROVINCIAL BRANCH
A Ruitong Square,
847 Jianshe Avenue,
Wuhan
TEL: (027) 85487110
85487101
SWIFT: COMMCNSHWHN
P.C.: 430015
FAX: (027) 85487112

■ HUANGSHI BRANCH
380 Yi Yang Road,
Huangshi
TEL: (0714) 6216518
SWIFT: COMMCNSHHSI
P.C.: 435000
FAX: (0714) 6211018

■ YICHANG BRANCH
22 Sheng li Si Road,
Yichang
TEL: (0717) 6484982
SWIFT: COMMCNSHYCG
P.C.: 443000
FAX: (0717) 6484831

■ XIANGFAN BRANCH
Te 8 Yanjiang Avenue.
Fancheng District,
Xiangfan
TEL: (0710) 3421858
SWIFT: COMMCNSHWHN
P.C.: 441000
FAX: (0710) 3421853

■ XIANNING BRANCH
18 Qianshan Road,
Xianning
TEL: (0715) 8200117
8200107
SWIFT: COMMCNSHWHN
P.C.: 441000
FAX: (0715) 8200097

■ HUNAN PROVINCIAL BRANCH
37 Middle Shao
Shan Road, Changsha
TEL: (0731) 85555522
SWIFT: COMMCNSHCSA
P.C.: 410007
FAX: (0731) 85603737

■ YUEYANG BRANCH
Yin Du Mansion,
Nan Hu Avenue,
Yueyang
TEL: (0730) 8296189
P.C.: 414000
FAX: (0730) 8296191

■ CHANGDE BRANCH
1508 Renmin Road,
Changde
TEL: (0736) 7188006
P.C.: 415000
FAX: (0736) 7188007

■ CHENZHOU BRANCH
17 Renmin West Road,
Chenzhou
TEL: (0735) 5889802
P.C.: 423000
FAX: (0735) 5889800

■ HENGYANG BRANCH
9 Jiefang Street,
Huaxin Development
Area, Hengyang
TEL: (0734) 8180958
P.C.: 421001
FAX: (0734) 8180971

■ GUANGDONG PROVINCIAL BRANCH
123 South Jie Fang Road,
Guangzhou
TEL: (020) 83270168
SWIFT: COMMCNSHGUA
P.C.: 510120
FAX: (020) 83270386

■ ZHUHAI BRANCH
1227 Bocom Building,
Jiu Zhou Road, Zhuhai
TEL: (0756) 3338822
SWIFT: COMMCNSHZHI
P.C.: 519015
FAX: (0756) 3330881

■ SHANTOU BRANCH
83 Jin Sha Road, Shantou
TEL: (0754) 88246988
SWIFT: COMMCNSHSTU
P.C.: 515041
FAX: (0754) 88611962

■ DONGGUAN BRANCH
190 Qi Feng Road,
Dongguan
TEL: (0769) 22336998
SWIFT: COMMCNSHDGN
P.C: 523008
FAX: (0769) 22336908

■ ZHONGSHAN BRANCH
30 South Yue Lai Road,
Shi Qi, Zhongshan
TEL: (0760) 88812999
SWIFT: COMMCNSHZSN
P.C.: 528400
FAX: (0760) 88808917

■ FOSHAN BRANCH
30 Ji Hua Wu Road,
Chan Cheng District,
Foshan
TEL: (0757) 83215360
SWIFT: COMMCNSHFSA
P.C.: 528000
FAX: (0757) 83333125

■ JIEYANG SUB-BRANCH
6 North Huan Cheng Road,
Rong Cheng District,
Jieyang
TEL: (0663) 8611739
SWIFT: COMMCNSHJYG
P.C.: 522000
FAX: (0663) 8634640

■ HUIZHOU BRANCH
8 West Yunshan Road,
Hui Cheng District,
Huizhou
TEL: (0752) 2856111
SWIFT: C0MMCNSHHUI
P.C.: 516003
FAX: (0752) 2856113

■ JIANGMEN BRANCH
18 Dong Hua Er Road,
Jiangmen
TEL: (0750)-3935168
SWIFT: COMMCNSHJMN
P.C.: 529000
FAX: (0750) 3935199

■ SHENZHEN BRANCH
2066 Middle Shen Nan
Road, Shenzhen
TEL: (0755) 83680000
SWIFT: COMMCNSHSZN
P.C.: 518031
FAX: (0755) 83680033

■ GUANGXI ZHUANG AUTONOMOUS REGION BRANCH
228 East Ren Min Road,
Nanning
TEL: (0771) 2835260
SWIFT: COMMCNSHNNG
P.C.: 530012
FAX: (0771) 2835475

■ LIUZHOU BRANCH
32 Yue Jin Road, Liuzhou
TEL: (0772) 2860711
SWIFT: COMMCNSHLIU
P.C.: 545001
FAX: (0772) 2866680

■ GUILIN BRANCH
8 Nan Huan Road, Guilin
TEL: (0773) 2834167
SWIFT: COMMCNSHGLN
P.C.: 541002
FAX: (0773) 2826506

■ WUZHOU BRANCH
47 Da Zhong Road,
Wuzhou
TEL: (0774) 2832582
SWIFT: COMMCNSHWUZ
P.C.: 543000
FAX: (0774) 2827711

■ BEIHAI BRANCH
Tower, 25 Yun Nan Road,
Beihai
TEL: (0779) 3088836
SWIFT: COMMCNSHBHI
P.C.: 536000
FAX: (0779) 3038440

■ HAINAN PROVINCIAL BRANCH
45, Guo Mao Road, Haikou
TEL: (0898) 68532666
SWIFT: COMMCNSHHNN
P.C.: 570125
FAX: (0898) 68532333

■ CHONGQING MUNICIPAL BRANCH
158 Zhongshan San Road,
Yu Zhong District,
Chongqing
TEL: (023) 63639888
SWIFT: COMMCNSHCQG
P.C.: 400015
FAX: (023) 63851916

■ SICHUAN PROVINCIAL BRANCH
211 Xi Yu Long Street,
Chengdu
TEL: (028) 86525666
SWIFT: COMMCNSHCDU
P.C.: 610015
FAX : (028) 86525555

■ ZIGONG BRANCH
108 Wu Xing Street,
Zi Liu Jing District,
Zigong
TEL: (0813) 2105667
P.C.: 643000
FAX : (0813) 2105667

■ PANZHIHUA BRANCH
129 Bing Cao Gang
Avenue, Panzhihua
TEL: (0812) 3336955
P.C.: 617000
FAX : (0812) 3334197

■ DEYANG BRANCH
10 East Zhu Jiang Road,
Deyang
TEL: (0838) 2907961
P.C.: 618000
FAX : (0838) 2907961

■ GUIZHOU PROVINCIAL BRANCH
4 Sheng Fu Road, Guiyang
TEL: (0851) 5861460
SWIFT: COMMCNSHGYG
P.C.: 550001
FAX: (0851) 5861460

■ ZUNYI BRANCH
108 Zhong Hua Road,
Hong Hua Gang District
Zunyi
TEL: (0852) 8824421
SWIFT: COMMCNSHZYI
P.C.: 563000
FAX: (0852) 8825356

■ YUNNAN PROVINCIAL BRANCH
67 Hu Guo Road, Kunming
TEL: (0871) 3107673
SWIFT: COMMCNSHKMG
P.C.: 650021
FAX : (0871) 3107584

■ QUJING BRANCH
South Qilin Road and
Wenchang Street
Crossing, Qujing
TEL: (0874) 8988588
8988511
SWIFT: COMMCNSHQJG
P.C.: 655000
FAX : (0874) 8988555

■ YUXI BRANCH
61 Yu Xing Road,
Hong Ta District, Yuxi
TEL: (0877) 20556555
SWIFT: COMMCNSHYXI
P.C.: 653100
FAX : (0877) 2056555

■ CHUXIONG BRANCH
102 Beipu Road, Chuxiong
TEL: (0878) 3121712
SWIFT: COMMCNSHCXG
P.C.: 675000
FAX : (0878) 3121712

- **SHAANXI PROVINCIAL BRANCH**
  88 Xi Xin Street, Xian
  TEL: (029) 87653017
  SWIFT: COMMCNSHIAN
  P.C.: 710004
  FAX: (029) 87653019

- **XIANYANG BRANCH**
  1 East Anding Road, Xianyang
  TEL: (029) 33177301
  SWIFT: COMMCNSHIAN
  P.C.: 712000
  FAX: (029) 33177301

- **YULIN BRANCH**
  132 Fushi Road, Yulin
  TEL: (0912) 3510013
  P.C.: 719000
  FAX: (029) 3510019

- **GANSU PROVINCIAL BRANCH**
  129 Qing Yang Road, Lanzhou
  TEL: (0931) 8105123
  SWIFT: COMMCNSHLAN
  P.C.: 730030
  FAX: (0931) 8105124

- **NINGXIA HUI AUTONOMOUS REGION BRANCH**
  296 North Minzu road, Yinchuan
  TEL: (0951) 6916803
  SWIFT: COMMCNSHMCN
  P.C.: 750001
  FAX: (0951) 5014268

- **XINJIANG UYGUR AUTONOMOUS REGION BRANCH**
  16 Dong Feng Road, Urumqi
  TEL: (0991) 2833597
  SWIFT: COMMCNSHWLM
  P.C.: 830002
  FAX : (0991) 2840184

- **QINGHAI PROVINCIAL BRANCH**
  29 West Wusi Road, Xining
  TEL: (0971) 63609993
  SWIFT: COMMCNSHQHI
  P.C.: 810008
  FAX: (0971) 6360999

Hong Kong Branch	New York Branch	Tokyo Branch	Singapore Branch	Seoul Branch	Frankfurt Branch
Address: 20 Pedder Street, Central, Hong Kong. Tel: 00852-28419611 Fax: 00852-28106993	Address: One Exchange Plaza 55 Broadway, 31st & 32nd Floor New York, NY 10006-3008, U.S.A. Postal Code: 10006-3008 Tel: 001-212-376-8030 Fax: 001-212-376-8089	Address: Toranomon, No. 37 Mori BLDG. 9F 3-5-1, Toranomon Minalo-ku Tokyo,Japan Postal Code: 105-0001 Tel: 0081-3-3432-1818 Fax: 0081-3-3432-1824	Address: 50 Raffles Place #18-01 Singapore Land Tower Postal Code: 48623 Tel: 0065-65320335 Fax: 0065-6532-0339	Address: 6th Floor, Samsung Fire & Marine Bldg. #87, Euljiro 1-Ga, Jung-Gu, Seoul 100-782, Korea Postal Code: 100782 Tel: 00822-2022-6888 Fax: 00822-2022-6899	Address: Neue Mainzer Str.75, 60311 Frankfurt am Main Germany Postal Code: 60311 Tel: 0049-69-66058921 Fax: 0049-69-66058938

Macao Branch

Address:
Room 03–08 16F,
AIA Tower,
No. 251A-301,
Avenida Commercial
De Macau
Tel: 00853-28286611
Fax: 00853-28286686

Ho Chi Minh City Branch

Address:
17th floor, Vincom Center,
No. 72 Le Thanh Ton Street,
Ward Ben Nghe, District 1,
Ho Chi Minh City, Vietnam
Tel: 84-8-39369988
Fax: 84-8-39369955

London Representative Office

Address:
3rd Floor,
145 Leadenhall Street,
London EC3V 4QT, UK
Postal Code: EC3V 4QT
Tel: 0044-(0)2079296050
Fax: 0044-(0)2079296055

Sydney Representative Office

Address:
Level 27, 363 George Street,
Sydney NSW 2000 Australia
Postal Code: NSW2000
Tel: 0061-2-80659839
Fax: 0061-2-80842078

Taipei Representative Office

Address:
大陸商交通銀行股份有限公司
台北市110信義路
5段7號46樓E1台灣
Postal Code: 110
Tel: 886 2 81011009
Fax: 886 2 81011169

Definition

The following terms will have the following meanings in the Annual Report unless otherwise stated:

"Bank"	Refers to the Bank of Communications Co., Ltd.
"Group"	Refers to the Bank and its subsidiaries
"CBRC"	Refers to China Banking Regulatory Commission
"PBOC"	Refers to The People's Bank of China
"Ministry of Finance"	Refers to the Ministry of Finance of the People's Republic of China
"State Administration of Taxation"	Refers to the State Administration of Taxation of the People's Republic of China
"CSRC"	Refers to China Securities Regulatory Commission
"Shanghai Stock Exchange"	Refers to the Shanghai Stock Exchange
"Hong Kong Stock Exchange"	Refers to The Stock Exchange of Hong Kong Limited
"SSF"	Refers to the National Council for Social Security Fund
"HSBC"	Refers to The Hong Kong and Shanghai Banking Corporation Limited
"Hong Kong Listing Rules"	Refers to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"Company Law"	Refers to the Company Law of the People's Republic of China
"Commercial Bank Law"	Refers to the Law of the People's Republic of China on Commercial Banks
"Articles of Association"	Refers to the Articles of Association of the Bank of Communications Co., Ltd. as approved by CBRC
"Northern China"	Includes Beijing, Tianjin, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region
"North Eastern China"	Includes Liaoning Province, Jilin Province and Heilongjiang Province
"Eastern China"	Includes Shanghai, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province
"Central and Southern China"	Includes Henan Province, Hunan Province, Hubei Province, Guangdong Province, Hainan Province and Guangxi Autonomous Region
"Western China"	Includes Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region, Xinjiang Autonomous Region and Tibet Autonomous Region
"Overseas"	Includes Hong Kong Branch, New York Branch, Singapore Branch, Tokyo Branch, Seoul Branch, Frankfurt Branch, Macau Branch and overseas subsidiaries
"Head Office"	Refers to the Group's Head Office in Shanghai
"RMB"	Refers to Renminbi, the lawful currency of the PRC
"Basis point"	Refers to one in ten thousand
"Impaired loan"	Refers to loans which are impaired due to objective evidence that the counterparty will be unable to pay amounts in full when due
"Interest bearing assets"	Refers to the customer loans, investment securities, receivables and due from other banks and financial institutions
"Interest bearing liabilities"	Refers to customer deposits, due to other banks and financial institutions and other borrowings
"Bocom Schroder"	Refers to Bank of Communications Schroder Fund Management Co., Ltd.
"Bocom International Trust"	Refers to Bank of Communications International Trust Co., Ltd.
"Bocom Leasing"	Refers to Bank of Communications Financial Leasing Co., Ltd.
"Bocom International"	Refers to BOCOM International Holdings Company Limited
"BoCommLife Insurance"	Refers to BoCommLife Insurance Company Limited
"Bocom Insurance"	Refers to China BOCOM Insurance Co., Ltd.
"CRCB"	Refers to Jiangsu Changshu Rural Commercial Bank Co., Ltd.
"Dayi Bocom Xingmin Rural Bank"	Refers to Dayi Bocom Xingmin Rural Bank Co., Ltd.
"Anji Bocom Rural Bank"	Refers to Zhejiang Anji Bocom Rural Bank Co., Ltd.

Designed and Printed: RR DONNELLEY ROMAN FINANCIAL

MIX
Paper from responsible sources
FSC™ C020557
FSC
www.fsc.org

交通銀行
BANK OF COMMUNICATIONS

YOUR WEALTH MANAGEMENT BANK

Bank of Communications Co., Ltd.

No. 188, Yin Cheng Zhong Lu, Shanghai P.R. China

www.bankcomm.com